



# Leading the way

in Kenya

# Leading the way

**“We have been working with many of our clients for generations and the downturn has uniquely helped us reinforce these valuable relationships. We have managed our way very well through the crisis, much to the benefit of our clients and shareholders”.**

Richard Etemesi  
Managing Director & Chief Executive Officer

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# Contents

## Business Review

Business Highlights	3
Five Year Summary	4
Chairman's Statement	5
Chief Executive Officer's Review	11
Sustainability Review	20

## Corporate Governance

Board of Directors	42
Management Committee	44
The Board and Statutory Information	46
Report of the Directors	47
Statement on Corporate Governance	48
Statement of Directors' Responsibilities	54
Report of the Independent Auditors	55

## Financial Statements and Notes

Consolidated Statement of Comprehensive Income	56
Consolidated Statement of Financial Position	57
Company Statement of Financial Position	58
Consolidated Cash Flow Statement	59
Consolidated Statement of Changes in Equity	60
Company Statement of Changes in Equity	61
Notes to the Consolidated Financial Statements	62

## Other

Notice of the Annual General Meeting	112
Form of Proxy	115

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# A Year of Continued Strong Performance

## Business Highlights/KPIs

Operating income up 21% to

**KShs 12,246 m**

2008 KShs 10,110 m

Loans and advances to customers up 31% to

**KShs 56,695 m**

2008 KShs 43,299 m

Employees

**1,442**

2008 1,446

Profit before taxation up 43% to

**KShs 6,728 m**

2008 KShs 4,720 m

Deposits from customers up 13% to

**KShs 86,774 m**

2008 KShs 76,898 m

Total dividends

**KShs 3,432 m**

2008 KShs 2,888 m

Earnings per share up 48% to

**KShs 16.78**

2008 KShs 11.34

Shareholders' equity up 21% to

**KShs 13,918 m**

2008 KShs 11,499 m

Branches

**32**

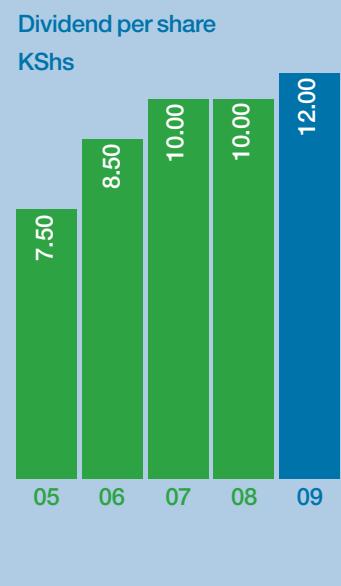
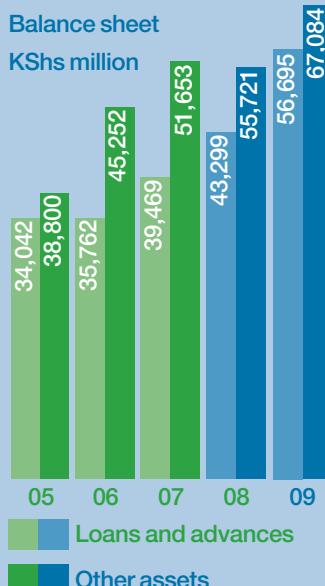
2008 32

ATMs

**95**

2008 95

## Five Year Performance Review



# Five Year Summary

	2009 KShs '000	2008 KShs '000	2007 KShs '000	2006 KShs '000	2005 KShs '000
<b>Statement of Comprehensive Income</b>					
Operating income	<b>12,246,432</b>	10,110,070	9,549,399	7,930,398	7,514,449
Impairment losses on loans and advances	(474,936)	(365,349)	(206,019)	(502,178)	(578,746)
Operating expenses	(5,043,049)	(5,024,907)	(4,433,192)	(3,617,793)	(3,423,022)
<b>Profit before taxation</b>	<b>6,728,447</b>	<b>4,719,814</b>	<b>4,910,188</b>	<b>3,810,427</b>	<b>3,512,681</b>
Taxation	(1,995,693)	(1,469,001)	(1,440,311)	(1,176,127)	(1,060,507)
<b>Profit after taxation</b>	<b>4,732,754</b>	<b>3,250,813</b>	<b>3,469,877</b>	<b>2,634,300</b>	<b>2,452,174</b>
<b>Information per ordinary share</b>					
Basic and diluted earnings per share (EPS)	<b>16.78</b>	<b>11.34</b>	<b>12.14</b>	<b>9.07</b>	<b>8.72</b>
Dividend per share on each ordinary share (DPS)	<b>12.00</b>	<b>10.00</b>	<b>10.00</b>	<b>8.50</b>	<b>7.50</b>
<b>Statement of Financial Position</b>					
Loans and advances to customers (gross)	<b>58,016,010</b>	44,857,772	41,025,357	37,415,666	35,401,962
Impairment losses on loans and advances	(1,321,134)	(1,558,953)	(1,556,835)	(1,653,382)	(1,359,933)
Government securities	<b>43,357,357</b>	23,251,930	26,674,673	27,651,320	24,347,389
Other assets	<b>23,726,739</b>	32,468,822	24,978,747	17,600,519	14,452,199
<b>Total assets</b>	<b>123,778,972</b>	<b>99,019,571</b>	<b>91,121,942</b>	<b>81,014,123</b>	<b>72,841,617</b>
Deposits from customers	<b>86,773,652</b>	76,898,456	73,840,563	64,879,129	59,683,127
Other liabilities	<b>23,087,755</b>	10,622,308	6,365,371	6,005,137	3,569,241
<b>Total liabilities</b>	<b>109,861,407</b>	<b>87,520,764</b>	<b>80,205,934</b>	<b>70,884,266</b>	<b>63,252,368</b>
<b>Net assets</b>	<b>13,917,565</b>	<b>11,498,807</b>	<b>10,916,008</b>	<b>10,129,857</b>	<b>9,589,249</b>
<b>Shareholders' funds</b>	<b>13,917,565</b>	<b>11,498,807</b>	<b>10,916,008</b>	<b>10,129,857</b>	<b>9,589,249</b>
<b>Ratios</b>					
Cost: income ratio	<b>41%</b>	50%	46%	46%	46%
Return on capital employed	<b>39%</b>	32%	38%	30%	29%
Gross non performing loans and advances/total gross loans and advances	<b>3%</b>	4%	5%	7%	7%
Impairment charge/gross loans and advances	<b>1%</b>	1%	1%	1%	2%
Gross loans and advances to deposits ratio	<b>67%</b>	58%	56%	58%	59%
Core capital/total deposit liabilities	<b>12%</b>	12%	12%	13%	14%
Core capital/total risk weighted assets	<b>14%</b>	16%	16%	18%	14%
Total capital/total risk weighted assets	<b>14%</b>	16%	17%	19%	15%

# Chairman's Statement

## Emerging stronger



**It gives me great pleasure to report that Standard Chartered Bank has once again recorded another year of excellent financial performance in 2009 despite the challenging external environment.**

### Operating environment

As you are all aware, 2009 was an extraordinary year for the financial services industry all over the world, perhaps the most dramatic period in the history of banking. It was the year when the full effects of the financial crisis were felt, and many banks and financial institutions collapsed or had to be bailed out by their governments.

