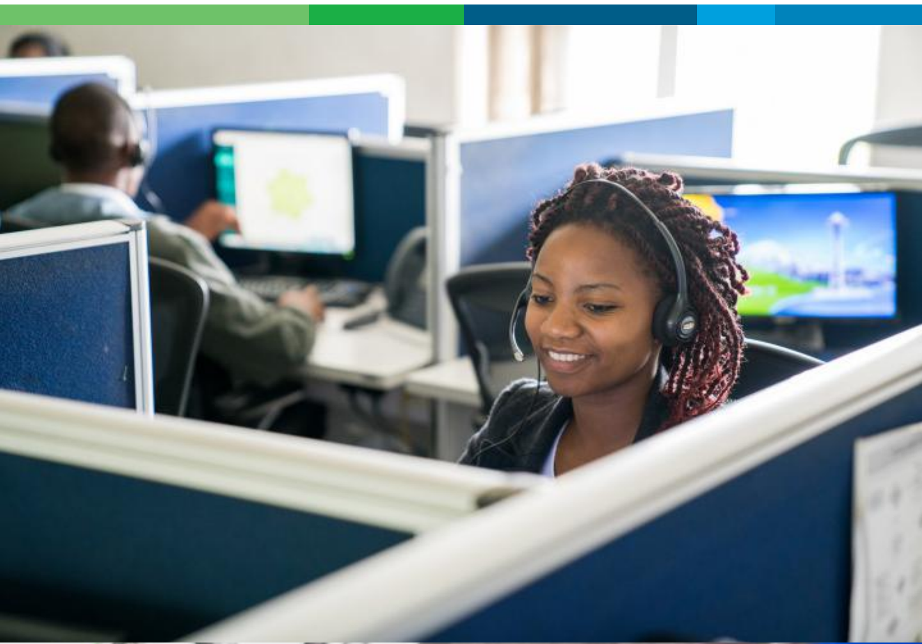
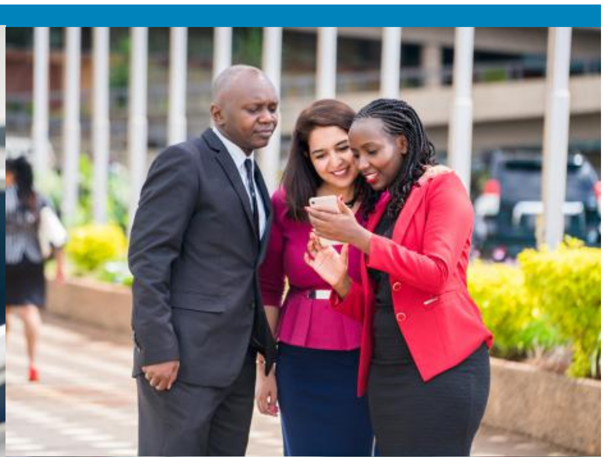
Standard Chartered





Annual Report 2019

Here for good

Driving commerce and prosperity
through our unique diversity

Investments bought on your phone? That’s an eye-opener.

You can now buy and view mutual funds and other wealth product details, all on your phone.

Is it time to start investing for the long term? Making the first step couldn’t be easier. You can now research and invest in Standard Chartered mutual funds and other wealth products, right from your phone. Just click 'Mutual Funds' and you’re on your way.

All on the app

- View our full range of funds and top picks
- Invest directly in a mutual fund with the lump sum, Regular Savings Plan or Wealth Builder options
- View performance details: value, trend graph, price history, dividend yield
- Partially / fully sell funds
- View holdings and historical transactions over one year
- View the fund’s fact sheet and prospectus

Save for the long term, right now.

Click ‘Mutual Funds’ on your SC Mobile app.

sc.com/ke

Here for good

Contents Page

Who we are

Standard Chartered is a leading international banking group and the largest international bank in Kenya. Established in 1911, Standard Chartered, Kenya is one of the oldest banks servicing this market. Our heritage and values are expressed in our brand promise, Here for good. Our operations reflect our purpose, which is to drive commerce and prosperity through our unique diversity. We offer banking services that help people and companies to succeed, creating wealth and growth across our market. We are committed to promoting economic and social development in Kenya by focusing on three sustainability pillars – Sustainable Finance, Responsible Company and Inclusive Communities.

Our valued behaviours

Our valued behaviours demand that we do things differently for us to succeed. Only then will we realise our potential and truly be Here for good.

Never settle

- Continuously improve and innovate
- Simplify
- Learn from your successes and failures

Better together

- See more in others
- "How can I help?"
- Build for the long term

Do the right thing

- Live with integrity
- Think client
- Be brave, be the change

About this report

Our *Annual Report and Financial Statements* for the year ended 31 December 2019 provides insights into our progress in realising our purpose – to drive commerce and prosperity through our unique diversity. It provides details on our business, our strategy, our risk management, our governance and our financial performance. Sustainability reporting is embedded across our annual report.

This report is prepared in accordance with the requirements of the Kenyan Companies Act, 2015, guidelines issued by the Capital Markets Authority and the Central Bank of Kenya's Prudential Guidelines.

OUR PURPOSE AND PROGRESS

Delivering our strategy

In this report, we provide an update on our progress in realising this goal and outline the strategic priorities we are pursuing to strengthen our business, get closer to our clients and fulfil the Group's potential. We gauge our annual progress against a set of key performance indicators (KPIs), summarised below:

FINANCIAL KPIs

Return on equity
19.06%
(2018: 19.08%)

Total capital
17.73%
(2018: 19.47%)

Tier 1 capital
14.70%
(2018: 16.52%)

NON-FINANCIAL KPIs

Diversity and inclusion: women in senior roles
41%

Non-branch transactions
+85%

OTHER FINANCIAL MEASURES

Operating income
KShs 27,950m
(2018: KShs 27,775m)

Profit before tax
KShs 12,174m
(2018: KShs 11,847m)

Earnings per share
KShs 23.49
(2018: KShs 23.09)

Five Year Summary

Group

KShs Million Income Statement	2019	2018	2017	2016	2015
Operating income	27,950	27,775	26,626	27,395	24,814
Operating expenses	(15,542)	(14,579)	(12,785)	(12,229)	(11,063)
Impairment losses on financial instruments	(234)	(1,349)	(3,770)	(1,878)	(4,591)
Profit before taxation	12,174	**11,847**	**10,071**	**13,288**	**9,160**
Taxation	(3,937)	(3,748)	(3,157)	(4,239)	(2,818)
Profit after taxation	8,237	**8,099**	**6,914**	**9,049**	**6,342**
Information per ordinary share					
Basic earnings per share (KShs) (2015 restated)	23.49	**23.09**	**19.64**	**25.85**	**17.97**
Dividend per share (KShs)	20.00	**19.00**	**17.00**	**20.00**	**17.00**
Statement of Financial Position					
Loans and advances to customers (gross)	136,534	127,860	134,328	128,290	120,394
Impairment losses on financial instruments	(7,844)	(9,208)	(8,034)	(5,579)	(5,268)
Government securities	99,611	98,705	110,542	86,489	73,126
Other assets	73,837	68,047	48,888	41,282	45,714
Total assets	302,138	**285,404**	**285,724**	**250,482**	**233,966**
Deposits from customers	228,434	224,284	213,349	186,598	172,036
Other liabilities	25,943	14,480	26,710	19,280	20,678
Total liabilities	254,377	**238,764**	**240,059**	**205,878**	**192,714**
Net assets	47,761	**46,640**	**45,665**	**44,604**	**41,252**
Shareholders' funds	47,761	**46,640**	**45,665**	**44,604**	**41,252**
Ratios					
Cost income ratio	56%	52%	48%	45%	45%
Return on capital employed	19%	19%	16%	23%	17%
Impairment charge/gross loans and advances	–	1%	3%	1%	4%
Gross loans and advances to deposits ratio	60%	57%	63%	69%	70%
Gross non-performing loans and advances/total gross loans and advances	9%	11%	6%	8%	10%
Core capital/total deposit liabilities	16%	16%	17%	19%	19%
Core capital/total risk weighted assets	15%	17%	16%	18%	18%
Total capital/total risk weighted assets	18%	20%	19%	21%	21%

OUR BUSINESS

What We Do

At Standard Chartered our purpose is to drive commerce and prosperity through our unique diversity. We offer banking services that help people and companies to succeed, creating wealth and growth across our market.

Serving client segments with differentiated expertise:

Our business serves three client segments and is supported by six functions.

Corporate & Institutional Banking

Serving large corporations, financial institutions, public sector and government.

Operating income

KShs 8,316 m

Commercial Banking

Supporting local corporations and medium sized enterprises.

Operating income

KShs 2,413 m

Retail Banking

Serving individuals and small businesses, with a focus on affluent and emerging affluent.

Operating income

KShs 12,492 m

Central & other items

Operating income

KShs 4,729 m

Total operating income

KShs 27,950 m

Functions

Our client-facing businesses are supported by our functions, which work together to ensure the Group's operations run smoothly and consistently within our legal and regulatory obligations, our purpose and risk appetite.

Human Resources
Enables business performance through recruiting, developing and engaging colleagues.

Legal
Enables sustainable business and protects the Group from legal-related risk.

Technology & Innovation
Responsible for the Group's operations, systems development and technology infrastructure.

Risk
Responsible for the sustainability of our business through good management of risk across the Group and ensuring that business is conducted in line with regulatory expectations.

CFO
Incorporates the following support functions:
- Finance;
- Supply Chain; and
- Property.

Corporate Affairs & Brand and Marketing
Manages the Group's communications and engagement with stakeholders in order to protect and promote the Group's reputation, brand and services.

Operations
Responsible for all client operations, end-to-end, and ensures the needs of our clients are at the centre of our operational framework. The function's strategy is supported by consistent performance metrics, standards and practices that are aligned to client outcomes.

Internal Audit
An independent function whose primary role is to help the Board and Executive Management protect the assets, reputation and sustainability of the Group.

Conduct, Financial Crime and Compliance
Enables sustainable business by delivering the right outcomes for our clients by driving the highest standards in conduct, compliance and fighting financial crime.

BUSINESS MODEL

A business model built on long-term relationships

We have a sustainable approach to business and strive to achieve the highest standards of conduct. Our business model and strategy are built on capturing the opportunities inherent in our unique footprint by developing deep relationships with clients and helping them connect across the Standard Chartered footprint.

Developing these relationships means using both our tangible and intangible resources in a sustainable and responsible manner; deploying them to maximum impact on our profitability and returns.

Our resources - the inputs we rely on

We aim to use resources in a sustainable way, to achieve our long-term strategic objectives.

Human capital
Our diverse colleagues are our greatest asset. Achieving our strategic priorities hinges on the way we invest, manage and organise our people, the employee experience we curate and the culture we develop.

1,397 employees

52% female

Strong brand
We are part of a leading international banking group with over 100 years of history in Kenya making us a household name.

International network
We have an unparalleled international network, connecting companies, institutions, and individuals to, and in some of the world's fastest-growing and most dynamic regions.

Financial strength
With over KShs 300 billion in assets on our balance sheet, we are a strong and trusted partner for our clients.

Expertise
We have a deep knowledge of our market and a privileged understanding of the drivers of the real economy, offering us insights that can help our clients achieve their ambitions.

Technology
We possess leading technological capabilities to enable best-in-class customer experience, operations and risk management.

Our purpose makes us different

Our purpose is what sets us apart: We drive commerce and prosperity through our unique diversity. Our strategy helps us achieve our purpose.

Client focus
Our clients are our business. We build long-term relationships with them.

Robust risk management
We are here for the long term. Effective risk management allows us to grow a sustainable business.

Distinct proposition
Our unique understanding of our market and our extensive international network allows us to offer a truly tailored proposition to our clients, combining global expertise grounded in local knowledge.

Sustainable approach to business
We promote social and economic development by contributing to sustainable economic growth through our core business of banking, by being a responsible company and by investing in our communities.

BUSINESS MODEL (Continued)

What we deliver

Through our three business segments and five product groups, we deliver an extensive set of solutions, products and services, adapted to the needs of our clients.

The value we create

We aim to create long-term value for a broad range of stakeholders, in a sustainable manner:

Clients

We enable individuals to grow and protect their wealth. We help businesses to trade, transact, invest and expand. We also help a variety of financial institutions – including banks, public sector clients and development organisations – with their banking needs.

Regulators and Government

We engage with relevant authorities to play our part in supporting the effective functioning of the financial system and the broader economy.

Investors

We aim to deliver robust returns and long-term sustainable value for our investors.

Colleagues

We offer colleagues opportunities to learn and progress. We encourage them to improve, innovate, take ownership of their careers and succeed together.

Society

We strive to operate as a responsible and sustainable business, collaborating with local partners to promote social and economic development.

Suppliers

We work with suppliers to ensure they can provide the right goods and services for our business efficiently and sustainably.

Products and services

Wealth Management

- Investments
- Portfolio management
- Insurance and advice
- Planning services

Corporate Finance

- Structured and project financing
- Strategic advice

Transaction Banking

- Cash management
- Payments and transactions
- Securities services
- Trade finance products

Financial Markets

- Investments
- Risk management
- Debt capital markets

Retail products

- Deposits
- Savings
- Mortgages
- Credit cards
- Personal loans

Our Award Winning SC Mobile app allows our clients to open an account, invest, protect their wealth and access over 70 banking services 24/7 on the Go!

OUR STRATEGY – what we have achieved since 2015

Since our last strategy review in 2015, we have focused on People, Risk, Innovation, Digital and Execution to enable us to secure a strong foundation, build a lean and focused business, and capture growth opportunities.

People

Why we have focused on this
To develop the next generation of leaders as well as to drive productivity.

Risk

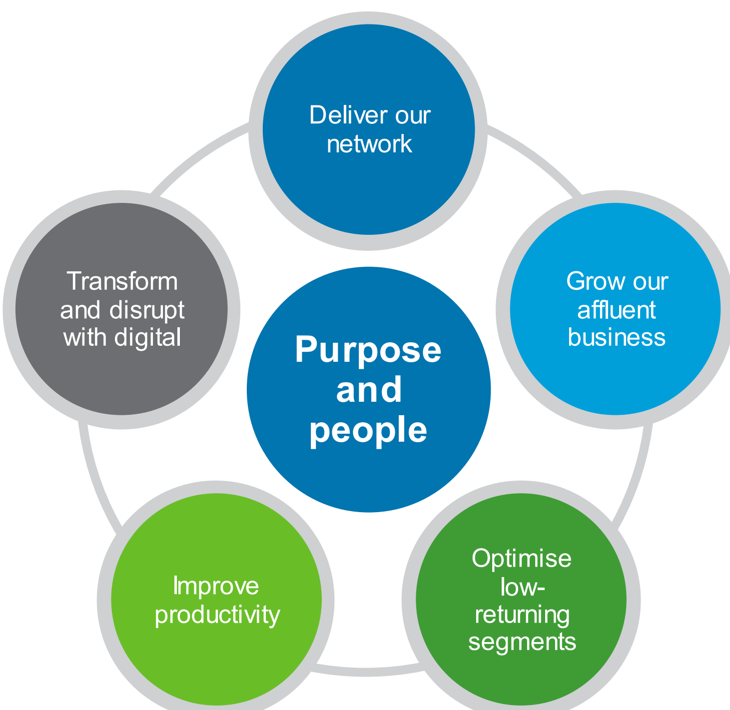
Why we have focussed on this
To ensure that we have a diverse and resilient balance sheet, as well as a sustainable approach to risk.

Innovate & Digitise

Why we have focussed on this
To deliver a better client experience and drive growth.

We remain focused on delivering our strategy by continuously improving our service, delivering a differentiated proposition to our clients and stakeholders, and becoming a future-ready bank. Building on our purpose of driving commerce and prosperity through our unique diversity, we will have a particular focus on the following areas for the next three years to improve our growth.

Our strategic priorities



OUR STRATEGY (Continued)

Purpose and People

Understand our responsibilities
We will increasingly collaborate with clients and suppliers to improve social and environmental standards. We continue to partner with regulators and other stakeholders to fight financial crime, and aim to make our risk and control approach a competitive advantage for us.

Lead sustainable financing
We are maintaining our focus on supporting sustainable economic growth. We will continue to facilitate the movement of capital to drive positive and social economic impact in our market.

Support the communities where we live and work
We promote economic inclusion through community programmes aimed at tackling inequality. We provide disadvantaged young people with opportunities to learn new skills, get job ready and start their own business. We will continue to support the visually impaired through our community programmes.

Maximise return from investment in our people
We want to deliver a client-centric environment with an inclusive culture that capitalises on the experience and unique diversity of our people. We are building a future-ready workforce, embedding digital, agile and people leadership skills. We aim to amplify the impact of our people by deploying them in areas that fit their capabilities and career aspirations.

Deliver our network

Leverage our unique footprint
Our unique network is a long-term source of growth and sustainably higher returns. We will continue to deepen relationships with our clients to fully realise the revenue potential of our network. We will place a particular focus on multinational corporates operating in Africa, Asia and the Middle East.

Build our strength in the China corridor
We will continue connecting our clients both into Kenya and into China and seek to increasingly capture growth opportunities arising from Belt & Road corporate clients.

Grow our affluent business

Meet the wealth needs of the affluent and emerging affluent
By continuously enhancing our offering for affluent and emerging affluent clients, we aspire to be increasingly relevant to our clients and drive growth in these segments. To that end, we are investing in digitally delivered wealth propositions that excite our clients.

Enhance client experience with data and technology
We will increase our investment in data and analytics capabilities to generate a unique understanding of our clients and their needs, and in turn improve our offerings, deliver a personalised experience and increase client engagement.

Optimise low-returning segments

Improve returns in Commercial Banking
We will aim to improve returns through sharpening our participation model in the Commercial Banking segment to optimise performance.

Accelerate growth in Retail Banking
The segment has been consistently profitable. We will invest to grow our market share.

Improve productivity

Continue investing in productivity
Our investment in digitisation will continue to support productivity improvements and enhance client experience. For example, we refreshed our client digital platform with unified trade and FX capabilities in Corporate & Institutional Banking. In Retail Banking, we refreshed wealth and FX platforms with full mobile access.

Organise around client journeys
We are shaping our organisation around the journeys of our clients, to better align our processes and way of working with the needs of our clients and partners. This will enable us to drive operational improvements to scale revenue growth through improved client acquisition, conversion and retention while also delivering enhanced efficiency. This will be guided by our principles of positioning ourselves as a digital solutions partner, focusing on end-to-end digital client experience, transparent and real-time service delivery, and effective and efficient decision making.

Transform and disrupt with digital

Transform our Retail Banking business with digital
We have continued our strong momentum in digitising our Retail Banking business. We have rolled out a full service cost-efficient digital bank.

Scale the non-affluent segment in a targeted manner
The rise of the middle class is an important growth opportunity for our Retail Banking business. To profitably capture this opportunity, we will implement new business models, harness technology and work with partners to acquire and serve non-affluent clients with our target profile in a cost-efficient manner.

Consolidate strong position with corporate clients
We have been leading disruptive innovations in corporate banking. We will continue to invest in cutting-edge digital tools and new corporate banking models.

CLIENT SEGMENT REVIEWS

Corporate & Institutional Banking

> "More than 90% of clients are using our digital channels for collections, payments, tax, payroll, mobile wallet, trade finance, custody and foreign exchange (FX) services with convenience and safety. About 20% of KRA's total tax collections are done through us and 87% of our Corporate client FX transactions are done online"

Segment Overview

Our clients with a global footprint are served through the Corporate & Institutional Banking (CIB) segment. CIB is committed to building on its strengths enabling us to be the 'World's Best Networked Bank' for Africa, Asia and the Middle East supporting clients' transaction banking, corporate finance and financial markets' needs. Our clients include global corporations, financial institutions, public sector and the government. Our strong and deep presence in Kenya and the rest of Africa, Asia and the Middle East enables us to facilitate trade, capital and investment flows across the Standard Chartered footprint.

Our network business comprises Inbound and Outbound flows. Outbound business grew by 15% year-on-year (y/y) in 2019, a testament to how we support Kenyan companies access foreign markets through our diverse footprint. We also supported local entities to raise more than USD 1 billion in funding from foreign capital markets for investment in Kenya. Inbound business provides a gateway for foreign companies to access the local market thus contributing to foreign direct investment (FDI). We also link local SMEs to our Corporate clients as distributors or suppliers through the 'Ecosystem' initiative. CIB represents 30% of the Group's operating income.

Digital is at the heart of our value proposition. More than 90% of our clients use our digital channels for collections, payments, tax, payroll, mobile wallet, trade finance, custody and foreign exchange (FX) services with convenience and safety. Today, about 20% of KRA's total tax collections are done through us and 87% of our Corporate client FX transactions are done online. We also installed 48 corporate cash deposit machines suitable for high cash volume businesses like retail shops, supermarkets and fuel stations. We digitised trade finance applications for Letters of Credit (LCs), Bank Guarantees, invoice financing and receivable services. In 2019, our clients submitted 50% of their documentary trade applications to us online.

We have been recognised as the best Corporate Bank in Kenya over the years. We are not resting on our laurels, but continue building on them to solidify our position in this space. We were recognised as the 'Best Bank for Cash Management in Kenya' at the *Global Finance Awards 2019*, and the 'Best Sub-Custodian bank in Kenya' at the *Global Investor Group Awards 2019.*

SC Ventures breakout session with local Fintech experts during the Afro-Asia Fintech Festival.

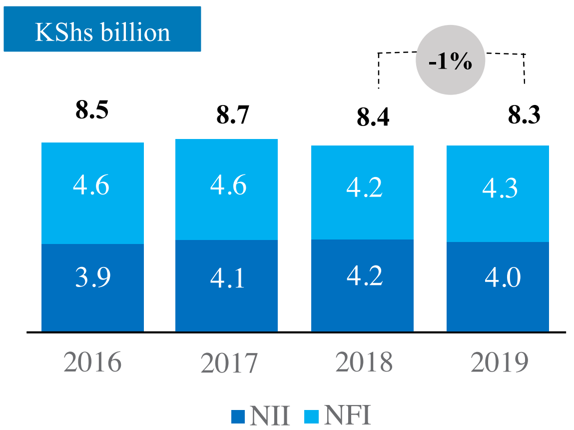
CLIENT SEGMENT REVIEWS (Continued)

Corporate & Institutional Banking (Continued)

Performance Highlights

Operating income
KShs 8,316 m

Profit before tax
KShs 3,883 m



Strategic Priorities

- Deliver the network, focus on inbound and outbound business with key trade corridors;
- Transform with digital, continue solving for clients and increase utilisation of digital solutions; and
- Explore emerging opportunities in Sustainable Finance.

The business remained resilient amidst tough local and global economic headwinds culminating in macro-economic slowdowns, reduction in the Central Bank Rate (CBR) and Fed rate (FFTR) resulting in margin compression and subdued opportunities in Project Finance/Corporate Finance. Income declined by 1% year-on-year.

Non-funded income (NFI) growth was supported by digital solutions in Cash Management and FX coupled with continued market leadership in Securities Services (Custody).

Credit impairment reduced more than five-fold owing to improved portfolio quality and deliberate efforts to get the right balance between risk and return.

Net loans and advances increased by 10% to KShs 37 billion in 2019 as we remained selective on asset origination. The decline in customer deposits is attributable to deliberate actions to improve funding mix to attract more stable deposits and reduce the cost of funding.

CLIENT SEGMENT REVIEWS (Continued)

Commercial Banking

“Our initiatives turned around Commercial Banking into a profitable business in 2019 evidenced in revenue growth, prudent cost management and improved credit quality”

Segment Overview

Commercial Banking serves medium enterprises and local corporates based in Kenya, acknowledging that this segment is the engine for economic growth, job creation and prosperity in the country. We provide customised solutions to support these businesses, seeing them through their expansion plans, maturity, succession and transformation into large local and regional corporates. The segment represents 9% of the Group’s operating income.

We continued our focus on building new client relationships through strategic acquisitions and the ecosystem, while remaining close and relevant to our existing clients.

Transaction Banking income grew by 8% year-on-year largely driven by our ‘Ecosystem’ initiative that resulted in a 17% growth in trade finance. Through the ecosystem, we provided more than KShs 3.5bn financing to SMEs that are distributors of our Corporate clients.

Our Chinese value proposition continues to deliver strong performance, with significant balance sheet growth for the last 3 years, positioning us for market leadership in this niche.

Our focus on digital is bearing fruit with more than 90% of our clients using our digital channels. This has resulted in 15% reduction in manual in-branch transactions with a corresponding reduction in associated processing costs. It has also enhanced the productivity of our team with a significant growth in revenue per headcount while keeping costs growth below inflation.

Credit quality of our loan portfolio has significantly improved which has resulted in a significant reduction in impairment losses. We continue to strive for the right balance between risk and return as we support our clients’ financing needs and grow our business sustainably.

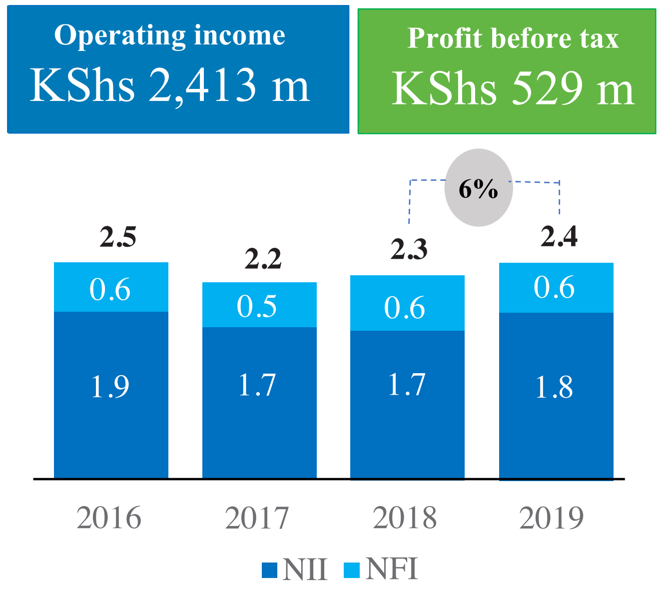
Our initiatives turned around Commercial Banking into a profitable business in 2019 evidenced in revenue growth, prudent cost management and improved credit quality.

2nd right: CEO Kariuki Ngari interacts with clients at a Commercial Banking client event at Tamarind Hotel, Mombasa.

CLIENT SEGMENT REVIEWS (Continued)

Commercial Banking (Continued)

Performance Highlights



Operating income grew by 6% in 2019 suppported by broad-based balance sheet growth despite the macro-economic headwinds that resulted in margin compression.

Loan impairment dropped by 73% due to improved portfolio quality, underscoring the positive impact of initiatives to de-risk the loan portfolio and grow sustainably.

The business turned round to deliver a Profit before tax of KShs 529 million, up from a loss of KShs 9 million in 2018 attributable to revenue growth, cost discipline and improved credit quality.

Net loans and advances grew by 16% on the back of targeted asset origination through the 'Ecosystem' initiative and in the Chinese segment. Deposit growth was supported by increased digital uptake.

Strategic Priorities

- **Continue improving profitability and returns through quality new-to-bank client acquisitions and deepening existing client relationships;**
- **Drive the 'Ecosystem' initiative to increase scale and optimise cross-sell opportunities; and**
- **Improve productivity by leveraging on analytics to identify opportunities and risks.**

CLIENT SEGMENT REVIEWS (Continued)

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 45% of the Group's operating income. We are closely integrated with the Group's other client segments, for example, offering employee banking services to the ecosystems of the Commercial and Corporate Banking clients through our Business Banking proposition. We continue focusing on improving productivity and client experience through digitisation, driving cost efficiencies and simplifying processes.

Our product offering includes:

Digital transformation

"We launched the retail digital bank which is available on the SC mobile app, with over 70 service requests available. Today, 52 per cent of all service requests previously done at a branch are fulfilled on the SC mobile app"

- Deposits
- Mobile/Internet banking
- Mobile payments

Mortgages

Credit cards

Personal loans

Standard Chartered recognised for outstanding service in Kenya

We were recognised as the 'Best digital consumer bank 2019' by Global Finance in August 2019.

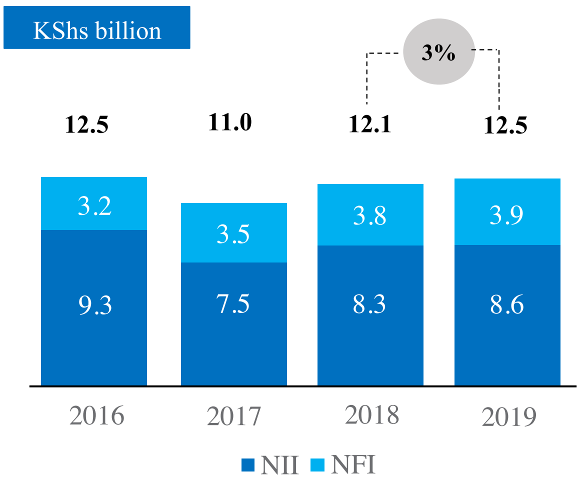
CLIENT SEGMENT REVIEWS (Continued)

Retail Banking (Continued)

Performance Highlights

Operating income
KShs 12,492 m

Profit before tax
KShs 3,633 m



Operating income was up 3 per cent supported by broad based balance sheet growth. The loan book, which grew 6 per cent, contributed to a 5 per cent increase in net interest income. Non-funded income continues to grow supported by increased transactions as a result of digital investments in our wealth management solutions.

Profit before tax was 18 per cent benefiting from lower impairments.

In March 2019, we launched the Retail digital bank which is available on the SC Mobile app. The SC Mobile app includes 70 service requests, and this has enabled 52 per cent of all service requests that were previously done at a branch to be fulfilled on the SC Mobile app.

We continue to cement our leadership in wealth management which saw a 34 per cent year-on-year growth in assets under management.

Strategic Priorities

- Invest in our affluent and emerging affluent clients with a particular focus on Wealth Management to capture the rise of the middle class;
- 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; and
- Build on client ecosystem initiatives.

Product Groups

Transaction Banking

Product Overview

We build and cement sustainable client relationships by embedding transactional services in our clients' processes across their working capital and operational cycles including Cash Management, Trade Finance, Securities Services and Correspondent Banking. Our clients include medium enterprises, corporates (local and global), banks and intermediaries.

"We are the leading custodial services and cash management bank in Kenya. We offer a full suite of market leading solutions to complement our customers' day-to-day operations and provide greater transactional efficiency"

Our mandate includes driving efficiency through the digitisation agenda to not only reduce operational costs but importantly, to help in the creation of a genuine digital corporate bank.

Trade Finance

The complexities of local and international trade can hinder growth and operational efficiencies of even the most capable businesses. Partnering with an experienced bank such as Standard Chartered provides our customers with the support to navigate through this environment. From import financing, export financing and warehouse financing solutions; our full range of trade products help our customers achieve business value in line with their growth agenda.

Cash Management and Payments

We offer a full suite of market leading cash management solutions to complement our customers' day-to-day operations and provide greater transactional efficiency, in line with their business goals.

We continue to invest in cash management capabilities in line with the changing operating landscape and new market trends. We do this by focusing on technology innovation, streamlining operational processes and providing faster turnaround times to deliver better customer experiences.

Securities Services

We are the leading custodian in Kenya. Our engagement with custody customers (including leading brokers, dealers, banks, global custodians, insurance companies, asset management companies and sovereign entities) spans the entire trade lifecycle, giving us a uniquely comprehensive view of the investment cycle from end-to-end.

Our association with these leading entities has meant that our product suite remains tailored to the needs of the most demanding customers in the industry. Our success in this has been acknowledged in leading industry surveys and is evidenced by our growing market share in recent years.

Correspondent Banking

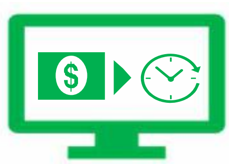
We provide Correspondent Banking related services to our customers, financial institutions, including the Group's affiliates, for the execution of third party payments and trade transactions, as well as cash clearing services in various currencies.

Major Awards Won in 2019

- Overall Best Bank for Cash Management in Kenya, 2019.
- Best Sub-Custodian – Bank in Kenya 2019.

Transaction Banking key initiatives delivered in 2019

Integrated Tax Payment solution



As a key partner for the Government of Kenya, we upgraded our tax payment solution, and are now fully integrated, in real-time, with the Kenya Revenue Authority payment gateway. This enables our customers, both corporate and retail, to complete their tax payments accurately and expeditiously through our internet banking applications.

Cash Deposit Machines

Our real-time credit capabilities on cash deposit machines enables our clients to optimise returns in an efficient manner therefore improving their working capital cycles.

Product Groups (Continued)

Financial Markets

Product Overview

The Financial Markets (FM) team has expertise combined with deep market knowledge to deliver a variety of risk management, financing and investment solutions to our clients. The FM team offers capabilities across origination, structuring, sales, trading and research. Offering a full suite of fixed income, currencies, commodities, equities and capital markets solutions, FM has firmly established itself as a trusted partner with extensive on-the-ground knowledge and deep relationships.

Strategic Priorities

Our strategy is framed under 5Cs:

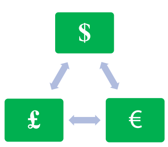
Clients

Clients are at the centre of everything we do. FM is a franchise-led business where we provide foreign currency (FX) transaction flow and tailored solutions to our clients. We want to improve the connectivity and product set that we provide to our clients. In addition to our existing offering, we are launching new products in a bid to address specific client needs.

Credit trading

Comprises of the Credit Flow, Credit Solutions, Repos and Collateral businesses, with teams in Kenya and across our global footprint. Credit Flow acts as a market maker in secondary Emerging Markets hard currency credit markets. Credit Solutions provides financing and investment solutions across fixed income, loans, equities and funds. Repos and Collateral provides liquidity management, collateral optimisation, yield enhancement and financing trades.

Credit is an area we want to enhance in terms of our coverage in Kenya and the spectrum and distribution of credit risk.



Currency

Our foreign currency (FX) business is core to the client offering. We continue to build on our offering by investing in people and technology. Straight2Bank (S2B), our corporate online banking platform, provides our clients with access to FX offering through the Stand Alone Request for Quote (SARFQ).

Standard Chartered Aggregation and Liquidity Engine (SCALE) offers clients a customised product capable of managing high volumes, whilst Straight2Bank will provide clients with a low latency, sophisticated FX management system (S2BX). Each of our core platforms is continuously improved to enhance the service we offer clients.

Cross-sell

In continuously putting our clients first, we shall deepen the uptake of our product offering. We are leveraging on our rich product offering, superior and reliable systems and deep local knowledge to provide localised consistent service.

Conduct

Conduct is of critical importance in the way we do business. It is by operating with integrity and doing the right thing for our clients, all the time, that we will succeed in achieving our business ambition.

"Our aspiration is to remain Kenya's leader in Financial Markets products and solutions. We have been voted as the Number One bank in Emerging Markets (EM) currencies for the past two consecutive years by the Euromoney FX Survey."

Wealth Management

Product Overview

We offer superior investment advice, products and services to help our clients build, manage and protect their wealth.

We serve clients under our Priority, Premium, Personal and Business Banking segments.

In today's complex investment landscape, our clients need insights that will help them respond quickly to market events and make informed investment decisions. We match their needs and risk tolerance with Wealth Management solutions from leading industry providers, guided by our investment insights and wealth product specialists.

We combine a deep understanding of our market with global reach, to provide our clients with access to the world's leading financial markets and investing opportunities like their counterparts in more advanced countries.

"Research shows most retirees fall short of their income and wealth goals. The 'wealth expectancy gap' arises in part from failure to assiduously plan for our financial future. However, It is also clear that wealth creators have the power to change this: by increasing the amount they save each month and by obtaining advice on how they build a personalised wealth management strategy, they could begin to close their wealth expectancy gap"

Product Groups (Continued)

We recommend solutions that are most suited and relevant to each client after a thorough investment profiling. Our advisory team benefits from our open-source approach to product and fundamental research backed by a very competent and experienced investment committee that looks at a broad range of industry-leading sources and debates them thoroughly. The result is great insights that help our clients make better investment decisions.

Our world-class Wealth Management offering is classified into four key propositions:

Managed investments

We combine our market-leading advice and funds selection to create personalised portfolios using various asset categories such as equities, bonds, commodities etc. This will help clients diversify and reduce overall volatility.

Market Products

We unlock financial markets across fixed income and foreign exchange for our clients.

Clients benefit from our trading expertise to buy and sell all major currencies at branches and seamlessly through our digital platforms.

We offer our clients bonds issued by international corporations or governments, including Kenya, to benefit from regular coupon income as well as potential capital appreciation based on market conditions.

Bancassurance

Our partnerships with reputable insurance providers provide the right protection for our clients' savings, education and retirement needs through education and endowment policies, their property through home, motor and travel insurance, and their families through farewell insurance.

Wealth lending

We have enhanced our overall wealth proposition by introducing lending solutions in Kenya Shillings as well as other major currencies like USD, EUR and GBP. Our clients, using their investment as a collateral, have an opportunity to access quick liquidity. This capability ensures that clients retain a long-term investment view while managing short-term liquidity needs. Further, clients are able to borrow and re-invest and maximise the value of their portfolio.

By continuously enhancing our offering for affluent and emerging affluent clients, we aspire to be increasingly relevant for our clients. To that end, we are investing in digitally delivered wealth propositions that excite our clients. Our digital Wealth Management product suite now includes motor, home, travel and farewell insurance, mutual funds, offshore fixed income and foreign exchange, all of which are available on the SC mobile app.

Standard Chartered CEO, Kariuki Ngari (left) and Dr. Patrick Tumbo, CEO Sanlam, during the launch of the Farewell Plan available on SC Mobile app.

Corporate Finance

Product Overview

Corporate Finance provides customised and innovative solutions to help our clients meet their strategic objectives. We offer specialists in Project & Export Finance, Leveraged & Structured Solutions, Structured Finance (Aviation and Shipping) and Loan Syndications.

Project & Export Finance

We provide project solutions which include financial advisory and arranging financing solutions on a limited or non-recourse basis as well as Export Credit Agency-backed financing.

Structured Finance

We are a leading provider of cost efficient financing as well as lease-based and asset-based financing solutions to businesses. Our strong industry expertise in the transportation sector has enabled us to provide high quality aircraft financing, advisory and leasing services.

Leveraged & Structured Solutions

The Leveraged & Structured Solutions (LSS) is involved in all specialised financing transactions other than Project & Export Finance and Structured Finance (Aircraft & Shipping) as well as select complex/specialised lending transactions.

LSS is organised across two broad activity-based categories:

- **Event Based Financing:** This broadly encompasses episodic and event based financing (acquisition of assets, shares, brands, trademarks operations etc. and associated financing requirements) and situational financing transaction flows (recapitalisation, share backed financing, structurally subordinated lending etc.)
- **Flow Based Financing:** This covers select specialised and complex flow transactions including Commercial Real Estate and Commodity Finance transactions and Lending to Sovereigns/Balance of Payment funding.