In Kenya, as in many parts of Africa, we felt the full impact of the crisis and although the fall in world commodity prices, especially oil, helped cushion some of the negative effects of the global recession, economic growth remained sluggish at around 3.5%.

The good news, however, is that despite the crisis, the banking sector in Kenya remained fairly resilient but, a slowing economy had a negative impact on growth in the financial sector in addition to increasing bad debts as both consumers and corporate organisations found it difficult to meet their debt obligations.

As a result of our clear and consistent strategy and approach, Standard Chartered Bank weathered the crisis extremely well. Our financial results show that we maintained our record of consistent growth and performance delivery.

**“The banking sector in Kenya remained fairly resilient to the effects of the global financial crisis.”**

### Earnings per share

**KShs 16.78**

2008: KShs 11.34

### Dividend per share

**KShs 12.00**

2008: KShs 10.00

# Chairman's Statement (continued)

## Financial results

During 2009, Standard Chartered Bank focused on building the balance sheet strength and a sustainable business in Kenya. We also continued to invest in the business and to grow as we remained focused on our strategy. As a result, the Bank performed exceptionally well, delivering good income and profit growth in 2009.

- profit before taxation was KShs 6.7 billion compared to KShs 4.7 billion in 2008;
- total income was KShs 12.2 billion compared to KShs 10.1 billion in 2008;
- total operating costs were marginally up to KShs 5.0 billion;
- net bad debt charge increased from KShs 365 million to KShs 475 million;
- our total non performing loans, as a proportion of total loans, stood at 2.5% compared to 3.9% in 2008 and remains one of the lowest in the banking sector in Kenya;
- loans and advances grew by 31% to KShs 56.7 billion;
- customer deposits grew by 13% to KShs 86.8 billion; and
- earnings per share increased by 48% from KShs 11.34 per ordinary share to KShs 16.78 per ordinary share.

The Board is recommending a final dividend for the year of KShs 7.00 for every ordinary share, bringing the total dividend for 2009 to KShs 12.00 per ordinary share, an increase of 20% from the previous year.

To deliver record results in this exceptional environment is a great achievement. We believe the best way

to continue to deliver shareholder value is through rigorous focus on our selected markets, our prudent approach to liquidity and capital; and our continued discipline in cost and risk management.

The Board fully supports the prudent approach to balance sheet management taken in 2009 and this will continue. We do not plan to deviate from this path as the uncertainties in the global economic environment continue in 2010.

## Corporate governance

There have been changes to the Board. In May 2009, David Njoroge retired from the Board after 13 years of dedicated service both as a Chairman and a non-executive director. During his tenure as Chairman, he led the Bank during a period of strong strategic and financial progress. We are extremely grateful to him for the immense contribution he made to the Bank's success.

In September 2009, Azeem Rahim, Executive Director Origination and Client Coverage resigned from the Board to pursue other interests. Segun Odusanya has been appointed to the Board as the Executive Director, Origination and Client Coverage. Prior to his appointment, Segun was the Head of Origination and Client Coverage in the Bank in Uganda.

In October 2009, David Godwin a non-executive director resigned from the Board to take up his new role as the Chief Executive Officer for the Bank in Qatar. In his previous role as the Managing Director of Wholesale Bank responsible for Origination and Client

Coverage in China, David provided the Board with valuable insight into the Asian economies in line with the Bank's strategy of taking advantage of the growing trade between Kenya and the Asian countries.

The Board will continue to play its role effectively under the corporate governance structure.

The non-executive directors will maintain oversight on the management of the Company, through board meetings as well as through the various board committees.

## Community partnership

During 2009, the Bank continued to support high impact community partnership projects in Kenya. In total, the Bank spent about KShs 93 million on corporate social responsibility activities.

We continued to sponsor the Standard Chartered Nairobi International Marathon for the seventh year, attracting over 13,000 participants drawn from 38 countries. We are very pleased to have staged yet another world class event and at the same time raised funds for charity. The 2009 marathon raised KShs 14.5 million, up from KShs 12.5 million in 2008. The funds will go towards supporting congenital cataract surgeries for children under the age of nine at a number of selected hospitals countrywide. Since the launch of the marathon in 2003, over 3,000 beneficiaries have either undergone a cataract operation or had treatment for eye diseases related to trachoma.

# Chairman's Statement (continued)

Through the proceeds of the marathon, the Bank will also fund the final phase of the expansion of eye units at three district hospitals in the Rift Valley Province. These are Kapsabet, Iten and Kapenguria. The project was launched in 2008 and funded by Standard Chartered Group. The original eye units are one roomed facilities where registration, consultation, screening and minor surgeries are carried out. On completion, the new expanded eye units will have consultation rooms, waiting rooms, washrooms and mini theatres. This is part of Standard Chartered Group's 'Seeing is Believing' campaign, which aims to restore sight to over 1 million people worldwide.

Other projects the Bank supported during the year included emergency relief to starving Kenyans as a result of the drought; internal and external environmental interventions; and provision of clean water through construction of boreholes and rock catchments in various parts of the country.

Through these initiatives, the Bank hopes to deepen its relationship with various stakeholders while providing opportunities to involve employees and develop their own skills. Standard Chartered Bank will continue to lead by example, and be the right partner in the communities in which we operate.

## Summary

The acute phase of the financial crisis has passed and the first signs of a global economic recovery have tentatively begun, thanks to a wide range of policy interventions that have

supported demand and reduced uncertainty and systemic risk in financial markets. However, the recovery is expected to be slow, as financial markets remain impaired, stimulus measures will need to be withdrawn in the not too distant future, and households in countries that suffered asset-price busts are forced to rebuild savings while struggling with high unemployment. Although global growth is expected to return to positive territory in 2010, the pace of the recovery will be slow and subject to uncertainty.

In Kenya, economic growth is expected to accelerate in 2010, driven partly by the tentative global recovery and supported by the government's ambitious infrastructure spending programme. Large-scale investment in infrastructure will support an improvement in Kenya's business environment, as well as its productive capacity. Also, favourable late rains in 2009 and early 2010 should be supportive of agricultural production and domestic hydropower generation, which have suffered due to drought.

At Standard Chartered Bank, although we are confident about the future we also know that complacency kills. We are operating in a period of sustained uncertainty. We have learnt lessons in recent months and we are constantly reminded of the importance of preserving our liquidity and capital strength.

Banking remains a risk-based industry and we will remain prudent in our management and pricing of risk. At the same time, we are well placed to take advantage of the opportunities that will undoubtedly arise. Standard

Chartered Bank has shown how its position in the right markets and the strength of its balance sheet can deliver record results during turbulent times.

The Bank remains absolutely committed to building a long-term, sustainable business in Kenya through investments; supporting our clients to realise their aspirations; and differentiating our brand through our ability to leverage on our international expertise to introduce new, innovative products and services into the Kenyan market.

We are not complacent about the future but are confident that we will deliver another strong performance in 2010.

Finally, I would like to express my sincere appreciation to our customers for their untiring support. I would also like to thank the Board, and the staff, in particular Richard Etemesi, the Chief Executive Officer for the hard work he together with his team have put to deliver these exceptional results.

**Wilfred Kiboro**

Chairman

3 March 2010

# Taarifa ya Mwenyekiti

## Kuimbuka kuwa na nguvu



Nina furaha kuu kuripoti kwamba Benki ya Standard Chartered kwa mara nyingine tena imekuwa na mwaka mwingine wa matokeo mema ya kifedha wa 2009 licha ya hali ngumu za mazingira ya nje.

### Mazingira ya Shughuli za Kampuni

Kama tunavyofahamu sote, mwaka wa 2009 ulikuwa mwaka usio wa kawaida kwa sekta ya huduma za kifedha kote duniani, na pengine ndicho kipindi cha kushangaza sana katika historia ya shughuli za benki. Ulikuwa mwaka ambao athari kamili za msukosuko wa kifedha zilishuhudiwa na benki nyingi na taasisi za kifedha zikafilisika au hata kuomba msaada kutoka kwa serikali zao mbali mbali.

Hapa nchini Kenya, sawa na nchi nydingi barani Afrika tulishuhudia athari kamili za msukosuko huo na ingawa kupungua kwa bei za bidhaa duniani hasa mafuta kulisadaria kuokoa baadhi ya athari mbaya za msukosuko wa kiuchumi duniani, ukuaji wa kiuchumi uliendelea pole pole kwa karibu asilimia 3.5.

Habari njema hata hivyo ni kwamba licha ya msukosuko huo, sekta ya benki hapa nchini Kenya iliendelea kustahimili, lakini kukua pole pole kwa uchumi kulikuwa na athari mbaya ya ukuaji katika sekta ya kifedha pamoja na ongezeko la madeni yasiolipwa huku wateja na kampuni wakikabiliwa na wakati mgumu kulipa madeni yao.

Kutokana na mkakati wetu uliokuwa wazi na makhsusi, Benki ya Standard Chartered ilikabiliana na msukosuko huo kwa njia nzuri. Matokeo yetu ya kifedha yanaonyesha kwamba tuliendelea kudumisha rekodi yetu ya ukuaji na kuwasilisha matokeo mema.

### Matokeo ya kifedha

Mnamo mwaka wa 2009, Benki ya Standard Chartered ilizingatia kuimarisha

“Sekta ya benki hapa nchini Kenya iliendelea kustahimili athari za msukosuko wa kifedha duniani.”

### Mapato kwa kila hisa

# Shilingi 16.78

2008: Shilingi 11.34

### Mgao wa faida kwa kila hisa

# Shilingi 12.00

2008: Shilingi 10.00

# Taarifa ya Mwenyekiti (yaendelea)

taarifa yake ya kifedha kuwa yenyewe nguvu na kudumisha biashara yake hapa nchini Kenya. Pia tuliendelea kuwekeza katika biashara hii na kukua huku tukiendelea kuzingatia mpango wetu makhsusi. Kutokana na hayo, benki hii ilifanya vyema sana, kwa kuwasilisha mapato mema na ongezeko la faida mwaka wa 2009.

- faida kabla ya kutozwa ushuru ilikuwa shilingi bilioni 6.7 ikilinganishwa na shilingi bilioni 4.7 mwaka wa 2008;
- jumla ya mapato yaliwa shilingi bilioni 12.2 ikilinganishwa na shilingi bilioni 10.1 mwaka wa 2008;
- jumla ya gharama ya shughuli za kampuni iliongezeka hadi shilingi bilioni 5.0;
- jumla ya madeni yasiolipwa yaliongezeka kutoka shilingi milioni 365 hadi shilingi milioni 475;
- jumla ya mikopo yetu isiyolipwa kama kiwango cha jumla cha mikopo, kilikuwa asilimia 2.5 ikilinganishwa na asilimia 3.9 mwaka wa 2008 na ndicho kiwango cha chini zaidi katika sekta ya benki hapa nchini Kenya;
- mikopo na rubuni iliongezeka kwa asilimia 31 hadi shilingi bilioni 56.7;
- akiba za wateja ziliongezeka kwa asilimia 13 hadi shilingi bilioni 86.8;
- mapato kwa kila hisa yaliongezeka kwa asilimia 48 kutoka shilingi 11.34 kwa kila hisa ya kawaida hadi shilingi 16.78 kwa kila hisa ya kawaida.

Halmashauri inapendekeza mgao wa mwisho wa faida kwa mwaka wa shilingi 7.00 kwa kila hisa ya kawaida, na kufikisha jumla ya mgao wa faida kwa mwaka wa 2009 kuwa shilingi 12.00 kwa kila hisa ya kawaida, likiwa ni ongezeko la asilimia 20 ikilinganishwa na mwaka uliopita.

Katika kuwasilisha matokeo haya bora katika mazingira haya ya kipekee ulikuwa ni ufanisi mkuu mno. Tunaamini kuwa njia bora ya kuendelea kuwasilisha thamani

kwa wenyehisia wetu ni kupitia uzingatiaji kamili wa masoko yetu tuliyochagua, hatua madhubuti tulizochukua kuwezesha kuweko kwa mtiririko mzuri wa pesa na mtaji; na kuendelea kuwa na nidhamu katika usimamizi wa gharama na hatari za utendaji kazi.

Halmashauri inaunga mkono kikamilifu hatua zetu madhubuti za usimamizi wa taarifa zetu za kifedha tulizochukua mwaka wa 2009 na hali hii itaendelea. Hatuna mipango ya kuacha mkondo huu kwani hali zisizobashirika za mazingira ya kiuchumi duniani zinaendelea mwaka wa 2010.

## Usimamizi wa Kampuni

Kumekuwa na mabadiliko kwenye Halmashauri. Mnamo mwezi Mei, Bw. David Njoroge alistaafu kwenye Halmashauri baada ya kuihudumia kampuni kwa miaka 13 kama Mwenyekiti na pia mkurugenzi asiyekuwa mfanyakazi.

Wakati wa kuhudumu kwake kama Mwenyekiti, aliongoza benki hii katika kipindi cha mipango makhsusi na ufanisi wa kifedha. Tunamshukuru sana kwa mchango wake mkuu ulioiwezesha benki hii kufaulu.

Mnamo mwezi Septemba, Azeem Rahim, aliyekuwa mkurugenzi mkuu wa Huduma Asili na Huduma kwa wateja alijuzulu kwenye Halmashauri ili kushughulikia mambo mengine. Segun Odusanya ameteuliwa kwenye Halmashauri kama Mkurugenzi mkuu wa Huduma Asili na Huduma kwa wateja. Kabla ya uteuzi wake Segun alikuwa ni Mkuu wa Huduma Asili na Huduma kwa wateja wa kampuni hii nchini Uganda.

Mnamo mwezi Oktoba, David Godwin mkurugenzi asiyekuwa mfanyakazi alijuzulu kwenye Halmashauri ili kuchukua kazi mpya kama Mkurugenzi mkuu na Afisa mkuu Mtendaji wa kampuni nchini Qatar.

Katika kazi yake ya awali kama Mkurugenzi mkuu wa Huduma za Jumla za Benki akihusika na huduma za jumla za beki nchini China, David aliipatia Halmashauri mwelekeo wenye thamani kuu katika chumi za bara Asia kuambatana na mpango makhsusi wa benki wa kuchukua fursa ya kukua kwa biashara kati ya Kenya na nchi za bara Asia.

Halmashauri itaendelea kutekeleza jukumu lake chini ya utaratibu bora wa usimamizi wa kampuni. Wakurugenzi wasio wafanyakazi wa kampuni wataendelea kudumisha mwelekeo wenye maono wa usimamizi wa kampuni, kupitia mikutano ya Halmashauri na vile vile kupitia kamati mbali mbali za Halmashauri.