Loan Syndications

Loan Syndications is focused on originating, structuring, and executing capital raisings in the form of syndicated, club, and bridge loans for clients, and distributing them to a broad investor base locally and globally.

Risk Management

Enterprise Risk Management Framework

Risk management is essential to consistent and sustainable performance for all of our stakeholders and is therefore a central part of the financial and operational management of the Group. The Group adds value to clients and therefore the communities in which they operate and generates returns for shareholders by taking and managing risk.

Through our Enterprise Risk Management Framework (ERMF), we manage enterprise-wide risks, with the objective of maximising risk-adjusted returns while remaining within our risk appetite.

In 2019, the Group has continued to roll out the ERMF and Risk Type Framework, as well as launching training programmes for awareness and stakeholder engagement.

Principal risk types

The ERMF formally defines ten Principal Risk Types that are inherent in the strategy and business model. These risks are managed through distinct Risk Type Frameworks, that document the overall risk management approach for the respective Principal Risk Type.

Principal Risk Types	How these are managed
Credit risk Potential for loss due to the failure of a counterparty to meet its agreed obligations to pay the Group.	The Group manages its credit exposures following the principle of diversification across products, client segments and industry sectors.
Traded risk Potential for loss of economic value due to adverse changes in financial market rates or prices.	The Group controls its trading portfolio and activities to ensure that market risk losses (financial or reputational) do not cause material damage to the Group's franchise.
Capital & Liquidity risk Capital: potential for insufficient level or composition of capital to support our normal activities. Liquidity: potential for failure where we may not have sufficient stable or diverse sources of funding or financial resources to meet our obligations as they fall due.	The Group maintains a strong capital position including the maintenance of management buffers sufficient to support its strategic aims and holds an adequate buffer of high quality liquid assets to survive extreme but plausible liquidity stress scenarios for at least 60 days without recourse to extraordinary central bank support.
Operational risk Potential for loss from inadequate or failed internal processes and systems, human error, or from the impact of external events (including legal risks).	The Group controls 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 franchise.
Reputational risk Potential for damage to the franchise, resulting in loss of earnings or adverse impact on market capitalisation, because of stakeholders taking a negative view of the organisation, its actions or inactions – leading its stakeholders to change their behaviour.	The Group protects the franchise from material damage to its reputation by ensuring that any business activity is satisfactorily assessed and managed by the appropriate level of management and governance oversight.

Risk Management (Continued)

Principal risk types (Continued)

Principal Risk Types	How these are managed
Compliance risk Potential for regulatory sanctions or loss from a failure on our part to comply with laws or regulations.	The Group has no appetite for breaches in laws and regulations. Whilst recognising that regulatory non-compliance cannot be entirely avoided, the Group strives to reduce this to an absolute minimum.
Conduct risk Risk of detriment to the Group's clients, investors, shareholders, market integrity, competition and counter-parties, or risk of detriment from the inappropriate supply of financial services, including instances of wilful or negligent misconduct.	The Group has no appetite for negative Conduct Risk outcomes arising from negligent or wilful actions by the Group or individuals recognising that whilst incidents are unwanted, they cannot be entirely avoided.
Information and Cyber Security risk Potential for loss from a breach of confidentiality, integrity and availability of the Group's information systems and assets through cyber-attack, insider activity, error or control failure.	The Group seeks to avoid risk and uncertainty for our critical information assets and systems and has a low appetite for material incidents affecting these or the wider operations and reputation of the Group.
Financial Crime risk Potential for legal or regulatory penalties, material financial loss or reputational damage resulting from the failure to comply with applicable laws and regulations relating to International Sanctions, Anti-Money Laundering and Anti-Bribery and Corruption.	The Group has no appetite for breaches in laws and regulations related to Financial Crime, recognising that whilst incidents are unwanted, they cannot be entirely avoided.
Country risk Potential for losses due to political or economic events in a country.	The Group manages the risk exposures by ensuring adherence to limits for the size of cross-border exposure set for each country.

Risk Culture

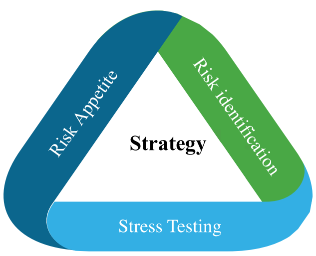
All employees, whether engaged in or supporting generation of revenue activities, are expected to demonstrate the highest levels of integrity, transparency and proactivity in disclosing and managing all types of risks. Our approved risk culture statement encourages the following behaviours and outcomes:

— An enterprise level ability to identify and assess current and future risks, openly discuss these and take prompt actions;
— The highest level of integrity by being transparent and proactive in disclosing and managing all types of risks;
— A constructive and collaborative approach in providing oversight and challenge, and taking decisions in a timely manner; and
— Everyone to be accountable for their decisions and feel safe using their judgment to make these considered decisions.

As banking inherently involves risk taking, it follows that bad outcomes will sometime occur and when they do, we take the opportunity to learn from our experience and formalise what we can do to improve. Managers are expected to demonstrate a high awareness of risk and control by self-identifying issues and managing them in a manner that will deliver lasting change.

Strategic risk management

Our strategy in risk management entails:



– ***Risk identification:*** Performance of an impact analysis of risks which arise from growth plans, strategic initiatives and business model vulnerabilities; this analysis should identify whether existing or new risks have changed in terms of relative importance. The outcomes of this process are used by the Risk Function to challenge the Corporate Plan.
– ***Risk Appetite:*** Performance of an impact analysis to confirm that the growth plans and strategic initiatives are within the Board Approved Risk Appetite; the analysis should highlight areas where additional Risk Appetite should be considered.
– ***Stress Testing:*** The outcomes of the risk identification process are used to develop the scenarios for stress tests; the results of the stress tests are used to recommend strategic actions.

Risk Management (Continued)

Roles and responsibilities

Roles and responsibilities for risk management are defined under a Three Lines of Defence model. Each line of defence has a specific set of responsibilities for risk management and control as detailed below.

Lines of Defence	Definition	Key responsibilities include
1st	The businesses and functions engaged in or supporting revenue generating activities that own and manage risks.	– Propose the risks required to undertake the revenue generating activities. – Identify, monitor and escalate risks and issues to the Second Line and senior management and promote a healthy risk culture and good conduct. – Manage risks within Risk Appetite and ensure laws and regulations are being complied with. – Ensure systems meet risk data aggregation, risk reporting and data quality requirements set by the Second Line.
2nd	The control functions independent of the First Line that provide oversight and challenge of risk management to provide confidence to the Head of Risk, the management team and the Board.	– Review First Line risk proposals and make decisions to approve or reject as appropriate. – Oversee and challenge First Line risk taking activities. – Own processes for setting Risk Type Frameworks, Policies and Standards, and monitoring compliance. – Own and manage processes for oversight and challenge. – Propose Risk Appetite to the Board, monitor and report adherence to Risk Appetite. – Intervene to curtail business if it is not in line with existing or adjusted Risk Appetite.
3rd	The independent assurance provided by the Internal Audit Function, of the effectiveness of controls that support First Line's risk management of business activities, and the processes maintained by the Second Line. Its role is defined and overseen by the Board Audit Committee.	– Independently assess whether management has identified the key risks in the business and whether these are reported and governed in line with the established risk management processes. – Independently assess the adequacy of the design of controls and their operating effectiveness.

Risk Appetite and profile

We recognise the following constraints which determine the risks that we are willing to take in pursuit of our strategy and the development of a sustainable business:

- **Risk capacity** is the maximum level of risk the Group can assume, given its current capabilities and resources, before breaching constraints determined by capital and liquidity requirements and internal operational capability (including but not limited to technical infrastructure, risk management capabilities and expertise), or otherwise failing to meet the expectations of regulators and law enforcement agencies.

- **Risk Appetite** is defined by the Group and approved by the Board. It is the maximum amount and type of risk the Group is willing to assume in pursuit of its strategy. Risk Appetite cannot exceed Risk Capacity.

The Board approves a Risk Appetite Statement, which is underpinned by a set of financial and operational control parameters known as Risk Appetite metrics and associated thresholds. The Risk Appetite Statement is supplemented by an overarching statement outlining the Risk Appetite Principles.

Risk Management (Continued)

Risk Appetite Principles

The Risk Appetite is in accordance with our overall approach to risk management and our risk culture. We follow the highest ethical standards required by our stakeholders and ensure a fair outcome for our clients, the effective operation of financial markets, while at the same time meeting expectations of regulators and law enforcement agencies. We set our Risk Appetite to enable us to grow sustainably and to avoid shocks to earnings or our general financial health and to manage our reputational risk in a way that does not materially undermine the confidence of our investors and all internal and external stakeholders.

Risk Appetite Statement

We will not compromise adherence to our Risk Appetite in order to pursue revenue growth or higher returns.

Risk control tools such as exposure limits, underwriting standards, scorecard cut-offs and policies and other operational control parameters are used to keep the Group's risk profile within Risk Appetite (and therefore also risk capacity). The Group's risk profile is its overall exposure to risk at a given point in time, covering all applicable risk types. Status against Risk Appetite is reported to the Board Risk Committee and the Senior Management Risk Committee, including the status of breaches and remediation plans where applicable.

Board and Executive risk oversight

The Board has ultimate responsibility for risk management and is supported by the board committees and management committees. The Board approves the ERMF based on the recommendation from the Board Risk Committee, which also recommends the Risk Appetite Statement.

The Board Risk Committee has oversight and preview of the Group's overall risks. The Committee determines the ERMF for the Group, including the delegation of any part of its authorities to appropriate individuals or properly constituted sub-committees. The committee receives regular reports on risk management, including the Group's portfolio trends, policies and standards, stress testing, liquidity and capital adequacy, and is authorised to investigate or seek any information relating to an activity within its terms of reference.

The Board Credit Committee has oversight of the Group's credit policy and all lending undertaken by the Group in line with the approved risk appetite.

The Board Audit Committee has oversight and reviews the Group's financial audit and internal compliance issues.

The Asset and Liability Committee (ALCO) is responsible for determining the Group's approach to balance sheet management and ensuring that, in executing the Group's strategy, the Group operates within internally approved Risk Appetite and external requirements relating to capital and liquidity risk. It is also responsible for policies relating to balance sheet management, including management of our liquidity and capital adequacy, interest rate and tax exposure.

The Executive Risk Committee is responsible for monitoring management information to evidence that the Group's risk profile is within the approved Risk Appetite. It is responsible for providing assurance to the Board that the overall framework is complying with the approved Risk Appetite statements.

The Non-Financial Risk Committee ensures effective management of inherent non-financial principal risks throughout the Group. The non-financial principal risk types in scope governed under the Non-Financial Risk Committee are operational risk, compliance risk, conduct risk, information and cyber security risk and reputational risk that is consequential in nature arising from the failure of all other principal risks (secondary Reputational Risk). The committee also reviews and challenges the adequacy of the internal control systems across all principal risk types.

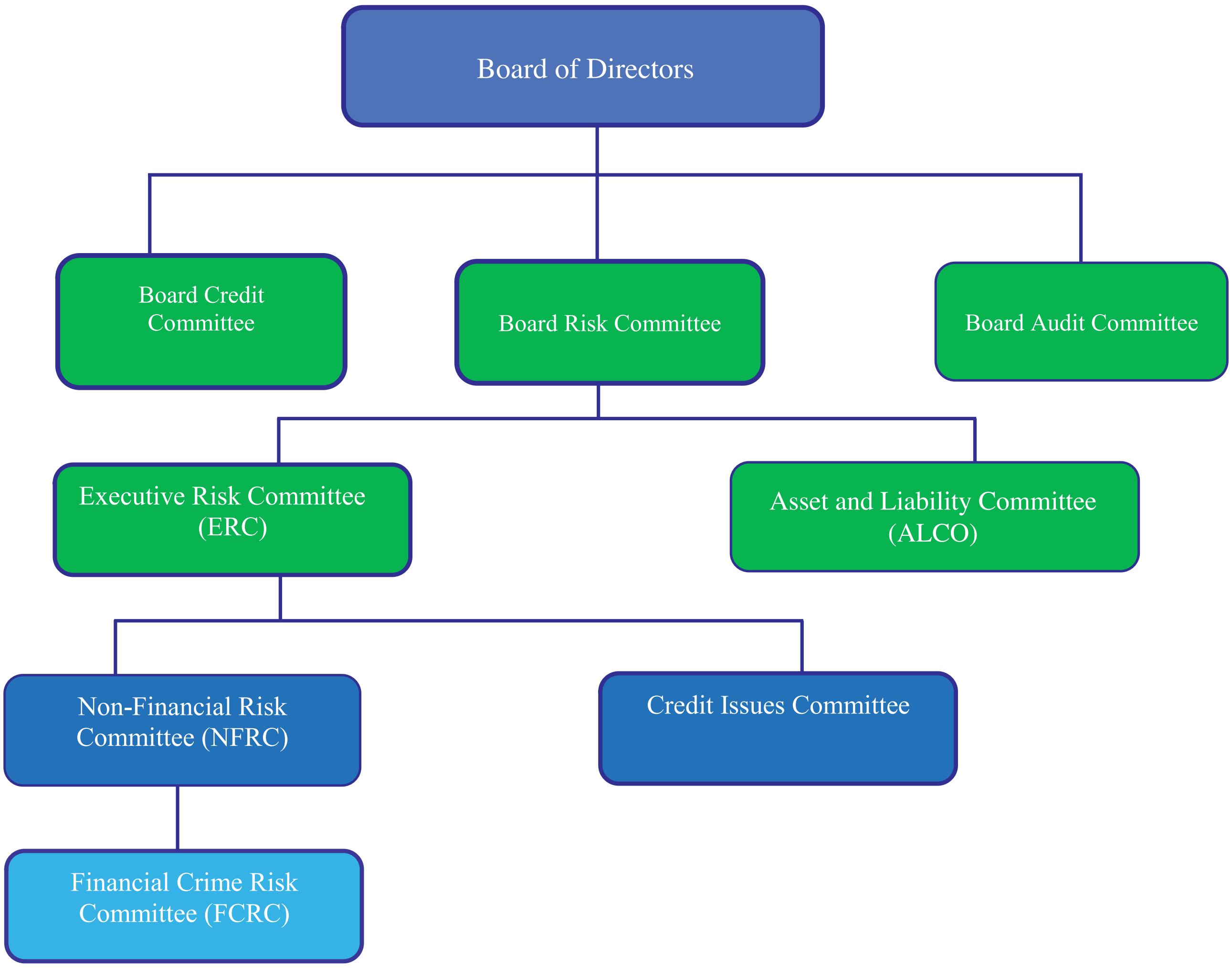
The Credit Issues Committee ensures credit issues and adverse trends in the lending undertaken are identified and addressed through appropriate actions.

Risk Management (Continued)

Board and Executive risk oversight (Continued)

The Financial Crime Risk Committee, provides oversight of the effectiveness of the Group's policies, procedures, systems, controls and assurance arrangements designed to identify, assess, manage, monitor, prevent and/or detect money laundering, non-compliance with sanctions, bribery, corruption and tax crime by third parties.

Risk governance structure



Stakeholders and Responsibilities

Our Stakeholders

We believe that our stakeholders are an integral part of our long-term prosperity and sustainability. We are committed to regular and constructive engagement and dialogue with our stakeholders to guide our strategic and operational direction. Stakeholder feedback helps inform our responses to issues and maintain good relationships.

Standard Chartered CEO, Kariuki Ngari (left) interacting with clients and staff during the BELT & ROAD Relay.

Clients

How we serve and engage

We enable individuals to grow and protect their wealth. We help businesses to trade, transact, invest and expand. We also help a variety of financial institutions, including banks, public sector and development organisations, with their banking needs.

Clients are at the heart of everything we do. By building and fostering long-term relationships with our clients, we can serve them better, deepen our relationships, uphold our reputation and attract new customers to grow our business.

Delivering fair outcomes for clients is a priority, starting with products and services that are well designed, fairly and reasonably priced, and supported by clear and concise information. Client interests are factored into our business strategies, including how we set and monitor revenue targets, govern new product development, review and assess existing products and discontinue products. We aim to deal with issues in a fast, fair and efficient way and each business segment has tailored procedures and processes in place to handle client complaints.

Good business conduct remains central in all our client interactions. Across our business segments, we aim to ensure that client-facing colleagues are trained and certified, provide the right information about products and deliver on service level promises.

In Commercial and Corporate & Institutional Banking, colleagues must be open and honest in identifying and managing conflicts of interest with clients, and carry out all client orders in a way that treats all clients fairly. For more information about our clients, read the client segment reviews on pages 11 to 16.

Regulators and Government

How we serve and engage

We engage with relevant authorities to play our part in supporting the effective functioning of the financial system and the broader economy. Standard Chartered Bank Kenya Limited maintains a Government & Regulatory Relations Plan which evidences the Company's efforts to maintain transparent relations in its engagements with regulators and government agencies. We actively engage with relevant government bodies, regulators and policymakers to share insights and technical expertise on key issues. In 2019, we engaged to exchange information on topics such as implementation of the Banking Sector Charter, supporting credit growth in the small and medium size enterprises (SME) sector, fintech, cloud strategy, cyber security, fighting financial crime and sustainable finance, in addition to participating in industry working groups. This engagement supports the development of best practice.

Standard Chartered COO, Peter Gitau (left) giving CBK Governor, Dr. Patrick Njoroge (centre) a tour of Standard Chartered Women in Tech Stand during the inaugural INUA Biashara event.

Stakeholders and Responsibilities (Continued)

We are committed to complying with legislation and regulatory requirements applicable to our business and operations. Our compliance with legal and regulatory frameworks ensures that the Company meets its obligations. In turn, this supports the resilience and effective functioning of the Company and the broader financial system and economy.

In 2020, we expect to focus engagement activities on emerging technologies and innovations in banking. We will also continue to engage on the 'Big four' agenda, regional trade development, the Belt and Road initiative, as well as sustainable and responsible socio-economic growth.

Investors

How we serve and engage

We aim to deliver robust returns and long-term sustainable value for our investors. Our operating footprint, along with a commitment to sustainable and responsible banking, uniquely connects investors in established capital markets with opportunities in emerging markets. In this context we believe that an integrated approach to Environmental Social and Governance (ESG) issues and a strong risk and compliance culture provide a competitive advantage.

Shareholder arrives for the Annual General Meeting

Using the capital that we receive from investors, we execute our business model with a focus on delivering sustainable value for all shareholders. Whether they have a short or long-term investment horizon, we provide all investors with information about all aspects of our financial and sustainability performance.

During 2019, we engaged with investors and market analysts through the annual general meeting as well as briefing events to guide them through our performance and business strategy.

We also engaged with sustainability analysts and participated in sustainability indices that have provided independent benchmarking of our performance. In 2020 we will continue to engage on how we will sustainably improve our returns to create value over the long term. For more information about Board engagement with shareholders in 2019, please see page 59 in the corporate governance section of the annual report.

Second left, Gladys Warirah, Financial Controller awarding supply partners during the 'Ride for the Future' event.

Supply partners

How we serve and engage

We work with local and global suppliers to ensure they can provide the right goods and services for our business, efficiently and sustainably. Engagement with suppliers is guided by our Supplier Charter, which sets out what we expect of vendors on issues such as ethics, anti-bribery and anti-corruption, human rights and environmental performance. Suppliers must recommit to the charter annually, and regular engagement to monitor performance is built into our procurement practices and standards.

We engage globally and locally to create value through the supply chain for both our business and our vendors. In 2019, our global innovation arm SC Ventures set up an Africa hub in Kenya and held engagement sessions with strategic suppliers and finfech suppliers in Nairobi to strengthen collaboration and innovation around digital transformation.

Stakeholders and Responsibilities (Continued)

Small and medium-sized business owners continue to have the opportunity to participate in our sourcing activities and the supply team helps them meet the standards set out in our Supplier Charter. During 2019, we made good progress embedding sustainability into our procurement practices.

We strengthened governance of modern slavery and human rights (MSHR) risk and assessed the MSHR standards and practices of our strategic suppliers' own supply chains. The recently implemented supply chain management system, SCBuy, will provide improved data on sustainability issues such as modern slavery, diversity and inclusion. The first phase of SCBuy was implemented in 2018. It will be completed in 2021.

In recognition of International Anti-Corruption Day, we held a dialogue session with our strategic vendors to discuss the importance of Anti Bribery and Corruption. In 2020, we will work closely with our vendors to build their knowledge in responsible business in line with our ESG commitments.

Our Supplier Charter can be downloaded at *sc.com/suppliercharter*

Colleagues

How we serve and engage

We believe that great client experience is driven by great colleague experience. We want our people to pursue their ambitions, to deliver with purpose, and have a rewarding career enabled by great people leaders.

Purpose-led cultural change

Our culture is the foundation for delivering on our purpose to drive commerce and prosperity through our unique diversity. We continue to embed our culture through our valued behaviours (Never Settle, Do the Right Thing and Better Together), which describe a culture that balances innovation, client focus, ethics and inclusion. We have integrated these valued behaviours into the way we hire, recognise, reward and develop our people.

In 2019, we introduced our leadership standard PA^{2}CE –which focuses on People, Accountability, Agility, Clients and Execution as clear building blocks of transforming the Company through building new skills and capabilities required today and into the future of banking.

Our commitment to wellbeing

We are committed to bringing out the best in colleagues by establishing and maintaining a work environment that promotes positive wellbeing and healthy lifestyle choices. Our vision is to create a culture where employees have access to a range of wellbeing resources to help them remain healthy and productive, and can seek help when they need it. We recognise that every employee has different needs and our four wellbeing pillars – mental, physical, social and financial – allow us to provide support to employees at every stage of their lives.

In 2019, we embarked on a campaign to proactively manage staff health through various initiatives, that include exercise (including participating in the Standard Chartered Nairobi Marathon), diet and nutrition clinics, as well using data to enable better access to health services and medication. These initiatives will continue as we have seen an early benefit in proactively managing the well-being of employees.

Staff members during the launch of the wellness programme courtesy of Human Resources.

Building a future ready workforce

There is a rising need to focus on continuous skills development and embed our learning culture as part of being future ready. The future is now, therefore employees are to be empowered to take learning into their own hands and be responsible for their own career paths by building confidence in skilling themselves around emerging technologies and being open to further skilling requirements.

Stakeholders and Responsibilities (Continued)

In 2019, the Company invested in technology to make learning accessible to everyone through free access to online learning platforms of Skillsoft, Percipio and Intuition. Percipio has 408 active users, representing 29 per cent of our staff and Intuition has 63 per cent of staff enrolled.

Through our Inclusive Leadership programme aimed at strengthening a culture of inclusion, we reached 86 per cent of our people leaders. A further 93 per cent of first-time leaders went through a leadership programme that introduces the fundamental skills required to succeed as a leader.

The Learning Week is an initiative designed and delivered by the Company to promote awareness for staff to invest in themselves. A total of 1,395 staff joined in various learning activities during the week resulting in a higher number of users interacting with our online learning platforms.

In 2019, we also launched *Engage to Elevate* a quarterly interactive session hosted by industry experts to share their knowledge, experience and trends around future of work with our staff. The series challenged staff on how to remain relevant in a dynamic technological world.

Embracing diversity to achieve our purpose

Unique diversity underpins our purpose. We can only drive commerce and prosperity by embracing the power of our diversity and unleashing its full potential. An inclusive culture is central to enabling our diversity, prompting innovation and driving performance. We have defined our long-term approach to diversity and inclusion (D&I) for our colleagues, clients and communities, setting out key objectives and focus areas to build a culture of inclusion, respect and equality. Our D&I Standard sets out our intent to ensure a respectful workplace, with fair and equal treatment and the provision of opportunities for colleagues to participate fully and reach their full potential in an appropriate working environment. The Company focuses on the D&I pillars of Nationality & Ethnicity, Disability, Gender and Generations.

Gender equality

Our goal is to engage and support all genders, and progress towards gender equality. We subscribe to the UN principles that underpin our commitment to support women in the workplace, marketplace and community. Our overall gender split stands at 52% women and 48% men.

In 2019, the female representation in senior leadership roles stood at 41% and continues to shift closer to our intended goal of having a fair split of 50:50 between male and female leaders. This was recognised by the market and the Company was feted by various bodies including the Kenya Bankers Association, Federation of Kenya Employers and the Nairobi Securities Exchange.

Staff members during the International Women's Day event.

We are proud of the progress that we have made but recognise there is more work to do. We understand that gender equality can only be reached by a focus on all genders. Our Flexible Working Policy, Parental Leave Policy, Fair Pay Charter, mentoring and leadership programmes continue to support all our colleagues. We also recognise both International Women's and Men's Day to enable a constructive dialogue, improve gender relations, break traditional gender norms, highlight role models and minimise bias and stereotypes.

Society

How we serve and engage

We strive to operate as a sustainable and responsible business, collaborating with local partners to promote social and economic development.

Stakeholders and Responsibilities (Continued)

	SUSTAINABILITY PILLARS		
	Sustainable Finance	**Responsible Company**	**Inclusive Communities**
SUSTAINABILITY ASPIRATIONS	– Infrastructure	– People	– Futuremakers; - Education - Employability - Entrepreneurship
	– Climate	– Environment	
	– Entrepreneurs	– Conduct	
	– Digital	– Financial Crime Compliance	
	`– Commerce/Trade		
	– Impact & sustainable finance		

By delivering against our three sustainability pillars – Sustainable Finance, Responsible Company and Inclusive Communities – and 11 Sustainability Aspirations as shown below, we can achieve our purpose and be Here for good. These also allow us to measure our contribution to the UN Sustainable Development Goals.

Panel discussion on Sustainable Finance during the 2019 Africa Summit hosted for policy makers, industry leaders and Standard Chartered clients.

Sustainable finance

Recognising that our most significant environmental and social impact comes from the businesses we finance, we have set out how we balance economic, environmental and social needs in our decision making through our Sustainability Philosophy. Our purpose and valued behaviours are the foundation for our Sustainability Philosophy.

Economic and social growth is leading to rapid urbanisation and creating increased need for infrastructure, power and technology. We believe finance plays a key role in meeting these needs. It enables individuals to build a positive future for themselves and their families, for businesses to thrive and grow, and governments to deliver economic prosperity for the wider community. Supporting sustainable and responsible growth, including delivering the UN Sustainable Development Goals ('SDGs'), represents a significant opportunity for us. In pursuing this opportunity, we are guided by our brand promise, Here for good.

Contributing to sustainable growth

In 2019, we supported Kenya Tea Development Agency (KTDA) with financing to support over 650,000 farmers. It is imperative that our services finance key sectors and create solutions that drive economic growth while managing environmental and social risks with our financing.

Left: Lerionka Tiampati, CEO KTDA and Kariuki Ngari during a deal sign off to finance importation of fertilizers for tea farmers.

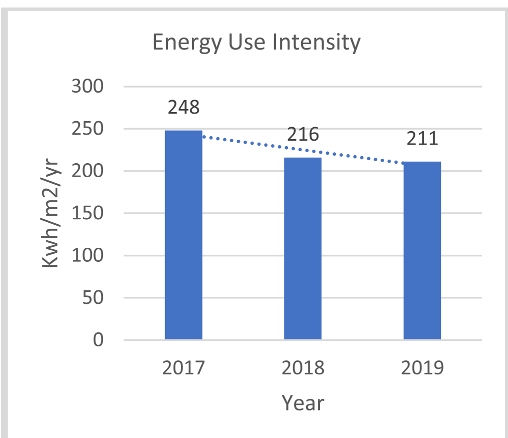
Stakeholders and Responsibilities (Continued)

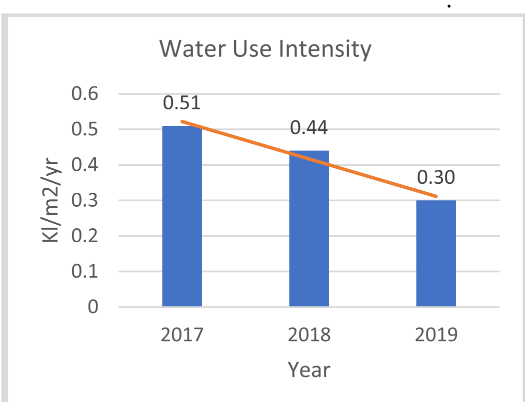
Managing environmental and social risks
Our Environmental Risk Management Framework is a critical tool we use to assess the risks of our lending activities. We apply the framework to our Corporate clients, and embed our framework directly into our credit approvals process. It is the role of our relationship managers to carry out an Environmental & Social Risk Assessment (Client ESRA). This allows us to evaluate client performance against our Environmental & Social (E&S) criteria. Where large transactions are involved, in the case of project finance for instance, we will also carry out a separate Transaction ESRA. In 2019, we reviewed 40 high impact lending activities against our Environmental and Social Risk Management (ESRM) framework versus 70 in 2018, and 16 in 2017.

We also participate in industry efforts and in 2019, we became a founding signatory of the UN's new Principles for Responsible Banking (https://www.unepfi.org/banking/bankingprinciples/). Additionally, as founding members of the Kenya Bankers Association, we are active participants in the Association's Sustainable Finance Initiative. We are also members of UN Global Compact Network in Kenya, whose four principles on human rights, labour, environment and anti-corruption we are committed to embedding in our business strategy and operations.

Responsible Company

Promoting good conduct
Our Code of Conduct is the central tool that defines our conduct expectations. Our goal is to create the right environment to support ethical behaviour, so all employees know, understand and play their part. Leaders are encouraged to recruit and recognise colleagues based on good conduct, while performance objectives and reward mechanisms are directly linked to our valued behaviours. Conduct training is mandatory and colleagues are required to recommit to the Code of Conduct annually. In 2019, 100 per cent of staff recommitted to the Code.





Fighting financial crime
We maintain sound defences against money laundering, terrorist financing, sanctions compliance breaches, bribery and other forms of corruption. A dedicated Financial Crime Compliance (FCC) team leads our risk management activities, which include adhering to anti-money laundering (AML) and sanctions policies and applying core controls such as client due-diligence screening and monitoring. Anti-bribery and corruption (ABC) policies aim to prevent colleagues, or third parties working on our behalf, from participating in active or passive bribery or corruption, or from making facilitation payments. In 2019, 100 per cent of our staff completed ABC, AML and sanctions training.

Managing our environmental footprint
We aim to reduce the direct environmental impact of our operations, namely our branches and offices, which use paper, water and energy. In 2018, we surpassed our Energy Use Intensity (EUI) target of 230 Kwh/m²/yr by 2019 achieving 216 Kwh/m²/yr through measures including LED lighting and grid-tiered solar panels. This year our EUI was 211 Kwh/m²/yr, a further 2.3 per cent reduction from the prior year, as a result of a revamp of the fresh air-cooling system at the Chiromo Head Office.

Our Water Use Intensity (WUI) was at 0.30 kl/m²/yr against a target of 0.50 kl/ m²/yr by end of 2019, representing a drop of 31.8 per cent compared to 2018. This significant reduction was achieved through the elimination of water dispensers and installation of a water filtration system at the Chiromo Head Office. The use of the waste water treatment plant which was commissioned in November 2018, also made a great impact on the reduction.

Stakeholders and Responsibilities (Continued)

We aim to minimise waste and continued to reduce single use plastic at our Chiromo Head Office and continue to identify ways to improve our environmental performance. In 2020, we will review the methodology used to measure our energy, water and waste, and increase monitoring of plastic usage to set more robust reduction targets.

Inclusive Communities

We aim to create a more inclusive economy by sharing our skills and expertise, working closely with local partners to deliver programmes that promote empowered communities, in line with our Purpose and Valued Behaviours. Our investments in communities are governed by our Sponsorship and Donations Policy to foster credible partnerships and relevant outcomes.

In 2019, we raised over KShs 38 million for our communities. In addition, our staff contributed more than 1,000 volunteering days in service to communities.

Futuremakers by Standard Chartered

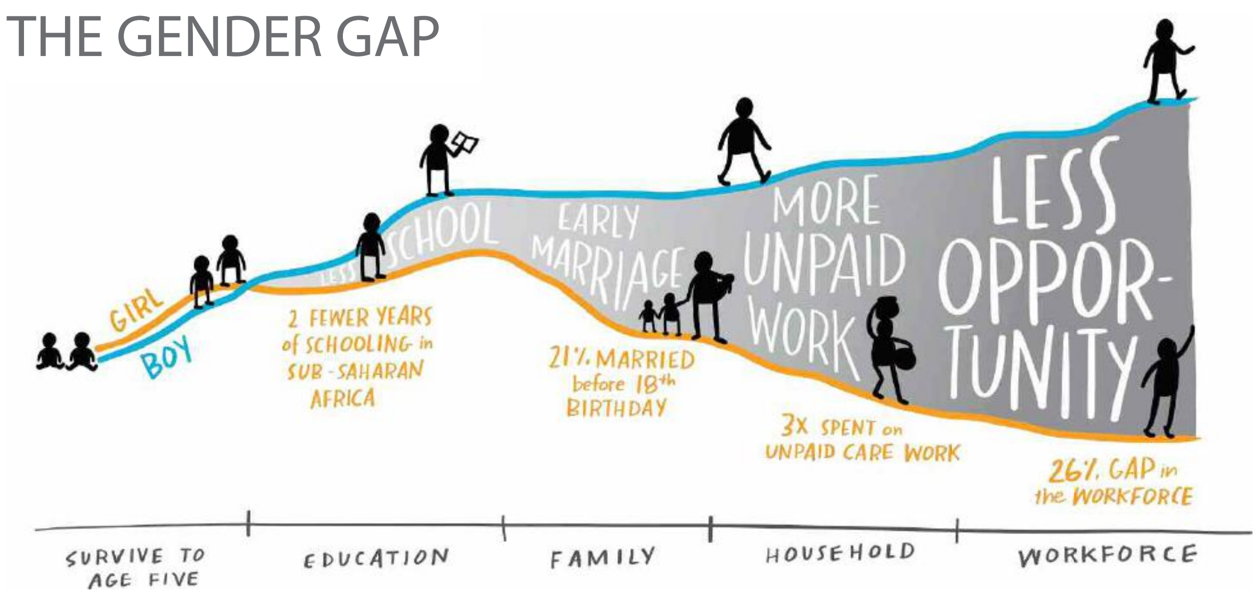
In 2019, we launched and began to roll out our 2019 – 2023 community investment approach, Futuremakers by Standard Chartered. Futuremakers by Standard Chartered is our global initiative to tackle inequality and promote greater economic inclusion in our market. We will do this by supporting disadvantaged young people from low-income households, particularly girls and people with visual disability, to take part in programmes focused on education, employability and entrepreneurship. Our ambition is to raise USD50 million between 2019 and 2023 to empower the next generation to learn, earn and grow.

We have three core pillars to our Futuremakers by Standard Chartered community engagement:

Education

The Gates Foundation published their 2019 Goal Keepers report – Examining Inequality. How Geography and Gender Stack The Deck For (Or Against) You. A key highlight from this report was that 'no matter where you are born, your life will be harder if you are born a girl. If you are born in a poor country or district, it will be even harder.' It also highlighted that adolescence is when girls' and boys' futures really start to diverge – with boys' futures expanding, and that for girls' contracting.

This is a key reason why we focus on empowering adolescent girls (12 – 19 years old) with life skills. We are primarily doing this through our Goal programme where we work to empower young women through education and sports. In 2019, we reached over 4,400 girls through our programme. Since 2015 our Goal programme has supported over 16,000 girls and young women with life skills training.



Stakeholders and Responsibilities (Continued)

We also deliver financial education training to young people through our staff who volunteer their time and skills to influence behavioural change and engrain financial responsibility at a young age. Since we began in 2016, we have reached 28,000 youth across the country and worked to build their financial education capabilities.

Employability

The Employability pillar focuses on work readiness and vocational training schemes for youth - aged between 16 to 30 years and encourages prioritising women and people with visual impairments and/or disability. We expanded our Goal programme to include employability and entrepreneurship capability building for our Goal beneficiaries. Since 2015, more than 460 young women have received vocational training and entrepreneurship skills training to support their future pathways.

We recognised the 2019 World Youth Skills Day by hosting a skills café for over 200 Form 4 students from five high schools across Nairobi. Over 50 staff volunteered to share their experience and coach the youth on communication skills, career and planning, youth and peer pressure. In 2020, we will launch a new employability programme that will focus on increasing employability opportunities for young people (16 – 25 years) including youth with disabilities.

Center: Sunil Kaushal, Standard Chartered AME Regional CEO, Eva Muraya, Entrepreneur and CEO, Kariuki Ngari interact with Tech Company Founders who are beneficiaries of the Women in Tech Incubator programme.

Entrepreneurship

For this community investment focus area, we provide training, capacity building and financing for micro and small business owners, prioritising women. We continued our commitment to supporting women-led enterprises leveraging technology to grow their business, under our Women in Technology programme. The ten businesses selected in late 2018 to the incubator programme successfully completed the programme in early 2019. In April 2019, we awarded five companies with a monetary award of KShs 1 million each to grow their businesses.

Since 2017, 30 companies have participated in our programme and we have invested KShs 27 million to support women-led micro and small business through the Women in Technology programme. Our third cohort launched in September 2019 and received 700 applications. A final 10 companies were shortlisted and are currently participating in the incubation programme.

In 2019, the Kenya Women in Technology programme was recognised by the Standard Chartered Group's Global Recognition Awards under the category: *Do the right thing - Women In Tech Incubator - Empowering female entrepreneurs across Africa & Middle East.* Following its successful launch in Kenya, the Women in Technology programme has been rolled out across our Africa & Middle East region. From Kenya, the programme has now expanded to Nigeria, Pakistan and United Arab Emirates.

We also run a financial education for entrepreneurs programme targeting non-client micro and small businesses in our communities. This is delivered by employee volunteers. Since we began in 2016, we have trained over 270 micro and small businesses.

Standard Chartered Nairobi Marathon

The Standard Chartered Nairobi Marathon moved back to Nyayo Stadium for the 17th Edition which was held on 27 October 2019. The Nairobi Marathon is a key platform to nurture upcoming Kenyan athletes and celebrates Kenya as the home of long-distance international athletes. It is Kenya's only marathon that has the International Association of Athletics Federations (IAAF) and Association of International Marathons and Distance Races (AIMS) recognitions, and the only marathon held in our capital city and with international prestige.

Stakeholders and Responsibilities (Continued)

Key achievements:
– KShs 30,029,610 was raised towards Futuremakers by Standard Chartered;
– 17,243 registered participants;
– 245 corporate teams took part;
– 406 staff volunteered; and
– 485 external (non-staff) volunteers.

Marathon enthusiasts taking part at the 2019 Standard Chartered Nairobi Marathon.

The event features six race categories; 42km male and female, 21km male and female, 21km wheelchair male and female, 10km male and female, 5km Family Fun Run race and the Corporate Challenge. The winners take home prize money totalling KShs 10 million up from KShs 8 million in 2018.

We sincerely thank our partners: Nairobi County Government, Athletics Kenya, AAR, All Terrain Services, AUA Industria, Coca-Cola, Internet Solutions, Radio Africa Group, Subaru Kenya and the Kenya International Convention Centre; for support to the 2019 Nairobi Marathon.