## Ushirikiano wa jamii

Katika mwaka wa 2009, Benki hii iliendelea kusaidia miradi yenyewe umuhimu mkuu ya ushirikiano wa jamii hapa Kenya. Kwa ujumla, Benki hii ilitumia karibu shilingi milioni 93 kwa shughuli za kampuni kwa jamii.

Tuliendelea kudhamini mashindano ya kimataifa ya mbio za Standard Chartered Nairobi Marathon kwa mwaka wa saba, na kuvutia zaidi ya washiriki 13,000 kutoka nchi 38 duniani. Tuna furaha kwa kuaanda tena mashindano ya dunia na wakati huo huo kuchangisha pesa za msaada.

Mbio za marathon za mwaka wa 2009 zilichangisha shilingi milioni 14.2 kutoka shilingi milioni 12.5 mwaka wa 2008. Pesa hizo zitasaidia kugharamia matibabu na upasuaji kwa watoto wenye matatizo ya macho walio chini ya umri wa miaka tisa katika hospitali kadhaa kote nchini. Tangu kuzinduliwa kwa mbio hizi za marathon mwaka 2003, zaidi ya watu 3,000 wamenufaika kwa kufanyiwa upasuaji wenye matatizo ya macho au matibabu kwa magonjwa ya macho kama vile Trachoma.

# Taarifa ya Mwenyekiti (yaendelea)

Kupitia mapato ya mbizo hizo za marathon, Benki hii pia itafadhili awamu ya mwisho ya upanuzi wa idara za matibabu ya macho katika hospitali tatu za wilaya Mkoani Rift Valley. Hospitali hizo ni Kapsabet, Iten na Kapenguria. Mradi huu ulizinduliwa mwaka wa 2008 na kufadhiliwa na kampuni ya Standard Chartered. Idara za kwanza za matibabu ya macho zilipatikana kwenye chumba kimoja ambako usajili, kumuona daktari, kufanyiwa uchunguzi na upasuaji mdogo vilifanywa kwenye chumba hicho.

Zitakapokamiliika idara mpya zilizopanuliwa za matibabu ya macho zitakuwa na vyumba vya kumuona daktari, vyumba vya kusubiri matibabu na vyumba vya upasuaji. Hii ni sehemu ya kampeini ya Benki ya Standard Chartered ‘Kuona ni Kuamini’, yenye lengo la kuwawezesha zaidi ya watu milioni 1 kote dunia kuweza kuona tena.

Miradi mingine iliyosaidiwa na Benki hii mwaka huo ni pamoja na huduma za dharura za misaada kwa Wakenya wanaokabiliwa na baa la njaa kutokana na hali ya ukame wa muda mrefu; mwingilio wa ndani na nje wa kimazingira; na upatikanaji wa maji safi kupitia ujenzi wa visima vya maji na uhifadhi wa chemchemi za maji katika sehemu mbali mbali nchini.

Kupitia juhudini hizi benki inatumai kuzidisha uhusiano wake na washika dau mbali mbali huku ikitoa nafasi ya kuwashirikisha wafanyakazi wake na kustawisha ujuzi wao. Benki ya Standard Chartered itaendelea kuongoza kwa mfano na kuwa mshirika anayefaa katika jamii inayoihudumia.

## Mwisho

Awamu mbaya ya msukosuko wa kifedha imepita na dalili za kwanza za ufulizi wa uchumi duniani zimeanza kuonekana, na tunashukuru kwa utekelezaji wa sera mbali mbali zilizounga mkono mahitaji na kupunguza hali isiyoweza kubashirika na hatari katika masoko ya kifedha. Hata

hivyo, ufulizi huo unatarajiwa kufanyika pole pole, huku masoko ya kifedha yakiendelea kuharibika, hatua za ukwamuzi wa uchumi zitahitaji kusitishwa katika muda usio mrefu, na jamii katika nchi zilizothiriwa na bei za bidhaa kulazimika kuimarisha upya akiba huku zikijitahidi kukabiliana na hali ya ukosefu wa ajira. Ingawa ukuaji wa uchumi Ulimwenguni unatarajiwa kurejea kuwa mzuri mwaka wa 2010, kasi ya ufulizi huo inafanyika pole pole na haiwezi kubashirika.

Hapa Kenya ukuaji huo unatarajiwa kuongezeka mwaka wa 2010, kutohuna na ufulizi wa kiuchumi unaoendelea duniani na kuungwa mkono na hatua za serikali za kuimarisha mradi wa miundo-msingi. Uwekezaji mkubwa katika miundo-msingi utasaidia kuimarisha mazingira ya kibashara ya Kenya, na vile vile kiwango chake cha uzalishaji bidhaa. Pia, mvua zilizonesha mwisho wa mwaka wa 2009 na mapema mwaka wa 2010 zinatarajiwa kusaidia uzalishaji wa kilimo na kuongeza kiwango cha maji yanayotumika kwa utoaji nguvu za umeme hapa nchini, ulioathiriwa kutokana na hali ya ukame.

Katika benki ya Standard Chartered, ingawa tuna imani kuhusu hali ya baadaye tunafahamu kwamba kukubali kuwa hali itaendelea kuwa hivyo ni hatari. Tunaendesha shughuli zetu katika kipindi cha hali zisizobashirika. Tumejifunza mengi katika miezi ya hivi majuzi na tunakumbushwa kila mara kuhusu umuhimu wa kudumisha mtiririko wetu wa pesa na mtaji wenye nguvu.

Shughuli za benki inaendelea kuwa sekta inayokabiliwa na hatari na tutaendelea kudumisha usimamizi bora na kupunguza hatari. Wakati huo huo, tuna nafasi nzuri ya kuchukua fursa ya nafasi zitakazotopezea. Benki ya Standard Chartered imeonyesha nafasi yake katika masoko na taarifa yake ya kifedha yenye

nguvu inaweza kuwasilisha matokeo bora wakati wa hali ngumu.

Benki hii inaendelea kujitolea kujenga na kudumisha biashara ya muda mrefu hapa nchini Kenya kupitia uwekezaji, kuwasaidia wateja wetu kutambua matarajo yao; na kutofautisha bidhaa zetu kupitia uwezo tulio nao wa kuiuna ujuzi wetu wa kimataifa wa kuanzisha bidhaa mpya na uvumbuzi wa bidhaa na huduma katika soko la humu nchini.

Hututaraji kwamba hali itaendelea kama ilivyokuwa siku zijazo, lakini tuna imani kwamba tutawasilisha matokeo mengine yenye nguvu mwaka wa 2010.

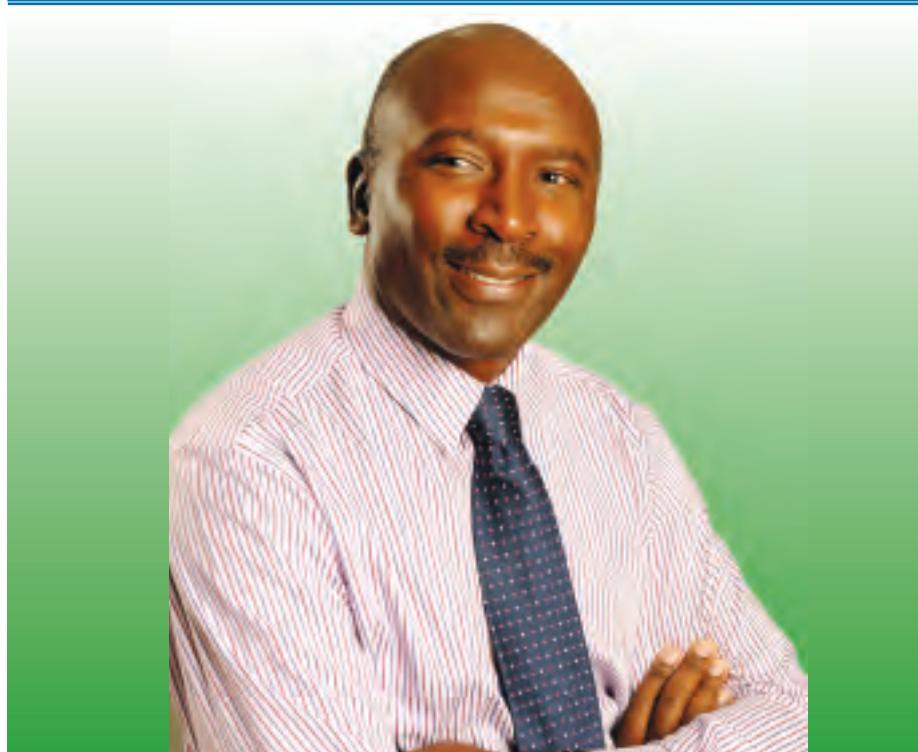
Mwisho, Ningependa kutoa shukurani zangu za dhati kwa wateja wetu kwa kuendelea kutuunga mkono. Pia ningependa kuishukuru Halmashauri na wafanyakazi, hasa Bw. Richard Etemesi, ambaye ni Mkurugenzi Mkuu na Afisa Mkuu Mtendaji kwa bidii yake pamoja na kundi lake kwa kuweza kuwasilisha matokeo haya ya kipekee.

**Wilfred Kiboro**  
**Mwenyekiti**

3 Machi 2010

# Chief Executive Officer's Review

## 'Fit-For-Growth'



"We produced record profits on the back of record income. We have an even stronger balance sheet and a broader, deeper customer franchise. The Bank is in very good shape."

### Profit before taxation

**KShs 6.7 billion**

2008: KShs 4.7 billion

### Total revenue

**KShs 12.2 billion**

2008: KShs 10.1 billion

I am delighted to report that in 2009, Standard Chartered Bank delivered record income and record profits. The Bank used its strong capital and liquidity position and its increasingly powerful brand to grow and expand its business and to deepen relationships with customers. Standard Chartered Bank grew its income and profit despite the economic downturn across the world and indeed in Kenya.

Throughout the financial crisis and economic downturn we have produced strong results. We have achieved this by sticking to our strategy and supporting our customers through these difficult times. And also, throughout the crisis we have remained open for business.

Longevity in Kenya is something that we are very proud of and in 2011, Standard Chartered Bank will be celebrating its 100th anniversary of doing business in Kenya. Not only does this give us deep local knowledge to serve our customers well, it makes us part of the community. We have been working with many of our clients for generations and the downturn has uniquely helped us reinforce these valuable relationships. We have managed our way very well through the crisis, much to the benefit of our clients and shareholders.

However, like most bankers, we are conscious that the world has changed and we must continue to work together with the government,

# Chief Executive Officer's Review (continued)

regulators and the rest of the industry to support the economic recovery and to continue focusing on the useful aspects of banking.

## 2009 performance

In addition to an excellent financial performance, we continued to make great progress on our journey to building a long-term and sustainable business in Kenya. In order to achieve this, we continued to focus relentlessly on the basics of banking; liquidity and capital management, credit risk management, cost control, efficiency and customer service. We did business in market segments we knew intimately and with products we fully understood. We continued to remain disciplined on costs.

We have made substantial investments in our systems infrastructure and introduced technology-based products and services to ensure that we are 'Fit-For-Growth'. The standardisation of our technology platforms continued so as to enable us be more nimble and able to anticipate and respond to the changing business environment.

Our results tell a compelling story. We produced record profits on the back of record income. We have an even stronger balance sheet and a broader, deeper customer franchise. The Bank is in very good shape. We did not let the economic downturn interrupt our track record of consistently delivering for our shareholders. Both our businesses were extremely resilient,

producing excellent results.

Profit before taxation was KShs 6.7 billion compared to KShs 4.7 billion in 2008, an increase of 43%.

Total revenue grew to KShs 12.2 billion, driven mainly by the following:

- Interest income on loans and advances increased by 21% or KShs 990 million to KShs 5.8 billion on the back of strong asset growth across both businesses. Due to the falling interest rates particularly in the last quarter, our overall yield has also come down.
- Interest income from investments in government securities increased by 40% or KShs 894 million largely on account of increase in volumes that contributed to KShs 855 million of the increase. Hence we were able to hold our overall portfolio yield constant despite the decrease that was noted especially towards the end of the year.
- Our interest expense grew by 21% to KShs 2.0 billion due to growth in deposits of 13% during the year.
- Income from foreign exchange trading declined marginally by 1% to KShs 1.8 billion. This was as a result of a combination of decreased margins on foreign exchange despite growth in volumes, less currency volatility especially compared to the immediate aftermath of the post election violence in 2008 that saw increased client demand and the Bank being well positioned in terms of product capabilities to meet customer needs.

- Overall commissions were up by 11% or KShs 226 million due to overall increase in transactional volumes driven by the growth in both loans and advances and customer deposits.
- Other income increased by KShs 448 million largely as a result of the profit on disposal of government securities following a good positioning by both our trading and Asset and Liability Management (ALM) desks. We also sold our equity shareholding in Visa Inc. Other income also benefited from a significant recovery in respect of a loan that had been written off.

Our loans and advances grew by 31% to KShs 56.7 billion due to growth in both consumer and corporate assets. Overall our consumer portfolio grew by 19% with our personal loan product, growing by 44%. There was a strong performance across the whole product set and the momentum continues to be excellent. Wholesale Banking focused on key clients, strengthening relationships and growing our product capabilities to support local trade and offering short term working capital solutions. As a result, it posted a strong performance that saw its assets grow by 37%.

During the year, customer deposits

# Chief Executive Officer's Review (continued)

grew by 13% to KShs 86.8 billion. In the Consumer Bank, the momentum from the various products launched in the recent past, coupled with the aggressive sales promotion pushed total deposits to KShs 55.0 billion up 9%. During the year we have also enhanced the relationship management model in our SME and high net worth segments.

Growth in customer deposits in the Wholesale Bank was also up by a commendable 19%. It should be noted that deposits for this business tend to be transactional in nature and would fluctuate frequently. What is pleasing with this growth is that the underlying 'sticky' deposits in this business continued to show strong growth as a result of strong sales supported by our world-class Integrated Cash Management System (ICMS). We continued to win new mandates onto this platform.

Overall, current account and savings account balances now account for 78% of our total deposits compared to 77% in 2008.

The Bank maintained a liquid and well-capitalised balance sheet throughout 2009 and continues to remain very liquid and well capitalised as we enter 2010. We have a very strong liquidity position with a well diversified retail funding base. We have a healthy loan deposit ratio of 65 per cent that gives us good headroom to grow loans and advances. Our capital and liquidity

ratios are well above target ratios set by the Central Bank of Kenya.