Seeing is Believing (2003 – 2018)
In 2018, after achieving our global goal of raising USD 100 million to fight against avoidable blindness and visual impairment, we concluded our Seeing is Believing (SiB) community investment programme. Our fundraising goal was achieved two years ahead of target. 2019, saw the start of our new community investment approach, Futuremakers by Standard Chartered.

There were existing SiB programmes which were concluding in 2019, and we ensured that we kept our commitments to these partners and programmes from start to end. As a result, in 2019, we achieved some very positive outcomes in supporting avoidable blindness and visual impairment as we wrapped up our programmatic commitments. In 2019, we screened over 102,000 people, performed more than 22,500 eye treatments and surgeries, and provided eye health education to more than 170,000 Kenyans.

Our eye health programme on diabetic retinopathy, which concluded in December 2019, focused efforts on the links between diabetes and eye health. Non-communicable illnesses, like diabetes, are on the rise in Kenya particularly in urban areas. Through our support we have partnered with public hospitals, like Mbagathi Hospital in Nairobi County, to introduce diabetic retinopathy screening. Together with our partners, we screened over 4,600 people for diabetic retinopathy, about 140 received eye treatments related to diabetic retinopathy, and we trained 70 eye health workers and peer educators in diabetic retinopathy.


Seeing is Believing beneficiary after undergoing a successful eye surgery.

We extend our sincere gratitude to all our eye health community partners for their support in delivering Seeing is Believing impact country-wide and reaching nearly 20 million Kenyans since 2003.

Chairman's Statement

For the year ended 31 December 2019

"I am confident that as we execute our refreshed strategic priorities with discipline and energy, we will continue to create long-term value for all our stakeholders"

A more innovative and resilient bank, delivering sustained growth

The Board's key priority is to ensure we do everything we can to continue to unlock the organisation's potential in pursuit of Our Purpose – driving commerce and prosperity through our unique diversity. We will also meet our fiduciary responsibilities to our investors and promote sustainable socio-economic development to improve the lives of the people in this country and deliver on the great potential that Kenya has. This is underpinned by our valued behaviours - *Do the Right Thing, Never Settle, Better Together.*

Overview

The banking sector remains stable and resilient. Average commercial banks' liquidity and capital adequacy ratios stood at 49.7 percent and 18.8 percent, respectively, in December 2019. We also saw a further decline in the ratio of gross non-performing loans (NPLs) to gross loans to 12.0 percent in December from 12.3 percent in October 2019. This is a clear indication that as the Banking Sector Charter is being rolled out, the market will of necessity balance the considerations on asset quality improvement and growth of the quality of assets. The decreases in NPLs mainly came from the trade, real estate, financial services, manufacturing and personal/household sectors, reflecting repayments due to enhanced recovery efforts by banks, as well as write-offs.

Though subdued, private sector credit grew by 7.1 percent in the 12 months to December 2019. With the repeal of the interest rate cap and easing of 50 basis points by the Monetary Policy Committee to set the Central Bank Rate at 8.50% in November 2019, and later to 8.25% in January 2020, we anticipate an increased demand for private sector credit particularly to Micro, Small and Medium-sized Enterprises (MSMEs). At Standard Chartered we continue to deploy innovative MSME credit products, through our "banking the ecosystem" approach, to take advantage of such opportunities. We see this trend contributing to a stronger performance of the sector in 2020.

The economy remained resilient in 2019, with data for the third quarter showing that real GDP grew by 5.4 percent in the first three quarters. This growth was supported by macroeconomic stability, growth of MSMEs, and a robust services sector particularly accommodation and restaurant, information and communications technology, and transport and storage. Stronger growth is expected in 2020 supported by, among others, the recovery of the agricultural sector due to the recent interventions by the Government, stronger growth of MSMEs, strong private sector credit growth, continued implementation of the Big 4 agenda and a stable macroeconomic environment.

Early in 2019, we refreshed our strategic priorities to focus on:

- Exploiting and growing our network corridor business - as the only Global bank with a presence in Africa, Asia and Middle East, we provide a unique proposition to help clients do business in these regions;

- Growing our affluent client business, helping our individual clients prosper with innovative wealth management solutions;

- Optimising low returning segments/businesses – we have made encouraging progress particularly by turning around the Commercial Banking segment to profitability;

- Improving productivity by embedding a performance-oriented and innovative culture with emphasis on speed but with control. We continue to streamline our operations to delight our clients; and

- Transforming and disrupting with digital – We have stepped up our digitisation and innovation efforts, transforming how we serve our customers and collaborating with best-in-class partners to quickly roll-out top-class products and services.

The benefits are starting to come through – we have established a solid foundation and positive performance despite the vulnerability of the economy to internal and external shocks, increased global uncertainties and a continued weak private sector investment.

Strengthening our defences

Financial crime remains one of the highest risks in the financial services sector and it remains our commitment to be a leader in the fight against financial and cybercrime. Early in 2019, the industry regulator commissioned an independent compliance review across the banking industry's Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) programmes. Our controls were deemed effective. We continue to invest in our risk and compliance infrastructure to improve our processes, serve clients better and drive internal efficiencies.

Helping make the world more sustainable

In May 2019, we launched our new community engagement programme, Futuremakers, aimed at empowering the next generation Learn, Earn and Grow through three community programmes - Education, Employability and Entrepreneurship.

Education is brought to life through the Goal programme which equips adolescent girls with the knowledge and skills they need to be economic leaders in their families, communities and societies. This has been able to reach 4,400 young girls.

Chairman's Statement (Continued)

Employability is another pillar and in 2020, we will launch a youth to work programme that focuses on building employability capacity among youth with disabilities as well as those without in partnership with an NGO called Light for the World.

The Entrepreneurship flagship programme is Women in Technology which concluded Cohort 2 with an awards event that took place in April 2019. 5 winners were awarded KShs 1 million each and exposed to networking opportunities in the year. Cohort 3 was launched in September 2019.

Finally, we believe that volunteering is good for our communities, employees and our business. In 2019, staff volunteering activities across the country, delivered over 1,000 employee volunteering days. The Nairobi Marathon, a key Standard Chartered event that is delivered through the spirit of volunteerism also saw over 400 staff volunteers to bring the biggest sporting event in Kenya to life.

We have made great strides in driving sustainable banking – the Standard Chartered Group last year created a new Sustainable Finance team to focus on emerging market sustainable financing and to lead all its business activities in the area. In Kenya, we are committed to supporting the government in delivering on the UN Sustainable Development Goals and helping our clients transition to more efficient ways of working such as the adoption of clean technology, among others.

Outlook for 2020

Whilst we are of course not able to shape the external environment, there is much we can do to continue to grow strongly, in a safe and sustainable manner. Later in this report, Kariuki will set out the areas on which we will focus to develop the Company over the next three years with a view to further improving returns.

We must also take time to step back and consider the long-term regulatory, political, economic, technological and societal drivers of change shaping our business and assess the impact on us. This ensures we will be able to combine the best of the old – in connecting people through trade and commerce – together with the best of the new in innovation, digital technologies and increasing client-centricity. It also enables us to prepare both for opportunities and challenges, which put a premium on both agility and resilience.

As a Board, we have also been paying particular attention to how management develops attractive value propositions for clients, advancing our own digital revolution and becoming more disruptive in our market. This is particularly important as competition in this space continues to grow, not just from banks, but from fintechs and Telcos. These new players are increasingly providing financial services with developed technology platforms and lower costs, often with more limited regulatory obligations at present.

Dividend

The Board is recommending the payment of a final dividend for the year of KShs 15.00 for every ordinary share of KShs 5.00. This, in addition to the interim dividend paid in October 2019 of KShs 5.00 for every ordinary share of KShs 5.00, brings the total dividend to KShs 20.00 for every ordinary share of KShs 5.00. This compares to a total dividend of KShs 19.00 per ordinary share paid in 2018.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.

In Conclusion

During the year we have had changes in the composition of our Board. The previous Chair, Mrs. Anne Mutahi, left the Board in May after steering the company through a turbulent external environment and on behalf of the company would like to thank her for her leadership during the period and tremendous personal contribution she has made since joining the Board in 2009.

Mr. Les Baillie retired having served diligently on the Board as an Independent Non-Executive Director (INED) for 9 years. Mr. Tejinder Singh and Mr. David Idoru also

Chairman's Statement (Continued)

stepped down from the Board as Executive Directors on taking new roles within the organisation. Mr. David Ong'olo and Ms. Kellen Kariuki were appointed as INEDs effective 28 January 2020 and 10 February 2020 respectively. I would like to thank Mr. Baillie, Mr. Singh and Mr. Idoru for their invaluable service which has greatly contributed to the success of the Company and welcome Mr. Ong'olo and Ms. Kariuki to the Board.

Mr. Lamin Manjang stepped down from the Board on being posted to a new job in the Group and was replaced as Chief Executive Officer by Mr. Kariuki Ngari. Together with the Management Team he has made significant progress in the first year of our refreshed strategic priorities. I would finally like to thank the staff of the Bank for the tremendous efforts they have put in to grow the Bank notwithstanding the challenges that were presented in 2019.

Looking ahead, we will continue living our Brand promise *Here for good* and our commitment to Kenya is steadfast. As a leading international bank with over 100 years' experience in Kenya, our unique understanding of this market and our extensive international network allows us to offer a truly tailored proposition to our clients, combining global expertise grounded in local knowledge. No lender is better placed to help its clients benefit from Africa's growth story than Standard Chartered.

I am confident that as we execute our refreshed strategic priorities with discipline and energy, we will continue to create long-term value for all our stakeholders.

Patrick Obath
Chairman

Date: 18 March 2020

Chief Executive Officer's Statement

"We believe the opportunity for the private sector to improve the lives of Kenyans is still substantial and we are committed to be a force for good in this market"

Our purpose
Our organisational behaviours and priorities are shaped by our purpose – to drive commerce and prosperity through our unique diversity. In 2019, we communicated our refreshed strategic priorities which we will focus on over a three-year period. These priorities – **Transform and disrupt with digital, Grow our affluent business, Deliver our network, Optimise low-returning segments, and Improve productivity** – will see us invest in what already differentiates us to capture the opportunities in the market.

Delivering our strategic priorities – 2019 key milestones
I am pleased to report good progress in 2019 demonstrating our ability to execute at pace.

Transforming and disrupting with digital
We are committed to use digitisation and partnerships to reinforce our competitive advantages. We have been very busy on this front. The following is just a handful of the many initiatives under way:

- the retail digital bank, which is available on the SC mobile app, was launched in March and is the foundation of digitisation in Retail Banking.
- In Wealth Management, we have rolled out home, motor, travel and farewell insurance, off-shore mutual funds, fixed income and foreign exchange, all of which are available on the SC mobile app.
- We have enhanced the SC mobile app to include over 70 service requests. Today, 52 per cent of all service requests previously done at a branch are fulfilled on the SC mobile app.
- On the corporate side, we have enhanced our online banking platform – Straight2Bank (S2B) – with capabilities such as real-time integrated tax payment enabling clients to make payments to KRA 24/7 with real-time

reconciliation; Foreign Exchange Standalone Request for Quote which enables customers to access exchange rates through the S2B platform; S2B Trade Initiation allowing clients to submit trade finance instructions and applications online; and Cash Deposit Machines that offer real-time credits to clients' accounts.

In Retail Banking, 85 per cent of transactions today are conducted through non-branch channels and digital penetration is currently above 60 per cent. In February 2020, we were recognised as the **best tier 1 bank for digital experience and the best bank overall** in the KBA customer satisfaction survey for the second year running. Globally, Standard Chartered was recognised at the 2019 *Global Finance Awards* as the **Best Digital Consumer Bank,** and more recently, our Fixed Income mobile platform won the **Outstanding Customer Experience** for financial inclusion award from The Digital Banker.

These are heartening milestones which demonstrate we are on the right track.

The digital landscape in Kenya has seen massive development and expansion in the fintech space. To be able to competitively participate in this space, the Standard Chartered Group established a new business unit, SC Ventures, to lead digital innovation across the business, invest in fintechs and other start-up companies, promote rapid testing, co-creation and implementation of new business models. Kenya is proud to be the only host location for SC Ventures in Africa, cementing Kenya's reputation as a digital hub.

As new technologies continue to play an ever more important role in banking, there is a huge opportunity for us to promote more innovation, and at the same time develop and deliver digital solutions that work for our clients and for us.

Grow our affluent business

As millions emerge into the middle class, we see our responsibility to help grow, invest and protect the wealth and prosperity of our customers as ever more important and relevant.

We have continued to cement our leadership in Wealth Management. As we seek to be increasingly relevant in our clients' life journeys, we have made deliberate efforts to provide tailored solutions to their ever-changing needs through our digital Wealth Management suite. This is in addition to investing in our staff – currently, we have the highest number of certified wealth advisors in Kenya (at 107) by the Certified Institute for Securities & Investment. Today, Wealth Management contributes 20 per cent of Retail Banking revenue, up from 18 per cent two years ago, and assets under management grew 34 per cent year-on-year.

Going forward, we aim to grow our affluent client base by enhancing client experience leveraging data analytics and technology; revamping our credit card proposition to make it competitive and differentiated in the market and increasing penetration of our Wealth Management solutions.

Deliver our network

We are the only bank in Kenya with a presence in Asia, Africa, Middle East, Europe & Americas. This unique network remains a key differentiator and is a long-term source of opportunities for sustainable growth. We are able to seamlessly support our clients' cross-border payments, trade, investment and wealth needs. Network revenue grew 5 per cent year-on-year in 2019 and our focus is to continue growing our business in the China, Europe & Americas corridors while tapping into new corridors such as India, Japan, Korea and the rest of Africa.

In addition, 'banking the ecosystem' enables us to have a greater impact in the economy in general. This is our value proposition where we bank our clients, their buyers, suppliers and other ecosystem participants. This is made possible by our differentiated capabilities in Supply Chain Finance, Distributor Finance and Cash Management, Payments & Collections on our flagship S2B platform. In 2019, we provided KShs 5 billion financing under the ecosystem programme.

Chief Executive Officer's Statement (Continued)

We are well positioned to capture opportunities over the medium term arising from the reconfiguration of regional and global supply chains and we will continue to invest to reinforce this key element of differentiation.

Optimise low-returning segments

Our priority is to eliminate drags on our returns and have all segments generating profits. Both our Corporate Banking and Retail Banking segments have been consistently profitable. We have focused on optimising the performance of our Commercial Banking segment which reported a loss of KShs 9 million in 2018 owing to elevated loan impairments. Commercial Banking has made significant progress and is now a profitable segment with profit before tax of KShs 529 million in 2019. While there is still more to do, I am encouraged by the progress made.

Improve productivity

Finally, our investments in digitisation continue to support productivity improvements and enhance client experience. We are shaping our organisation around client journeys to better align our processes and ways of working with the needs of our clients and partners. This will enable us to drive operational improvements to scale revenue growth through improved client acquisition and retention, while also delivering enhanced efficiency.

Today in our Retail Banking business, 85 per cent of our customer transactions are done on non-branch channels and our daily teller transaction count has reduced by 45 per cent which is a significant shift over the last four years. We continue to focus on branch optimisation and transforming our physical footprint to serve the future needs of our clients.

We are cognisant that whilst automation requires huge capital investment at the onset, in the long-term this will result in lower costs and better experience for our clients. We are keen to increase utilisation of our digital channels like Straight2Bank and SC mobile app while automating processes such as the Credit card and Personal Loan client journeys; end-to-end lending for Business Banking and Cheque deposit capability through our Cash Deposit Machines.

The above strategic priorities have been supported by five enablers: People, Accountability, Agile, Clients and Execute, in other words PA^{2}CE. We are building a future ready workforce that is accountable to delivering on our commitments, curious and agile to solve for our clients with a different mindset, and efficiently executing on tasks critical to driving improved productivity and sustainable growth.

Summary of financial performance

The Company delivered a resilient performance in 2019 – credit quality improved, capital and liquidity levels remain strong, and the balance sheet is growing. We have stepped up our digitisation and innovation efforts, transforming how we serve our clients and – in the process – being recognised at the *Global Finance Awards* as the Best Digital Consumer Bank. We remain committed to pursuing sustainable growth for the long term.

Profit before tax of KShs 12.2 billion is up 3 per cent driven by the following:

— ***Net interest income*** remained broadly flat reflecting our continued focus on the quality of the balance sheet.

— ***Non-interest income*** increased 1 per cent as a result of an increased contribution from foreign exchange but tempered by a slowdown in corporate finance.

— ***Operating expenses*** are up 7 per cent driven by investments in technology. We will continue to invest in strategic priority areas. The resolution of investigations into historical financial crime control matters included monetary penalties of KShs 178 million, of which KShs 100 million was provided in the current year.

— ***Credit impairment*** reduced by KShs 1.2 billion to KShs 234 million and is at its lowest level in five years. Our actions over the past few years to improve the risk profile of the balance sheet and continued focus on high quality origination continue to pay off.

Chief Executive Officer's Statement (Continued)

— ***Taxation*** was KShs 3.9 billion. The effective tax rate was 32.3 per cent, an increase of 70 basis points reflecting an increase in non-deductible expenses.

— ***Basic earnings per share*** improved 2 per cent to KShs 23.49.

Balance sheet and liquidity
The balance sheet remains strong and highly liquid.

— Loans and advances to customers increased 8.3 per cent since 31 December 2018 mainly driven by growth in Transaction Banking and Wealth Management.

— Customer deposits increased 2 per cent with an increase in retail current accounts off-set by a run-off in corporate current and savings accounts.

The advances-to-deposits ratio increased to 56 per cent from 53 per cent at 31 December 2018 while the liquidity ratio at year end was 63 per cent, well above the minimum regulatory requirement.

Capital base and ratios
The Bank remains well capitalised with all metrics above regulatory thresholds. The total capital ratio of 17.73 per cent is 174 basis points lower than as at 31 December 2018 as profits generated in the year were partly offset by credit and market RWA growth and higher dividends.

The future - promoting sustainable finance
Being a responsible company means making the right decisions and to achieve long-term sustainable development, we must manage environmental and social risks responsibly. We work with our clients to manage these risks and engage with the government to mitigate the impact that stems from our financing decisions.

As a signatory to The UN Sustainable Development Goals (SDGs), we strive to be a more responsible company, underpinned by strong processes throughout our organisation. We deliver our commitment to sustainable and responsible banking through our business, the priorities set out in our Sustainability Aspirations, and industry and global collaborations, including our participation in the UN Global Compact.

We believe the opportunity for the private sector to improve the lives of Kenyans is still substantial and we are committed to be a force for good in this market. The Standard Chartered SDG Investment Map reveals a USD10 trillion opportunity for private-sector investors across all emerging markets to help achieve the UN SDGs, with Kenya representing USD40 billion of that total. The study identifies opportunities for the private sector to contribute to three infrastructure-focused goals between now and 2030: SDG 6: Clean Water and Sanitation, SDG 7: Affordable and Clean Energy, and SDG 9: Industry, Innovation and Infrastructure across emerging markets. The greatest opportunity in Kenya is found in achieving and maintaining universal access to electricity (a key SDG 7 indicator), representing a USD15.6 billion private-sector opportunity; improvement in industry, innovation and infrastructure (SDG 9) would require private-sector investment of USD13 billion, while significantly improving Kenya's transport infrastructure by 2030 indicates a USD9.1 billion investment opportunity for the private sector.

The opportunity in the water sector is smaller but still significant. Around 56 per cent of Kenya's population does not have access to clean water and sanitation facilities and closing this gap by 2030 will require significant investment, with an opportunity for the private sector to provide an estimated USD2.3 billion of the financing. We are committed to playing a central role in partnership with the government of Kenya and other private sector participants in deploying capital, providing advisory, financing and debt structuring services for infrastructure projects and clean technologies. We are investing in technology and leveraging alliance partners to ensure that everyone has access to digital banking products enabling safe, efficient and inclusive banking. These themes speak directly to that for which Standard Chartered stands for: we are Here for good.

Chief Executive Officer's Statement (Continued)

Finally, we continue to invest in our communities to promote sustainable economic and social development. In 2019, we shifted our focus to delivering community programmes that promote economic inclusion and address the challenge of inequality. Through Futuremakers by Standard Chartered, we are working with partners to support young people, particularly girls and women, on education, employability and entrepreneurship.

Summary and outlook

We remain optimistic in the economic prospects for 2020. Expected acceleration in private sector credit growth will be a key driver of private sector investment and economic growth. Growth in private sector credit particularly to Micro, Small and Medium-sized Enterprises (MSMEs) is expected to increase gradually due to the deployment of innovative MSME credit products and the continued easing of credit risk.

Looking ahead, medium-term gross domestic product (GDP) growth is expected to rise to 5.9 per cent in 2020 and 6.0 per cent in 2021 underpinned by private consumption, a pick-up in industrial activity and continued strong performance in the services sector. Inflation is expected to remain within the government's target range while the current account deficit is projected to remain manageable. Growth will also be driven by ongoing key investment to support implementation of the Big 4 development agenda and improved business sentiment. Growth could have been stronger in the absence of interest rate caps that continue to derail recovery in private credit growth, but this has now been resolved.

At the global scene, downside risks continue to predominate growth focus and might have a drag on the global trade and investment. More recently, the outbreak of the novel coronavirus (Covid-19) comes with unpredictable human and economic consequences. These external challenges mean we remain sensitive to external conditions generally and recognise that these could as easily recover or worsen. We are prepared to move in either direction.

We will continue to invest in areas of our competitive strength in 2020 and will not compromise on the quality of the income we generate. We remain cognisant of our responsibility in the fight against financial crime and as we continue to transform Standard Chartered this year, we will welcome challenge, adapt swiftly and be uncompromising in our pursuit of high performance.

Kariuki Ngari
Chief Executive Officer

Date: 18 March 2020

Board of Directors

Patrick Obath (65)
Chairman

Appointment
Patrick was appointed to the Board in January 2012 and became Chairman in May 2019.

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.

Kariuki Ngari (54)
Managing Director and Chief Executive Officer

Appointment
Kariuki was appointed to the Board in March 2019.

Experience
Kariuki has over 24 years of retail banking experience. He was instrumental in transforming the consumer banking divisions of Standard Chartered Bank Kenya and Africa Region. Prior to his current role, he was the Global Head, Retail Distribution for Standard Chartered Bank in Singapore. There he was influential in formulating global strategies in building the future of Retail Branch and Voice & Virtual landscapes through digitisation of the physical channels. Prior to his Global role, Kariuki was the Regional Head of Retail Clients, Africa between 2013 and 2015, and the Executive Director Kenya from 2009 to 2013. He has also held senior positions at Barclays Bank of Kenya Limited.

Chemutai Murgor (50)
Executive Director and Chief Financial Officer

Appointment
Chemutai was appointed to Board in March 2007.

Experience
Chemutai has been with the Bank for 19 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.

Richard Etemesi (58)
Non-Executive Director

Appointment
Richard was appointed to the Board in 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.

Ian Bryden (64)
Non-Executive Director

Appointment
Ian was appointed to the Board in 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.

Board of Directors (Continued)

Dr. Catherine Adeya-Weya (51)
Independent Non-Executive Director

Appointment
Catherine was appointed to the Board in 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.

Imtiaz Khan (50)
Independent Non-Executive Director

Appointment
Imtiaz was appointed to the Board in August 2018.

Experience
Imtiaz has over 25 years' experience in private equity, financial markets investment, corporate finance advisory and audit in emerging and developed markets in Africa, Asia, Europe and the USA. He previously worked with the IFC (the World Bank Group) in the area of financial markets investment. Prior to that, he worked with PricewaterhouseCoopers (PwC) in corporate finance advisory and in audit. He is currently a director of a regional private equity investment company and serves on the boards of a number of its investee companies. He also teaches on the Stanford SEED program run by Stanford University.

Kellen Eileen Kariuki (57)
Independent Non-Executive Director

Appointment
Kellen was appointed to the Board in February 2020.

Experience
Kellen has strong banking, finance and business leadership experience. She held a number of senior positions at Citibank N.A. before joining the Unclaimed Financial Assets Authority as the first Chief Executive Officer and Managing Trustee. She has previously held non-executive director appointments at AMREF, Resolution Insurance Limited and the Kenya Roads Board as well as a nominee director of the IFC. Kellen is a founding member of the Board of Advisors of the Strathmore Business School and has served as an elected council member of the Institute of Certified Public Accountants of Kenya. She is currently the Managing Director of Feruzi Holdings Limited.

David Ong'olo (65)
Independent Non-Executive Director

Appointment
David was appointed to the Board in January 2020.

Experience
David is an experienced private sector and development specialist. He is skilled in Programme Management, Policy Analysis, Sectoral Analysis, and Strategic Planning. He is currently, the Managing Director of Matrix Development Consultants Limited. He was until February 2019, the Chairman of Competition Authority of Kenya. His early career included working as Deputy Chief Economist in charge of the Trade and Industry Division of the then Ministry of Planning and National Development, and Credit Specialist with the SDSR regional programme of the International Labour Organisation. He recently retired as Senior Policy Adviser (Economics) at the Embassy of the Kingdom of Netherlands, Nairobi, Kenya.

Nancy Oginde (59)
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. Nancy is currently the Head of Legal and Company Secretary Kenya.

Executive Committee

Kariuki Ngari
Chief Executive Officer

Kariuki has over 24 years of retail banking experience. He was instrumental in transforming the consumer banking divisions of Standard Chartered Bank Kenya and Africa Region. Prior to his current role, he was the Global Head, Retail Distribution for Standard Chartered Bank in Singapore. There he was influential in formulating global strategies in building the future of Retail Branch and Voice & Virtual landscapes through digitisation of the physical channels. Prior to his Global role, Kariuki was the Regional Head of Retail Clients, Africa between 2013 and 2015, and the Executive Director Kenya from 2009 to 2013. He has also held senior positions at Barclays Bank of Kenya Limited.

Edith Chumba
Head of Retail Banking

Edith was appointed Head of Retail Banking in 2019. She brings to the role over 20 years of Retail Banking experience, having started her career at Barclays Bank of Kenya before joining Standard Chartered Bank Kenya in 2015. Prior to her role, Edith was the Head of Distribution Channels. She has been instrumental in leading the Retail Banking transformation and overseeing delivery of turnaround strategies for the business in Kenya.

Birju Sanghrajka
Head of Global Banking

Birju was appointed Head of Global Banking in 2019. He brings to the role over 20 years of corporate banking experience, having started as a Graduate Trainee in Standard Chartered, Kenya. His career has seen him work in corporate banking, corporate finance and transaction banking, across Kenya, the United Kingdom, South Africa and the United Arab Emirates. Birju was most recently the Head of Trade for Africa & Middle East in Transaction Banking, based in the United Arab Emirates.

Chemutai Murgor
Chief Financial Officer

Chemutai joined the Bank 19 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.

David Luusa
Head of Financial Markets

David joined the Bank 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 since May 2015.

Executive Committee (Continued)

Evans Munyori

Head of Human Resources

Evans joined the Bank in 2004 as a generalist working in HR Service Delivery. He has built a wealth of experience in Human Resources Management having worked for nine years as a HR Business Partner in Kenya and Malaysia. Prior to his appointment, he was Human Resources Business Partner for Technology in Malaysia. He rejoined Standard Chartered Bank Kenya in 2018, as Head of Human Resources.

Peter Gitau

Chief Operating Officer

Peter was appointed to the role in 2019 having previously held the role of Chief Information Officer. 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.

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 16 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 Public Accountants of Kenya (ICPAK).

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. She is currently the Head of Legal and Company Secretary.

Rebecca Kaggwa

Head of Conduct, Financial Crime and Compliance

Rebecca has extensive experience within the 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.

Executive Committee (Continued)

Makabelo Malumane
Head of Transaction Banking

Makabelo is a seasoned professional with over 17 years of financial services experience across Europe, the Middle East and Africa. She joined Standard Chartered Bank in 2015 as the Cash Management Product Head for Africa and was instrumental in developing and delivering the digital and innovations strategy for the corporate, commercial and institutional banking client segments across SCB presence markets. Prior to joining the Bank, Makabelo held a number of key roles at Citibank and Stanbic Bank where she honed her international and multi-functional expertise across the sales, client management and product management disciplines.

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.

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.

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 the Bank, 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.

Anuj Mediratta
Head of Commercial Banking

Anuj was appointed to the role in 2018. He is a Chartered Accountant and an accomplished Corporate and Commercial Banker with over 20 years experience across a number of markets including Nigeria and Tanzania. He has held various senior roles within Standard Chartered Bank with his previous role being Head, Commodity Traders & Agribusiness for Africa. Before joining the Bank in July 2006 in Tanzania, Anuj worked at Barclays in the Structured Trade, Commodity & Agri Finance unit for East Africa. He started his career at ACE Global Depository, a collateral management company that focuses on commodity risk management. As the Country Manager, he established and ran the company's operations in East Africa for eight years.

Executive Committee (Continued)

Stella Mburu
Head of Group Special Assets Management (GSAM)

Stella has over 16 years of banking experience in Corporate and SME businesses. She started her banking career in 2003 in Standard Chartered where she held diverse roles. She worked at Commercial Bank of Africa for four years before rejoining the Bank in 2013 as an Account Manager in GSAM and was appointed Head of GSAM in 2018. She has been instrumental in reinforcing a strong credit risk culture.

James Mucheke
Head of Credit

James was appointed to the role in 2019. He is a seasoned banker, with 22 years of banking experience. He has held senior leadership roles in Kenya and Africa. Prior to his current role, James was the Head of Credit in Nigeria & West Africa, where he successfully managed the West Africa portfolio. Prior to that he was responsible for commodity risk across Africa and has also held other senior roles in credit/corporate banking in Kenya and Tanzania.

The Board and Statutory Information

Directors

P. Obath	Chairman (Appointed 24 May 2019)
K. Ngari	Chief Executive Officer
C. Murgor	
C. Adeya-Weya	
I. Khan	
I. Bryden*	
R. Etemesi	
D. Ong'olo	(Appointed 28 January 2020)
K. Kariuki	(Appointed 10 February 2020)
A. Mutahi	Chair to the Board (Retired 24 May 2019)
L. Baillie*	(Retired 30 June 2019)
T. Singh**	(Resigned 14 June 2019)
D. Idoru***	(Resigned 30 August 2019)

* 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
Certified Public Accountants
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

I. Khan	Chairman
L. Baillie	(retired 30 June 2019)
C. Adeya-Weya	(from 1 July 2019)
N. Oginde	Secretary
C. Murgor*	Finance Director
D. Mwindi*	Head of Internal Audit
R. Kaggwa*	Head of Conduct, Financial Crime and Compliance
KPMG Kenya*	

* By invitation

Board Risk Committee Members

I. Khan	Chairman
C. Adeya-Weya	
J. Obongo*	Head, Risk
K. Ngari*	
N. Oginde*	Secretary
C. Murgor*	
E. Chumba*	
B. Sanghrajka*	

* By invitation

Board Credit Committee Members

I. Khan	Chairman
C. Adeya-Weya	
K. Ngari*	
G. Akello*	
N. Oginde	Secretary
C. Murgor*	
E. Chumba*	
B. Sanghrajka*	

* By invitation

Board Nomination, Evaluation and Remuneration Committee Members

P. Obath	Chairman
A. Mutahi	(retired 24 May 2019)
L. Baillie	(retired 30 June 2019)
K. Ngari	
E. Munyori *	
N. Oginde	Secretary

*By invitation

BOARD IT STEERING COMMITTEE Members

C. Adeya-Weya	Chair
L. Baillie	(retired 30 June 2019)
K. Ngari	
J. Obongo*	
P. Gitau*	
N. Oginde	Secretary
C. Murgor*	
E. Chumba*	
B. Sanghrajka *	

*By invitation

Asset and Liability Committee (ALCO) Members

K. Ngari	Chairman
C. Murgor	
G. Akello	
J. Obongo	

Executive Committee Members

K. Ngari	Chairman
E. Chumba	
B. Sanghrajka	
C. Murgor	
D. Luusa	
E. Munyori	
P. Gitau	
D. Mwindi	
N. Oginde	
R. Kaggwa	
M. Malumane	
J. Obongo	
H. Nangonzi	
P. Njoki	
A. Mediratta	
S. Mburu	
J. Mucheke	

Report of the Directors

For the year ended 31 December 2019

The directors are pleased to submit their report together with the audited financial statements for the year ended 31 December 2019 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 (CBK).

2. Results

The results for the year are set out in the attached financial statements on pages 75 to 192.

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 15.00 for every ordinary share of KShs 5.00. One interim dividend of KShs 5.00 was declared on 26 August 2019 and paid on 30 October 2019.

This will bring the total dividend for the year to KShs 20.00 per ordinary share (2018 – KShs 19.00).

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 26 August 2019 and paid on 30 October 2019. This will bring the total dividend for the year to KShs 168,000,000 (2018 – 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 27 April 2020 and will be paid on or after 28 May 2020. The Register will remain closed on 28 April 2020 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 44.

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

— Mrs. Catherine Adeya - Weya and Mr. Imtiaz Khan retire from office by rotation and will offer themselves for re-election at the forthcoming Annual General Meeting in accordance with Section 106(a) 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 38 to 42.

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 & cyber security, financial crime and money laundering. These principal risks are managed through an enterprise level ability to identify and assess current and future risks. There exists various committees set up by the Board where these are openly discussed and prompt mitigating actions are taken.

All employees who are 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. The staff 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 there will be instances of undesirable outcomes from time to time. These exceptions however present opportunities to learn from experience and implement change or lessons into the operational systems for better outcomes. The directors expect all staff to demonstrate a high degree of awareness in risk and control approach by self-identifying issues and managing them in a manner that will deliver lasting change.

Report of the Directors

For the year ended 31 December 2019 (Continued)

Future outlook

The directors are confident that the Group is well positioned to take advantage of opportunities across the Kenyan economy. The Group's foundations remain solid, underpinned by strong relationships with our clients and a highly liquid and well capitalised 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. In 2019, 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 initiatives, 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. We have continued to make tremendous progress in reducing Energy Use Intensity (EUI) after the installation of energy saving lights across our property portfolio while investing in green energy concurrently. We also surpassed our Water Use Intensity (WUI) targets in 2019. We are currently reviewing the methodologies used to measure our energy, water and waste to set more robust reduction targets.

7. Donations

Donations of KShs 144 million (2018: KShs 143 million) were made to various Corporate Social Responsibility initiatives during the year.

8. Directors' interests

No director holds shareholding in the Company as at 31 December 2019.

9. 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 auditor is 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 auditor is aware of that information.

10. Auditors

KPMG Kenya retire as auditor of the Company at the forth coming Annual General Meeting.

A recommendation will be made to the shareholders at the Annual General Meeting to appoint a new auditor, subject to Regulatory approval, in accordance with the provisions of the Kenyan Companies Act, 2015.

11. Approval of financial statements

The financial statements were approved and authorised for issue by the board of directors on 18 March 2020.

BY ORDER OF THE BOARD

Patrick Obath
Chairman

18 March 2020

Statement on Corporate Governance

For the year ended 31 December 2019

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 the delivery of 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 valued behaviours 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 2019

- director training on corporate governance, in particular, strategic planning and performance monitoring;
- legal and Governance Audit was undertaken;
- director training on strategy development, implementation and execution;
- regulatory requirements and management of cyber security training;
- changes in directors and senior management to strengthen the business;
- continued enhancement of the Financial Crime Control (FCC) function of the Company;
- continued engagement with the Emerging Leaders and High Performers (HIPOs) pool as identified from the business in 2019; 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
P. Obath	Oil industry, Private Sector and Financial Management
C. Adeya-Weya	Information Technology
I. Khan	Financial Management and Investments
I. Bryden	Banking
R. Etemesi	Banking and Financial Management
K. Ngari*	Banking
C. Murgor*	Banking and Financial Management
A. Mutahi (Retired 24 May 2019)	Financial Services
L. Baillie (Retired 30 June 2019)	Telecommunications and Financial Management
T. Singh* (Resigned 14 June 2019)	Banking
D. Idoru* (Resigned 30 August 2019)	Banking and Financial Management
D. Ong'olo (Appointed 28 January 2020)	Economist
K. Kariuki (Appointed 10 February 2020)	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 nine members; seven non-executive directors including the Chair, five of whom are independent non-executive directors, and two 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).

Statement on Corporate Governance (Continued)

For the year ended 31 December 2019

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 charter which is 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.

Mrs. Anne Mutahi and Mr. Les Baillie retired from the Board on 24 May 2019 and 30 June 2019 respectively having served the mandatory period required in law. Two independent non-executive directors were appointed in 2020 – Ms. Kellen Kariuki (10 February 2020) and Mr. David Ong'olo (28 January 2020) to replace them. Two executive directors resigned during the year - Mr. Tejinder Singh (14 June 2019) and Mr. David Idoru (30 August 2019).

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 2019 on corporate governance, strategic planning and monitoring, operational risk, compliance, financial crime risk, traded risk, regulatory changes, information technology and cyber risk, 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);
- Board and Management structure;
- Subsidiary governance structure (Committees);
- Board Charter;
- Board and Committee Terms of Reference (TORs);
    - schedule of matters reserved for the Board
    - Executive Committee/ Management Committee Terms of Reference
    - 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 of 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:

- various policies of the Company including Enterprise Risk Management Framework, Operational Risk Framework, Credit, Audit, Cyber Security, Conflict of interest management, etc;
- 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 Chairman and Chief Executive Officer

The separate roles of the Board Chairman 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 2019

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 2019
The key activities undertaken by the Board during 2019 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;
- ensuring that management adheres to all applicable laws, regulations, governance codes, guidelines and established systems to effectively monitor and control compliance across the Company;
- overseeing the Company's financial reporting process;
- monitored and assessed the Company's capital and liquidity positions;
- approved the Company's 2020 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, brand and culture;
- the new directors who joined the Company in the year were inducted by the Company Secretary;
- reviewed the potential impact of the new accounting standards; and
- attended the 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 Head of Risk;
- evaluated and approved proposed changes in risk appetite;
- discussed specific conduct matters and potential outcomes and impacts; and
- assessed the outcome of the 2019 Board effectiveness review and approved the 2019 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 employee engagement survey "My Voice", the Company's talent pool and leadership development programmes;

Statement on Corporate Governance (Continued)
For the year ended 31 December 2019

- discussed the Company's culture, valued behaviours 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 November 2019 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 2019 in a process led by the Board Chair and supported by the Company Secretary. The evaluation entailed a self-evaluation for each director, and of the overall Board interactions, conduct of business meetings and scope of control exercised by the directors as well as evaluation of the functioning of the Board Committees. 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	Ad Hoc
P. Obath (Chairman - Appointed 24 May 2019)	8/8	3/4
K. Ngari (Appointed 4 March 2019)	7/8	1/1
C. Adeya-Weya	8/8	4/4
I. Khan	8/8	4/4
I. Bryden	6/8	4/4
R. Etemesi	5/8	4/4
C. Murgor	8/8	3/4
A. Mutahi (Retired 24 May 2019)	4/4	4/4
T. Singh (Resigned 14 June 2019)	3/4	1/4
L. Baillie (Retired 30 June 2019)	4/4	4/4
D. Idoru (Resigned 30 August 2019)	2/5	3/4

Statement on Corporate Governance (Continued)

For the year ended 31 December 2019

BOARD COMMITTEES

The Board has five primary Committees with specific delegated authorities. These are the Board Audit Committee, Board Risk Committee, Board Credit Committee, Board Nomination, Evaluation and Remuneration Committee and Board IT Steering Committee, all chaired by independent directors. The respective Chairs present their reports to the Board at each scheduled meeting. The Asset and Liability Committee (ALCO) and the Executive Committee (EC) are management committees 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	Board IT Steering Committee	Asset and Liability Committee	Executive Committee
Oversight and review of financial, audit and internal control compliance.	Oversight and review of risks including operational, compliance, financial crime, reputational, country, credit, traded, information and cyber security, conduct, 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 of financial management and technology support for new and existing systems and reviewing turnaround time of all processes for our customers.	Oversight of the Company balance sheet to ensure it is managed in line with regulatory requirements and Company policies.	Support the CEO in the oversight and day-to-day management as well as implement the Company strategy.