## **Consumer Banking**

Until recently, Consumer Banking was largely a product-led business but over the last 12 months, Kariuki Ngari and his team have been reshaping Consumer Banking so that it focuses on building deep, longstanding and multi-product relationships with customers. And although it is early days in this transformation, the signs are very encouraging. In 2009, we continued to leverage on our eBBs banking platform to offer a variety of products and services such as e-statements, mobile and internet banking which served to lower the cost of banking as well as to attract new customers. In addition, during the year, we embarked on further enhancing the current Excel and Priority proposition that caters to these segments by refurbishing our centres at Kenyatta Avenue and Yaya Centre branches.

As a result, Consumer Banking delivered a strong financial performance reflecting our increasingly broad based product and customer mix. Our challenge in 2010 is to continue to invest at the right pace and, at the same time, seek to increase productivity and innovation.

## **Wholesale Banking**

In 2009, our Wholesale Banking business executed well on the strategy

we laid out a few years ago and delivered on our promises. Disciplined investments in key sales and control functions delivered good results across all products and customer segments. We have deepened our customer relationships and are now a top three bank to 30 per cent of our customers. However, there is still room to further improve cross-sell ratios and strengthen our product capabilities. Our network in the Middle East, India, China and South East Asia has proved to be important in giving us opportunities to leverage on as trade corridors change.

## **Costs**

Costs remain firmly under control. Total operating expenses increased marginally to KShs 5.0 billion mainly driven by continued focus on cost control. Hence despite the cost increases due to the various investments in the latter half of 2008 being fully recognised in 2009, the overall increase is well within prevailing underlying inflation.

Despite the investments made in the last two years, our cost:income ratio decreased to 41.2% compared to 49.7% in 2008 as our revenue growth has continued to outpace the increase in costs.

## **Impairment losses on loans and advances**

The net bad debt charge increased from KShs 365 million in 2008 to KShs 475 million in 2009. The charge for Consumer Bank increased in line with

# Chief Executive Officer's Review (continued)

the growth in the size of the overall portfolio as expected, but was offset by better recoveries in Wholesale Bank.

Total non-performing loans fell to KShs 1.5 billion and remain among the lowest in the market. This translates to 2.5% of gross total loans compared to 3.9% in 2008, a reflection of our prudent and proactive risk management capability.

We are comfortable with the current level of provisions and intend to maintain a robust risk management framework.

## People

Key to delivering our strategy is our people. The Bank employs over 1,400 staff and like all businesses, retaining and attracting the best people in a highly competitive industry is always a challenge. During 2008, we continued to invest in talent development, providing skills and opportunities to enable our people to grow. We are confident that this investment in our people will make Standard Chartered Bank not only a great place to work but also the bank of choice for talent in the market.

## Outlook

Political uncertainty, especially with regard to the governing coalition and delivery of the new Constitution, high costs of fuel and other inputs will continue to put the economy under enormous strain and slow down recovery. The return of private sector confidence, which is

essential, rests on developments in the political arena as well as government efforts to stimulate the economy.

We have started the year with a blend of caution and confidence. We remain watchful on the outlook, we are not complacent as to the risk environment and we enter the year with good momentum. That said, income and profit in the first month of 2010 are higher than the same month in 2009. Costs are well controlled as is loan impairment in both businesses. We remain focused on the effective management of capital, on maintaining excellent levels of liquidity, on improving the risk profile further and on the disciplined execution of our strategy.

### In summary,

- we have a very clear strategy that is working well and has huge potential. We are executing on our strategy and are pleased with the progress we have made so far;
- within our chosen customer segments, we have a growing customer base which we continue to support with the right products and services to meet their requirements;
- our investment in new technology has enabled us to serve new customer segments;
- we have a very strong balance sheet and are well capitalised.

Our liquidity position remains strong;

- we are well-positioned to weather future economic uncertainties, well-positioned to deliver another robust financial performance in 2010; and to continue on our journey to build a long-term sustainable business in Kenya.

Finally, I would like to say how enormously proud I am of the entire 1,442 men and women who work for Standard Chartered Bank across Kenya. Together, we have become a formidable team, capable of delivering such excellent financial performance. Together we did not just weather the crisis and downturn; we turned it to our advantage.

I am also extremely appreciative of the support we received from our clients and customers, our investors and regulators. Whilst I do not under-estimate the challenges and uncertainties before us, I am excited by the opportunities.

**Richard Etemesi**  
Managing Director  
& Chief Executive Officer

3 March 2010

# Taarifa ya Afisa Mkuu Mtendaji

## Imara kwa ukuaji



### Utangulizi

Nina furaha kuripoti kwamba katika mwaka wa 2009, Benki ya Standard Chartered iliwasilisha mapato bora na faida bora. Benki hii ilitumia mtaji wake wenye nguvu na mtiririko wa pesa na ongezeko la bidhaa zake bora kukua na kupanua shughuli zake za biashara na kuendeleza uhusiano na wateja. Benki ya Standard Chartered iliongeza mapato yake na faida licha ya kudimimia kwa uchumi kote duniani na hasa hapa nchini Kenya.

Licha ya msukosuko huo wa kifedha na kudidimia kwa uchumi, tulipata matokeo bora. Tulifikia matokeo haya kwa kuzingatia mikakati zetu na kuwasaidia wateja wetu wakati wa hali hizi ngumu. Na pia wakati wa msukosuko huo tuliendelea kufungua biashara yetu.

Kwa muda mrefu tuliohudumu hapa Kenya ni jambo tunalojvunia sana na ifikapo mwaka 2011, benki ya Standard Chartered itasherehekeea miaka 100 ya kufanya biashara hapa Kenya. Muda huu sio tu kuwa unatupatia ufahamu wa humu nchini wa kuwahudumia wateja wetu vyema, bali unatufanya kuwa sehemu ya jamii. Tumekuwa tukifanya kazi na wateja wetu wengi kwa vizazi kadhaa na hali ngumu zilizokuweko zilitusaidia kuimarisha uhusiano huu wenye thamani. Tuliweza kuendelea vyema wakati wa msukosuko huo na kuwanufaisha wateja wetu na wenye hisa wetu.

**“Tulipata faida bora kutokana na mapato bora. Tuna taarifa ya kifedha ya mapana yenye nguvu inayowapa idhini wateja wetu kushiriki kwenye huduma zetu. Benki hii iko katika hali nzuri”**

### Faida kabla kutozwa ushuru

# Shilingi billioni 6.7

2008: Shilingi billioni 4.7

### Pato la jumla

# Shilingi billioni 12.2

2008: Shilingi billioni 10.1

# Taarifa ya Afisa Mkuu Mtendaji (yaendelea)

Hata hivyo, kama wenyе benki wengi, tunafahamu kuwa ulimwengu umebadilika na lazima tuendelea kushirikiana na serikali, idara zinazohusika na washiriki wengine wa sekta hii ili kusaidia juhudи za ufulufuza wa uchumi na kuendelea kuzingatia huduma muhimu za benki.