Current membership of the primary Board Committees

	Board Audit Committee	Board Risk Committee	Board Credit Committee	Board Nomination, Evaluation and Remuneration Committee	Board IT Steering Committee
P. Obath				Chair	
I. Khan	Chair	Chair	Chair		
C. Adeya-Weya		Member	Member		Chair

Chair   Member

Statement on Corporate Governance (Continued)

For the year ended 31 December 2019

Details of these committees and membership are shown below:

Board Audit Committee

Members

I. Khan	Chairman
L. Baillie (Retired 30 June 2019)	
C. Adeya-Weya (from 1 July 2019)	
N. Oginde	Secretary
C. Murgor*	Finance Director
D. Mwindi*	Head of Internal Audit
R. Kaggwa*	Head of Conduct, Financial Crime & Compliance
KPMG Kenya*	

* By Invitation

Highlights for 2019

In 2019, 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. Imtiaz Khan, 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 conduct, Financial Crime & Compliance also submits reports on regulatory, compliance and conduct issues. The Finance Director, Head of Internal Audit, Head of Conduct, Financial Crime and 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:

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

Attendance

Number of meetings scheduled in 2019	4
I. Khan (Chairman)	4/4
L. Baillie (Retired 30 June 2019)	2/2
P. Obath*	2/2
C. Adeya-Weya (from 1 July 2019)	2/2

*Stepped down following appointment as Board Chairman.

Board Risk Committee

Members

I. Khan	Chairman
P. Obath	
C. Adeya-Weya	
J. Obongo*	Head, Risk
K. Ngari*	
N. Oginde*	Secretary
C. Murgor*	
E. Chumba*	
B. Sanghrajka*	

* By invitation

Statement on Corporate Governance (Continued)

For the year ended 31 December 2019

Highlights for 2019

- 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 businesses. 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 during the year. 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, the regulatory environment and expectations.

Attendance

Number of meetings scheduled in 2019	4
I. Khan (Chairman)	4/4
P. Obath*	2/2
C. Adeya-Weya	4/4

*Stepped down following appointment as Board Chairman.

Board Credit Committee

Members	
I. Khan	Chairman
C. Adeya-Weya	
K. Ngari*	
G. Akello*	
N. Oginde	Secretary
C. Murgor*	
E. Chumba*	
B. Sanghrajka*	

* By invitation

Highlights for 2019

- reviewed the 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 2019	4
I. Khan (Chairman)	4/4
C. Adeya-Weya	4/4

Board Nomination, Evaluation and Remuneration Committee

Members	
P. Obath	Chairman
A. Mutahi (Retired 24 May 2019)	
L. Baillie (Retired 30 June 2019)	
K. Ngari	
E. Munyori*	
N. Oginde	(Secretary)

* By invitation

Highlights for 2019

- 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 2019	4
P. Obath (Chairman)	2/2
K. Ngari	4/4
A. Mutahi	2/2
L. Baillie	2/2

Statement on Corporate Governance (Continued)

For the year ended 31 December 2019

Board IT Steering Committee

Members

C. Adeya-Weya	Chair
L. Baillie (Retired 30 June 2019)	
K. Ngari	
J. Obongo*	
P. Gitau*	
N. Oginde	(Secretary)
C. Murgor*	
E. Chumba*	
B. Sanghrajka*	

*By invitation

Highlights for 2019

– reviewed the financial costs against budget/forecast and identified action plans to meet the IT cost targets;
– contributed to the development of the Company by working cohesively to achieve the set customer priorities;
– monitored cyber security incidences affecting the Company;
– resolved common problems related to service quality to enhance customer satisfaction; and
– identified ways of escalating issues that have a negative impact on the Company's services.

Role and function

The Committee's mandate is to oversee the technology risk management framework and ensure the following objectives are achieved:

– the Company's overall approach to information security supports high standards of governance;
– information security assurance framework is aligned to CBK Prudential Guidelines, CBK guidance note on Cyber Risk and other relevant laws and regulations;
– effective measures are in place for the identification, management, control and monitoring of all risks e.g. operational, information systems, legal and compliance, and preserving the integrity of customers' information;
– reputational impact from risks relating to IT is anticipated, managed and mitigated, and that all major reputational risks are reported through the appropriate channels to the Board of Directors; and
– adequate business resilience arrangements for disaster recovery and business continuity.

Attendance

Number of meetings scheduled in 2019	4
C. Adeya-Weya (Chair)	4/4
K. Ngari	4/4

Asset and Liability Committee (ALCO)

Members

K. Ngari	Chairman
C. Murgor	
G. Akello	
J. Obongo	

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 Board meeting.

Executive Committee

Members

K. Ngari	(Chairman)
E. Chumba	
B. Sanghrajka	
C. Murgor	
D. Luusa	
E. Munyori	
P. Gitau	
D. Mwindi	
N. Oginde	
R. Kaggwa	
M. Malumane	
J. Obongo	
H. Nangonzi	
P. Njoki	
A. Mediratta	
S. Mburu	
J. Mucheke	

Role and function

The Executive Committee is the link between the Board and management. The Committee supports the Chief Executive Officer in the day-to-day management of the Group and 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.

Statement on Corporate Governance (Continued)
For the year ended 31 December 2019

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 the Group's 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 Group 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 Group. The Compliance department ensures that the business units put in place controls to ensure compliance with the various laws and regulations.

The effectiveness of the Group'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 Group 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 Non-Financial Risk Committee (CNFRC).

The Group'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 Group's business is reported by management to 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 Group has a Code of Conduct, relating to the lawful and ethical conduct of business which is supported by the Group'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 Group 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 2019 with training for all staff and directors in line with the Group's Anti-Bribery and Corruption policy.

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 Group and Company has adequate resources to continue in business for the foreseeable future. For this reason, it continues to adopt the going concern basis when preparing the financial statements.

Relations with shareholders
The Board recognises the importance of good communications with all shareholders. The Annual General Meeting (AGM) as well as the published annual report are used as an opportunity to communicate with all shareholders. The Company always gives shareholders the 21 days notice of the AGM as provided for in the Kenyan Companies Act, 2015 and shareholders are encouraged to submit questions and also appoint proxies to represent them where they are unable to attend. Ad hoc shareholder requests for information are handled on an on-going basis and also on the floor of the AGM. The Board uses electronic means to communicate with shareholders and shareholders are encouraged to visit *www.sc.com/ke* for general information on the Company as well as annual reports.

In upholding and protecting shareholders' rights, the Board recognises that every shareholder has a right to participate and vote at the general shareholders meeting. The Board also invites shareholders to seek clarity on the Group and Company 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 of all shareholder queries and smooth the transfer of shares.

Directors' Remuneration Report

The Company presents the Directors' remuneration report for the year ended 31 December 2019. 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.

The Company's remuneration approach is aligned to market remuneration standards in Kenya. Oversight of the remuneration approach is provided by the Board Nomination, Evaluation and Remuneration Committee. It is designed to:

- reward employees for the progress made on the execution of our strategy and appropriately incentivise colleagues to deliver strong performance over the long-term whilst avoiding excessive and unnecessary risk-taking; and
- promote sound and effective risk management through our remuneration structures.

Our Fair Pay Charter

The Company's remuneration policy is designed to reflect the purpose, valued behaviours and culture ambitions of the Group and Company as well as following the principles of the Fair Pay Charter used to make remuneration decisions for all colleagues in the Company.

Our Fair Pay Charter sets out the principles we use to make remuneration decisions that are fair, transparent, competitive and strongly reflect business and individual performance, supporting us in embedding a high-performance culture. Our approach to remuneration promotes long-term focus and alignment with shareholder interests, and reflects the achievement of financial and strategic results as well as the demonstration of our valued behaviours in pay decisions. We seek to keep remuneration as simple as possible, ensure we meet all regulatory requirements and incorporate evolving best practice.

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 Group'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 23 May 2019. The Committee monitors the competitiveness of directors' remuneration to ensure the Group 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 independent non-executive directors (iNEDs), 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 Group. Compensation is set to attract iNEDs who together with the Board as a whole have a broad range of skills and experience to determine the Group's strategy and oversee its implementation.

The iNEDs are paid an annual fee and sitting allowance for meetings attended. Fees for additional Board duties such as Chairmanship and membership of a committee are payable.

Non-executive directors (NEDs) are also reimbursed for expenses, such as travel and subsistence, incurred in the performance of their duties.

Directors' Remuneration Report (Continued)

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 CMA Governance Code and the Central Bank of Kenya Prudential Guidelines. The Board Nomination, Evaluation and Remuneration Committee has oversight of the process.

During the financial year, the Board of Directors consisted of:

- Five Independent non-executive directors: Patrick Obath, Anne Mutahi, Les Baillie, Catherine Adeya-Weya and Imtiaz Khan.
- Five Executive Directors: Mr. Kariuki Ngari, Mr. Lamin Manjang, Ms. Chemutai Murgor, Mr. David Idoru and Mr. Tejinder Singh.
- Two Non-executive directors: Mr. Ian Bryden and Mr. Richard Etemesi.

NEDs are subject to retirement by rotation and re-election by shareholders. The Company's non-executive directors were appointed on the dates indicated below:

Name	Appointment Date	Retirement
Patrick Obath (Chairman)	24 January 2012	—
Anne Mutahi	24 February 2009	24 May 2019
Les Baillie*	1 August 2010	30 June 2019
Catherine Adeya-Weya	1 January 2016	—
Imtiaz Khan	9 August 2018	—
Kellen Kariuki	10 February 2020	—
Ian Bryden*	12 July 2016	—
Richard Etemesi	30 June 2017	—
David Ong'olo	28 January 2020	—

* British

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 a 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 recognise 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.

Directors' Remuneration Report (Continued)

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:

Name	Appointment Date	Contract end date
Kariuki Ngari	4 March 2019	Permanent terms
Lamin Manjang*	1 March 2014	4 March 2019
Chemutai Murgor	1 March 2007	Permanent terms
Tejinder Singh**	1 January 2016	14 June 2019
David Idoru***	26 May 2016	30 August 2019

*Gambian **Indian ***Ugandan

Directors' emoluments

The following table shows the directors' remuneration for services rendered for the financial year ended 31 December 2019 together with the comparative figures for 2018. The aggregate directors' emoluments are shown in Note 12.

All figures are in thousands of Kenya Shillings (KShs '000)
Year ended
31 December 2019

Executive Directors	Basic pay	Bonus	Deferred cash awards	Share based awards	Non-cash benefits	Pension	Fees retainer	Sitting allowance	Total
K. Ngari*	34,028	27,546	18,365	12,422	3,593	4,624	–	–	100,578
L. Manjang**	10,622	4,742	3,161	9,491	3,625	247	–	–	31,888
T. Singh**	28,114	12,670	3,759	2,874	6,731	1,896	–	–	56,044
D. Idoru**	13,958	9,108	1,580	15	4,241	2,662	–	–	31,564
C. Murgor	25,974	10,395	–	–	511	3,136	–	–	40,016
	112,696	64,461	26,865	24,802	18,701	12,565	–	–	260,090
Non-executive directors									
A. Mutahi	–	–	–	–	–	–	1,036	728	1,764
P. Obath	–	–	–	–	–	–	2,031	2,849	4,880
C. Adeya-Weya	–	–	–	–	–	–	1,100	2,520	3,620
L. Baillie	–	–	–	–	–	–	550	777	1,327
I. Khan	–	–	–	–	–	–	1,200	1,841	3,041
I. Bryden	–	–	–	–	–	–	–	–	–
R. Etemesi	–	–	–	–	–	–	–	–	–
	–	–	–	–	–	–	5,917	8,715	14,632
	112,696	64,461	26,865	24,802	18,701	12,565	5,917	8,715	274,722

** Prorated from the period of appointment.*

***Prorated to the period of retirement.*

Directors' Remuneration Report (Continued)

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

Year ended 31 December 2018 Executive Directors	Basic pay	Bonus	Deferred cash awards	Share based awards	Non-cash benefits	Pension	Fees retainer	Sitting allowance	Total
L. Manjang	40,298	10,270	6,847	17,116	24,825	1,530	–	–	**100,886**
T. Singh	42,286	16,723	2,202	2,202	24,347	2,779	–	–	**90,539**
D. Idoru	27,416	10,822	423	–	14,051	3,890	–	–	**56,602**
C. Murgor	22,616	8,547	–	–	511	2,980	–	–	**34,654**
	132,616	**46,362**	**9,472**	**19,318**	**63,734**	**11,179**	**–**	**–**	**282,681**
Non-executive directors									
A. Mutahi	–	–	–	–	–	–	2,640	1,883	**4,523**
P. Obath	–	–	–	–	–	–	1,100	2,555	**3,655**
C. Adeya-Weya	–	–	–	–	–	–	1,100	2,107	**3,207**
K. Shah*	–	–	–	–	–	–	458	770	**1,228**
L. Baillie	–	–	–	–	–	–	1,100	1,505	**2,605**
I. Khan	–	–	–	–	–	–	456	805	**1,261**
I. Bryden	–	–	–	–	–	–	–	–	**–**
R. Etemesi	–	–	–	–	–	–	–	–	**–**
	–	**–**	**–**	**–**	**–**	**–**	**6,854**	**9,625**	**16,479**
	132,616	**46,362**	**9,472**	**19,318**	**63,734**	**11,179**	**6,854**	**9,625**	**299,160**

**K. Shah retired on 31 May 2018*

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.

Directors' Remuneration Report (Continued)

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.

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 Group 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 that are 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 11.

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

	As at 1 January 2019	Awarded	Exercised	Lapsed	As at 31 December 2019	Vesting date
Kariuki Ngari						
2011 Deferred Restricted Share Award	27,292	10,043	15,413	–	21,922	09 March 2020 to 11 March 2022
Management Long Term Incentive Plan	54,611	572	15,082	4,093	36,008	–
2013 Share save plan	1,695	1,807	–	–	3,502	01 December 2019 to 01 December 2020
L. Manjang						
2011 Deferred Restricted Share Award	13,060	9,099	5,291	–	16,868	09 March 2020 to 11 March 2022
Management Long Term Incentive Plan	42,008	392	11,554	3,148	27,698	–
T. Singh						
2011 Deferred Restricted Share Award	16,150	2,874	4,636	–	14,388	13 March 2012 to 13 March 2020
C. Murgor						
2013 Share Save Plan	1,698	–	1,698	–	–	–
D. Idoru						
2011 Deferred Restricted Share award	617	15	311	–	321	13 March 2020

Approval of the directors' remuneration report by the Board of Directors

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

P. Obath
Director
18 March 2020

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 75 to 192 These comprise the Consolidated and Company statements of financial position as at 31 December 2019, 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 notes to the financial statements including a summary of significant accounting policies and other explanatory information.

The directors' responsibilities include: determining that the basis of accounting described in the notes to the Financial Statements 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 financial position of the Group and the Company as at the end of the financial year and of the profit or loss of the Group and Company for that year. The Act also requires the directors to ensure the Group keeps proper accounting records which disclose with reasonable accuracy the financial position of the Group and the Company.

The directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. The directors are of the opinion that the financial statements give a true and fair view of the financial position of the Group and the 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 18 March 2020.

Director: P. Obath

Director: K. Ngari

Director: C. Murgor

18 March 2020

Independent Auditor's Report

To the Members of Standard Chartered Bank Kenya Limited

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 (the Group and Company) set out on pages 75 to 192 which comprise the Consolidated and Company statements of financial position as at 31 December 2019, the Consolidated and Company income statements, the Consolidated and Company 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 notes to the financial statements including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and separate 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 2019, and of its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Kenyan Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate 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 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 separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate 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 - Consolidated and Company

The disclosure associated with credit risk is set out in the financial statements in the following notes:
- *Note 3 – Financial assets and Liabilities*
- *Note 4 – Credit risk*
- *Note 20 – Provisions for impairment losses on loans and advances*

The key audit matter	How the matter was addressed
The estimation of expected credit losses ("ECL") on financial instruments, involves significant judgment and estimates. The key areas where we identified greater levels of management judgment and therefore increased levels of audit focus in the estimation of ECLs are: *Significant Increase in Credit Risk (SICR)* The criteria selected to identify a SICR are highly judgmental and can materially impact the ECL recognised for certain portfolios as these criteria determine whether a 12-month or lifetime ECL is assessed. *Economic scenarios* IFRS 9 requires ECL to be measured on a forward-looking basis incorporating future macro-economic variables reflecting a range of future conditions. Significant management judgment is applied in determining the economic scenarios used and the associated impact on ECL. The economic base case is the key driver of the range of future conditions.	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 credit facilities 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 accuracy of critical data elements input in the system used for credit grading and approval of credit facilities; – Involving our internal economic specialists to assist in assessing the appropriateness of the methodology for determining the economic scenarios and challenging the base case forecast against market consensus information; – Involving our internal financial risk management modelling specialists to assess the reasonableness of the ECL model and independent model validation including challenging the assumptions based on externally available industry economic and financial data;

Independent Auditor's Report

To the Members of Standard Chartered Bank Kenya Limited (Continued)

Key audit matters (Continued)

Impairment of loans and advances to customers – Consolidated and Company (continued)

The disclosure associated with credit risk is set out in the financial statements in the following notes:

— *Note 3 – Financial assets and Liabilities*
— *Note 4 – Credit risk*
— *Note 20 – Provisions for impairment losses on loans and advances*

The key audit matter	How the matter was addressed
Complex ECL models Inherently judgmental modelling techniques are used to determine the type of model to use and to estimate ECLs which involves determining Probabilities of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The PD model used in the Corporate and Retail portfolios are the key driver of the overall ECL. The effect of these matters is that, as part of our risk assessment, we determined that the impairment of loans and advances to customers to be a key audit matter due to the high degree of estimation uncertainty and significant judgment applied by management in determination of ECL.	– Evaluating the appropriateness of the SICR criteria used; and – Assessing the adequacy of the disclosure in the consolidated and separate financial statements including disclosures of the key judgments and assumptions used in the ECL model.

Assessment of the impairment of goodwill – Group

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. The assessment involves the use of significant judgment in estimating the cash generating unit's value in use by discounting projected future cash flows and comparing the value in use to the fair value less costs to sell. Impairment of goodwill is considered a key audit matter because significant level of judgment is made by management in projecting future cash flows, determining fair value less cost to sell to establish whether or not goodwill is impaired.	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 business. We also analysed the internal reporting process 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 assessing the precision of prior year forecast cash flows by comparing actual outcomes; – Involving our own valuation specialists to assist us in challenging the valuation methodologies, discount rates and growth rates. This included comparing the inputs to external data such as economic growth projections and interest rates and crosschecking the valuation results against multiples inherent in the valuation of other similar entities; and – Assessing the adequacy of disclosures in the consolidated and separate financial statements relating to goodwill impairment and key judgments made in assessing impairment.

Key audit matters (Continued)

Assessment of the impairment of goodwill – Group (Continued)
See accounting policy and disclosure on Note 27 – Goodwill and intangible assets.

The key audit matter	How the matter was addressed
The main assumptions made by management is on the cash flow projections from the cash generating unit against which the goodwill is assigned, discount rates applied and forecast growth rates.	

Valuation of financial instruments
See Note 3 Financial assets and Liabilities.

The key audit matter	How the matter was addressed
The value of Government securities and derivatives 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 testing on the identification and measurement of financial instruments measured at fair value including independent price verification controls and pricing inputs; – Carrying out independent valuations for a sample of securities and comparing with the valuation determined; – 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; and – Evaluating the adequacy of fair value disclosures in the consolidated and separate financial statements.

Provisions and contingent liabilities in respect of claims and litigations - Consolidated and Company
See disclosure Note 33 (b) – 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 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, and 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 and/or disclose regarding the potential exposure of each litigation and/or claim.	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 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 external legal counsel for significant litigation matters to ensure completeness of provisions and disclosures, where required, and also analysing correspondence with regulators; and — Assessing whether the disclosures detailing significant legal proceedings adequately disclose the potential liabilities.

Independent Auditor's Report

To the Members of Standard Chartered Bank Kenya Limited (Continued)

Key audit matters (Continued)

Information Technology (IT) systems and controls in the consolidated financial statements	
The key audit matter	**How the matter was addressed**
The Group's and Company's financial accounting and reporting processes are highly dependent on the automated controls over the 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. For example interfaces between the operating systems and financial reporting systems, or automated controls that prevent or detect inaccurate or incomplete transfers of financial information. If these systems or controls fail, a significant risk of error in reported financial information can arise from the failure to transfer data appropriately between systems or inappropriate changes being made to financial data or systems. Our audit effort focused on key systems used by the Group and Company. This is an area requiring particular audit attention in our audit due to the complexity of the IT infrastructure.	Our audit procedures in this area included, among others: — Testing the governance and other General IT controls operating over the information technology environment across Group and Company including system access, system change management program development and computer operations; — As part of system access controls with the support of our IT specialists, considering 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, including privileged access rights; and — Testing the design and operating effectiveness of automated controls critical to financial reporting (application controls). For any identified deficiencies, we 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 financial statements and our auditor's report thereon.

Our opinion on the 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 consolidated and separate financial statements

As stated on page 68, the directors are responsible for the preparation of 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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

Independent Auditor's Report

To the Members of Standard Chartered Bank Kenya Limited (Continued)

Directors' responsibilities on the consolidated and separate financial statements (Continued)

the going concern basis of accounting unless the directors either intend to liquidate the Group and/or the Company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the consolidated and separate 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate 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 audit. We remain solely responsible for our audit opinion.

Independent Auditor's Report

To the Members of Standard Chartered Bank Kenya Limited (Continued)

Auditor's responsibilities for the audit of the consolidated and separate financial statements (Continued)

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

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

From the matters communicated with the Directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters.

We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

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

(i) In our opinion the information given in the *report of the directors* on pages 52 to 53 is consistent with the financial statements;

(ii) In our opinion the auditable part of the *directors' remuneration report* on pages 63 to 67 has been properly prepared in accordance with the Kenyan Companies Act, 2015; and

(iii) our report on the consolidated and separate financial statements is unqualified.

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

KPMG Kenya

Certified Public Accountants
P.O. Box 40612
00100 Nairobi

18 March 2020

Income Statement

For the year ended 31 December 2019

	Note	2019 Group KShs Million	2019 Company KShs Million	2018 Group KShs Million	2018 Company KShs Million
Interest income	6	25,273	25,161	26,871	26,789
Interest expense	6	(6,148)	(6,167)	(7,807)	(7,830)
Net interest income	6	19,125	18,994	19,064	18,959
Fee and commission income	7	5,951	4,926	5,938	4,941
Fee and commission expense	7	(802)	(787)	(534)	(534)
Net fee and commission income	7	5,149	4,139	5,404	4,407
Net trading income	8	3,615	3,615	3,301	3,301
Dividend income	9	–	1,294	–	208
Other operating income	10	61	61	6	6
OPERATING INCOME		27,950	28,103	27,775	26,881
Staff costs	11	(7,411)	(7,297)	(7,647)	(7,467)
Premises and equipment costs	11	(695)	(691)	(990)	(977)
General administrative expenses		(6,148)	(5,904)	(5,103)	(4,817)
Depreciation and amortisation	11	(1,288)	(1,288)	(839)	(839)
OPERATING EXPENSES		(15,542)	(15,180)	(14,579)	(14,100)
OPERATING PROFIT BEFORE IMPAIRMENT LOSSES AND TAXATION		12,408	12,923	13,196	12,781
Impairment losses on financial instruments	20 (d)	(234)	(232)	(1,349)	(1,348)
PROFIT BEFORE TAXATION	12	12,174	12,691	11,847	11,433
INCOME TAX EXPENSE	13	(3,937)	(3,702)	(3,748)	(3,558)
NET PROFIT FOR THE YEAR		8,237	8,989	8,099	7,875
BASIC AND DILUTED EARNINGS PER SHARE – (KShs)	14	23.49	25.68	23.09	22.44

The notes set out on pages 83 to 192 form an integral part of these financial statements.

Statement of Other Comprehensive Income

For the year ended 31 December 2019

	Note	2019 Group KShs Million	2019 Company KShs Million	2018 Group KShs Million	2018 Company KShs Million
Net profit for the year		8,237	8,989	8,099	7,875
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Re-measurement of retirement benefit obligations	35	(25)	(25)	(26)	(26)
Deferred tax on re-measurement of retirement benefit obligations	29	7	7	8	8
		(18)	(18)	(18)	(18)
Items that may subsequently be reclassified to profit or loss:					
Change in fair value of FVOCI debt investments	21	(610)	(592)	669	672
Deferred tax on change in fair value of FVOCI debt instruments	29	183	178	(201)	(202)
Accumulated impairment on FVOCI debt instruments	20 (d)	35	33	(73)	(74)
Deferred tax on accumulated impairment on FVOCI debt instruments	29	(10)	(10)	22	22
		(402)	(391)	417	418
Total other comprehensive income for the year		(420)	(409)	399	400
Total comprehensive income for the year		7,817	8,580	8,498	8,275

The notes set out on pages 83 to 192 form an integral part of these financial statements.

Statement of Financial Position

At 31 December 2019

		2019		2018	
ASSETS	**Note**	**Group KShs Million**	**Company KShs Million**	Group KShs Million	Company KShs Million
Cash and balances with Central Bank of Kenya	16	**20,621**	**20,621**	20,283	20,283
Government and other securities held at FVTPL	17	**1,939**	**1,939**	3,937	3,937
Derivative financial instruments	18	**810**	**810**	394	394
Loans and advances to banks	19	**7,734**	**7,734**	6,016	6,016
Loans and advances to customers	20	**128,690**	**128,690**	118,652	118,652
Investment securities	21	**97,690**	**96,564**	94,768	93,764
Tax recoverable	13	**1,091**	**1,026**	399	351
Other assets	22	**3,497**	**3,487**	3,204	3,192
Amounts due from group companies	23	**31,799**	**33,118**	31,468	31,739
Investment in subsidiaries	24	**–**	**141**	–	141
Property and equipment	26	**3,894**	**3,894**	3,071	3,071
Goodwill and intangible assets	27	**2,732**	**2,732**	1,830	1,830
Prepaid operating lease rentals	28	**–**	**–**	238	238
Deferred tax asset	29	**1,641**	**1,538**	1,144	1,083
TOTAL ASSETS		**302,138**	**302,294**	285,404	284,691
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities					
Deposits from banks	30	**8,028**	**8,028**	156	156
Deposits from customers	31	**228,434**	**228,434**	224,284	224,284
Derivative financial instruments	18	**603**	**603**	226	226
Tax payable	13	**–**	**–**	70	–
Other liabilities	32	**5,923**	**5,905**	5,266	5,253
Amounts due to group companies	23	**11,122**	**11,122**	8,547	8,547
Amounts due to subsidiaries	23	**–**	**715**	–	674
Retirement benefit obligations	35	**267**	**267**	215	215
Total liabilities		**254,377**	**255,074**	238,764	239,355
Shareholders' equity (Pages 78 - 81)					
Share capital	36a	**1,998**	**1,998**	1,998	1,998
Share premium	36b	**7,792**	**7,792**	7,792	7,792
Capital contribution reserve	36c	**1,931**	**1,931**	1,932	1,932
Revaluation reserve	36d	**732**	**732**	742	742
Fair value reserve	36e	**903**	**924**	1,305	1,315
Statutory credit risk reserve	36f	**1,477**	**1,477**	–	–
Retained earnings		**27,691**	**27,129**	27,977	26,663
Proposed dividends	15	**5,237**	**5,237**	4,894	4,894
Total shareholders' equity		**47,761**	**47,220**	46,640	45,336
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**302,138**	**302,294**	285,404	284,691

The financial statements set out on pages 75 to 192 were approved and authorised for issue by the Board of Directors on 18 March 2020.

Director P. Obath Director C. Murgor

Director K. Ngari

The notes set out on pages 83 to 192 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

2019 KShs Million	Note	Share capital	Share premium	Capital contribution reserve	Revaluation reserve	Fair value reserve	Statutory credit risk reserve	Retained earnings	Proposed dividends	Total
At 1 January 2019		**1,998**	**7,792**	**1,932**	**742**	**1,305**	**–**	**27,977**	**4,894**	**46,640**
Net profit for the year		–	–	–	–	–	–	8,237	–	8,237
Other comprehensive income										
Re-measurement of retirement benefit obligations	35	–	–	–	–	–	–	(25)	–	(25)
Deferred tax on re-measurement of retirement benefit obligations	29	–	–	–	–	–	–	7	–	7
Change in fair value of FVOCI investments	21	–	–	–	–	(610)	–	–	–	(610)
Deferred tax on change in fair value of FVOCI investments	29	–	–	–	–	183	–	–	–	183
Excess depreciation transfer		–	–	–	(14)	–	–	14	–	–
Deferred tax on excess depreciation transfer	29	–	–	–	4	–	–	(4)	–	–
Transfer to statutory credit risk reserve		–	–	–	–	–	1,477	(1,477)	–	–
Accumulated impairment on FVOCI investments	20(d)	–	–	–	–	35	–	–	–	35
Deferred tax on accumulated impairment on FVOCI investments	29	–	–	–	–	(10)	–	–	–	(10)
Total other comprehensive income		–	–	–	(10)	(402)	1,477	(1,485)	–	(420)
Total comprehensive income for the year		–	–	–	(10)	(402)	1,477	6,752	–	7,817
Transactions with owners, recorded directly in equity										
Share-based payments:										
– 2018 paid		–	–	(108)	–	–	–	–	–	(108)
– 2019 accrual		–	–	107	–	–	–	–	–	107
Dividends paid:										
– Ordinary shares – Final 2018		–	–	–	–	–	–	–	(4,809)	(4,809)
– Preference shares – Final 2018		–	–	–	–	–	–	–	(85)	(85)
– Ordinary shares – Interim 2019		–	–	–	–	–	–	(1,718)	–	(1,718)
– Preference shares – Interim 2019		–	–	–	–	–	–	(83)	–	(83)
Proposed dividends:										
– Ordinary shares	15	–	–	–	–	–	–	(5,152)	5,152	–
– Preference shares	15	–	–	–	–	–	–	(85)	85	–
Total contributions by and distributions to owners		–	–	(1)	–	–	–	(7,038)	343	(6,696)
At 31 December 2019		**1,998**	**7,792**	**1,931**	**732**	**903**	**1,477**	**27,691**	**5,237**	**47,761**

The notes set out on pages 83 to 192 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

2018 KShs Million	Note	Share capital	Share premium	Capital contribution reserve	Revaluation reserve	Fair value reserve	Statutory credit risk reserve	Retained earnings	Proposed dividends	Total
At 1 January 2018		1,998	7,792	1,889	751	888	–	26,582	4,379	44,279
Net profit for the year		–	–	–	–	–	–	8,099	–	8,099
Other comprehensive income										
Re-measurement of retirement benefit obligations	35	–	–	–	–	–	–	(26)	–	(26)
Deferred tax on re-measurement of retirement benefit obligations	29	–	–	–	–	–	–	8	–	8
Change in fair value of FVOCI investments	21	–	–	–	–	669	–	–	–	669
Deferred tax on change in fair value of FVOCI investments	29	–	–	–	–	(201)	–	–	–	(201)
Excess depreciation transfer		–	–	–	(13)	–	–	13	–	–
Deferred tax on excess depreciation transfer	29	–	–	–	4	–	–	(4)	–	–
Accumulated impairment on FVOCI investments	20(d)	–	–	–	–	(73)	–	–	–	(73)
Deferred tax on accumulated impairment on FVOCI investments	29	–	–	–	–	22	–	–	–	22
Total other comprehensive income		**–**	**–**	**–**	**(9)**	**417**	**–**	**(9)**	**–**	**(399)**
Total comprehensive income for the year		**–**	**–**	**–**	**(9)**	**417**	**–**	**8,090**	**–**	**8,498**
Transactions with owners, recorded directly in equity										
Share-based payments:										
– 2017 paid		–	–	(65)	–	–	–	–	–	(65)
– 2018 accrual		–	–	108	–	–	–	–	–	108
Dividends paid:										
– Ordinary shares – Final 2017		–	–	–	–	–	–	–	(4,294)	(4,294)
– Preference shares – Final 2017		–	–	–	–	–	–	–	(85)	(85)
– Ordinary shares – Interim 2018		–	–	–	–	–	–	(1,718)	–	(1,718)
– Preference shares – Interim 2018		–	–	–	–	–	–	(83)	–	(83)
Proposed dividends:										
– Ordinary shares	15	–	–	–	–	–	–	(4,809)	4,809	–
– Preference shares	15	–	–	–	–	–	–	(85)	85	–
Total contributions by and distributions to owners		**–**	**–**	**43**	**–**	**–**	**–**	**(6,695)**	**515**	**(6,137)**
At 31 December 2018		**1,998**	**7,792**	**1,932**	**742**	**1,305**	**–**	**27,977**	**4,894**	**46,640**

The notes set out on pages 83 to 192 form an integral part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2019

2019 KShs Million	Note	Share capital	Share premium	Capital contribution reserve	Revaluation reserve	Fair value reserve	Statutory credit risk reserve	Retained earnings	Proposed dividends	Total
At 1 January 2019		**1,998**	**7,792**	**1,932**	**742**	**1,315**	–	**26,663**	**4,894**	**45,336**
Net profit for the year		–	–	–	–	–	–	**8,989**	–	**8,989**
Other comprehensive income										
Re-measurement of retirement benefit obligations	35	–	–	–	–	–	–	(25)	–	(25)
Deferred tax on re-measurement of retirement benefit obligations	29	–	–	–	–	–	–	7	–	7
Change in fair value of FVOCI investments	21	–	–	–	–	(592)	–	–	–	(592)
Deferred tax on change in fair value of FVOCI investments	29	–	–	–	–	178	–	–	–	178
Excess depreciation transfer		–	–	–	(14)	–	–	14	–	–
Deferred tax on excess depreciation transfer	29	–	–	–	4	–	–	(4)	–	–
Transfer to statutory credit risk reserve		–	–	–	–	–	1,477	(1,477)	–	–
Accumulated impairment on FVOCI investments	20(d)	–	–	–	–	33	–	–	–	33
Deferred tax on accumulated impairment on FVOCI investments	29	–	–	–	–	(10)	–	–	–	(10)
Total other comprehensive income		–	–	–	(10)	(391)	1,477	(1,485)	–	(409)
Total comprehensive income for the year		–	–	–	(10)	(391)	1,477	7,504	–	8,580
Transactions with owners, recorded directly in equity										
Share-based payments:										
– 2018 paid		–	–	(108)	–	–	–	–	–	(108)
– 2019 accrual		–	–	107	–	–	–	–	–	107
Dividends paid:										
– Ordinary shares – Final 2018		–	–	–	–	–	–	–	(4,809)	(4,809)
– Preference shares – Final 2018		–	–	–	–	–	–	–	(85)	(85)
– Ordinary shares – Interim 2019		–	–	–	–	–	–	(1,718)	–	(1,718)
– Preference shares – Interim 2019		–	–	–	–	–	–	(83)	–	(83)
Proposed dividends:										
– Ordinary shares	15	–	–	–	–	–	–	(5,152)	5,152	–
– Preference shares	15	–	–	–	–	–	–	(85)	85	–
Total contributions by and distributions to owners		–	–	(1)	–	–	–	(7,038)	343	(6,696)
At 31 December 2019		1,998	7,792	1,931	732	924	1,477	27,129	5,237	47,220

The notes set out on pages 83 to 192 form an integral part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2019

2018 KShs Million	Note	Share capital	Share premium	Capital contribution reserve	Revaluation reserve	Fair value reserve	Statutory credit risk reserve	Retained earnings	Proposed dividends	Total
At 1 January 2018		1,998	7,792	1,889	751	897	–	25,492	4,379	43,198
Net profit for the year		–	–	–	–	–	–	7,875	–	7,875
Other comprehensive income										
Re-measurement of retirement benefit obligations	35	–	–	–	–	–	–	(26)	–	(26)
Deferred tax on re-measurement of retirement benefit obligations	29	–	–	–	–	–	–	8	–	8
Change in fair value of FVOCI investments	21	–	–	–	–	672	–	–	–	672
Deferred tax on change in fair value of FVOCI investments	29	–	–	–	–	(202)	–	–	–	(202)
Excess depreciation transfer		–	–	–	(13)	–	–	13	–	–
Deferred tax on excess depreciation transfer	29	–	–	–	4	–	–	(4)	–	–
Accumulated impairment on FVOCI investments	20(d)	–	–	–	–	(74)	–	–	–	(74)
Deferred tax on accumulated impairment on FVOCI investments	29	–	–	–	–	22	–	–	–	22
Total other comprehensive income		**–**	**–**	**–**	**(9)**	**418**	**–**	**(9)**	**–**	**400**
Total comprehensive income for the year		**–**	**–**	**–**	**(9)**	**418**	**–**	**7,866**	**–**	**8,275**
Transactions with owners, recorded directly in equity										
Share-based payments:										
– 2017 paid		–	–	(65)	–	–	–	–	–	(65)
– 2018 accrual		–	–	108	–	–	–	–	–	108
Dividends paid:										
– Ordinary shares – Final 2017		–	–	–	–	–	–	–	(4,294)	(4,294)
– Preference shares – Final 2017		–	–	–	–	–	–	–	(85)	(85)
– Ordinary shares – Interim 2018		–	–	–	–	–	–	(1,718)	–	(1,718)
– Preference shares – Interim 2018		–	–	–	–	–	–	(83)	–	(83)
Proposed dividends:										
– Ordinary shares	15	–	–	–	–	–	–	(4,809)	4,809	–
– Preference shares	15	–	–	–	–	–	–	(85)	85	–
Total contributions by and distributions to owners		**–**	**–**	**43**	**–**	**–**	**–**	**(6,695)**	**515**	**(6,137)**
At 31 December 2018		**1,998**	**7,792**	**1,932**	**742**	**1,315**	**–**	**26,663**	**4,894**	**45,336**

The notes set out on pages 83 to 192 form an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2019

	Note	2019 Group KShs Million	2019 Company KShs Million	2018 Group KShs Million	2018 Company KShs Million
Net cash (used in)/from operating activities	37(a)	(4,825)	(3,777)	37,029	37,331
Cash flows from investing activities					
Purchase of property and equipment	26	(401)	(401)	(203)	(203)
Proceeds from sale of property and equipment		2	2	2	2
Purchase of intangible assets	27	(1,551)	(1,551)	(3)	(3)
Net cash used in investing activities		(1,950)	(1,950)	(204)	(204)
Cash flows from financing activities					
Lease liability payments	34	(165)	(165)	–	–
Share based payments:					
– 2018/2017 settled		(108)	(108)	(65)	(65)
– 2019/2018 allocated during the year		107	107	108	108
Dividends paid on ordinary shares:					
– Final 2018/2017	15	(4,809)	(4,809)	(4,294)	(4,294)
– Interim 2019/2018	15	(1,718)	(1,718)	(1,718)	(1,718)
Dividends paid on preference shares:					
– Final 2018/2017	15	(85)	(85)	(85)	(85)
– Interim 2019/2018	15	(83)	(83)	(83)	(83)
Net cash used in financing activities		(6,861)	(6,861)	(6,137)	(6,137)
(Decrease)/increase in cash and cash equivalents		(13,636)	(12,588)	30,688	30,990
Cash and cash equivalents at 1 January		38,203	38,474	7,515	7,484
Cash and cash equivalents at 31 December	37(b)	24,567	25,886	38,203	38,474

The notes set out on pages 83 to 192 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2019

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Notes to the Financial Statements

For the year ended 31 December 2019

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. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used by the Group are detailed in the relevant note to the financial statements, except those set out below. Except as explained in Note 2(f)(i) below, all accounting policies 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 financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by 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.