## Matokeo ya mwaka 2009

Kwa kuongezea matokeo bora mno ya kifedha, tulienendelea kupata ufanisi mkubwa kwenye safari yetu ya kuimarisha na kudumisha biashara ya muda mrefu hapa nchini Kenya. Ili kufikia haya, tulienendelea kuzingatia shughuli za kimsingi za benki hasa mtiririko wa pesa na usimamizi wa mtaji, usimamizi wa hatari za mikopo, uthibiti wa gharama, utendaji kazi bora na kuwahudumia wateja kwa njia bora. Tulifanya biashara katika vitengo vya masoko tulivyovifahamu vyema na kuwa na bidhaa tulizozielewa kikamilifu. Tulienendelea kuwa na nidhamu kuhusu gharama.

Tulitekeleza uwekezaji muhimu katika muundo msingi wa mfumo wetu na kuanzisha bidhaa za kiteknolojia na huduma ili kuhakikisha kwamba ‘Tuko-Imara- kwa Ukuaji.’ Kuimarishwa kwa nafasi zetu za kiteknolojia kuliendelea ili kutuwezesha kusonga mbele zaidi na kuweza kutarajia na kushughulikia mabadiliko ya mazingira ya kibiashara.

Matokeo yetu yanaelezea hadithi ya kuvutia, tulipata faida bora kutoчana na mapato bora. Tuna taarifa ya kifedha ya mapana yenye nguvu inayowapa idhini

wateja wetu kushiriki kwenye huduma zetu. Benki hii iko katika hali nzuri. Hatukuruhusu msukosuko wa kifedha duniani kutatiza hatua zetu za kuwasilisha matokeo bora kwa wenyе hisa wetu. Biashara zetu zote zilitahimili hali zilizotokea na kutoa matokeo bora.

Faida kabla ya kutozwa ushuru ilikuwa shilingi bilioni 6.7 ikilinganishwa na shilingi bilioni 4.7 mwaka wa 2008 likiwa ni ongezeko la asilimia 43.

Pato la jumla liliongezeka hadi shilingi bilioni 12.4 kutoчana na yafuatayo:

- mapato ya riba kwa mikopo na rubuni yaliongezeka kwa asilimia 21 sawa na shilingi milioni 990 hadi shilingi bilioni 5.8 kutoчana na mali za kampuni zilizoongezeka kwenye biashara. Kufuatia kupunguzwa kwa viwango vya riba hasa katika robo ya kwanza ya mwaka, mapato yetu ya jumla yamepungua.
- mapato kutoчana na uwekezaji wa hati za dhamana za serikali yaliongezeka kwa asilimia 40 sawa na shilingi milioni 894 kufuatia ongezeko la viwango vya biashara vilivyochangia kupata ongezeko la shilingi milioni 855. Hivyo basi tuliweza kuwa na mapato yetu kama iliyokuwa licha ya kupungua kwa shughuli za biashara kulikoshuhudiwa mnamo mwisho wa mwaka huo.
- faida yetu ya matumizi iliongezeka kwa asilimia 21 hadi shilingi bilioni 1.9 kutoчana na ongezeko la akiba la asilimia 13 mwaka huo.
- mapato ya pesa za kigeni kutoчana na shughuli za biashara yetu yalipungua sana kwa asilimia 1 hadi shilingi bilioni 1.8. Hali hii ilitokana na kupungua kwa viwango vya pesa za kigeni licha ya ongezeko la viwango vya biashara, kupungua kwa pesa hasa ikilinganishwa na athari za ghasia za baada ya uchaguzi mwaka wa 2008 zilizosababisha ongezeko la mahitaji ya wateja na benki kuwa na nafasi nzuri ya kutoa bidhaa zinazotimiza mahitaji ya wateja.
- jumla ya riba ziliongezeka kwa asilimia 11 sawa na shilingi milioni 226 kutoчana na ongezeko la viwango vya kufanya biashara vilivyoshinikizwa na ongezeko la mikopo na rubuni na akiba za wateja.
- mapato mengine yaliongezeka kwa shilingi milioni 448 kutoчana na fadia ya uuza ji hati za dhamana za serikali kufuatia nafasi nzuri ya biashara yetu na mali na usimamizi wa madeni. Pia tuliua hisa zetu kwa Kampuni ya kadi za Visa. Mapato mengine pia yalinufaika kutoчana na ufulufuza muhimu kufuatia mkopo ambaо ulifutiliwa mbali hapo mbeleni.

Mikopo yetu na rubuni liliongezeka kwa asilimia 31 hadi shilingi bilioni 56.7 kutoчana na ongezeko la wateja na mali za kampuni. Idadi ya wateja wetu iliongezeka kwa asilimia 19 huku bidhaa yetu ya mkopo wa kibinafsi ikiongezeka kwa asilimia 44. Kulikuwa na matokeo bora katika bidhaa hizi

# Taarifa ya Afisa Mkuu Mtendaji (yaendelea)

zote na kasi hiyo inaendelea kuwa nzuri. Huduma za jumla za benki zililenga wateja wakuu, kuimarisha uhusiano na kukuza uwezo wa bidhaa zetu ili kusaidia shughuli za biashara za wananchi na kutoa masuluhisho ya muda mfupi ya mtaji, hali iliyowezesha kupatikana kwa matokea yenye nguvu yaliyowezesha mali za kampuni kuongezeka kwa asilimia 37.

Katika mwaka huo, akiba za wateja ziliongezeka kwa asilimia 13 hadi shilingi bilioni 86.8. Katika huduma za benki kwa mteja, kasi iliyotokana na bidhaa mbali mbali zilizozinduliwa hivi majuzi pamoja na mbinu makhsusi za matangazo ya uuzaajiliziwezesha jumla ya akiba kuwa shilingi bilioni 55 na kuwa asilimia 9 zaidi. Katika mwaka huo tuliumarisha muundo wa usimamizi wa uhusiano katika mpango wetu wa kusaidia biashara ndogo ndogo na zile za kadri na vitengo vya mapato ya juu.

Ongezeko la akiba za wateja katika huduma za ujumla za benki pia liliukua kwa asilimia 19. Inapaswa kufahamika kwamba akiba za biashara hii zinahusisha shughuli kadhaa na huongezeka na kupungua mara kwa mara. Kinachofurahisha kwa ongezeko hili ni kwamba akiba zilizoko katika biashara hii zaendelea kuonyesha ukuaji wenye nguvu unaosaidiwa na uuzaajiliziwezesha jumla ya

Jumla ya akiba za akaunti za 'akiba na current' sasa ni asilimia 78 ya jumla ya

akiba ikilinganishwa na asilimia 77 mwaka wa 2008.

Benki hii ilidumisha mtiririko wa pesa wa mtaji wenye pesa za kutosha unaosimamiwa vyema mwaka wote wa 2009 na inaendelea kudumisha mtaji huo kwa usimamizi bora wa pesa tunapoingia mwaka wa 2010. Tuna mtiririko wenye nguvu wa pesa wenye vituo vya rejareja vya ufadhilli wa pesa. Tuna kiwango bora za mikopo na akiba cha asilimia 65 kinachotupatia nafasi nzuri ya kuongeza mikopo na rubuni. Viwango vya mtaji na mtiririko wa pesa vimepita viwango vilivywewekwa na Benki Kuu ya Kenya.