This is the first set of the Group's annual financial statements in which IFRS 16 has been applied. The related changes to significant accounting policies are described in Notes 2 (f) (i) and 34.

(b) Basis of measurement

The Group and Company financial statements set out on pages 75 to 192 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;
- financial instruments at fair value through other comprehensive income are measured at fair value;
- share-based payments are measured at fair value;
- the liability for defined benefit obligations is recognised as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service costs and unrecognised actuarial losses subject to the International Financial Reporting Interpretations Committee (IFRIC) 14 restrictions; and
- land and buildings are measured at revalued amounts.

(c) 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:

- Credit impairment (Note 3)
- Fair value and impairment of financial instruments (Note 3)
- Taxation (Note 13)
- Goodwill impairment (Note 27)
- Retirement benefit obligations (Note 35).

2. ACCOUNTING POLICIES (Continued)

(d) Functional and presentation currency

Items included in the Group and Company 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 and Company. Except as otherwise indicated, financial information presented in KShs has been rounded to the nearest millions.

(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 2019, including consequential amendments to other standards with the date of initial application by the Group being 1 January 2019. The nature and effects of the changes are as explained here in.

IFRS 16 Leases

On 1 January 2019, the Group adopted IFRS 16 Leases, which replaced IAS 17 Leases.

IFRS 16 introduced a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group has elected to adopt the modified retrospective approach and has not restated comparative information. The following practical expedients were applied on transition to IFRS 16:

- the Group did not reassess whether premises leases identified under IAS 17 were leases under IFRS 16;
- the Group did not record a lease liability or right-of-use asset for leases with a remaining term of less than 12 months as at 1 January 2019;
- the Group excluded initial direct costs from the measurement of right-of-use assets at 1 January 2019;
- the Group did not recognise right-of-use asset and lease liability for leases of low-value assets; and
- used hindsight when determining the lease term.

The significant judgments in the implementation were determining if a contract contained a lease, and the determination of whether the Group is reasonably certain that it will exercise extension options present in lease contracts. The significant estimates were the determination of incremental borrowing rates. The weighted average discount rate applied to lease liabilities on the transition date 1 January 2019 was 11.50%.

The impact of IFRS 16 on the Group is primarily where the Group is a lessee in property lease contracts. On 1 January 2019, the Group recognised a lease liability, being the remaining lease payments, including extensions options where renewal is reasonably certain, discounted using the Group's incremental borrowing rate at the date of initial application. The corresponding right-of-use asset recognised is the amount of the lease liability adjusted by prepaid or accrued lease payments related to those leases. The balance sheet increase as a result of recognition of the lease liability and right-of-use asset on 1 January 2019 was KShs 655 million, with no adjustment to retained earnings. The asset is presented in 'Property and equipment' in Note 26, whereas the liability is presented in 'Other liabilities' in Note 32. Additionally, the disclosure requirements under IFRS 16 have been presented on Note 34.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

2. SIGNIFICANT 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
Amendments to IFRIC 23 uncertainty over income tax treatments	IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.
Amendments to IFRS 19 Employee benefits	The amendments clarify that: – on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and – the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).

The amendments apply prospectively for annual periods beginning on or after 1 January 2019 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 2019

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2019, 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
Amendments to References to Conceptual Framework in IFRS Standards	This amendment sets out amendments to IFRS Standards (Standards), their accompanying documents and IFRS practice statements to reflect the issue of the International Accounting Standards Board (IASB) revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework).	The adoption of these changes is not expected to have a material impact on the Group's financial statements.

2. SIGNIFICANT 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 2019 (Continued)

New or amended standards	Summary of requirements	Possible impact on consolidated financial statements
Amendments to References to Conceptual Framework in IFRS Standards (Continued)	Some Standards, their accompanying documents and IFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee's (IASC's) Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 (Framework) or the Conceptual Framework for Financial Reporting issued in 2010. Amendments to References to the Conceptual Framework in IFRS Standards updates some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents. These amendments are based on proposals in the Exposure Draft Updating References to the Conceptual Framework, published in 2015, and amend Standards, their accompanying documents and IFRS practice statements that will be effective for annual reporting periods beginning on or after 1 January 2020.	
IFRS 17 Insurance Contracts	IFRS 17 Insurance Contracts sets out the requirements that an entity should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. An entity shall apply IFRS 17 Insurance Contracts to: (a) insurance contracts, including reinsurance contracts, it issues; (b) reinsurance contracts it holds; and (c) investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts.	

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

2. SIGNIFICANT 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 2019 (Continued)

New or amended standards	Summary of requirements	Possible impact on consolidated financial statements
IFRS 17 Insurance Contracts (Continued)	The standard requires an entity that issues insurance contracts to report them on the statement of financial position as the total of: (a) the fulfilment cash flows—the current estimates of amounts that the entity expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and (b) the contractual service margin—the expected profit for providing insurance coverage. The expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided. The standard requires an entity to recognise profits as it delivers insurance services, rather than when it receives premiums, as well as to provide information about insurance contract profits that the Company expects to recognise in the future. The standard requires an entity to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be loss making. Any expected losses arising from loss-making, or onerous, contracts are accounted for in profit or loss as soon as the Company determines that losses are expected. The standard requires the entity to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and of discount rates. The entity: (a) accounts for changes to estimates of future cash flows from one reporting date to another either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it; and	The adoption of these changes is not expected to have a material impact on the Group's financial statements.

2. SIGNIFICANT 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 2019 (Continued)

New or amended standards	Summary of requirements	Possible impact on consolidated financial statements
IFRS 17 Insurance Contracts (Continued)	(b) chooses where to present the effects of some changes in discount rates—either in profit or loss or in other comprehensive income. The standard also requires disclosures to enable users of financial statements to understand the amounts recognised in the entity's statement of financial position and statement of profit or loss and other comprehensive income, and to assess the risks the Company faces from issuing insurance contracts. The standard replaces IFRS 4 Insurance Contracts. The standard is effective for financial periods commencing on or after 1 January 2021. An entity shall apply the standard retrospectively unless impracticable. A Company can choose to apply the standard before that date, but only if it also applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.	
Definition of a Business (Amendments to IFRS 3)	With a broad business definition, determining whether a transaction results in an asset or a business acquisition has long been a challenging but important area of judgment. These amendments to IFRS 3 Business Combinations seek to clarify this matter as below however complexities still remain. – Optional concentration test The amendments include an election to use a concentration test. This is a simplified assessment that results in an asset acquisition if substantially all of the fair value of the gross assets is concentrated in a single identifiable asset or a group of similar identifiable assets. – Substantive process If an entity chooses not to apply the concentration test, or the test is failed, then the assessment focuses on the existence of a substantive process.	The adoption of these changes is not expected to have a material impact on the Group's financial statements.

Notes to the Financial Statements (Continued)
For the year ended 31 December 2019

2. SIGNIFICANT 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 2019 (Continued)

New or amended standards	Summary of requirements	Possible impact on consolidated financial statements
Definition of a Business (Amendments to IFRS3) (Continued)	The definition of a business is now narrower and could result in fewer business combinations being recognised. The amendment applies to businesses acquired in annual reporting periods beginning on or after 1 January 2020. Earlier application is permitted.	
Definition of Material (Amendments to IAS 1 and IAS 8)	The amendment refines the definition of Material to make it easier to understand and aligning the definition across IFRS Standards and the Conceptual Framework. The amendment includes the concept of 'obscuring' to the definition, alongside the existing references to 'omitting' and 'misstating'. Additionally, the amendments also adds the increased threshold of 'could influence' to 'could reasonably be expected to influence' as below. *"Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."* However, the amendment has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. The amendments are effective from 1 January 2020 but may be applied earlier.	The Group is assessing the potential impact on its financial statements resulting from the application of the refined definition of materiality.

3. FINANCIAL ASSETS AND LIABILITIES

Classification and measurement

The Group classifies its financial assets into the following measurement categories:

- amortised cost;
- fair value through other comprehensive income; and
- fair value through profit or loss.

Financial liabilities are classified as either:

- held at amortised cost, or
- held at fair value through profit or loss.

Management determines the classification of its financial assets and liabilities at initial recognition of the instrument or, where applicable, at the time of reclassification.

Financial assets held at amortised cost or held at fair value through other comprehensive income (FVOCI)

Debt instruments held at amortised cost or held at fair value through other comprehensive income (FVOCI) have contractual terms that give rise to cash flows that are solely payments of principal and interest (SPPI characteristics). Principal is the fair value of the financial asset at initial recognition but this may change over the life of the instrument as amounts are repaid. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period and for other basic lending risks and costs, as well as a profit margin.

In assessing whether the contractual cash flows have SPPI characteristics, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money (e.g. periodical reset of interest rates).

Whether financial assets are held at amortised cost or at FVOCI depend on the objectives of the business models under which the assets are held. A business model refers to how the Group manages financial assets to generate cash flows.

The Group makes an assessment of the objective of a business model in which an asset is held at the individual product business line, and where applicable within business lines depending on the way the business is managed and information is provided to management.

Factors considered include:

- how the performance of the product business line is evaluated and reported to the Group's management;
- how managers of the business model are compensated, including whether management is compensated based on the fair value of assets or the contractual cash flows collected;
- the risks that affect the performance of the business model and how those risks are managed; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and expectations about future sales activity.

Notes to the Financial Statements (Continued)
For the year ended 31 December 2019

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Classification and measurement (Continued)

Financial assets which have SPPI characteristics and that are held within a business model whose objective is to hold financial assets to collect contractual cash flows ("hold to collect") are recorded at amortised cost. Conversely, financial assets which have SPPI characteristics but are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ("hold to collect and sell") are classified as held at FVOCI.

Both hold to collect business model and a hold to collect and sell business model involve holding assets to collect the contractual cash flows. However, the business models are distinct by reference to the frequency and significance that asset sales play in meeting the objective under which a particular group of financial assets is managed. Hold to collect business models are characterised by asset sales that are incidental to meeting the objectives under which a group of assets is managed. Sales of assets under a hold to collect business model can be made to manage increases in credit risk of financial assets but sales for other reasons should be infrequent or insignificant.

Cash flows from the sale of financial assets under a hold to collect and sell business model by contrast are integral to achieving the objectives under which a particular group of financial assets are managed. This may be the case where frequent sales of financial assets are required to manage the Group's daily liquidity requirements or to meet regulatory requirements to demonstrate liquidity of financial instruments. Sales of assets under hold to collect and sell business models are therefore both more frequent and more significant in value than those under the hold to collect model.

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

Financial assets which are not held at amortised cost or that are not held at FVOCI are held at FVTPL. Financial assets and liabilities held at FVTPL are either mandatorily classified as FVTPL or irrevocably designated at FVTPL at initial recognition.

Mandatorily classified at FVTPL

Financial assets and liabilities which are mandatorily held at FVTPL are split between two subcategories as follows:

Trading, including:
- financial assets and liabilities held for trading, which are those acquired principally for the purpose of selling in the short term; and
- derivatives.

Non-trading, including:
- instruments in a business which has a fair value business model which are not trading or derivatives;
- hybrid financial assets that contain one or more embedded derivatives;
- financial assets that would otherwise be measured at amortised cost or FVOCI but which do not have SPPI characteristics;
- equity instruments that have not been designated as held at FVOCI; and
- financial liabilities that constitute contingent consideration in a business combination.

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Classification and measurement (Continued)

Designated at FVTPL

Financial assets and liabilities may be designated at FVTPL 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 (accounting mismatch).

Interest rate swaps have been acquired by the Group with the intention of significantly reducing interest rate risk on certain debt securities with fixed rates of interest. To significantly reduce the accounting mismatch between assets and liabilities and measurement bases, these debt securities have been designated at FVTPL.

Similarly, to reduce accounting mismatches, the Group has designated certain financial liabilities at FVTPL where the liabilities:

– have fixed rates of interest and interest rate swaps or other interest rate derivatives have been entered with the intention of significantly reducing interest rate risk; or
– are exposed to foreign currency risk and derivatives have been acquired with the intention of significantly reducing exposure to market changes; or
– have been acquired to fund trading asset portfolios or assets.

Financial liabilities may also be designated at FVTPL where they are managed on a fair value basis or have a bifurcately embedded derivative where the Group is not able to separately value the embedded derivative component.

Financial liabilities held at amortised cost

Financial liabilities that are not financial guarantees or loan commitments and that are not classified as financial liabilities held at fair value through profit or loss are classified as financial liabilities held at amortised cost.

Financial guarantee contracts and loan commitments

The Group issues financial guarantee contracts and loan commitments in return for fees. Under a financial guarantee contract, the Group undertakes to meet a customer's obligations under the terms of a debt instrument if the customer fails to do so. Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. Financial guarantee contracts and loan commitments issued at below market interest rates are initially recognised as liabilities at fair value, while financial guarantees and loan commitments issued at market rates are recorded off balance sheet. Subsequently, these instruments are measured at the higher of the expected credit loss (ECL) provision, and the amount initially recognised less the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers.

Fair value of financial assets and liabilities

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 market for the asset or liability, or in the absence of a principal market, the most advantageous market to which the Group has access at the date. The fair value of a liability includes the risk that the Group will not be able to honour its obligations.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Fair value of financial assets and liabilities (Continued)

The fair value of financial instruments is generally measured on the basis of the individual financial instrument. However, when a group of financial assets and financial liabilities is managed on the basis of its net exposure to either market risk or credit risk, the fair value of the group of financial instruments is measured on a net basis.

The fair values of quoted financial assets and liabilities in active markets are based on current prices. 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. If the market for a financial instrument, and for unlisted securities, is not active, the Group establishes fair value by using valuation techniques.

Initial recognition

Purchases and sales of financial assets and liabilities held at fair value through profit or loss, and debt securities classified as financial assets held at fair value through other comprehensive income are initially recognised on the trade date (the date on which the Group commits to purchase or sell the asset). Loans and advances and other financial assets held at amortised cost are recognised on settlement date (the date on which cash is advanced to the borrowers).

All financial instruments are initially recognised at fair value, which is normally the transaction price, plus directly attributable transaction costs for financial assets which are not subsequently measured at FVTPL.

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 data. In those cases where the initially recognised fair value is based on a valuation model that uses unobservable inputs, the difference between the transaction price and the valuation model is not recognised immediately in the income statement but is amortised or released to the income statement as the inputs become observable, or the transaction matures or is terminated.

Subsequent measurement

Financial assets and financial liabilities held at amortised cost

Financial assets and financial liabilities held at amortised cost are subsequently carried at amortised cost using the effective interest method. Foreign exchange gains and losses are recognised in the income statement.

Where a financial instrument carried at amortised cost is the hedged item in a qualifying fair value hedge relationship, its carrying value is adjusted by the fair value gain or loss attributable to the hedged risk.

Financial assets held at FVOCI

Debt instruments held at FVOCI are subsequently carried at fair value, with all unrealised gains and losses arising from changes in fair value (including any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity. Foreign exchange gains and losses on the amortised cost are recognised in income. Changes in ECL are recognised in the income statement and are accumulated in equity. On derecognition, the cumulative fair value gains or losses, net of the cumulative ECL reserve, are transferred to the income statement.

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Subsequent measurement (Continued)

Financial assets and liabilities held at FVTPL

Financial assets and liabilities mandatorily held at FVTPL and financial assets designated at FVTPL are subsequently carried at fair value, with gains and losses arising from changes in fair value recorded in the net trading income line in the income statement unless the instrument is part of a cash flow hedging relationship. Contractual interest income on financial assets held at fair value through profit or loss is recognised as interest income in a separate line in the income statement.

Financial liabilities designated at FVTPL

Financial liabilities designated at FVTPL are held at fair value, with changes in fair value recognised in the net trading income line in the income statement, other than that attributable to changes in credit risk. Fair value changes attributable to credit risk are recognised in other comprehensive income and recorded in a separate category of reserves unless this is expected to create or enlarge an accounting mismatch, in which case the entire change in fair value of the financial liability designated at FVTPL loss is recognised in the income statement.

Modified financial instruments

Financial assets and financial liabilities whose original contractual terms have been modified, including those loans subject to forbearance strategies, are modified instruments. Modifications may include changes to the tenor, cash flows and or interest rates among other factors.

Where derecognition of financial assets is appropriate, the newly recognised residual loans are assessed to determine whether the assets should be classified as purchased or originated credit impaired assets (POCI).

Where derecognition is not appropriate, the gross carrying amount of the applicable instruments is recalculated as the present value of the renegotiated or modified contractual cash flows discounted at the original effective interest rate (or credit-adjusted effective interest rate for POCI financial assets). The difference between the recalculated values and the pre-modified gross carrying values of the instruments are recorded as a modification gain or loss in the income statement.

Gains and losses arising from modifications for credit reasons are recorded as part of credit impairment. Modification gains and losses arising for non-credit reasons are recognised either as part of credit impairment or within income depending on whether there has been a change in the credit risk on the financial asset subsequent to the modification. Modification gains and losses arising on financial liabilities are recognised within income.

Derecognition of financial instruments

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership. If substantially all the risks and rewards have been neither retained nor transferred and the Group has retained control, the assets continue to be recognised to the extent of the Group's continuing involvement.

Where financial assets have been modified, the modified terms are assessed on a qualitative and quantitative basis to determine whether a fundamental change in the nature of the instrument has occurred, such as whether the derecognition of the pre-existing instrument and the recognition of a new instrument is appropriate.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Derecognition of financial instruments (Continued)

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in other comprehensive income is recognised in the income statement.

Financial liabilities are derecognised when they are extinguished. A financial liability is extinguished when the obligation is discharged, cancelled or expires and this is evaluated both qualitatively and quantitatively. However, where a financial liability has been modified, it is derecognised if the difference between the modified cash flows and the original cash flows is more than 10 per cent.

Reclassifications

Financial liabilities are not reclassified subsequent to initial recognition. Reclassifications of financial assets are made when, and only when, the business model for those assets changes. Such changes are expected to be infrequent and arise as a result of significant external or internal changes such as the termination of a line of business or the purchase of a subsidiary whose business model is to realise the value of pre-existing held for trading financial assets through a hold to collect model.

Financial assets are reclassified at their fair value on the date of reclassification and previously recognised gains and losses are not restated. Moreover, reclassifications of financial assets between financial assets held at amortised cost and financial assets held at FVOCI do not affect effective interest rate or ECL computations.

Reclassified from amortised cost

Where financial assets held at amortised cost are reclassified to financial assets held at FVTPL, the difference between the fair value of the assets at the date of reclassification and the previously recognised amortised cost is recognised in the income statement.

For financial assets held at amortised cost that are reclassified to FVOCI, the difference between the fair value of the assets at the date of reclassification and the previously recognised gross carrying value is recognised in other comprehensive income. Additionally, the related cumulative ECL amounts relating to the reclassified financial assets are reclassified from loan loss provisions to a separate reserve in other comprehensive income at the date of reclassification.

Reclassified from FVOCI

Where financial assets held at FVOCI are reclassified to financial assets held at FVTPL, the cumulative gain or loss previously recognised in other comprehensive income is transferred to the income statement.

For financial assets held at FVOCI that are reclassified to financial assets held at amortised cost, the cumulative gain or loss previously recognised in other comprehensive income is adjusted against the fair value of the financial asset such that the financial asset is recorded at a value as if it had always been held at amortised cost. In addition, the related cumulative ECL held within other comprehensive income are reversed against the gross carrying value of the reclassified assets at the date of reclassification.

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Reclassifications (Continued)

Reclassified from FVTPL

Where financial assets held at FVTPL are reclassified to financial assets held at FVOCI or financial assets held at amortised cost, the fair value at the date of reclassification is used to determine the effective interest rate on the financial asset going forward. In addition, the date of reclassification is used as the date of initial recognition for the calculation of ECL. Where financial assets held at FVTPL are reclassified to financial assets held at amortised cost, the fair value at the date of reclassification becomes the gross carrying value of the financial asset.

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.

(i) Significant accounting estimates and judgments

Credit impairment

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions. The significant judgments and estimates in determining ECL include:

– the Group's criteria for assessing if there has been a significant increase in credit risk; and

– development of ECL models, including the choice of inputs relating to macroeconomic variables.

The calculation of credit-impairment provisions also involves expert credit judgment to be applied by the credit risk management team based upon counterparty information they receive from various sources including relationship managers and on external market information.

Expected credit losses

Expected credit losses (ECL) are determined for all financial debt instruments that are classified at amortised cost or FVOCI, undrawn commitments and financial guarantees.

An ECL represents the present value of expected cash shortfalls over the residual term of a financial asset, undrawn commitment or financial guarantee.

A cash shortfall is the difference between the cash flows that are due in accordance with the contractual terms of the instrument and the cash flows that the Group expects to receive over the contractual life of the instrument.

Measurement

ECLs is computed as an unbiased, probability weighted amount which is determined by evaluating a range of reasonably possible outcomes, the time value of money, and considering all reasonable and supportable information including that which is forward looking.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

(i) Significant accounting estimates and judgments (Continued)

Measurement (Continued)

For material portfolios, the estimate of expected cash shortfalls is determined by multiplying the probability of default (PD) with the loss given default (LGD) with the expected exposure at the time of default (EAD). There may be multiple default events over the lifetime of an instrument. For less material Retail Banking loan portfolios, the Group has adopted a simplified approach based on historical roll rates or loss rates.

Forward-looking economic assumptions are incorporated into the PD, LGD and EAD where relevant and where they influence credit risk, such as GDP growth rates, interest rates, house price indices and commodity prices among others. These assumptions are incorporated using the Group's most likely forecast for a range of macroeconomic assumptions. These forecasts are determined using all reasonable and supportable information, which includes both internally developed forecasts and those available externally, and are consistent with those used for budgeting, forecasting and capital planning.

To account for the potential non-linearity in credit losses, multiple forward-looking scenarios are incorporated into the range of reasonably possible outcomes for all material portfolios. For example, where there is a greater risk of downside credit losses than upside gains, multiple forward-looking economic scenarios are incorporated into the range of reasonably possible outcomes, both in respect of determining the PD (and where relevant, the LGD and EAD) and in determining the overall ECL amounts. These scenarios are determined using a Monte Carlo approach centred around the Group's most likely forecast of macroeconomic assumptions.

The period over which cash shortfalls are determined is generally limited to the maximum contractual period for which the Group is exposed to credit risk. However, for certain revolving credit facilities, which include credit cards or overdrafts, the Group's exposure to credit risk is not limited to the contractual period. For these instruments, the Group estimates an appropriate life based on the period that the Group is exposed to credit risk, which includes the effect of credit risk management actions such as the withdrawal of undrawn facilities.

For credit-impaired financial instruments, the estimate of cash shortfalls may require the use of expert credit judgment. As a practical expedient, the Group may also measure credit impairment on the basis of an instrument's fair value using an observable market price.

The estimate of expected cash shortfalls on a collateralised financial instrument reflects the amount and timing of cash flows that are expected from foreclosure on the collateral less the costs of obtaining and selling the collateral, regardless of whether foreclosure is deemed probable.

Cash flows from unfunded credit enhancements held are included within the measurement of ECL if they are part of, or integral to, the contractual terms of the instrument (this includes financial guarantees, unfunded risk participations and other non-derivative credit insurance). Although non-integral credit enhancements do not impact the measurement of ECL, a reimbursement asset is recognised to the extent of the ECL recorded.

Cash shortfalls are discounted using the effective interest rate (or credit-adjusted effective interest rate for POCI instruments) on the financial instrument as calculated at initial recognition or if the instrument has a variable interest rate, the current effective interest rate determined under the contract.

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

(i) Significant accounting estimates and judgments (Continued)

Measurement (Continued)

1. POCI assets do not attract an ECL provision on initial recognition. An ECL provision will be recognised only if there is an increase in ECL from that considered at initial recognition.

2. Debt and investment securities classified as FVOCI are held at fair value on the face of the balance sheet. The ECL attributed to these instruments is held as a separate reserve within other comprehensive income and is recycled to the income statement along with any fair value measurement gains or losses held within FVOCI when the applicable instruments are derecognised.

3. ECL on loan commitments and financial guarantees is recognised as a liability provision. Where a financial instrument includes both a loan (i.e. financial asset component) and an undrawn commitment (i.e. loan commitment component), and it is not possible to separately identify the ECL on these components, ECL amounts on the loan commitment are recognised together with ECL amounts on the financial asset. To the extent the combined ECL exceeds the gross carrying amount of the financial asset, the ECL is recognised as a liability provision.

Recognition

12 months expected credit losses (Stage 1)

ECL is recognised at the time of initial recognition of a financial instrument and represents the lifetime cash shortfalls arising from possible default events up to 12 months into the future from the balance sheet date. ECL continues to be determined on this basis until there is either a significant increase in the credit risk of an instrument or the instrument becomes credit impaired. If an instrument is no longer considered to exhibit a significant increase in credit risk, ECL will revert to being determined on a 12-month basis.

Significant increase in credit risk (Stage 2)

If a financial asset experiences a significant increase in credit risk (SICR) since initial recognition, an ECL provision is recognised for default events that may occur over the lifetime of the asset.

SICR is assessed by comparing the risk of default of an exposure at the reporting date to the risk of default at origination (after taking into account the passage of time). Significant does not mean statistically significant nor is it assessed in the context of changes in ECL. Whether a change in the risk of default is significant or not is assessed using a number of quantitative and qualitative factors, the weight of which depends on the type of product and counterparty. Financial assets that are 30 or more days past due and not credit-impaired will always be considered to have experienced a significant increase in credit risk. For less material portfolios where a loss rate or roll rate approach is applied to compute ECL, SICR is primarily based on 30 days past due.

Quantitative factors include an assessment of whether there has been significant increase in the forward-looking probability of default (PD) since origination. A forward-looking PD is one that is adjusted for future economic conditions to the extent these are correlated to changes in credit risk. We compare the residual lifetime PD at the balance sheet date to the residual lifetime PD that was expected at the time of origination for the same point in the term structure and determine whether both the absolute and relative change between the two exceeds predetermined thresholds. To the extent that the differences between the measures of default outlined exceed the defined thresholds, the instrument is considered to have experienced a significant increase in credit risk.

Qualitative factors assessed include those linked to current credit risk management processes, such as lending placed on non-purely precautionary early alert (and subject to closer monitoring).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

(i) Significant accounting estimates and judgments (Continued)

Recognition (Continued)

Significant increase in credit risk (Stage 2) (Continued)
A non-purely precautionary early alert account is one which exhibits risk or potential weaknesses of a material nature requiring closer monitoring, supervision, or attention by management. Weaknesses in such a borrower's account, if left uncorrected, could result in deterioration of repayment prospects and the likelihood of being downgraded. Indicators could include a rapid erosion of position within the industry, concerns over management's ability to manage operations, weak/deteriorating operating results, liquidity strain and overdue balances among other factors.

Credit impaired (or defaulted) exposures (Stage 3)
Financial assets that are credit impaired (or in default) represent those that are at least 90 days past due in respect of principal and/or interest. Financial assets are also considered to be credit impaired where the obligors are unlikely to pay on the occurrence of one or more observable events that have a detrimental impact on the estimated future cash flows of the financial asset. It may not be possible to identify a single discrete event but instead the combined effect of several events may cause financial assets to become credit impaired.

Evidence that a financial asset is credit impaired includes observable data about the following events:
- significant financial difficulty of the issuer or borrower;
- breach of contract such as default or a past due event;
- for economic or contractual reasons relating to the borrower's financial difficulty, the lenders of the borrower have granted the borrower concession/s that lenders would not otherwise consider. This would include forbearance actions;
- pending or actual bankruptcy or other financial reorganisation to avoid or delay discharge of the borrower's obligation/s;
- the disappearance of an active market for the applicable financial asset due to financial difficulties of the borrower; and
- purchase or origination of a financial asset at a deep discount that reflects incurred credit losses.

Irrevocable lending commitments to a credit impaired obligor that have not yet been drawn down are also included within the stage 3 credit impairment provision to the extent that the commitment cannot be withdrawn.

Loss provisions against credit impaired financial assets are determined based on an assessment of the recoverable cash flows under a range of scenarios, including the realisation of any collateral held where appropriate. The loss provisions held represent the difference between the present value of the cash flows expected to be recovered, discounted at the instrument's original effective interest rate and the gross carrying value of the instrument prior to any credit impairment.

Expert credit judgment
For Corporate & Institutional and Commercial Banking segments, accounts are graded by credit risk management on a credit grading (CG) scale from CG1 to CG14. Once an account starts to exhibit credit deterioration, it will move along the credit grading scale in the performing book and when it is classified as CG12 the credit assessment and oversight of the loan will normally be performed by Group Special Assets Management (GSAM).

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

(i) Significant accounting estimates and judgments (Continued)

Expert credit judgment (Continued)

Accounts graded CG12 exhibit well-defined weaknesses in areas such as management and/or performance but there is no current expectation of a loss of principal or interest. Where the impairment assessment indicates that there will be a loss of principal on a loan, the account is graded a CG14 while accounts of other credit impaired loans are graded CG13. Instruments graded CG13 or CG14 are regarded as non-performing loans, i.e. Stage 3 or credit impaired exposures.

For individually significant financial assets within Stage 3, GSAM will consider all judgments that have an impact on the expected future cash flows of the asset. These include: the business prospects, industry and geo-political climate of the customer, quality of realisable value of collateral, the Group's legal position relative to other claimants and any renegotiation/ forbearance/ modification options.

The difference between the loan carrying amount and the discounted expected future cash flows will result in the stage 3 credit impairment amount. The future cash flow calculation involves significant judgments and estimates. As new information becomes available and further negotiations/forbearance measures are taken the estimates of the future cash flows will be revised, and will have an impact on the future cash flow analysis.

For financial assets which are not individually significant, such as the Retail Banking portfolio or small business loans, which comprise a large number of homogenous loans that share similar characteristics, statistical estimates and techniques are used, as well as credit scoring analysis.

Retail Banking clients are considered credit impaired where they are more than 90 days past due. Retail Banking clients are also considered credit impaired if the borrower files for bankruptcy or other forbearance programme, the borrower is deceased or the business is closed in the case of a small business, or if the borrower surrenders the collateral, or there is an identified fraud on the account. Additionally, if the account is unsecured and the borrower has other credit accounts with the Group that are considered credit impaired, the account may also be credit impaired.

Techniques used to compute impairment amounts use models which analyse historical repayment and default rates over a time horizon. Where various models are used, judgment is required to analyse the available information provided and select the appropriate model or combination of models to use.

Expert credit judgment is also applied to determine whether any post-model adjustments are required for credit risk elements which are not captured by the models.

Modified financial instruments

Where the original contractual terms of a financial asset have been modified for credit reasons and the instrument has not been derecognised, the resulting modification loss is recognised within credit impairment in the income statement with a corresponding decrease in the gross carrying value of the asset. If the modification involved a concession that the Group would not otherwise consider, the instrument is considered to be credit impaired and is considered forborne.

ECL for modified financial assets that have not been derecognised and are not considered to be credit-impaired will be recognised on a 12-month basis, or a lifetime basis, if there is a SICR. These assets are assessed to determine whether there has been a SICR subsequent to the modification. Although loans may be modified for non-credit reasons, a SICR may occur.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

(i) Significant accounting estimates and judgments (Continued)

Modified financial instruments (Continued)

In addition to the recognition of modification gains and losses, the revised carrying value of modified financial assets will impact the calculation of ECL, with any increase or decrease in ECL recognised within impairment.

Forborne loans

Forborne loans are those loans that have been modified in response to a customer's financial difficulties. Forbearance strategies assist clients who are temporarily in financial distress and are unable to meet their original contractual repayment terms. Forbearance can be initiated by the client, the Group or a third party including government sponsored programmes or a conglomerate of credit institutions. Forbearance may include debt restructuring such as new repayment schedules, payment deferrals, tenor extensions, interest only payments, lower interest rates, forgiveness of principal, interest or fees, or relaxation of loan covenants.

Forborne loans that have been modified (and not derecognised) on terms that are not consistent with those readily available in the market and/or where the Group has granted a concession compared to the original terms of the loans are considered credit impaired if there is a detrimental impact on cash flows. The modification loss is recognised in the income statement within credit impairment and the gross carrying value of the loan reduced by the same amount.

Loans that have been subject to a forbearance modification, but which are not considered credit impaired (not classified as CG13 or CG14), are disclosed as 'Forborne – not credit impaired'. This may include amendments to covenants within the contractual terms.

Write-offs of credit impaired instruments and reversal of impairment

To the extent a financial debt instrument is considered irrecoverable, the applicable portion of the gross carrying value is written off against the related loan provision. Such loans are written off if after all the necessary procedures have been completed, it is decided that there is no realistic probability of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement. If, in a subsequent period, the amount of the credit impairment loss decreases and the decrease can be related objectively to an event occurring after the credit impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised credit impairment loss is reversed by adjusting the provision account. The amount of the reversal is recognised in the income statement.

Loss provisions on purchased or originated credit impaired instruments (POCI)

The Group measures ECL on a lifetime basis for POCI instruments throughout the life of the instrument. However, ECL is not recognised in a separate loss provision on initial recognition for POCI instruments as the lifetime ECL is inherent within the gross carrying amount of the instruments. The Group recognises the change in lifetime ECL arising subsequent to initial recognition in the income statement and the cumulative change as a loss provision. Where lifetime ECL on POCI instruments are less than those at initial recognition, then the favourable differences are recognised as impairment gains in the income statement (and as impairment loss where the ECL is greater).

Improvement in credit risk/curing

A period may elapse from the point at which instruments enter lifetime ECL (stage 2 or stage 3) and are reclassified back to 12 month ECL (stage 1).

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

(i) Significant accounting estimates and judgments (Continued)

Improvement in credit risk/curing (Continued)

For financial assets that are credit-impaired (stage 3), a transfer to stage 2 or stage 1 is only permitted where the instrument is no longer considered to be credit-impaired. An instrument will no longer be considered credit-impaired when there is no shortfall of cash flows compared to the original contractual terms.

For financial assets within stage 2, these can only be transferred to stage 1 when they are no longer considered to have experienced a SICR.

Where SICR was determined using quantitative measures, the instruments will automatically transfer back to stage 1 when the original PD based transfer criteria are no longer met.

Where instruments were transferred to stage 2 due to an assessment of qualitative factors, the issues that led to the reclassification must be cured before the instruments can be reclassified to stage 1. This includes instances where management actions led to instruments being classified as stage 2, requiring that action to be resolved before loans are reclassified to stage 1.

A forborne loan can only be removed from the disclosure (cured) if the loan is performing (stage 1 or 2) and a further two-year probation period is met.

In order for a forborne loan to become performing, the following criteria have to be satisfied:

- at least a year has passed with no default based upon the forborne contract terms;
- the customer is likely to repay its obligations in full without realising security; and
- the customer has no accumulated impairment against amount outstanding.

Subsequent to the criteria above, a further two year probation period has to be fulfilled, whereby regular payments are made by the customer and none of the exposures to the customer are more than 30 days past due.

Notes to the Financial Statements (Continued)
For the year ended 31 December 2019

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 of the Group:

Group		Financial instruments at fair value				
31 December 2019 KShs Million	Note	Mandatorily held at fair value through profit or loss	Fair value through other comprehensive income	Total	Financial instruments at amortised cost	Total
Cash and balances with Central Bank of Kenya	16	–	–	–	20,621	20,621
Government and other securities held at FVTPL	17	1,939	–	1,939	–	1,939
Derivative financial instruments	18	810	–	810	–	810
Loans and advances to banks	19	–	–	–	7,734	7,734
Loans and advances to customers	20	–	–	–	128,690	128,690
Investment securities	21	–	97,690	97,690	–	97,690
Other assets – uncleared effects	22	–	–	–	547	547
Amounts due from group companies	23	–	–	–	31,799	31,799
Total assets		2,749	97,690	100,439	189,391	289,830
Liabilities						
Deposits from banks	30	–	–	–	8,028	8,028
Deposits from customers	31	–	–	–	228,434	228,434
Derivative financial instruments	18	603	–	603	–	603
Other liabilities	32	–	–	–	1,577	1,577
Amounts due to group companies	23	–	–	–	11,122	11,122
Total liabilities		603	–	603	249,161	249,764
31 December 2018						
Cash and balances with Central Bank of Kenya	16	–	–	–	20,283	20,283
Government and other securities held at FVTPL	17	3,937	–	3,937	–	3,937
Derivative financial instruments	18	394	–	394	–	394
Loans and advances to banks	19	–	–	–	6,016	6,016
Loans and advances to customers	20	–	–	–	118,652	118,652
Investment securities	21	19	94,749	94,768	–	94,768
Other assets – uncleared effects	22	–	–	–	1,146	1,146
Amounts due from group companies	23	–	–	–	31,468	31,468
Total assets		4,350	94,749	99,099	177,565	276,664
Liabilities						
Deposits from banks	30	–	–	–	156	156
Deposits from customers	31	–	–	–	224,284	224,284
Derivative financial instruments	18	226	–	226	–	226
Other liabilities	32	–	–	–	866	866
Amounts due to group companies	23	–	–	–	8,547	8,547
Total liabilities		226	–	226	233,853	234,079

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

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 of the Company:

Company 31 December 2019 KShs Million	Note	Financial instruments at fair value Mandatorily held at fair value through profit or loss	Fair value through other comprehensive income	Total	Financial instruments at amortised cost	Total
Cash and balances with Central Bank of Kenya	16	–	–	–	20,621	20,621
Government and other securities held at FVTPL	17	1,939	–	1,939	–	1,939
Derivative financial instruments	18	810	–	810	–	810
Loans and advances to banks	19	–	–	–	7,734	7,734
Loans and advances to customers	20	–	–	–	128,690	128,690
Investment securities	21	–	96,564	96,564	–	96,564
Other assets – uncleared effects	22	–	–	–	547	547
Amounts due from group companies	23	–	–	–	33,118	33,118
Total assets		2,749	96,564	99,313	190,710	290,023
Liabilities						
Deposits from banks	30	–	–	–	8,028	8,028
Deposits from customers	31	–	–	–	228,434	228,434
Derivative financial instruments	18	603	–	603	–	603
Other liabilities	32	–	–	–	1,577	1,577
Amounts due to group companies	23	–	–	–	11,122	11,122
Amounts due to subsidiaries	23	–	–	–	715	715
Total liabilities		603	–	603	249,876	250,479
31 December 2018						
Cash and balances with Central Bank of Kenya	16	–	–	–	20,283	20,283
Government and other securities held at FVTPL	17	3,937	–	3,937	–	3,937
Derivative financial instruments	18	394	–	394	–	394
Loans and advances to banks	19	–	–	–	6,016	6,016
Loans and advances to customers	20	–	–	–	118,652	118,652
Investment securities	21	19	93,745	93,764	–	93,764
Other assets – uncleared effects	22	–	–	–	1,146	1,146
Amounts due from group companies	23	–	–	–	31,739	31,739
Total assets		4,350	93,745	98,095	177,836	275,931
Liabilities						
Deposits from banks	30	–	–	–	156	156
Deposits from customers	31	–	–	–	224,284	224,284
Derivative financial instruments	18	226	–	226	–	226
Other liabilities	32	–	–	–	866	866
Amounts due to group companies	23	–	–	–	8,547	8,547
Amounts due to subsidiaries	23	–	–	–	674	674
Total liabilities		226	–	226	234,527	234,753

Notes to the Financial Statements (Continued)
For the year ended 31 December 2019

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

(b) Valuation techniques

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

Derivative financial instruments and government securities held at FVTPL

Derivative financial instruments and government securities held for trading are measured at fair value as set out in Notes 3, 17 and 18.

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.

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

(c) Valuation hierarchy – financial instruments at fair value

Assets and liabilities carried at fair value or for which fair values are disclosed have been classified into three levels according to the observability of the significant inputs used to determine the fair values. Changes in the observability of significant valuation inputs during the reporting period may result in a transfer of assets and liabilities within the fair value hierarchy. The Group recognises transfers between levels of the fair value hierarchy when there is a significant change in either its principal market or the level of observability of the inputs to the valuation techniques as at the end of the reporting period.

– Level 1: Fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities

– Level 2: Fair value measurements are those with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable; and

– Level 3: Fair value measurements are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

(c) Valuation hierarchy - Financial instruments measured at fair value (Continued)

The tables below show the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2019 and 2018:

		Group				Company			
31 December 2019 KShs Million	Note	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Assets									
Government and other securities held at FVTPL	17	–	1,939	–	1,939	–	1,939	–	1,939
Derivative financial instruments	18	–	810	–	810	–	810	–	810
Investment securities	21	–	97,672	18	97,690	–	96,546	18	96,564
Total assets		–	100,421	18	100,439	–	99,295	18	99,313
Derivative financial instruments	18	–	603	–	603	–	603	–	603
Total liabilities		–	603	–	603	–	603	–	603
Assets									
Government and other securities held at FVTPL	17	–	3,937	–	**3,937**	–	3,937	–	**3,937**
Derivative financial instruments	18	–	394	–	**394**	–	394	–	**394**
Investment securities	21	–	94,749	19	**94,768**	–	93,745	19	**93,764**
Total assets		–	99,080	19	99,099	–	98,076	19	98,095
Derivative financial instruments	18	–	226	–	**226**	–	226	–	**226**
Total liabilities		–	226	–	226	–	226	–	226

There has been no significant change in valuation or lending approaches in 2019. There were no transfers of financial assets and liabilities measured at fair value between the levels during the year. 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 2019

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

(d) Valuation hierarchy - Financial instruments measured at amortised cost

The following table shows the carrying amounts and incorporates the Group's estimate of fair values of those financial assets and liabilities not presented on the Group's balance sheet at fair value. These fair values may be different from the actual amount that will be received or paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions for which no observable prices are available.

		Group					Company				
31 December 2019 KShs Million	Note	Total carrying amount	Level 1	Level 2	Level 3	Total fair values	Total carrying amount	Level 1	Level 2	Level 3	Total fair values
Assets											
Cash and balances with Central Bank of Kenya	16	20,621	–	20,621	–	20,621	20,621	–	20,621	–	20,621
Loans and advances to banks	19	7,734	–	7,734	–	7,734	7,734	–	7,734	–	7,734
Loans and advances to customers	20	128,690	–	–	128,690	128,690	128,690	–	–	128,690	128,690
Other assets – uncleared effects	22	547	–	–	547	547	547	–	–	547	547
Amounts due from group companies	23	31,799	–	–	31,799	31,799	33,118	–	–	33,118	33,118
Total assets		189,391	–	28,355	161,036	189,391	190,710	–	28,355	162,355	190,710
Deposits from banks	30	8,028	–	8,028	–	8,028	8,028	–	8,028	–	8,028
Deposits from customers	31	228,434	–	40,983	187,451	228,434	228,434	–	40,983	187,451	228,434
Other liabilities	32	1,577	–	–	1,577	1,577	1,577	–	–	1,577	1,577
Amounts due to group companies	23	11,122	–	6,097	5,025	11,122	11,122	–	6,097	5,025	11,122
Amounts due to subsidiaries	23	–	–	–	–	–	715	–	715	–	715
Total liabilities		249,161	–	55,108	194,053	249,161	249,876	–	55,823	194,053	249,876

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

(d) Valuation hierarchy - Financial instruments measured at amortised cost (Continued)

31 December 2018 KShs Million	Note	Group Total carrying amount	Group Level 1	Group Level 2	Group Level 3	Group Total fair values	Company Total carrying amount	Company Level 1	Company Level 2	Company Level 3	Company Total fair values
Assets											
Cash and balances with Central Bank of Kenya	16	**20,283**	–	20,283	–	**20,283**	**20,283**	–	20,283	–	**20,283**
Loans and advances to banks	19	**6,016**	–	6,016	–	**6,016**	**6,016**	–	6,016	–	**6,016**
Loans and advances to customers	20	**118,652**	–	–	118,652	**118,652**	**118,652**	–	–	118,652	**118,652**
Other assets – uncleared effects	22	**1,146**	–	–	1,146	**1,146**	**1,146**	–	–	1,146	**1,146**
Amounts due from group companies	23	**31,468**	–	–	31,468	**31,468**	**31,739**	–	–	31,739	**31,739**
Total assets		**177,565**	**–**	**26,299**	**151,266**	**177,565**	**177,836**	**–**	**26,299**	**151,537**	**177,836**
Deposits from banks	30	**156**	–	156	–	**156**	**156**	–	156	–	**156**
Deposits from customers	31	**224,284**	–	37,540	186,744	**224,284**	**224,284**	–	37,540	186,744	**224,284**
Other liabilities	32	**866**	–	–	866	**866**	**866**	–	–	866	**866**
Amounts due to group companies	23	**8,547**	–	6,132	2,415	**8,547**	**8,547**	–	6,132	2,415	**8,547**
Amounts due to subsidiaries	23	**–**	–	–	–	**–**	**529**	–	529	–	**529**
Total liabilities		**233,853**	**–**	**43,828**	**190,025**	**233,853**	**234,382**	**–**	**44,357**	**190,025**	**234,382**

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW

This section provides details of the Group's and Company'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 and Company are 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 enterprise risk management framework.

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

The Board is supported by executive level committees which are responsible for developing and monitoring Group and Company risk management policies in their specified areas. The executive level committees include the Asset and Liability Committee (ALCO), Anti-Money Laundering and Financial Crime Risk Committee (FCRC) and the Non-Financial Risk Committee (NFRC). The FCRC and NFRC roll up to the Executive Risk Committee (ERC). All committees report regularly to the Board of Directors on their activities.

The Group's and Company's risk management policies are established to identify and analyse the risks faced by the Group and Company, 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 and Company, through their 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 and Company'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 and Company. The Board Risk Committee is supported in these functions by the Internal Audit Department, which undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board Risk Committee.

Stress testing

Stress testing and scenario analysis are important components of the Group's and Company's risk assessment processes, and are used to assess the financial management capability of the Group and the Company 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 and Company operate. It is intended that stress testing and scenario analysis will help to inform management of:

- 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.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

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

(a) Credit risk

(i) Credit risk overview

Credit risk is the potential for loss due to the failure of a counterparty to meet its obligation to pay the Group and Company. This arises principally from the Group's and Company'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 and Company structure the levels of credit risk they undertake by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments.

New impairment model

The impairment model recognises expected credit losses (ECL) and it applies to all financial debt instruments held at amortised cost, fair value through other comprehensive income (FVOCI), undrawn loan commitments and financial guarantees.

Staging of financial instruments

Financial instruments that are not already credit-impaired are originated into stage 1 and a 12-month ECL provision is recognised.

Instruments will remain in stage 1 until they are repaid, unless they experience significant credit deterioration (stage 2) or they become credit-impaired (stage 3).

Instruments will transfer to stage 2 and a lifetime ECL provision recognised when there has been a significant change in the credit risk compared with what was expected at origination.

Instruments are classified as stage 3 when they become credit-impaired.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(ii) Credit quality analysis

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.

In the Retail Banking segment, where there are large numbers of small value loans in credit cards and personal loans portfolios along with medium size loans to a maximum of KShs 100 million under Mortgage and Business Banking, a primary indicator of potential impairment is delinquency. An account is considered to be delinquent when payment is not received on the due date. For delinquency reporting purposes, the Group and Company follow industry standards, measuring delinquency as of 1, 30, 60, 90, 120 and 150 days past due.

The Group and Company use the following risk mappings to determine the credit quality of loans:

Credit quality description	Corporate & Institutional Banking and Commercial Banking	Retail Banking
Strong	Credit Grades 1-5	Current loans (no past dues nor impaired)
Satisfactory	Credit Grades 6-11	Loans past due till 29 days
Higher risk	Credit Grade 12	Past due loans 30 days and over till 90 days

Analysis of financial instruments by stage

The tables overleaf show the financial instruments and off-balance sheet commitments by stage with the total loss allowance against each financial instrument class.

Notes to the Financial Statements (Continued)
For the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(ii) Credit quality analysis (Continued)

Analysis of financial instruments by stage (Continued)

Group KShs Million	31 December 2019				31 December 2018			
On balance sheet:	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans and advances to banks	7,737	–	–	7,737	6,018	–	–	6,018
Loss allowance	(3)	–	–	(3)	(2)	–	–	(2)
Carrying amount	7,734	–	–	7,734	**6,016**	–	–	**6,016**
Loans and advances to customers								
Grades1-11 (normal)	120,604	–	–	120,604	109,244	–	–	109,244
Grade 12 (watch)	–	3,661	–	3,661	–	4,745	–	4,745
Grade 13 (substandard)	–	–	3,602	3,602	–	–	5,491	5,491
Grade 14 (doubtful/loss)	–	–	8,667	8,667	–	–	8,380	8,380
Total	120,604	3,661	12,269	136,534	**109,244**	**4,745**	**13,871**	**127,860**
Loss allowance	(757)	(651)	(6,436)	(7,844)	(1,000)	(1,078)	(7,130)	(9,208)
Carrying amount	119,847	3,010	5,833	128,690	**108,244**	**3,667**	**6,741**	**118,652**
Amounts due from group companies	31,808	–	–	31,808	31,473	–	–	31,473
Loss allowance	(9)	–	–	(9)	(5)	–	–	(5)
Carrying amount	31,799	–	–	31,799	**31,468**	–	–	**31,468**
FVOCI investment securities	97,690	–	–	97,690	**94,768**	–	–	**94,768**
Loss allowance[1]	322	–	–	322	**287**	–	–	**287**

[1]The instruments are held at fair value on the balance sheet. The ECL provision in respect of investment securities measured at FVOCI is held within reserves.

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(ii) Credit quality analysis (Continued)

Analysis of financial instruments by stage (Continued)

Company KShs Million	31 December 2019				31 December 2018			
On balance sheet:	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loans and advances to banks	7,737	–	–	7,737	6,018	–	–	6,018
Loss allowance	(3)	–	–	(3)	(2)	–	–	(2)
Carrying amount	7,734	–	–	7,734	6,016	–	–	6,016
Loans and advances to customers								
Grades1-11 (normal)	120,604	–	–	120,604	109,244	–	–	109,244
Grade 12 (watch)	–	3,661	–	3,661	–	4,745	–	4,745
Grade 13 (substandard)	–	–	3,602	3,602	–	–	5,491	5,491
Grade 14 (doubtful/loss)	–	–	8,667	8,667	–	–	8,380	8,380
Total	120,604	3,661	12,269	136,534	109,244	4,745	13,871	127,860
Loss allowance	(757)	(651)	(6,436)	(7,844)	(1,000)	(1,078)	(7,130)	(9,208)
Carrying amount	119,847	3,010	5,833	128,690	108,244	3,667	6,741	118,652
Amounts due from group companies	33,127	–	–	33,127	31,744	–	–	31,744
Loss allowance	(9)	–	–	(9)	(5)	–	–	(5)
Carrying amount	33,118	–	–	33,118	31,739	–	–	31,739
Investment securities[2]	96,564	–	–	96,564	93,764	–	–	93,764
Loss allowance[2]	316	–	–	316	283	–	–	283

[2]These instruments are held at fair value on the balance sheet. The ECL provision in respect of investment securities measured at FVOCI is held within reserves.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(ii) Credit quality analysis (Continued)

Analysis of financial instruments by stage (Continued)

Group and Company	31 December 2019				31 December 2018			
KShs Million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Off balance sheet:								
Guarantees and standby letters of credit	43,083	2,172	370	45,625	33,533	4,472	84	38,089
Letters of credit, acceptances and other documentary credits	6,486	81	27	6,594	7,352	514	45	7,911
Total trade contingents[3]	49,569	2,253	397	52,219	40,885	4,986	129	46,000
Loss allowance[3]	96	79	1	176	66	86	1	153

[3] Trade contingents are off-balance sheet instruments. Only the ECL is recorded on balance sheet as a financial liability and therefore there is no net carrying amount.

Notes to the Financial Statements (Continued)
For the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(ii) Credit quality analysis (Continued)

Analysis of loans and advances concentration by sector

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.

Group and Company	31 December 2019				31 December 2018			
KShs Million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
On balance sheet:								
Business services	772	1	17	790	1,482	–	33	1,515
Manufacturing	14,665	72	3,532	18,269	14,809	195	5,654	20,658
Wholesale and retail	15,827	1,698	3,254	20,779	14,361	2,241	2,969	19,571
Transport and communication	14,387	–	241	14,628	6,423	50	281	6,754
Real Estate	1,085	100	72	1,257	994	108	228	1,330
Agriculture	3,016	–	194	3,210	3,276	65	188	3,529
Energy and water	4,188	14	2,205	6,407	4,978	255	2,109	7,342
Others	66,664	1,776	2,754	71,194	62,921	1,831	2,409	67,161
Total	120,604	3,661	12,269	136,534	109,244	4,745	13,871	127,860
Loss allowance	(757)	(651)	(6,436)	(7,844)	(1,000)	(1,078)	(7,130)	(9,208)
Carrying amount	119,847	3,010	5,833	128,690	108,244	3,667	6,741	118,652

Analysis of loans and advances concentration by client segment

Group and Company	31 December 2019				31 December 2018			
KShs Million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
On balance sheet:								
Corporate & Institutional Banking	34,138	1,362	3,539	39,039	29,433	2,244	4,735	36,412
Commercial Banking	14,169	241	6,375	20,785	11,446	283	7,163	18,892
Retail Banking	72,297	2,058	2,355	76,710	68,365	2,218	1,973	72,556
	120,604	3,661	12,269	136,534	109,244	4,745	13,871	127,860

(iii) Collateral held and other credit enhancements

The Group and Company hold 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 and Company also enter into collateralised reverse purchase agreements. Risk mitigation policies control the approval of collateral types. Collateral is valued in accordance with the Group's and Company'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.

Notes to the Financial Statements (Continued)
For the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(iii) Collateral held and other credit enhancements (Continued)

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 2019 and 2018.

The table below details collateral held against exposures, showing separately stage 2 and stage 3 exposures and corresponding collateral.

Fair value of collateral held

Group and Company	Total	Stage 2	Stage 3
2019	KShs Million	KShs Million	KShs Million
Amount outstanding	136,534	3,661	12,269
Collateral held	(90,812)	(2,103)	(4,433)
Net exposure	**45,722**	**1,558**	**7,836**
2018			
Amount outstanding	127,860	4,745	13,871
Collateral held	(75,542)	(2,237)	(5,316)
Net exposure	**52,318**	**2,508**	**8,555**

(iv) Problem credit management

Accounts or portfolios are placed on an early alert report and regularly 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 subjected to a dedicated process with oversight involving the Chief Executive Officer, Senior Credit 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, reviewing structure of facilities, exposure reduction, security enhancement, exit of the accounts or immediate movement of the accounts into the control of GSAM, the specialist recovery unit.

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(v) Expected credit loss measurement

Staging of financial instruments

Financial instruments that are not already credit-impaired are originated into stage 1 and a 12-month ECL is recognised. Instruments will remain in stage 1 until they are repaid, unless they experience significant credit deterioration (stage 2) or they become credit-impaired (stage 3).

ECL for financial assets will transfer from a 12- month basis to lifetime when there is significant increase in credit risk (SICR) compared with what was expected at origination or when they become credit impaired. On transfer to a lifetime basis, the ECL for those assets will reflect the impact of a default event expected to occur over the remaining lifetime of the instrument rather than just over the 12 months from the reporting date.

SICR is assessed by comparing the risk of default of an exposure at the reporting date with the risk of default at origination (after considering the passage of time). 'Significant' does not mean statistically significant nor is it reflective of the extent of the impact on the Group's and Company's financial statements. Whether a change in the risk of default is significant or not is assessed using quantitative and qualitative criteria, the weight of which will depend on the type of product and counterparty.

Instruments are classified as stage 3 when they become credit-impaired. Lifetime ECL is recognised for stage 3 assets.

Transfers between stages

Stage 1	Stage 2	Stage 3
– 12-month expected credit loss – Performing	– Lifetime expected credit loss – Performing but significant increase in credit risk (SICR)	– Credit impaired – Non-performing

Assets will transfer from stage 3 to stage 2 when they are no longer considered to be credit-impaired.

Assets will not be considered to be credit-impaired only if the customer makes payments such that they are paid to current in line with the original contractual terms.

In addition:

- loans that were subject to forbearance measures must remain current for 12 months before they can be transferred to stage 2; and
- retail loans that were not subject to forbearance measures must remain current for 180 days before they can be transferred to stage 2 or stage 1.

Assets may transfer to stage 1 if they are no longer considered to have experienced a SICR. This will be immediate when the original PD based transfer criteria are no longer met (and as long as none of the other transfer criteria apply). Where assets were transferred using other measures, the assets will only transfer back to stage 1 when the condition that caused the significant increase in credit risk no longer applies (and as long as none of the other transfer criteria apply).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(v) Expected credit loss measurement (Continued)

Approach to determining ECL - inputs, assumptions and estimation techniques

ECL is the discounted product of the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) defined as follows:

- PD is the probability at a point in time that a counterparty will default, calibrated over up to 12 months from the reporting date (stage 1) or over the lifetime of the asset (stage 2) and incorporating the impact of forward-looking economic assumptions that have an effect on credit risk, such as interest rates, unemployment rates and GDP forecasts. PD is estimated at a point in time, that means it will fluctuate in line with the economic cycle.

- LGD refers to the loss that is expected to arise on default, incorporating the impact of forward-looking economic assumptions where relevant, which represents the difference between the contractual cash flows due and those that the Bank expects to receive. The Group and Company estimate LGD based on the history of recovery rates and consider the recovery of any collateral that is integral to the financial asset, taking into account forward-looking economic assumptions where relevant.

- EAD refers to the expected balance sheet exposure at the time of default, taking into account the expected change in exposure over the lifetime of the exposure. This incorporates the impact of drawdowns of committed facilities, repayments of principal and interest, amortisation and prepayments, together with the impact of forward-looking economic assumptions where relevant.

ECL is determined by projecting the PD, LGD and EAD for each future month for each exposure or segment. These three components are multiplied together and adjusted for survival (i.e. the exposure has not prepaid or defaulted in an earlier month) effectively calculating ECL for a future month. This is then discounted to the reporting date using the effective interest rate.

For portfolios within Corporate & Institutional Banking and Commercial Banking, and material Retail Banking portfolios that do not have objective evidence of impairment (Stages 1 and 2), ECLs are determined by estimating the expected cash shortfalls by multiplying the PD with the LGD and the EAD. The ECL is discounted to the reporting date using a rate that approximates the effective interest rate (EIR) of the asset.

Where insufficient information is available for certain small retail portfolios for the Group and Company to assess lifetime ECL at individual instrument level, ECL may be measured on a collective basis that considers credit risk information on instrument groups that share similar credit risk characteristics. For smaller, less complex Retail portfolios, simplified models are used to determine ECL. These use a combination of roll rate and loss rate models.

ECL is estimated based on the shorter of the expected life and the maximum contractual period for which the Group and Company are exposed to credit risk. For Retail Banking credit cards and Corporate & Institutional Banking overdraft facilities however, the Group and Company do not typically enforce the contractual period. As a result, for these instruments, the lifetime of the exposure is based on the period the Group and Company are exposed to credit risk. This period has been determined by reference to the extent to which credit risk management actions curtail the period of exposure. For credit cards, this has resulted in an average life of 12 months. Overdraft facilities have a 22-month lifetime.

Notes to the Financial Statements (Continued)
For the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(v) Expected credit loss measurement (Continued)

Approach to determining ECL - inputs, assumptions and estimation techniques (Continued)

The lifetime of drawn and undrawn committed revolving facilities in the Corporate & Institutional and Commercial Banking segments, is set at the residual tenor of the respective facilities. With the exception of overdraft facilities, uncommitted facilities in these client segments do not give rise to credit risk and hence no ECL because the Group and Company have a legal right to revoke the facilities at short notice and has a practice of doing so in response to a SICR.

Forward looking economic information is also included in determining the 12-month and lifetime PD, LGD and EAD as detailed below.

The assumptions underlying the ECL calculation such as the maturity profile of the PDs and how collateral values change etc, are monitored and reviewed on a quarterly basis.

Incorporation of forward looking information

Multiple forward-looking economic scenarios are incorporated into the range of reasonably possible outcomes, both in respect of determining the PD (and where relevant, the LGD and EAD) and in determining the overall ECL amounts to address the non-linearity characteristic of credit losses. These scenarios are conditioned internal macroeconomic views of the Group and Company.

Monte Carlo Simulation generates scenarios of macroeconomic variables relevant for IFRS 9 models.

The Multiple Scenario solution consists of three integrated components:

i. A set of point forecasts, generated by the Scenario Design Team ("SDT"), that sets the internal view of the future macroeconomic environment;

ii. A set of simulation models, calibrated on historical data, to generate "un-weighted" alternative scenarios; and

iii. A procedure to ensure that the simulations (component ii above) are plausible given the internal view (component i above). The procedure yields probability weights that are attached to the alternative scenarios.

The Multiple Scenario solution generates 50 random scenarios to ensure non-linearity is appropriately reflected. To ensure these scenarios remain plausible, simulated macroeconomic variables have to fall within defined ceilings or floors, which are set by SDT to enable a wide range of reasonably possible scenarios while excluding extreme or implausible scenarios.

The reported ECL is therefore the equally weighted average of the ECL of the 50 simulated scenarios, whose average scenario coincides closely with the central economic scenario. In this way, the methodology both orients the ECL to management view of the economic outlook and incorporates significant dispersion around the management view to account for unforeseen eventualities.

The review and challenge of the macroeconomic forecasts is primarily driven through the activities of the IFRS 9 Expert Panel and the IFRS 9 Impairment Committee.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(v) Expected credit loss measurement (Continued)

Incorporation of forward looking information (Continued)

The table below sets out a representative summary of the economic variables and asset prices that the Group and Company considered most important in the determination of ECL.

	31 December 2019			31 December 2018		
	Base forecast	Low[4]	High[5]	Base Forecast	Low[4]	High[5]
GDP Growth (YoY%)	5.60	5.04	6.16	5.97	5.37	6.56
FX rate (KShs)	103	93	113	103	93	113
Government spending (KShs Billions)	2,549	2,294	2,803	2,322	2,089	2,554
Household income (KShs Billions)	2,061	1,855	2,267	1,334	1,201	1,468
Imports (KShs Billions)	440	396	484	511	460	562
Interest rate - 91 day treasury bill rate (%)	7.20	6.48	7.92	7.80	7.02	8.58
Consumer price index	190	171	209	183	164	201
Equity index	58	52	63	85	76	93

[4] Represents the 10th percentile in the range used to determine non-linearity.

[5] Represents the 90th percentile in the range used to determine non-linearity.

Credit impaired assets managed by GSAM incorporate forward looking economic assumptions in respect of recovery outcomes identified and are assigned individual probability weightings. These assumptions are not based on Monte Carlo simulation but are informed by the base case.

Significant increase in credit risk

Significant deterioration is assessed by comparing the risk of default at the reporting date to the risk of default at origination. Whether a change in the risk of default is significant or not is assessed using quantitative and qualitative criteria. These quantitative significant deterioration thresholds have been separately defined for each business segment and where meaningful, are consistently applied across business lines.

Corporate & Institutional Banking and Commercial Banking segments

- *Quantitative criteria:* exposures are assessed based on both the absolute and the relative movement in the PD from origination to the reporting date. The relative threshold is a 100 per cent increase in PD and the absolute change in PD is between 50-100 basis points.

- *Qualitative criteria:* all accounts that have been placed on Early Alert (for non-purely precautionary reasons) are deemed to have experienced a significant increase in credit risk. An account is placed on Early Alert on a non-purely precautionary basis if it exhibits risk or potential weaknesses of a material nature requiring closer monitoring, supervision or attention by management. Weaknesses in such a borrower's account, if left uncorrected, could result in deterioration of repayment prospects and the likelihood of being downgraded. Indicators could include a rapid erosion of position within the industry, concerns over management's ability to manage operations, weak/deteriorating operating results, liquidity strain and overdue balances among other factors.

  All accounts that have been assigned a CG12 rating, equivalent to 'Higher Risk', are deemed to have experienced a significant increase in credit risk (SICR). Accounts rated CG12 are managed by the GSAM unit.

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(v) Expected credit loss measurement (Continued)

Significant increase in credit risk (Continued)

All Corporate & Institutional Banking and Commercial Banking clients are placed on CG12 when they are 30 days past due (dpd) unless they are granted a waiver through a strict governance process.

Retail Banking

– *Quantitative criteria:* exposures are assessed based on both the absolute and the relative movement in the PD from origination to the reporting date. The relative threshold is a 100 per cent increase in PD and the absolute change in PD is between 50-100 basis points.

– *Qualitative criteria:* accounts that are 30 dpd that have not been captured by the quantitative criteria are considered to have experienced a SICR. For less material portfolios, which are modelled based on a roll-rate or loss-rate approach, SICR is primarily assessed through the 30 dpd trigger.

Backstop

Across all portfolios, accounts that are 30 or more dpd on contractual payments of principal and/or interest that have not been captured by the criteria above are considered to have experienced a SICR.

Expert credit judgment may be applied in assessing SICR to the extent that certain risks may not have been captured by the models or through the above criteria. Such instances are expected to be rare, for example due to events arising close to the reporting date.

Assessment of Credit-impaired Assets

Credit-impaired financial assets comprise those assets that have experienced an observed credit event and are in default. Default is the failure to meet the legal obligations of a loan. Default occurs when the obligor is unlikely to pay its credit obligations in full, including where the obligor:

– is more than 90 days past due on payments on any material debt;
– has filed for, or is in the process of filing, or has asked to be placed into bankruptcy; and
– has asked for credit-related modifications of contractual cash flows due to significant financial difficulty (forbearance) where the Bank has granted concessions that it would not ordinarily consider.

Corporate & Institutional Banking and Commercial Banking segments

Credit-impaired accounts are managed by the Group's specialist recovery unit, GSAM which is independent of its main businesses. Where any amount is considered irrecoverable, a stage 3 credit-impairment provision is raised. This stage 3 provision is the difference between the loan carrying amount and the probability weighted present value of estimated future cash flows, reflecting a range of scenarios (typically the best, worst and most likely recovery outcomes). Where the cash flows include realisable collateral, the values used will incorporate the impact of forward looking economic information.

The individual circumstances of each client are considered when GSAM estimates future cash flows and timing of future recoveries which involve significant judgment. All available sources, such as cash flows arising from operations, selling assets or subsidiaries, realising collateral or payments under guarantees, are considered.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(v) Expected credit loss measurement (Continued)

Grouping of instruments for losses measured on a collective basis

In any decision relating to the raising of provisions, the Group and Company attempt to balance economic conditions, local knowledge and experience, and the results of independent asset reviews.

Retail Banking segment

The core components in determining credit-impaired ECL provisions are the value of gross charge off and recoveries. Gross charge off and/loss provisions are recognised when it is established that the account is unlikely to pay through the normal process.

Recovery of unsecured debt post credit-impairment is recognised based on actual cash collected, either directly from clients or through the sale of defaulted loans to third-party institutions. Release of credit-impairment provisions for secured loans is recognised if the loan outstanding is paid in full (release of full provision), or the provision is higher than the loan outstanding (release of the excess provision). If the loan is paid to current and remains in current for more than 180 days (1 year for forborne loans) the account will be transferred to stage 2.

Where insufficient information is available for certain small retail portfolios for the Group and Company to assess lifetime ECL at individual instrument level, ECL may be measured on a collective basis that considers credit risk information on instrument groups that share similar credit risk characteristics.

Write-offs

Where it is considered that there is no realistic prospect of recovering a portion of an exposure against which an impairment provision has been raised, that amount is written off.

Modified financial assets

Where the contractual terms of a financial instrument have been modified, and this does not result in the instrument being derecognised, a modification gain or loss is recognised in the income statement representing the difference between the original cash flows and the modified cash flows, discounted at the effective interest rate. The modification gain/loss is directly applied to the gross carrying amount of the instrument.

If the modification is credit related, such as forbearance or where the Group and Company have granted concessions that it would not ordinarily consider, then it will be considered credit-impaired. Modifications that are not credit related will be subject to an assessment of whether the asset's credit risk has increased significantly since origination by comparing the remaining lifetime PD based on the modified terms with the remaining lifetime PD based on the original contractual terms.

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(v) Expected credit loss measurement (Continued)

Grouping of instruments for losses measured on a collective basis (Continued)

Amounts arising from ECL

Loss allowance

The credit impairment recognised in the period is impacted by a variety of factors:

- transfers between stages 1, 2 and 3 due to financial instruments experiencing significant increases in or decreases in credit risk or becoming credit impaired in the period;
- additional impairment for new instruments recognised during the period, as well as releases for financial instruments derecognised in the period;
- impact of measurement of ECL due to changes in PD, LGD and EAD arising from refresh of inputs to the model;
- impacts of measurement arising from changes to model and assumptions;
- discount unwind due to passage of time;
- foreign exchange retranslation for assets held in foreign currency; and
- financial assets derecognised during the period and write-offs of impairment allowances related to assets written-off in the period.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(v) Expected credit loss measurement (Continued)

The tables below show the reconciliation from the opening and closing balance of the credit impairment by class of assets of financial instrument.

Loans and advances to banks

Group and Company	2019				2018			
KShs Million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
At 1 January	2	–	–	2	2	–	–	2
New financial assets originated	22	–	–	22	1	–	–	1
Change in model risk parameters	(21)	–	–	(21)	(1)	–	–	(1)
At 31 December	3	–	–	3	2	–	–	2

Loans and advances to customers at amortised cost

Group and Company	2019				2018			
KShs Million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
At 1 January	1,000	1,078	7,130	9,208	1,564	1,419	6,850	9,833
Translation	1	(2)	(10)	(11)	(1)	(13)	(3)	(17)
Transfers to stage 1	832	(832)	–	–	560	(473)	(87)	–
Transfers to stage 2	(793)	848	(55)	–	(166)	187	(21)	–
Transfers to stage 3	–	(554)	554	–	(43)	(12)	55	–
New financial assets originated	867	–	–	867	797	61	77	935
Net re-measurement of loss allowance	(1,150)	113	738	(299)	(1,711)	(91)	2,797	995
Recoveries	–	–	(403)	(403)	–	–	(489)	(489)
Amounts written off	–	–	(1,041)	(1,041)	–	–	(1,624)	(1,624)
Discount unwind	–	–	(477)	(477)	–	–	(425)	(425)
At 31 December	757	651	6,436	7,844	1,000	1,078	7,130	9,208

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(v) Expected credit loss measurement (Continued)

Amounts arising from ECL (Continued)

Loss allowance (Continued)

Undrawn commitments

Group and Company	2019				2018			
KShs Million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
At 1 January	66	86	1	153	73	101	–	174
Translation	–	–	–	–	–	(1)	–	(1)
Transfers to stage 1	73	(73)	–	–	37	(37)	–	–
Transfers to stage 2	(70)	70	–	–	(19)	19	–	–
Transfers to stage 3	–	(1)	1	–	–	(1)	1	–
New financial assets originated	195	–	–	195	28	–	–	28
Net re-measurement of loss allowance	(163)	(2)	(1)	(166)	(56)	9	–	(47)
Write-offs	(5)	(1)	–	(6)	3	(4)	–	(1)
At 31 December	96	79	1	176	66	86	1	153

Investment securities[6]

Group	2019				2018			
KShs Million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	287	–	–	287	360	–	–	360
Net re-measurement of loss allowance	35	–	–	35	(73)	–	–	(73)
At 31 December	322	–	–	322	287	–	–	287
Company								
Balance at 1 January	283	–	–	283	357	–	–	357
Net re-measurement of loss allowance	33	–	–	33	(74)	–	–	(74)
At 31 December	316	–	–	316	283	–	–	283

[6]FVOCI investment securities are held at fair value on the balance sheet and the ECL provision is held within reserves.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(v) Expected credit loss measurement (Continued)

Amounts arising from ECL (Continued)
Loss allowance (Continued)
Amounts due from group companies

Group and Company
2019

KShs Million	Stage 1	Stage 2	Stage 3	Total
Balance at 1 January	5	–	–	5
Net charge to income statement	4	–	–	4
Balance as 31 December	9	–	–	9

2018:

Balance at 1 January and 31 December 2018	5	–	–	5

The following table provides a reconciliation between:

– amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument; and

– the impairment losses of financial instruments' line item in the income statement and statement of other comprehensive income.

Group KShs Million	Loans and advances to banks	Loans and advances to customers	FVOCI Investment securities	Amounts due from group companies	Financial guarantees and loan commitments	Total
At 1 January 2019	2	9,208	287	5	153	9,655
Net charge to income statement	1	165	35	4	29	234
Translation	–	(11)	–	–	–	(11)
Write-offs	–	(1,041)	–	–	(6)	(1,047)
Discount unwind	–	(477)	–	–	–	(477)
At 31December 2019	3	7,844	322	9	176	8,354

Company KShs Million						
At 1 January 2019	2	9,208	283	5	153	9,651
Net charge to income statement	1	165	33	4	29	232
Translation	–	(11)	–	–	–	(11)
Write-offs	–	(1,041)	–	–	(6)	(1,047)
Discount unwind	–	(477)	–	–	–	(477)
At 31 December 2019	3	7,844	316	9	176	8,348

Business Review

Corporate Governance

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4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(v) Expected credit loss measurement (Continued)

Amounts arising from ECL (Continued)
Loss allowance (Continued)

Group KShs Million	Loans and advances to banks	Loans and advances to customers	FVOCI investment securities	Amounts due from group companies	Financial guarantees and loan commitments	Total
At 1 January 2018	2	9,833	360	5	174	**10,374**
Net charge to income statement	–	1,441	(73)	–	(19)	**1,349**
Translation	–	(17)	–	–	(1)	**(18)**
Write-offs	–	(1,624)	–	–	(1)	**(1,625)**
Discount unwind	–	(425)	–	–	–	**(425)**
At 31 December 2018	**2**	**9,208**	**287**	**5**	**153**	**9,655**

Company KShs Million	Loans and advances to banks	Loans and advances to customers	FVOCI investment securities	Amounts due from group companies	Financial guarantees and loan commitments	Total
At 1 January 2018	2	9,833	357	5	174	**10,371**
Net charge to income statement	–	1,441	(74)	–	(19)	**1,348**
Translation	–	(17)	–	–	(1)	**(18)**
Write-offs	–	(1,624)	–	–	(1)	**(1,625)**
Discount unwind	–	(425)	–	–	–	**(425)**
At 31 December 2018	**2**	**9,208**	**283**	**5**	**153**	**9,651**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(v) Expected credit loss measurement (Continued)

Amounts arising from ECL (Continued)

Loss allowance (Continued)

Group and Company	2019 KShs Million	2018 KShs Million
Cash and balances with Central Bank of Kenya	**20,621**	20,283
Government and other securities held at FVTPL	**1,939**	3,937
Derivative financial instruments	**810**	394

Expected Credit Loss on other financial assets
Certain financial assets do not share the same characteristics as typical loan portfolios, hence specific ECL model's considerations apply to the following:

Cash & Other assets

Cash balances and other assets will attract no ECL due to the immaterial risk of impairment and short dated maturity of the respective amounts.

Debt Securities

Debt securities consist of corporate and government bonds, certificates of deposit, convertible bonds, credit and structured notes and asset backed securities. ECL on these positions are calculated in a manner consistent with loans as set out above with the exception of asset backed securities.

(vi) Other financial assets

PDs on asset-backed securities are determined using both external credit ratings as published by ratings agencies and internally generated PDs. Ratings agencies credit ratings typically already take into account the loss characteristics of a portfolio and hence LGDs on asset backed securities portfolios are assumed to be 100%. Like other assets EADs on asset backed securities are the full amortised cost amount of the respective instruments at the reporting date. SICR is also assessed in a similar way to Corporate & Institutional Banking exposures.

(b) Settlement risk

The Group's and Company'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 and Company mitigate 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).

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(b) Settlement risk (Continued)

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 and Company further limit their 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.

(c) Liquidity risk

Liquidity risk is the risk that the Group and Company do not have sufficient financial resources to meet their obligations and commitments as they fall due, or can only access these financial resources at excessive cost. The Group's and Company's approach to managing liquidity risk is to ensure, as far as possible, that they 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 and Company's reputation.

The Group and Company manage 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 and Company are self-sufficient and are able to meet all their 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.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(c) Liquid risk (Continued)

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 Management (TRM). Limit excesses are escalated and approved under a delegated authority structure and reviewed by ALCO.

In addition, regular reports to the ALCO include the following:

- information on the concentration and profile of debt maturities; and
- depositor concentration report to monitor reliance on large depositors.

The Group and Company maintain 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 Company 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 Company and their exposure to changes in interest rates and exchange rates.

A substantial portion of the Group's and Company'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 and Company also maintain 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 and treasury bonds and bills.

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

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(c) Liquid risk (Continued)

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

Company	2019 %	2018 %
At 31 December	**63**	67
Average for the year	**68**	68
Highest for the year	**72**	71
Lowest for the year	**61**	62

The Group and Company also monitor 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 (less than 1) 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	2019 KShs Million	2018 KShs Million
Loans and advances to customers	**128,690**	118,652
Deposits from customers	**228,434**	224,284
	%	%
Advances to deposits ratio	**56**	53

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(c) Liquid risk (Continued)

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 Kenya Shillings million (KShs million)

2019	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
LIABILITIES						
Deposits from banks	8,028	–	–	–	–	8,028
Deposits from customers	198,889	8,024	19,648	3,172	26	229,759
Derivative financial instruments	603	–	–	–	–	603
Other financial liabilities						
– Bills payable	685	–	–	–	–	685
– Lease liability	–	–	12	309	395	716
Amounts due to group companies	5,041	–	–	4,054	2,027	11,122
At 31 December 2019	**213,246**	**8,024**	**19,660**	**7,535**	**2,448**	**250,913**

2018	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
LIABILITIES						
Deposits from banks	156	–	–	–	–	156
Deposits from customers	192,873	22,222	8,142	2,871	–	226,108
Derivative financial instruments	226	–	–	–	–	226
Other financial liabilities						
– Bills payable	713	–	–	–	–	713
Amounts due to group companies	2,447	–	–	2,038	4,076	8,561
At 31 December 2018	**196,415**	**22,222**	**8,142**	**4,909**	**4,076**	**235,764**

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 and Company'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 and Company have 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 and Company strive to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities.

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(c) Liquidity risk (Continued)

The Group and Company continually assess liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group and Company strategy.

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

(d) Market risk

The Group and Company recognise market risk as the risk of loss arising from changes in market prices and rates. The Group's and Company's exposure to market risk arises principally from customer-driven transactions. The objective of the Group's and Company's market risk policies and processes is to obtain the best balance between risk and return whilst meeting customers' requirements.

The primary categories of market risk for the Group and Company are:

— interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options;
— foreign exchange risk: arising from changes in exchange rates and implied volatilities on foreign exchange options; and
— commodity price risk: arising from changes in commodity prices and commodity option implied volatilities; covering energy, precious metals, base metals etc.

The Board approves the Group's and Company's risk appetite for market risk. Subject to the risk appetite set for market risk, the Group Risk Committee sets Group-level market risk limits and stress loss triggers.

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

TRM 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.

Sensitivity analysis

The Group and Company measure the risk of losses arising from future potential adverse movements in market rates, prices and volatilities using a VaR methodology. VaR, in general, is a quantitative measure of market risk that applies recent historic market conditions to estimate the potential future loss in market value that will not be exceeded in a set time period at a set statistical confidence level. VaR provides a consistent measure that can be applied across trading businesses and products over time and can be set against actual daily trading profit or loss outcomes.

VaR is calculated for expected movements over a minimum of one business day and to a confidence level of 97.5 per cent. This confidence level suggests that potential daily losses, in excess of the VaR measure, are likely to be experienced six times per year.

Notes to the Financial Statements (Continued)
For the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(d) Market risk (Continued)

Sensitivity analysis (Continued)
The Group and Company 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.
- 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.

In both methods a historical observation period of one year is chosen and applied.

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.

The Group and Company recognise that there are limitations to the VaR methodology. These limitations include the fact that the historic data may not be the best proxy for future price movements, either because the observation period does not include representative price movements or, in some cases, because of incomplete market data.

The Group and Company perform regular backtesting, where actual profits and losses are compared with VaR estimates to track the statistical validity of the VaR model.

Losses beyond the 97.5 per cent confidence interval are not captured by a VaR calculation, which therefore 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, Traded Risk (TR) 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.

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

Group and Company

All figures are in Kenya Shillings million (KShs million)

2019	At 31 December	Average	High	Low
Daily value at risk:				
Foreign exchange risk	12	11	29	3
Interest rate risk	79	53	81	41
Rates trading	7	12	22	2
Total	**98**	**76**	**132**	**46**
2018				
Daily value at risk:				
Foreign exchange risk	7	7	22	1
Interest rate risk	39	46	78	33
Rates trading	5	10	20	2
Total	**51**	**63**	**120**	**36**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(d) Market risk (Continued)

(i) Interest rate risk

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

Group
All figures are in Kenya Shillings million (KShs Million)

31 December 2019

	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
ASSETS								
Cash and balances with Central Bank of Kenya	–	–	–	–	–	–	20,621	20,621
Government and other securities held at FVTPL	11.94	–	–	–	280	1,609	50	1,939
Derivative financial instruments	–	–	–	–	–	–	810	810
Loans and advances to banks	2.25	7,469	–	–	–	–	265	7,734
Loans and advances to customers	10.40	28,742	15,139	5,122	46,973	23,527	9,187	128,690
Investment securities	10.02	2,000	15,500	48,474	27,484	3,004	1,228	97,690
Other assets – uncleared effects	–	–	–	–	–	–	547	547
Amounts due from group companies	3.66	16,176	2,027	3,041	7,600	–	2,955	31,799
		54,387	32,666	56,637	82,337	28,140	35,663	289,830
LIABILITIES								
Deposits from banks	3.48	8,028	–	–	–	–	–	8,028
Deposits from customers	2.03	72,096	8,057	18,779	2,577	–	126,925	228,434
Derivative financial instruments	–	–	–	–	–	–	603	603
Other financial liabilities								
– Bills payable	–	–	–	–	–	–	685	685
– Lease liability	–	–	–	12	309	395	–	716
Amounts due to group companies	1.93	–	–	–	4,054	2,027	5,041	11,122
		80,124	8,057	18,791	6,940	2,422	133,254	249,588
Interest rate sensitivity gap		(25,737)	24,609	37,846	75,397	25,718	(97,591)	40,242

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(d) Market risk (Continued)

(i) Interest rate risk (Continued)

Company

All figures are in Kenya Shillings million (KShs Million)

31 December 2019

	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
ASSETS								
Cash and balances with Central Bank of Kenya	–	–	–	–	–	–	20,621	20,621
Government and other securities held at FVTPL	11.94	–	–	–	280	1,609	50	1,939
Derivative financial instruments	–	–	–	–	–	–	810	810
Loans and advances to banks	2.25	7,469	–	–	–	–	265	7,734
Loans and advances to customers	10.40	28,742	15,139	5,122	46,973	23,527	9,187	128,690
Investment securities	10.02	2,000	15,500	48,474	27,484	3,004	102	96,564
Other assets – uncleared effects	–	–	–	–	–	–	547	547
Amounts due from group companies	3.66	16,175	2,027	3,041	7,600	–	4,275	33,118
		54,386	32,666	56,637	82,337	28,140	35,857	290,023
LIABILITIES								
Deposits from banks	3.48	8,028	–	–	–	–	–	8,028
Deposits from customers	2.03	72,096	8,057	18,779	2,577	–	126,925	228,434
Derivative financial instruments	–	–	–	–	–	–	603	603
Other financial liabilities								
– Bills payable	–	–	–		–	–	685	685
– Lease liability	–	–	–	12	309	395	–	716
Amounts due to group companies	1.93	–	–	–	4,054	2,027	5,041	11,122
		80,124	8,057	18,791	6,940	2,422	133,254	249,588
Interest rate sensitivity gap		(25,738)	24,609	37,846	75,397	25,718	(97,397)	40,435

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(d) Market risk (Continued)

(i) Interest rate risk (Continued)

Group

All figures are in Kenya Shillings million (KShs Million)

31 December 2018	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
ASSETS								
Cash and balances with Central Bank of Kenya	–	–	–	–	–	–	20,283	**20,283**
Government and other securities held at FVTPL	6.81	–	58	1,727	2,208	–	(56)	**3,937**
Derivative financial instruments	–	394	–	–	–	–	–	**394**
Loans and advances to banks	4.54	4,729	–	–	1,287	–	–	**6,016**
Loans and advances to customers	9.46	15,140	4,415	7,683	49,631	37,120	4,663	**118,652**
Investment securities	11.34	5,502	16,000	46,755	24,847	1,100	564	**94,768**
Other assets – uncleared effects	–	–	–	–	–	–	1,146	**1,146**
Amounts due from group companies	2.24	23,503	–	5,095	–	–	2,870	**31,468**
		49,268	**20,473**	**61,260**	**77,973**	**38,220**	**29,470**	**276,664**
LIABILITIES								
Deposits from banks	0.50	156	–	–	–	–	–	**156**
Deposits from customers	2.32	72,409	21,413	7,141	2,851	–	120,470	**224,284**
Derivative financial instruments	–	226	–	–	–	–	–	**226**
Other financial liabilities – Bills payable	–	–	–	–	–	–	713	**713**
Amounts due to group companies	5.54	185	–	–	2,038	4,076	2,248	**8,547**
		72,976	**21,413**	**7,141**	**4,889**	**4,076**	**123,431**	**233,926**
Interest rate sensitivity gap		**(23,708)**	**(940)**	**54,119**	**73,084**	**34,144**	**(93,961)**	**42,738**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(d) Market risk (Continued)

(i) Interest rate risk (Continued)

Company

All figures are in Kenya Shillings million (KShs Million)

31 December 2018

	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
ASSETS								
Cash and balances with Central Bank of Kenya	–	–	–	–	–	–	20,283	**20,283**
Government and other securities held at FVTPL	6.81	–	58	1,727	2,208	–	(56)	**3,937**
Derivative financial instruments	–	394	–	–	–	–	–	**394**
Loans and advances to banks	4.54	4,729	–	–	1,287	–	–	**6,016**
Loans and advances to customers	9.46	15,140	4,415	7,683	49,631	37,120	4,663	**118,652**
Investment securities	11.34	5,502	16,000	46,302	24,423	1,000	537	**93,764**
Other assets – uncleared effects	–	–	–	–	–	–	1,146	**1,146**
Amounts due from group companies	2.24	23,503	–	5,095	–	–	3,141	**31,739**
		49,268	**20,473**	**60,807**	**77,549**	**38,120**	**29,714**	**275,931**
LIABILITIES								
Deposits from banks	0.50	156	–	–	–	–	–	**156**
Deposits from customers	2.32	72,409	21,413	7,141	2,851	–	120,470	**224,284**
Derivative financial instruments	–	226	–	–	–	–	–	**226**
Other financial liabilities – Bills payable	–	–	–	–	–	–	713	**713**
Amounts due to group companies	5.54	185	–	–	2,038	4,076	2,248	**8,547**
		72,976	**21,413**	**7,141**	**4,889**	**4,076**	**123,431**	**233,926**
Interest rate sensitivity gap		**(23,708)**	**(940)**	**53,666**	**72,660**	**34,044**	**(93,717)**	**42,005**

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(d) Market risk (Continued)

(ii) Currency rate risk

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

The various foreign currencies to which the Group and Company are exposed to are summarised below:

Group and Company

All figures are in Kenya Shillings million (KShs Million)

31 December 2019

ASSETS	USD	Euro	GBP	Other	Total
Cash, deposits and advances to banks	9,334	4,739	156	150	14,379
Loans and advances to customers	29,575	2,156	663	155	32,549
Other assets	2,101	78	125	29	2,333
Amounts due from group companies	18,686	199	3,768	618	23,271
	59,696	7,172	4,712	952	72,532
LIABILITIES					
Deposits from banks	32	49	–	2	83
Deposits from customers	59,767	5,916	4,588	286	70,557
Other liabilities	338	18	24	4	384
Amounts due to group companies	6,261	–	–	4	6,265
	66,398	5,983	4,612	296	77,289
Net statement of financial position exposure	(6,702)	1,189	100	656	(4,757)

31 December 2018

ASSETS	USD	Euro	GBP	Other	Total
Cash, deposits and advances to banks	5,706	852	247	162	6,967
Loans and advances to customers	29,692	1,757	1,010	197	32,656
Other assets	835	582	12	167	1,596
Amounts due from group companies	25,874	852	3,494	457	30,677
	62,107	4,043	4,763	983	71,896
LIABILITIES					
Deposits from banks	6	9	–	4	19
Deposits from customers	56,172	3,498	4,762	221	64,653
Other liabilities	373	536	1	554	1,464
Amounts due to group companies	6,326	–	–	205	6,531
	62,877	4,043	4,763	984	72,667
Net statement of financial position exposure	(770)	–	–	(1)	(771)

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(e) Operational risk

The Group and Company define operational risk as the potential for loss resulting from inadequate or failed internal processes and systems, human error, or from the impact of external events. Operational risks arise from the broad scope of activities carried out across the Group and Company. To address this, we aim to achieve effective control design standards for all activities and benchmark practices against industry standards and regulatory requirements.

Operational risk profile

The operational risk profile is the Group's and Company's overall exposure to operational risk, at a given point in time, covering all applicable operational risk sub-types. The operational risk profile comprises both operational risk events and losses that have already occurred and the current exposures to operational risks.

The significant losses recorded during the year were:

- operational loss event relating to mobile banking external fraud; and
- operational loss event due to regulatory penalty.

The Group's and Company's profile of operational loss events in 2019 and 2018 is summarised in the table below. It shows the percentage distribution of gross operational losses by Basel business lines.

	% Loss	
Distribution of operational losses by Basel business line	**2019**	**2018**
Agency services	**0.0**	14.9
Commercial Banking	**1.9**	24.9
Corporate Finance	**0.0**	0.0
Corporate items	**0.6**	5.2
Payments and settlements	**26.4**	5.3
Retail Banking	**71.1**	38.5
Retail brokerage	**0.0**	0.0
Trading and sales	**0.0**	11.2
	100.0	**100.0**

The Group's and Company's profile of operational loss events in 2019 and 2018 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	**2019**	**2018**
Business disruption and system failure	**0.1**	0.1
Clients' products and business practices	**1.5**	0.0
Employment practices and workplace safety	**0.0**	0.0
Execution, delivery and process management	**67.4**	61.6
External fraud	**30.8**	38.3
Internal fraud	**0.2**	0.0
	100.0	**100.0**

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(e) Operational risk (Continued)

Other principal risks

Losses arising from our other principal risks (Compliance, Conduct, Reputational, Information and Cyber Security and Financial Crime) would be captured under operational losses.

Operational risk management principles

The Group and Company allocates responsibilities for the management of operational risk and this is outlined in the Operational Risk Type Framework (ORTF). The ORTF is built on a risk-based approach which requires that risk management plans, processes, activities, and resource allocations are determined in accordance with the level of risk. Existing and future levels of operational risks must be maintained within the approved risk appetite of the Group and Company. Business strategy and planning must consider and address operational risks at the point of strategic choices and/or decision making. This should also include consideration of the impact of decisions on the design and operational effectiveness of the related system of controls.

Roles and Responsibilities

The ORTF defines and collectively groups operational risks which have not been classified as Principal Risk Types into non-Principal Risk Types (non-PRTs) and sets standards for the identification, control, monitoring and treatment of risks. These standards are applicable across all PRTs and non-PRTs. The non-PRTs relate to execution capability, fraud, corporate governance, reporting and obligations, model, safety and security, legal enforceability, and operational resilience (including client service, third party vendor services, change management, and system availability).

The ORTF reinforces clear accountability for managing risk throughout the Group and Company, and delegates second line of defence responsibilities to identified subject matter experts. For each non-PRT, the expert sets policies for the organisation to comply with, and provides guidance, oversight and challenge over the activities of the Group and Company. They ensure that key risk decisions are only taken by individuals with the requisite skills, judgment, and perspective to ensure that the risk/return objectives of the Group and Company are met.

Mitigation

The ORTF sets out the Group and Company overall approach to the management of Operational Risk in line with the Operational Risk Appetite of the Group and Company. This is supported by Control Assessment Standards (CAS) which define roles and responsibilities for the identification, control and monitoring of risks (applicable to all non-PRTs and PRTs).

The CAS are used to determine the design strength and reliability of each process, and require:

(a) The recording of processes run by client segments, products, and functions into a process universe;
(b) The identification of potential breakdowns to these processes and the related risks of such breakdowns;
(c) An assessment of the impact of the identified risks based on a consistent scale;
(d) The design and monitoring of controls to mitigate prioritised risks; and
(e) Assessments of residual risk and prompt actions for elevated risks.

Risks that exceed the Operational Risk Appetite of the Group and Company require treatment plans to address underlying causes.

Operational risk governance

The Non-Financial Risk Committee (NFRC) provides oversight of operational risk management across the Group and Company. It is supported by the Financial Crime Risk Committee, Information and Cyber Security Working Group and the Business and Function Operational Risk Forums, which oversee risks arising from Financial Crime, Information and Cyber Security, Businesses and Functions respectively. NFRC and the business and function operational risk forums receive regular reports on the respective operational risk profiles.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(e) Operational risk (Continued)

Monitoring

To deliver services to clients and to participate in the financial services sector, the organisation runs processes which are exposed to operational risks. It prioritises and manages risks which are significant to clients and to the financial services sectors. Control indicators are regularly monitored to determine the residual risk the Group and Company is exposed to. The residual risk assessments and reporting of events form the Operational Risk profile of the Group and Company. The completeness of the Operational Risk profiles ensures appropriate prioritisation and timeliness of risk decisions, including risk acceptances with treatment plans for risks that exceed acceptable thresholds.

The Board is informed on adherence to the Operational Risk Appetite through metrics reported for selected risks. These metrics are monitored, and escalation thresholds are devised based on the materiality and significance of the risk. These Operational Risk Appetite metrics are consolidated on a regular basis and reported at relevant Group and Company committees. This provides senior management with the relevant information to inform their risk decisions.

Stress testing

Stress testing and scenario analysis are used to assess capital requirements for operational risks. This approach considers the impact of extreme but plausible scenarios on the Operational Risk profile of the Group and Company. Several scenarios have been identified to test the robustness of the Group and Company's processes and assess the potential impact on the Group and Company. These scenarios include anti-money laundering, sanctions, information and cyber security and external fraud.

(f) Capital review

The Company defines capital risk as the potential of insufficient level or composition of capital to support our normal activities. The capital review provides an analysis of the Company's capital position and requirements.

Capital summary

The Company's capital position is managed within the Board approved risk appetite. This requires that the Company should maintain a strong capital position including the maintenance of management buffers sufficient to support its strategic aims.

Regulatory capital

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 a bank to maintain at all times:

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(f) Capital review (Continued)

Regulatory capital (Continued)

In addition, a bank must maintain a minimum core capital of KShs 1,000 million.

Capital is segregated into core capital (Tier 1) and supplementary capital (Tier 2).

Core capital includes ordinary share capital, irredeemable preference share capital, capital contribution reserve, share premium and retained earnings after deductions for goodwill and intangible assets.

Supplementary capital includes 25% of revaluation reserves of property and equipment and the statutory credit risk reserve.

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

Company KShs Million	2019	2018
Core (Tier 1) capital instruments and reserves		
Share capital	**1,998**	1,998
Share premium	**7,792**	7,792
Retained earnings	**27,129**	26,663
Capital contribution reserve	**1,824**	1,824
	38,743	38,277
Tier 1 regulatory adjustments		
Goodwill on acquired intangible (Note 27)	**(1,112)**	(1,112)
Acquired intangible (Note 27)	**(391)**	(623)
Deferred tax asset	**(1,538)**	(1,083)
Core (Tier 1) capital	**35,702**	35,459
Supplementary (Tier 2) capital instruments and reserves		
Revaluation reserves (25%)	**183**	186
Statutory credit risk reserve	**1,477**	–
Subordinated debt (Note 23)	**5,676**	6,132
Supplementary (Tier 2) capital	**7,336**	**6,318**
Total capital	**43,038**	**41,777**
Risk weighted assets		
Credit risk	**153,966**	137,593
Market risk	**26,917**	19,745
Operational risk	**61,920**	57,244
Total risk weighted assets	**242,803**	**214,582**
Deposits from customers	**228,434**	**224,284**

Capital ratios	CBK minimum		
	%	**%**	%
Tier 1 capital	10.50	**14.70**	16.52
Total capital	14.50	**17.73**	19.47
Tier 1 to total deposits	8.00	**15.63**	15.81

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(f) Capital review (Continued)

Regulatory capital (Continued)

Capital planning

On an annual basis, strategic business and capital plans are drawn up covering a five-year horizon, and are approved by the Board. The capital plan ensures that adequate levels of capital and an efficient mix of the different components of capital are maintained to support our strategy and business plans.

Capital planning takes the following into account:

- current regulatory capital requirements;
- demand for capital due to business growth, and potential 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 TRM and 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 and Company 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 and Company's longer term strategic objectives. The Company's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

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 2019

5. SEGMENTAL INFORMATION (Continued)

The segment results were as follows:

Consolidated income statement for the year ended: 31 December 2019	Corporate & Institutional Banking KShs Million	Commercial Banking KShs Million	Retail Banking KShs Million	Central & other items KShs Million	Total KShs Million
Net interest income	4,014	1,843	8,608	4,660	19,125
Non funded income	4,302	570	3,884	69	8,825
Operating income	8,316	2,413	12,492	4,729	27,950
Operating expenses	(5,065)	(1,720)	(8,198)	(559)	(15,542)
Impairment losses on financial instruments	632	(164)	(661)	(41)	(234)
Profit before taxation	3,883	529	3,633	4,129	12,174
31 December 2018					
Net interest income	4,169	1,659	8,331	4,905	19,064
Non funded income	4,212	610	3,846	43	8,711
Operating income	8,381	2,269	12,177	4,948	27,775
Operating expenses	(4,428)	(1,669)	(8,197)	(285)	(14,579)
Impairment losses on financial instruments	95	(609)	(909)	74	(1,349)
Profit before taxation	4,048	(9)	3,071	4,737	11,847

Company income statement for the year ended: 31 December 2019	Corporate & Institutional Banking KShs Million	Commercial Banking KShs Million	Retail Banking KShs Million	Central & other items KShs Million	Total KShs Million
Net interest income	4,014	1,843	8,608	4,529	18,994
Non funded income	4,302	570	2,875	1,362	9,109
Operating income	8,316	2,413	11,483	5,891	28,103
Operating expenses	(5,065)	(1,720)	(8,198)	(197)	(15,180)
Impairment losses on financial instruments	632	(164)	(661)	(39)	(232)
Profit before taxation	3,883	529	2,624	5,655	12,691
31 December 2018					
Net interest income	4,169	1,659	8,332	4,799	18,959
Non funded income	4,212	610	2,850	250	7,922
Operating income	8,381	2,269	11,182	5,049	26,881
Operating expenses	(4,428)	(1,669)	(7,721)	(282)	(14,100)
Impairment losses on financial instruments	95	(609)	(909)	75	(1,348)
Profit before taxation	4,048	(9)	2,552	4,842	11,433

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

5. SEGMENTAL INFORMATION (Continued)

Group Statement of financial position as at: 31 December 2019	Corporate & Institutional Banking KShs Million	Commercial Banking KShs Million	Retail Banking KShs Million	Central & other items KShs Million	Total KShs Million
Total assets employed	38,879	17,018	74,804	171,437	302,138
Of which: loans and advances to customers	36,926	16,997	74,767	–	128,690
Total liabilities employed	79,159	20,577	133,218	21,423	254,377
Of which: customer deposits	77,441	20,342	130,651	–	228,434
Other segment items:					
Depreciation and amortisation	362	110	553	43	1,068
Capital expenditure	300	57	1,034	545	1,936
31 December 2018					
Total assets employed	38,533	10,842	74,218	161,811	285,404
Of which: loans and advances to customers	33,628	14,660	70,364	–	118,652
Total liabilities employed	81,879	19,812	124,808	12,265	238,764
Of which: customer deposits	80,737	19,714	123,833	–	224,284
Other segment items:					
Depreciation and amortisation	310	95	349	44	798
Capital expenditure	–	2	164	34	200

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

5. SEGMENTAL INFORMATION (Continued)

Company Statement of financial position as at: 31 December 2019	Corporate & Institutional Banking KShs Million	Commercial Banking KShs Million	Retail Banking KShs Million	Central & other items KShs Million	Total KShs Million
Total assets employed	38,879	17,018	74,782	171,615	302,294
Of which: loans and advances to customers	36,926	16,997	74,767	–	128,690
Total liabilities employed	79,159	20,577	133,217	22,121	255,074
Of which: customer deposits	77,441	20,342	130,651	–	228,434
Other segment items:					
Depreciation and amortisation	362	110	553	43	1,068
Capital expenditure	300	57	1,034	545	1,936
31 December 2018					
Total assets employed	38,533	10,842	74,206	161,110	284,691
Of which: loans and advances to customers	33,628	14,660	70,364	–	118,652
Total liabilities employed	81,879	19,812	124,809	12,855	239,355
Of which: customer deposits	80,737	19,714	123,833	–	224,284
Other segment items:					
Depreciation and amortisation	310	95	349	44	798
Capital expenditure	–	2	164	34	200

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

6. NET INTEREST INCOME

Accounting policy

Interest income for financial assets held at either FVOCI or amortised cost, and interest expense on all financial liabilities held at amortised cost is recognised in the income statement using the effective interest method.

Interest income and expense on financial instruments held at FVTPL is recognised within net interest income 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 the interest income or interest expense over the expected life of the instrument. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortised cost of a financial liability. When calculating the effective interest rate for financial instruments other than credit impaired assets, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but does not consider the expected credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs that are directly attributable to the acquisition, issue or disposal of the financial asset or financial liability, expected credit losses (for stage 3 instruments) and all other premiums or discounts.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Where the Group is a lessee and the contract gives it the right to use a specified underlying physical asset for a lease term greater than 12 months, it recognises a liability equal to the present value of lease payments over the lease term, discounted using the incremental borrowing rate applicable. Interest expense on the lease liability is recognised in net interest income.

	2019		2018	
	Group KShs Million	Company KShs Million	Group KShs Million	Company KShs Million
Loans and advances to customers	12,937	12,937	12,702	12,702
Loans and advances to banks	1,262	1,262	1,285	1,285
FVOCI investment securities	10,137	10,025	11,847	11,765
FVTPL financial instruments	460	460	612	612
Accrued on impaired assets (discount unwind)	477	477	425	425
Interest income	**25,273**	**25,161**	**26,871**	**26,789**
Deposits from customers	5,503	5,522	6,768	6,791
Deposits from banks	568	568	1,039	1,039
Interest expense on IFRS 16 lease liabilities	77	77	–	–
Interest expense	**6,148**	**6,167**	**7,807**	**7,830**
Net interest income	**19,125**	**18,994**	**19,064**	**18,959**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

7. NET FEE AND COMMISSION INCOME

Accounting policy

Fees and commissions charged for services provided or received by the Group and Company are recognised on an accrual basis as the service is performed 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.

The Group can act in a fiduciary capacity that results in the holding of individual trust retirement benefit plans and other institutions. The assets and income arising thereon are excluded from these financial estimates as they are not assets and income of the Group.

	2019		2018	
	Group KShs Million	Company KShs Million	Group KShs Million	Company KShs Million
Fee and commission income	5,951	4,926	5,938	4,941
Fee and commission expense	(802)	(787)	(534)	(534)
Net fee and commission income	**5,149**	**4,139**	**5,404**	**4,407**

	2019					2018				
Group KShs Million	Corporate & Institutional Banking	Commercial Banking	Retail Banking	Central & other items	Total	Corporate & Institutional Banking	Commercial Banking	Retail Banking	Central & other items	Total
Transaction Banking	1,929	296	24	–	2,249	1,692	327	22	–	2,041
– Trade	280	209	24	–	513	233	252	22	–	507
– Cash Management	521	87	–	–	608	467	75	–	–	542
– Securities Services	1,128	–	–	–	1,128	992	–	–	–	992
Financial Markets	159	–	–	–	159	220	–	–	–	220
Corporate Finance	42	3	–	–	45	304	–	–	–	304
Lending	58	76	–	–	134	64	84	–	–	148
Wealth Management	–	–	1,009	–	1,009	–	–	1,005	–	1,005
Retail Products	–	–	1,501	–	1,501	–	–	1,555	–	1,555
Treasury	–	–	–	9	9	–	–	–	2	2
Others	43	–	–	–	43	127	1	–	1	129
	2,231	375	2,534	9	5,149	2,407	412	2,582	3	5,404

Company KShs Million	Corporate & Institutional Banking	Commercial Banking	Retail Banking	Central & other items	Total	Corporate & Institutional Banking	Commercial Banking	Retail Banking	Central & other items	Total
Transaction Banking	1,929	296	24	–	2,249	1,692	327	22	–	2,041
– Trade	280	209	24	–	513	233	252	22	–	507
– Cash Management	521	87	–	–	608	467	75	–	–	542
– Securities Services	1,128	–	–	–	1,128	992	–	–	–	992
Financial Markets	159	–	–	–	159	220	–	–	–	220
Corporate Finance	42	3	–	–	45	304	–	–	–	304
Lending	58	76	–	–	134	64	84	–	–	148
Wealth Management	–	–	–	–	–	–	–	8	–	8
Retail Products	–	–	1,501	–	1,501	–	–	1,555	–	1,555
Treasury	–	–	–	8	8	–	–	–	2	2
Others	43	–	–	–	43	127	1	–	1	129
	2,231	375	1,525	8	4,139	2,407	412	1,585	3	4,407

Notes to the Financial Statements (Continued)
For the year ended 31 December 2019

8. NET TRADING INCOME

Accounting policy

Gains and losses arising from changes in the fair value of financial instruments held at FVTPL are included in the income statement in the period in which they arise.

Income is recognised from the sale and purchase of trading positions, margins on market making and customer business and fair value changes.

Foreign exchange gains and losses on monetary items are recognised in net trading income.

Group and Company	2019 KShs Million	2018 KShs Million
Gains less losses on foreign currency transactions	3,174	2,844
Other trading profits - FVTPL	441	457
	3,615	3,301

9. DIVIDEND INCOME

Accounting policy

Dividends from subsidiaries are recognised when the right to receive payment is established.

Company	2019 KShs Million	2018 KShs Million
Standard Chartered Investment Services Limited	1,008	183
Standard Chartered Insurance Agency Limited	286	25
	1,294	208

10. 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.

On disposal of FVOCI 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.

Group and Company	2019 KShs Million	2018 KShs Million
Gains on disposal of FVOCI securities:		
Government treasury bonds and bills	14	27
Rental income from leases	29	19
Sale of property and equipment	(2)	(39)
Profit on sale of motor vehicle	2	–
Gain on lease modification	1	–
Other	17	(1)
	61	6

11. OPERATING EXPENSES

Accounting policy

Short-term employee benefits: Salaries are recognised over the period in which the employees provide the service. 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. Variable compensation is included within share-based payments costs and wages and salaries.

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 2019 in respect of 2018 performance, which vest in 2020-2022, is recognised as an expense over the period from 1 January 2018 to the vesting dates in 2020-2022. For all other awards, the expense is recognised over the period from the date of grant to the vesting date.

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.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

11. OPERATING EXPENSES (Continued)

Accounting policy (Continued)

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 a market-based performance condition, the cumulative charge incurred up to the date of forfeiture is credited to the income statement.

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.

Staff costs

	2019		2018	
	Group KShs Million	Company KShs Million	Group KShs Million	Company KShs Million
Salaries and wages	5,728	5,629	5,696	5,540
Contributions to defined contribution plan	621	611	612	596
Increase in retirement benefit obligations (Note 35)	57	57	55	55
Redundancy costs	289	289	611	608
Employee share-based payments expenses	26	26	45	45
Deferred cash awards	27	27	6	6
Other staff costs	663	658	622	617
	7,411	7,297	7,647	7,467

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

11. OPERATING EXPENSES (Continued)

Group and Company The number of employees at the year-end was:	2019 No.	2018 No.
Management	1,133	1,238
Unionisable	205	247
Other	59	82
	1,397	1,567

Premises and equipment costs

	2019		2018	
	Group KShs Million	Company KShs Million	Group KShs Million	Company KShs Million
Rental of premises	165	165	459	458
Rental of computers and equipment	144	144	105	105
Electricity	91	91	89	89
Other premises and equipment costs	295	291	337	325
	695	691	990	977

Group and Company Depreciation and amortisation	2019 KShs Million	2018 KShs Million
Depreciation on property and equipment (Note 26)	639	442
Amortisation of intangible assets (Note 27)	649	394
Amortisation of prepaid operating lease rentals (Note 28)	–	3
	1,288	839

12. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2019		2018	
	Group KShs Million	Company KShs Million	Group KShs Million	Company KShs Million
Depreciation on property and equipment (Note 26)	639	639	442	442
Amortisation of intangible assets (Note 27)	649	649	394	394
Amortisation of prepaid operating lease rentals (Note 28)	–	–	3	3
Directors' emoluments – Fees	15	15	16	16
– Other	260	260	283	283
Loss on sale of property and equipment	2	2	39	39
Auditor's remuneration	21	21	20	19
And after crediting:				
Gain on lease modification	1	1	–	–
Profit on sale of motor vehicle	2	2	–	–

Notes to the Financial Statements (Continued)
For the year ended 31 December 2019

13. TAXATION

Accounting Policy
Income tax expense comprises current and change in deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income. The Group has determined that interest and penalties related to income taxes do not meet the definition of income taxes and therefore has accounted for them under IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* and has recognised the related expenses in operating expenses.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income or loss for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

(ii) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for temporary differences related to investments in subsidiaries to the extent that the Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that the future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognise a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reversals are reversed when the probability of the future taxable profits improves.
Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date, and reflects uncertainty related to income taxes, if there is any.

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.

13. TAXATION (Continued)

	2019		2018	
	Group KShs Million	Company KShs Million	Group KShs Million	Company KShs Million
Current year's tax at 30%	3,611	3,354	3,574	3,329
Prior year corporation tax under-provision	643	628	14	14
	4,254	3,982	3,588	3,343
Deferred tax (credit)/charge (Note 29)	(317)	(280)	160	215
Income tax expense	3,937	3,702	**3,748**	**3,558**

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

	2019		2018	
	Group KShs Million	Company KShs Million	Group KShs Million	Company KShs Million
Accounting profit before taxation	12,174	12,691	11,847	11,433
Computed tax using the applicable corporation tax rate at 30%	3,652	3,807	3,554	3,430
Tax exempt income	(54)	(443)	(116)	(180)
Non-deductible expenses	304	304	212	210
Prior year deferred tax asset (under)/over - provision (Note 29)	(608)	(594)	84	84
Prior year corporation tax under - provision	643	628	14	14
Income tax expense	3,937	3,702	**3,748**	**3,558**
Tax recoverable				
At 1 January	329	351	1,364	1,350
Current year tax expense	(3,611)	(3,354)	(3,574)	(3,329)
Prior year corporation tax under - provision	(643)	(628)	(14)	(14)
Income taxes paid	5,016	4,657	2,553	2,344
At 31 December	1,091	1,026	**329**	**351**

The current tax assets and liabilities are shown below:

	2019		2018	
	Group KShs Million	Company KShs Million	Group KShs Million	Company KShs Million
Tax recoverable	1,091	1,026	399	351
Tax payable	–	–	(70)	–
	1,091	1,026	**329**	**351**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

14. 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 2019 and 2018 is based on the profit attributable to ordinary shareholders of KShs 8,069 million (2018 – KShs 7,931 million) and a weighted average number of ordinary shares outstanding during the year of 343,510,572 (2018 – 343,510,572).

The calculation of Company basic earnings per share at 31 December 2019 and 2018 is based on the profit attributable to ordinary shareholders of KShs 8,821 million (2018 – KShs 7,707 million) and a weighted average number of ordinary shares outstanding during the year of 343,510,572 (2018 – 343,510,572).

	2019		2018	
	Group KShs Million	Company KShs Million	Group KShs Million	Company KShs Million
Profit attributable to ordinary shareholders:				
Net profit for the year	8,237	8,989	8,099	7,875
Dividend on non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares	(168)	(168)	(168)	(168)
	8,069	8,821	7,931	7,707
Basic earnings per share (KShs)	23.49	25.68	23.09	22.44

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 2019 and 2018.

15. 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 (f)); and
- level of cash investment projections to achieve the Group's strategy.

Group and Company	2019 KShs Million	2018 KShs Million
Dividends – Ordinary shares	5,152	4,809
Dividends – Preference shares	85	85
	5,237	4,894

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

15. DIVIDENDS (Continued)

At the Annual General Meeting to be held on 28 May 2020, a final dividend in respect of the year ended 31 December 2019 of KShs 15.00 (2018 – KShs 14.00) for every ordinary share of KShs 5.00 is to be proposed. One interim dividend of KShs 5.00 (2018 – KShs 5.00) for every ordinary share of KShs 5.00 was declared on 26 August 2019 and paid on 30 October 2019. This will bring the total dividend for the year to KShs 20.00 (2018 – KShs 19.00) per ordinary share of KShs 5.00.

At the Annual General Meeting to be held on 28 May 2020, a final dividend in respect of the year ended 31 December 2019 of KShs 84,690,411 (2018 – KShs 84,690,411) for the preference shares is to be proposed. An interim dividend of KShs 83,309,589 (2018 – KShs 83,309,589) was declared on 26 August 2019 and paid on 30 October 2019. This will bring the total dividend for the year to KShs 168,000,000 (2018 – 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.

16. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

Accounting policy

Cash and cash equivalents comprise cash on demand and unrestricted balances with the Central Bank of Kenya and balances with less than three months' maturity from the date of acquisition, including treasury bills and other eligible bills and loans and advances to banks.

Cash and cash equivalents are measured at amortised cost in the statement of financial position.

Group and Company	2019 KShs Million	2018 KShs Million
Cash on hand	**3,288**	3,579
Balances with Central Bank of Kenya:		
– Restricted balances (Cash Reserve Ratio)	**11,878**	12,100
– Unrestricted balances	**5,455**	4,604
	20,621	**20,283**

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 2019, the Cash Reserve Ratio requirement was 5.25% (2018 – 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%.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

17. GOVERNMENT AND OTHER SECURITIES HELD AT FVTPL

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.

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

Group and Company	2019			2018		
	Treasury bonds KShs Million	Treasury bills KShs Million	Total KShs Million	Treasury bonds KShs Million	Treasury bills KShs Million	Total KShs Million
At 1 January	2,323	1,614	3,937	5,111	1,936	7,047
Additions	14,079	–	14,079	17,374	4,305	21,679
Disposals and maturities	(14,425)	(1,614)	(16,039)	(20,043)	(4,629)	(24,672)
Changes in fair value	(38)	–	(38)	(119)	2	(117)
At 31 December	1,939	–	1,939	2,323	1,614	3,937

The weighted average effective interest rate on government securities mandatorily held at FVTPL at 31 December 2019 was 11.94% (2018 – 6.81%).

18. 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.

18. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Accounting policy (Continued)

Currency and interest rate swaps

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

Foreign currency and interest rate options

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

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks.

The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

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	2019			2018		
	Notional principal amounts KShs Million	Assets KShs Million	Liabilities KShs Million	Notional principal amounts KShs Million	Assets KShs Million	Liabilities KShs Million
Interest rate and cross currency derivative contracts	**1,726**	**810**	**603**	1,773	394	226
Forward exchange contracts	**76,928**	**–**	**–**	67,028	–	–
	78,654	**810**	**603**	**68,801**	**394**	**226**

Notes to the Financial Statements (Continued)
For the year ended 31 December 2019

19. LOANS AND ADVANCES TO BANKS

Accounting policy

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

Group and Company	2019 KShs Million	2018 KShs Million
Loans and advances to local banks	7,583	5,869
Loans and advances to foreign banks	154	149
	7,737	6,018
Less credit loss allowance (Note 4 (a) (v))	(3)	(2)
	7,734	6,016

The weighted average effective interest rate on loans and advances to banks at 31 December 2019 was 2.25% (2018 – 4.54%).

20. LOANS AND ADVANCES TO CUSTOMERS

Accounting policy

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

Group and Company	2019	2018
(a) Product classification	KShs Million	KShs Million
Overdrafts	25,268	24,644
Loans	111,005	102,658
Bills discounted	261	558
Gross loans and advances	136,534	127,860
Less loss allowance (Note 4(a) (v)), (Note 20(c))	(7,844)	(9,208)
Net loans and advances	128,690	118,652
(b) Maturity term classification		
Repayable on demand	30,337	27,031
Less than 3 months	17,146	7,683
3 months to 1 year	5,102	7,434
1 to 5 years	46,981	49,264
5 to 10 years	14,834	14,837
Over 10 years	22,134	21,611
Gross loans and advances	136,534	127,860

The weighted average effective interest rate on loans and advances to customers at 31 December 2019 was 10.40% (2018 – 9.46%).

20. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Impairment losses on loans and advances

Group and Company 2019	Stage 1 KShs Million	Stage 2 KShs Million	Stage 3 KShs Million	Total KShs Million
At 1 January	1,000	1,078	7,130	9,208
Translation	1	(2)	(10)	(11)
Transfers	39	(538)	499	–
Net (credit)/charge to income statement	(283)	113	738	568
Recoveries	–	–	(403)	(403)
Amounts written off	–	–	(1,041)	(1,041)
Discount unwind	–	–	(477)	(477)
At 31 December	757	651	6,436	7,844
2018				
At 1 January	1,564	1,419	6,850	9,833
Translation	(1)	(13)	(3)	(17)
Transfers	351	(298)	(53)	–
Net (credit)/charge to income statement	(914)	(30)	2,874	1,930
Recoveries	–	–	(489)	(489)
Amounts written off	–	–	(1,624)	(1,624)
Discount unwind	–	–	(425)	(425)
At 31 December	1,000	1,078	7,130	9,208

(d) Net impairment charge on financial instruments

The table below summarises the net charge to the income statement against the financial instruments subject to impairment.

	2019		2018	
	Group KShs Million	Company KShs Million	Group KShs Million	Company KShs Million
Loans and advances to customers	165	165	1,441	1,441
Loans and advances to banks	1	1	–	–
Amounts due from group companies	4	4	–	–
Investment securities at FVOCI	35	33	(73)	(74)
Financial guarantees and letters of acceptance	29	29	(19)	(19)
	234	232	1,349	1,348

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

21. INVESTMENT SECURITIES

Accounting policy

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

	2019		2018	
	Group KShs Million	Company KShs Million	Group KShs Million	Company KShs Million
Treasury bonds – FVOCI	41,576	40,450	43,852	42,848
Treasury bills – FVOCI	56,096	56,096	50,897	50,897
	97,672	96,546	94,749	93,745
Equity shares – FVTPL	18	18	19	19
Total investment securities	**97,690**	**96,564**	**94,768**	**93,764**

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

Group	Treasury bonds and bills	Equity shares	Total
2019	KShs Million	KShs Million	KShs Million
At 1 January	94,749	19	94,768
Additions	74,956	–	74,956
Disposals and maturities	(77,216)	–	(77,216)
Changes in fair value	(610)	–	(610)
Movement in accrued interest	196	–	196
Translation differences	–	(1)	(1)
Amortisation of discounts and premiums	5,597	–	5,597
At 31 December	**97,672**	**18**	**97,690**
2018			
At 1 January	103,486	9	103,495
Additions	78,771	11	78,782
Disposals and maturities	(93,773)	–	(93,773)
Changes in fair value	669	–	669
Movement in accrued interest	(151)	–	(151)
Translation differences	–	(1)	(1)
Amortisation of discounts and premiums	5,747	–	5,747
At 31 December	**94,749**	**19**	**94,768**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

21. INVESTMENT SECURITIES (Continued)

Company	Treasury bonds and bills	Equity shares	Total
2019	**KShs Million**	**KShs Million**	**KShs Million**
At 1 January	**93,745**	**19**	**93,764**
Additions	**74,397**	**–**	**74,397**
Disposals and maturities	**(76,763)**	**–**	**(76,763)**
Changes in fair value	**(592)**	**–**	**(592)**
Movement in accrued interest	**188**	**–**	**188**
Translation differences	**–**	**(1)**	**(1)**
Amortisation of discounts and premiums	**5,571**	**–**	**5,571**
At 31 December	**96,546**	**18**	**96,564**
2018			
At 1 January	102,838	9	102,847
Additions	77,985	11	77,996
Disposals and maturities	(93,335)	–	(93,335)
Changes in fair value	672	–	672
Movement in accrued interest	(149)	–	(149)
Translation differences	–	(1)	(1)
Amortisation of discounts and premiums	5,734	–	5,734
At 31 December	**93,745**	**19**	**93,764**

The weighted average effective interest rate on treasury bonds at 31 December 2019 was 12.36% (2018 – 12.57%) and on treasury bills was 9.30% (2018 – 10.39%).

There were no treasury bills under repurchase agreements outstanding at 31 December 2019 and 2018.

There were no money market bonds as at 31 December 2019 (2018 – nil).

At 31 December 2019, unamortised premiums on investment securities amounted to KShs 220 million (2018 – KShs 93 million) and unamortised discounts amounted to KShs 2,267 million (2018 – KShs 269 million).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

22. OTHER ASSETS

Accounting policy

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

	2019		2018	
	Group	Company	Group	Company
	KShs Million	KShs Million	KShs Million	KShs Million
Un-cleared effects	547	547	1,146	1,146
Prepayments	219	219	211	211
Other receivables	2,731	2,721	1,847	1,835
	3,497	3,487	3,204	3,192

23. GROUP COMPANY BALANCES

Accounting policy

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

	2019		2018	
	Group	Company	Group	Company
	KShs Million	KShs Million	KShs Million	KShs Million
Amounts due from group companies	31,808	33,127	31,473	31,744
Less loss allowance (Note 4(a)(v))	(9)	(9)	(5)	(5)
	31,799	33,118	31,468	31,739
Amounts due to group companies	11,122	11,122	8,547	8,547
Amounts due to subsidiaries	–	715	–	674

Included in amounts due to group companies is an amount of US$ 60 million (KShs 6,097 million) (2018 – US$ 60 million (KShs 6,132 million)) relating to subordinated debt made up of three amounts of US$ 20 million each advanced on 30 December 2013, 22 December 2014 and 19 August 2016, respectively. The subordinated debts are unsecured 10-year loan capital issued by Standard Chartered PLC to enhance the Company's capital base (Tier 2 capital) but can be recalled after five years and 1 day at the option of both parties. The subordinated debts are unguaranteed and subordinated to the claims of other creditors including without limitation, customer deposits and deposits by banks. The Company has the right to settle the subordinated debts in certain circumstances as set out in the contractual agreement. The interest on the subordinated debts are referenced to the LIBOR. The weighted average effective interest rate at 31 December 2019 on the subordinated debts was 4.86% (2018 – 5.54%).

The weighted average effective interest rate at 31 December 2019 on amounts due from group companies was 3.66% (2018 – 2.24%) and on amounts due to group companies was 1.93% (2018 – 5.54%).

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 7.00% (2018 – 8.00%).

24. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

Accounting policy

Subsidiaries are entities which the Company controls. The Company 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 Company's practical ability to direct the relevant activities of the entity unilaterally for the Company'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 Company 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	2019 KShs Million	2018 KShs Million
Standard Chartered Investment Services Limited	Active	**20**	20
Standard Chartered Insurance Agency Limited	Active	**1**	1
Standard Chartered Financial Services Limited	Non-trading	**120**	120
Standard Chartered Kenya Nominees Limited	Non-trading	**–**	–
		141	**141**

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

25. 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 million 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 1,824 million) 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.

Notes to the Financial Statements (Continued)

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25. BUSINESS COMBINATION (Continued)

Accounting policy (Continued)

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 the prevailing market rates appropriate for this business at the date of the transaction.

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

The intangible asset arising from the acquisition is as follows:

Group and Company

Purchase consideration:	**KShs Million**
Cash paid by SCBKL	1,883
Cash paid by Standard Chartered PLC (Capital contribution)	1,824
Total purchase consideration	**3,707**
Less: Fair value of identifiable assets acquired	–
Intangible assets acquired: Customer relationships	3,707
Deferred tax liability recognised on business combination	(1,112)
Total identifiable net assets	**2,595**
Goodwill on acquisition (Note 27)	**1,112**

Contribution from the acquisition:	**2019**	**2018**
	KShs Million	**KShs Million**
Operating income	**2,251**	1,859
Profit before taxation	**1,857**	1,480

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

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

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.

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

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

Leasehold land is recognised as an asset and amortised over the lease period.

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;
- Leasehold land – life of lease;
- fixtures, fittings and equipment – 3-10 years;
- automated teller machines (ATMs) – 7 years;
- computers – 3 - 5 years; and
- motor vehicles – 3 - 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.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

26. PROPERTY AND EQUIPMENT (Continued)

Accounting policy (Continued)

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.

Leases classified as right-of-use assets under IFRS 16

Where the Group is a lessee of a right-of-use asset, the leased assets are capitalised and included in Property and Equipment with a corresponding liability to the lessor recognised in Other liabilities, in accordance with the Group's leased assets accounting policy in Note 34.

Significant accounting estimates and judgments

- critical estimates are made by management in determining the useful life for property and equipment; and
- 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

2019	Freehold land and buildings KShs Million	Buildings on leasehold land KShs Million	Right-of-use asset-leasehold land KShs Million	Fixtures, fittings and equipment KShs Million	Motor vehicles KShs Million	Capital-work-in progress KShs Million	Right-of-use asset non-land leases KShs Million	Total KShs Million
Cost or valuation:								
At 1 January 2019	250	1,465	–	5,391	20	218	–	7,344
Recognition of right-of-use asset on initial application of IFRS 16 (Notes 28 & 34)	–	–	278	–	–	–	655	933
Adjusted balance at 1 January 2019	250	1,465	278	5,391	20	218	655	8,277
Additions	–	–	–	213	16	172	204	605
Transfers	–	–	–	146	–	(146)	–	–
Disposals/write-offs	–	–	–	(93)	(8)	–	(33)	(134)
At 31 December 2019	250	1,465	278	5,657	28	244	826	8,748
Depreciation:								
At 1 January 2019	4	25	–	4,224	20	–	–	4,273
Recognition of right-of-use asset on initial application of IFRS 16 (Notes 28 & 34)	–	–	40	–	–	–	–	40
Adjusted balance at 1 January 2019	4	25	40	4,224	20	–	–	4,313
Charge for the year	3	19	3	434	4	–	176	639
Disposals/write-offs	–	–	–	(87)	(8)	–	(3)	(98)
At 31 December 2019	7	44	43	4,571	16	–	173	4,854
Carrying amount:								
At 31 December 2019	243	1,421	235	1,086	12	244	653	3,894
2018								
Cost or valuation:								
At 1 January 2018	250	1,465	–	5,370	20	175	–	7,280
Additions	–	–	–	95	–	108	–	203
Transfers	–	–	–	65	–	(65)	–	–
Disposals/write-offs	–	–	–	(139)	–	–	–	(139)
At 31 December 2018	250	1,465	–	5,391	20	218	–	7,344
Depreciation:								
At 1 January 2018	1	5	–	3,903	20	–	–	3,929
Charge for the year	3	19	–	420	–	–	–	442
Disposals/write-offs	–	1	–	(99)	–	–	–	(98)
At 31 December 2018	4	25	–	4,224	20	–	–	4,273
Carrying amount:								
At 31 December 2018	246	1,440	–	1,167	–	218	–	3,071

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

26. PROPERTY AND EQUIPMENT (Continued)

Included in property and equipment at 31 December 2019 are assets with a gross value of KShs 2,420 million (2018 – KShs 2,432 million) which are fully depreciated but still in use. The notional depreciation charge on these assets for the year would have been KShs 858 million (2018 – KShs 857 million).

There were no idle assets as at 31 December 2019 and 2018.

Capital work-in-progress relates to the branch optimisation project 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 2019 (2018 – Nil).

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

	2019 KShs Million	2018 KShs Million
Cost	647	647
Accumulated depreciation	(150)	(133)
Carrying amount	**497**	**514**

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. It is 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.

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 25). 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 2019

27. GOODWILL AND INTANGIBLE ASSETS (Continued)

Group and Company

	2019				2018			
	Acquired intangible asset KShs Million	Goodwill KShs Million	Capitalised software KShs Million	Total KShs Million	Acquired intangible asset KShs Million	Goodwill KShs Million	Capitalised software KShs Million	Total KShs Million
Cost:								
At 1 January	3,707	1,112	784	5,603	3,707	1,112	781	5,600
Additions	–	–	1,551	1,551	–	–	3	3
At 31 December	3,707	1,112	2,335	7,154	3,707	1,112	784	5,603
Amortisation:								
At 1 January	3,084	–	689	3,773	2,797	–	582	3,379
Charge for the year	232	–	417	649	287	–	107	394
At 31 December	3,316	–	1,106	4,422	3,084	–	689	3,773
Carrying amount:								
At 31 December	391	1,112	1,229	2,732	623	1,112	95	1,830

As at 31 December 2019, assets with a gross value of KShs 672 million (2018 – KShs 546 million) are fully amortised but still in use. The notional amortisation charge for the year on these assets would have been KShs 224 million (2018 – KShs 182 million).

There were no idle assets as at 31 December 2019 and 2018.

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 (2018 - 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 2019 was determined similarly as in 2018. 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 2018. 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 the prevailing market rates appropriate for this business on the date of the transaction.

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

28. PREPAID OPERATING LEASE RENTALS

Accounting policy before 1 January 2019

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.

Following adoption of IFRS 16 on 1 January 2019, the prepaid operating lease asset has been de-recognised, and a right-of-use asset recognised and disclosed in Note 26.

Group and Company Cost	2019 KShs Million	2018 KShs Million
At 1 January	278	278
De-recognition of prepaid operating lease on initial application of IFRS 16 (Note 26)	(278)	–
Adjusted balance at 31 December 2019	**–**	**278**
Amortisation		
At 1 January	40	37
De-recognition of prepaid operating lease on initial application of IFRS 16 (Note 26)	(40)	–
Adjusted balance at 1 January	**–**	**37**
Charge for the year	–	3
At 31 December	–	40
Carrying amount at 31 December	**–**	**238**

29. DEFERRED TAX

Accounting policy

Refer to Note 13 Taxation for the accounting policy.

The net deferred tax assets at 31 December 2019 and 2018 are attributable to the following:

Group 2019	At 1 January KShs Million	Recognised in the income statement KShs Million	Recognised in other comprehensive income KShs Million	At 31 December KShs Million
Property and equipment				
– current year	30	99	–	129
– prior year over–provision	–	(20)	–	(20)
Acquired intangible asset	(187)	70	–	(117)
ECL on stage 1 and 2 financial instruments	793	(287)	–	506
ECL on stage 3 financial instruments	661	(368)	–	293
Revaluation surplus	(276)	4	–	(272)
Fair value reserve – FVOCI	(474)	–	183	(291)
Accrued interest	192	14	–	206
Other provisions				
– current year	340	169	(10)	499
– prior year under–provision	–	628	–	628
Retirement benefit obligations	65	8	7	80
	1,144	317	180	1,641

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

29. DEFERRED TAX (Continued)

Company 2019	At 1 January KShs Million	Recognised in the income statement KShs Million	Recognised in other comprehensive income KShs Million	At 31 December KShs Million
Property and equipment				
– current year	(25)	61	–	36
– prior year over–provision	–	(20)	–	(20)
Acquired intangible asset	(187)	70	–	(117)
ECL on stage 1 and 2 financial instruments	793	(287)	–	506
ECL on stage 3 financial instruments	661	(368)	–	293
Revaluation surplus	(276)	4	–	(272)
Fair value reserve – FVOCI	(480)	–	178	(302)
Accrued interest	192	14	–	206
Other provisions				
– current year	340	184	(10)	514
– prior year under–provision	–	614	–	614
Retirement benefit obligations	65	8	7	80
	1,083	280	175	1,538

Group 2018	At 1 January KShs Million	Recognised in the income statement KShs Million	Recognised in other comprehensive income KShs Million	At 31 December KShs Million
Property and equipment				
– current year	(37)	129	–	92
– prior year over–provision	–	(62)	–	(62)
Acquired intangible asset	(273)	86	–	(187)
ECL on stage 1 and 2 financial instruments	949	(178)	22	793
ECL on stage 3 financial instruments				
– current year	985	(297)	–	688
– prior year over–provision	–	(27)	–	(27)
Revaluation surplus	(280)	4	–	(276)
Fair value reserve – FVOCI	(273)	–	(201)	(474)
Accrued interest	224	(32)	–	192
Other provisions				
– current year	130	205	–	335
– prior year under–provision	–	5	–	5
Retirement benefit obligations	50	7	8	65
	1,475	(160)	(171)	1,144

29. DEFERRED TAX (Continued)

Company

2018	At 1 January KShs Million	Recognised in the income statement KShs Million	Recognised in other comprehensive income KShs Million	At 31 December KShs Million
Property and equipment				
– current year	(37)	74	–	37
– prior year over–provision	–	(62)	–	(62)
Acquired intangible asset	(273)	86	–	(187)
ECL on stage 1 and 2 financial instruments	949	(178)	22	793
ECL on stage 3 financial instruments				
– current year	985	(297)	–	688
– prior year over-provision	–	(27)	–	(27)
Revaluation surplus	(280)	4	–	(276)
Fair value reserve – FVOCI	(278)	–	(202)	(480)
Accrued interest	224	(32)	–	192
Other provisions				
– current year	130	205	–	335
– prior year under–provision	–	5	–	5
Retirement benefit obligations	50	7	8	65
	1,470	**(215)**	**(172)**	**1,083**

30. DEPOSITS FROM BANKS

Accounting policy

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

Group and Company	2019 KShs Million	2018 KShs Million
Balances from local banks	**7,818**	13
Balances from foreign banks	**210**	143
	8,028	**156**

The weighted average effective interest rate on deposits from banks at 31 December 2019 was 3.48% (2018 – 0.50%).

31. DEPOSITS FROM CUSTOMERS

Accounting policy

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

Group and Company

(a) Maturity profile	2019 KShs Million	2018 KShs Million
Payable on demand	**189,453**	188,406
Payable within 3 months or less	**17,349**	11,541
Payable after 3 months	**21,632**	24,337
	228,434	**224,284**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

31. DEPOSITS FROM CUSTOMERS (Continued)

Group and Company

(b) Product classification	2019 KShs Million	2018 KShs Million
Current and demand accounts	**155,531**	149,853
Savings deposits	**30,582**	34,156
Time deposits	**40,983**	37,540
Other	**1,338**	2,735
	228,434	**224,284**

The weighted average effective interest rate on interest bearing deposits from customers at 31 December 2019 was 2.03% (2018 – 2.24%).

32. OTHER LIABILITIES

Accounting policy

Refer to Note 3 Financial instruments for the accounting policy.

	2019		2018	
	Group KShs Million	Company KShs Million	Group KShs Million	Company KShs Million
Financial liabilities at amortised cost				
Bills payable	**685**	**685**	713	713
Lease liability	**716**	**716**	–	–
ECL on undrawn commitments	**176**	**176**	153	153
	1,577	**1,577**	**866**	**866**
Non – financial liabilities				
Dividends payable	**412**	**412**	604	604
Other trade payables	**3,934**	**3,916**	3,796	3,783
	4,346	**4,328**	**4,400**	**4,387**
	5,923	**5,905**	**5,266**	**5,253**

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.

33. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

(a) 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:

	2019 KShs Million	2018 KShs Million
Guarantees and standby letters of credit	**45,625**	38,089
Letters of credit acceptances and other documentary credits	**6,594**	7,911
	52,219	**46,000**

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.

(b) 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.

Four of the significant claims are described below:

(i) In the ordinary course of business, the Company is a defendant in a case in which a former customer was awarded damages amounting to KShs 251 million by the Court of Appeal of the Republic of Kenya. The directors, having considered the award and obtained appropriate legal advice, challenged the ruling of the Court of Appeal of the Republic of Kenya at the Common Market for East and Southern Africa (COMESA) Court of Justice. At an initial hearing, the COMESA court ruled, among others, that no execution should be levied in respect of the award granted by the Court of Appeal of the Republic of Kenya, pending the final determination of the case.

In June 2006, management withdrew the case from the COMESA Court of Justice and filed for a review at the Court of Appeal of the Republic of Kenya with an expectation that the Court of Appeal of the Republic of Kenya would review its earlier decision. A ruling was delivered in 2016 in favour of the Company on its application to set aside the KShs 251 million judgment.

Notes to the Financial Statements (Continued)
For the year ended 31 December 2019

33. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

(b) Legal and regulatory matters (Continued)

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 filed an appeal to the Supreme Court. The Supreme Court, in a unanimous decision, upheld the Company's submissions that in the circumstances of this case, there was no justifiable fault in the Court of Appeal setting aside its judgment and re-opening the Appeal for a fresh hearing. The Court further held that the issues raised in the appeal were noble and required input from the Supreme Court. Consequently, the appeal before the Supreme Court was dismissed with each party bearing its own costs.

The effect of this decision is that the Court of Appeal will now proceed to hear and determine the appeal afresh.

(ii) A pension matter where the Company was sued by over 629 ex-employees. The claimants filed a lawsuit against the trustees of the pension fund and the Company for a claim of KShs14.6 billion on grounds that the lumpsum benefits paid to them, close to 20 years ago following their retrenchment, were miscalculated. The claimants are yet to provide the particulars of the claim to the court. The pension payments were computed based on professional advice.

(iii) 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 sued the Company and Standard Chartered Estates Management (SCEM) Limited, a former wholly owned subsidiary of the Company, in 2003 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 2019, 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.

34. LEASES

Accounting policy from 1 January 2019

The Group assesses whether a contract is a lease in scope of this policy by determining whether the contract gives it the right to use a specified underlying physical asset for a lease term greater than 12 months, unless the underlying asset is of low value.

Where the Group is a lessee and the lease is deemed in scope, it recognises a liability equal to the present value of lease payments over the lease term, discounted using the incremental borrowing rate applicable. The liability is recognised in 'Other liabilities'. A corresponding right-of-use asset equal to the liability, adjusted for any lease payments made at or before the commencement date, is recognised in 'Property and equipment'- Note 26. The lease term includes any extension options contained in the contract that the Group is reasonably certain it will exercise.

Notes to the Financial Statements (Continued)
For the year ended 31 December 2019

34. LEASES (Continued)

Accounting policy (Continued)
The Group subsequently depreciates the right-of-use asset using the straight-line method over the lease term and measures the lease liability using the effective interest method. Depreciation on the asset is recognised in operating expenses – Note 11 under depreciation and amortisation and interest on the lease liability is recognised in Net interest income – Note 6.

Significant estimates and judgments
The significant estimates and judgments in determining lease balances are the determination of whether the Group is reasonably certain that it will exercise extension options present in lease contracts. A remeasurement is performed when extension of a lease is confirmed.

A remeasurement of the lease liability and right-of-use asset is also done when there is;

- a change in future lease payment amounts due to market review;
- a change in future lease payment due to change in occupied floor space; and
- a change in expected lease term.

The significant estimates were the determination of incremental borrowing. The Group has adopted Government bond rates as the benchmark rate for incremental borrowing.

Short term leases and leases of low value assets
The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low value assets and short-term leases, including leases of IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Accounting policy before 1 January 2019
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.

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.

The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Group and Company

Right-of-use asset KShs million	Right-of-use asset leasehold land	Right-of-use asset non-land leases
At 1 January 2019	–	–
Recognition of right-of-use asset on initial application of IFRS 16	238	655
Additions	–	204
Disposals	–	(33)
Depreciation charge for the year (Note 26)	(3)	(176)
Depreciation on disposals	–	3
At 31 December 2019	235	653

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

34. LEASES (Continued)

See Note 4(c) for maturity analysis of lease liabilities as at 31 December 2019.

Amounts recognised in profit or loss	Right-of-use asset leasehold land	Right-of-use asset non-land leases
Interest on lease payments (Note 6)	–	77
Expenses relating to short-term property leases	–	176
Expenses relating to low value non-property leases	–	139
Amounts recognised in statement of cash flows		
Lease liability payments	–	165

Group and Company

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

	2019		2018	
	Premises KShs Million	Equipment KShs Million	Premises KShs Million	Equipment KShs Million
Within 1 year	292	104	464	124
After 1 year but less than 5 years	606	129	1,049	110
After 5 years	80	–	102	–
Total undiscounted lease liabilities	978	233	1,615	234

35. RETIREMENT BENEFIT OBLIGATIONS

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 2018 by an independent qualified actuary. However, the Company's actuary did a review for the year ended 31 December 2019. 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.

35. RETIREMENT BENEFIT OBLIGATIONS (Continued)

Accounting policy (Continued)

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.

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 obligations 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 table below.

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

Group and Company	2019 KShs Million	2018 KShs Million
Fair value of plan assets	568	604
Present value of funded obligations	(835)	(819)
Retirement benefit obligations as at 31 December	**(267)**	**(215)**
Plan assets consist of the following:		
Government bonds and bills	442	434
Corporate bonds	34	40
Other	92	130
	568	**604**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

35. RETIREMENT BENEFIT OBLIGATIONS (Continued)

Group and Company	2019 KShs Million	2018 KShs Million
Movement in plan assets		
Fair value of plan assets at 1 January	604	655
Expected return on plan assets	73	84
Benefits paid by the plan	(136)	(135)
Employer contributions	30	30
Recognised actuarial losses	(1)	(25)
Administrative expenses paid	(2)	(5)
Fair value of plan assets at 31 December	**568**	**604**
Movement in retirement benefit obligations		
Retirement benefit obligations at 1 January	819	819
Interest cost	98	104
Past service cost	30	30
Benefits paid by the plan	(136)	(135)
Recognised actuarial losses	24	1
Present value of funded obligations	**835**	**819**
The net charge recognised in the income statement is as follows:		
Interest cost	(98)	(104)
Expected return on plan assets	73	84
Past service cost	(30)	(30)
Administrative expenses paid	(2)	(5)
Total charge included in staff costs (Note 11)	**57**	**55**
The movement in the retirement benefi obligations in the statement of financial position is as follows:		
At 1 January	(215)	(164)
Employer contributions	30	30
Charge to the income statement	(57)	(55)
Recognised in other comprehensive income	(25)	(26)
At 31 December	**(267)**	**(215)**

Historical information

KShs Million	2019	2018	2017	2016	2015
Fair value of plan assets	568	604	655	670	730
Present value of funded obligations	(835)	(819)	(819)	(755)	(742)
Retirement benefit obligations	**(267)**	**(215)**	**(164)**	**(85)**	**(12)**

35. RETIREMENT BENEFIT OBLIGATIONS (Continued)

Key assumptions

The principal actuarial assumptions used at the reporting date were:

	2019 % pa	2018 % pa
Discount rate	**12.60**	13.00
Expected return on plan assets	**12.60**	13.00
Future pension increases	**–**	–

The overall expected long term rate of return on the assets is 12.60% (2018 – 13.00%) 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:

	2019		2018	
	Increase KShs Million	Decrease KShs Million	Increase KShs Million	Decrease KShs Million
Discount rate (-1% movement)	**38**	**–**	38	–
Discount rate (+1% movement)	**–**	**37**	-	36
Future mortality (longevity of member aged 60 increasing by 1year)	**51**	**–**	46	–

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 2019

36. SHARE CAPITAL AND RESERVES (Continued)

Accounting policy (Continued)

Group and Company

(a) Share capital

Authorised

The authorised share capital of the Company at 31 December 2019 was KShs 1,998 million (2018 – KShs 1,998 million) made up of 343,510,572 (2018 – 343,510,572) ordinary shares of KShs 5.00 each and 56 million (2018 – 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 2019	Number of ordinary shares KShs Million	Number of preference shares KShs Million	Authorised share capital KShs Million
At 1 January 2019 and 31 December 2019	344	56	1,998
2018:			
At 1 January 2018 and 31 December 2018	344	56	1,998

Issued and fully paid 2019	Number of ordinary shares KShs Million	Number of preference shares KShs Million	Issued share capital KShs Million
At 1 January 2019 and 31 December 2019	344	56	1,998
2018:			
At 1 January 2018 and 31 December 2018	344	56	1,998

36. SHARE CAPITAL AND RESERVES (Continued)

(a) Share capital (Continued)

The shareholders at 31 December 2019 that had large holdings were as follows:

Name	Number of shares (Million)	%
1. Standard Chartered Holdings (Africa) BV	254	73.89
2. Standard Chartered Kenya Nominees –A/C KE002382	4	1.21
3. Kabarak Limited	4	1.03
4. Stanbic Nominees Limited A/C NR5551514	2	0.55
5. Standard Chartered Nominees – RESD A/C KE11450	2	0.50
6. Standard Chartered Nominees – A/C 9230	2	0.45
7. Kenya Commercial Bank Nominees Limited – A/C 915B	1	0.43
8. Standard Chartered Africa Limited	1	0.42
9. Old Mutual Life Assurance Company Limited	1	0.40
10. Standard Chartered Nominees – RESD A/C KE11401	1	0.34
11. Others	72	20.78
	344	**100.00**

The distribution of shareholders as at 31 December 2019 and 2018 was as follows:

	2019			2018		
Share range	Number of shareholders	Shares held (Million)	%	Number of shareholders	Shares held (Million)	%
Less than 500	**9,920**	**2**	**0.51**	9,768	2	0.51
501 to 5,000	**19,517**	**27**	**7.71**	19,695	27	7.77
5,001 to 10,000	**403**	**3**	**0.82**	395	3	0.79
10,001 to 100,000	**506**	**15**	**4.54**	499	15	4.44
100,001 to 1,000,000	**110**	**25**	**7.21**	113	25	7.33
Above 1,000,000	**10**	**272**	**79.21**	10	272	79.16
Total	**30,466**	**344**	**100.00**	**30,480**	**344**	**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.

	2019 KShs Million	2018 KShs Million
At 1 January and 31 December	**7,792**	7,792

Notes to the Financial Statements (Continued)
For the year ended 31 December 2019

36. SHARE CAPITAL AND RESERVES (Continued)

(c) Capital contribution reserve

Capital contribution reserve comprises capital contributions provided to the Group by shareholders that are not intended by either party to be repaid and includes capital contribution on the acquisition of the custody business and increases in equity arising from share-based payment awards granted to the Group's employees.

(d) Revaluation reserve

Revaluation reserve is from the periodic revaluation of freehold land and buildings. The carrying amounts of these assets are adjusted to the revaluations. Revaluation surpluses are not distributable.

(e) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of investment securities at FVOCI 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)/from operating activities

		2019		2018	
		Group	Company	Group	Company
	Note	KShs Million	KShs Million	KShs Million	KShs Million
Profit before taxation		**12,174**	**12,691**	11,847	11,433
Depreciation	26	**639**	**639**	442	442
Amortisation of intangible assets	27	**649**	**649**	394	394
Loss on sale of property and equipment		**34**	**34**	39	39
Amortisation of prepaid operating lease rentals	28	**–**	**–**	3	3
Retirement benefit obligations	35	**57**	**57**	55	55
Lease interest		**77**	**77**	–	–
Expected credit loss on FVOCI		**35**	**33**	(73)	(74)
(Increase)/decrease in operating assets					
Balances with Central Bank of Kenya – Cash Reserve Ratio		**222**	**222**	(4,913)	(4,913)
Government and other securities held at FVTPL		**1,998**	**1,998**	3,110	3,110
Derivative financial instruments		**(416)**	**(416)**	203	203
Loans and advances to banks		**1,274**	**1,274**	(1,280)	(1,280)
Loans and advances to customers		**(10,038)**	**(10,038)**	5,668	5,668
Investment securities		**(5,025)**	**(4,885)**	10,889	11,248
Amounts due from group companies		**(5,546)**	**(5,546)**	70	71
Other assets		**(293)**	**(295)**	2,215	2,211
Increase/(decrease) in operating liabilities					
Deposits from customers		**4,150**	**4,150**	10,935	10,935
Derivative financial instruments		**377**	**377**	(266)	(266)
Amounts due to group subsidiaries		**–**	**41**	–	145
Amounts due to group companies		**(33)**	**(33)**	(115)	(115)
Defined benefit obligations	35	**(30)**	**(30)**	(30)	(30)
Other liabilities		**(114)**	**(119)**	389	396
Cash generated from operating activities		**191**	**880**	**39,582**	**39,675**
Income taxes paid	13	**(5,016)**	**(4,657)**	(2,553)	(2,344)
Net cash (used in)/from operating activities		**(4,825)**	**(3,777)**	**37,029**	**37,331**

Notes to the Financial Statements (Continued)
For the year ended 31 December 2019

37. STATEMENT OF CASH FLOWS (Continued)

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

	2019		2018	
	Group	Company	Group	Company
	KShs Million	KShs Million	KShs Million	KShs Million
Cash on hand	3,288	3,288	3,579	3,579
Unrestricted cash balances with Central Bank of Kenya	5,455	5,455	4,604	4,604
Treasury bills	–	–	1,493	1,493
Loans and advances to banks	7,734	7,734	4,742	4,742
Deposits from banks	(8,028)	(8,028)	(156)	(156)
Amounts due from group companies	21,159	22,478	26,374	26,645
Amounts due to group companies	(5,041)	(5,041)	(2,433)	(2,433)
	24,567	25,886	38,203	38,474

38. ASSETS PLEDGED AS SECURITY

As at 31 December 2019, 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.

	2019		2018	
	Group	Company	Group	Company
	KShs Million	KShs Million	KShs Million	KShs Million
Value of asset security documents held on behalf of customers	988,441	497,225	816,024	387,078

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

40. RELATED PARTY TRANSACTIONS

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.

	Group					Company				
2019	Interest income KShs Million	Interest expense KShs Million	Net fees and commission income KShs Million	Operating expenses KShs Million	Trade Contingents KShs Million	Interest income KShs Million	Interest expense KShs Million	Net fee and commission income KShs Million	Operating expenses KShs Million	Trade Contingents KShs Million
Standard Chartered PLC	488	355	469	1,319	3,053	488	355	469	1,319	3,053
Other group companies	174	–	38	959	26,734	174	22	38	1,109	26,734
	662	355	507	2,278	29,787	662	377	507	2,428	29,787
2018										
Standard Chartered PLC	311	336	673	1,327	3,073	311	336	673	1,327	3,073
Other group companies	4	-	49	1,142	20,315	4	27	49	810	20,315
	315	336	722	2,469	23,388	315	363	722	2,137	23,388

Group companies provide support services for which they recharge the costs incurred at the country of origin. The value of the services provided has been included in the total expenditure of the Group or Company.

The transactions are at arm's length.

The related party balances at 31 December 2019 and 2018 are shown in Note 23.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2019

40. RELATED PARTY TRANSACTIONS (Continued)

Directors and officers

Details of directors' remuneration is disclosed in the Directors' remuneration report on pages 63 to 67.

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.

Group and Company	2019 KShs Million	2018 KShs Million
Salaries and other employee benefits	589	553

Transactions with directors and others

During the year, the number of key management staff was 16 (2018: 16).

At 31 December 2019, balances relating to deposits from directors, employees and associates amounted to KShs 704 million (2018 – KShs 705 million).

The interest expense paid during the year on deposits from directors, employees and associates amounted to KShs 11 million (2018 – KShs 21 million).

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

Group and Company

Loans and advances to directors, employees and their associates	2019 KShs Million	2018 KShs Million
At start of the year	6,629	6,379
Amounts advanced during the year	4,776	4,408
Amounts repaid during the year	(4,291)	(4,158)
At end of the year	**7,114**	**6,629**
Loans and advances to directors or companies controlled by directors or their families	47	46
Loans and advances to employees	7,067	6,583
	7,114	**6,629**

The interest income earned during the year on loans and advances to directors, employees and associates amounted to KShs 427 million (2018 – KShs 419 million).

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

None of the loans and advances above are impaired at 31 December 2019 (2018 – 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 2019, deposits from SCKPF and SCKSRBS 2006 amounted to KShs 63 million (2018 – KShs 56 million).

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.


Standard
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Notes

Notes

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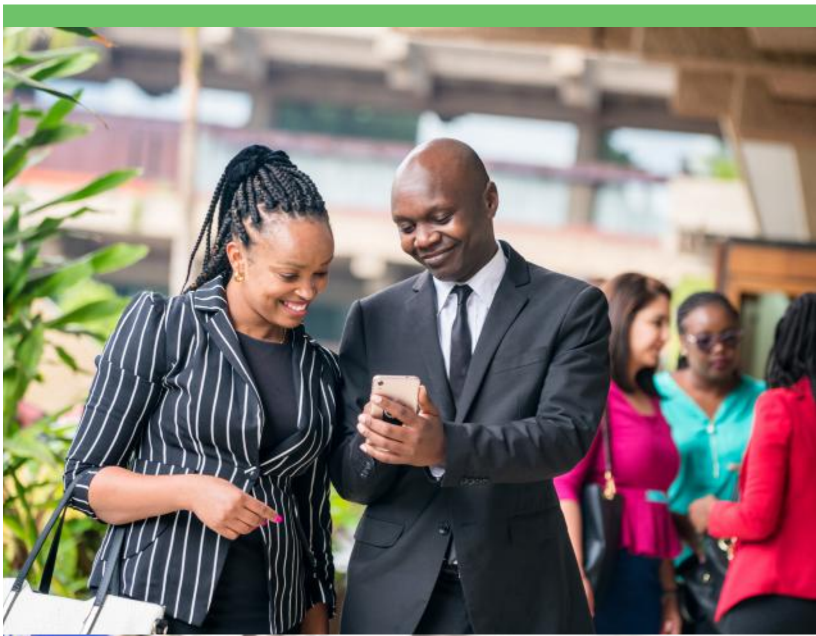

Standard Chartered