## Huduma za Benki kwa mteja

Hadi hivi majuzi, Huduma za Benki kwa Mteja ziliikuwa za kutoa bidhaa za kibiashara lakini katika muda wa miezi 12 iliyopita, Kariuki Ngari na kundi lake wamezibadilisha huduma za benki kwa mteja ili kuzingatia kutoa huduma muhimu zaidi, kuzidumisha kwa muda mrefu, na kuimarisha uhusiano kuhusu bidhaa mbali mbali na wateja. Na ingawa ni mapema mno kwa mabadiliko haya, dalili ni za kutia moyo sana. Katika mwaka wa 2009 tuliendelea kuinua huduma zetu za benki za kibiashara kwa njia ya ki-elektroniki ili kutoa bidhaa mbali mbali na huduma kama vile taarifa kwa njia ya ki-elektroniki, huduma za benki kwa njia ya simu za rununu na mtandao wa Internet uliota huduma kwa gharama nafuu za benki na vile vile kuvutia wateja wapya. Vile vile, katika mwaka huo, tulianza hatua za kuimarisha mpango wa Ufanisi na Huduma

Muhimu kuhudumia vitengo hivi kwa kukarabati vituo vyetu katika matawi ya Kenyatta Avenue na Yaya Centre.

Kutokana na hayo, Huduma za benki kwa mteja ziliwasilisha matokeo yenye nguvu ya kifedha na kudhihirisha ongezeko la bidhaa zetu na mchanganyiko wa wateja. Changamoto yetu mwaka wa 2010 ni kuendelea kuwekeza katika kasi ifaayo na wakati huo huo kutafuta kuongeza uzalishaji na uvumbuzi wa bidhaa.

## Huduma za Benki za Jumla

Mnamo mwaka wa 2009 biashara yetu ya huduma za benki za jumla ilitekelezwa vyema kwa mbinu tulioiandaa miaka michache iliyopita na kutimiza ahadi zetu. Uwekezaji wenye nidhamu katika uuzaajiliziwezesha jumla ya kuhusu nafasi ya kuimarisha viwango hivyo hata zaidi na kuendeleza uwezo wa bidhaa zetu. Mtandao wetu katika nchi za Mashariki ya Kati, India, China na Kusini Mashariki mwa Asia umedhihirisha kuwa muhimu katika kutupatia nafasi ya kuendelea na biashara yetu huku maeneo ya biashara yakiendelea kubadilika.

## Gharama

Gharama iliendelea kuthibitiwa vilivyo. Jumla ya matumizi ya uendeshaji shuguli yaliongezeka kwa asilimia 3

# Taarifa ya Afisa Mkoo Mtendaji (yaendelea)

pekee hadi shilingi bilioni 5.2 hasa kutokana na kuendelea kuzingatia uthibiti wa gharama. Hivyo basi licha ya kuongezeka kwa gharama kutokana na uwekezaji mbali mbali kwenye nusu ya pili ya mwaka 2008 na kutekelezwa kikamilifu mwaka wa 2009, jumla ya ongezeko hilo limo kwenye viwango vya gharama ya maisha vilivyoko.

Licha ya uwekezaji uliotekelawa miaka miwili iliopita, gharama yetu na kiwango cha mapato kilishuka hadi asilimia 41 ikilinganishwa na asilimia 49.9 mwaka wa 2008 kwani ongezeko la mapato yetu limeendelea kupita ongezeko la gharama.

## Hasara za mikopo na rubuni

Jumla ya madeni yasiyolipwa yaliongezeka kutoka shilingi milioni 432 mwaka wa 2008 hadi shilingi milioni 548 mwaka wa 2009. Ada ya Huduma za benki kwa Mteja iliongezeka kuambatana na ongezeko la kiwango cha deni kama iliyotarajiwa, lakini liliipwa kwa kupata pesa katika huduma za benki za jumla. Jumla ya mikopo isiyolipwa ilipungua hadi shilingi bilioni 1.5 na ndiyo ya kiwango cha chini katika soko hilo. Hii ni sawa na asilimia 2.5 ya jumla ya mikopo ikilinganishwa na asilimia 3.9 mwaka wa 2008, likiwa ni dhihirisho la uwezo wetu wa usimamizi wa hatari za mikopo.

Tunafurahia viwango vya sasa vya mikopo na tunanua kudumisha utaratibu bora wa usimamizi wa hatari za mikopo.

## Watu

La muhimu katika kuwasilisha mbinu zetu ni watu wetu. Benki hii imewaaajiri zaidi ya wafanyakazi 1,400 na kama shughuli zote za biashara, kupunguza na kuvutia watu walio bora zaidi katika sekta yenye mashindano makali kila mara ni changamoto. Katika mwaka wa 2008, tulienendelea kuwekeza katika uendelezaji wa talanta, kuwapa ujuzi na nafasi ili kuwawezesha watu wetu kukua. Tuna imani kwamba uwekezaji huu katika watu wetu utaifanya Benki ya Standard Chartered Kenya sio tu mahala pakuu kufanya kazi bali pia benki ya chaguo kwa talanta katika soko.

## Mtazamo

Hali isiyobashirika ya kisiasa, hasa kuhusiana na serikali ya muungano inayotawala na uwasilishaji wa katiba mpya, gharama ya juu ya mafuta na pembejeo nyingine vitaendelea kuweka uchumi chini ya hali ngumu na kuchelewesha ufufu wake. Kurejesha imani ya sekta ya kibinagsi, ambayo ni muhimu, kutategemea matuko ya kisiasa na vile vile juhudzi za serikali za kututumua uchumi. Tumeanza mwaka kwa tahadhari na imani. Tunaendelea kuwa waangalifu kuhusu mtazamo huu, hatuko tayari kuwa kwenye mazingira ya hatari na tunaingia mwaka kwa mwendo mzuri. Mbali na hayo, mapato na faida ya mwezi wa kwanza wa 2010 ni bora kuliko ile ya wakati kama huo mwaka wa 2009. Gharama zinathibitiwa vyema kama vile hasara ya mikopo katika biashara zote. Tunaendelea kuzingatia usimamizi ufaao wa mtaji kwa

kudumisha viwango bora vya mtiririko wa pesa, katika kuimarisha usimamizi wa hatari na nidhamu inayotekelawa katika mbinu zetu.

## Kwa mukhtasari,

- tuna mbinu iliyo wazi kabisa inayofanya kazi vyema na ina uwezo mkubwa. Tunatekeleza mbinu zetu na tunaridhishwa na ufanisi tulipata kufikia sasa;
- mionganini mwa vitengo vilivyo chaguliwa vya wateja, kiwango cha wateja wetu chaendelea kuongezeka na tutaendelea kuwasaidia kwa kuwapa bidhaa na huduma zifaazo ili kutimiza mahitaji yao.
- uwekezaji wetu katika teknolojia mpya umetuwezesha kuhudumia vitengo vya wateja wapya.
- tuna taarifa ya kifedha yenye nguvu na yenye mtaji bora. Mtiririko wetu wa pesa unaendelea kuwa wenye nguvu;
- tuko na nafasi nzuri ya kuepuka hali zisizobashirika za kiuchumi siku zijazo; tumejandaa vyema kuwasilisha matokeo mengine bora ya kifedha katika mwaka wa 2010 na kuendelea na safari yetu ya kudumisha biashara yetu ya muda mrefu hapa nchini Kenya.

Mwisho ningependa kusema ninajivunia sana kuwa mionganini mwa wanaume na wanawake 1,442 wanaofanya kazi katika Benki ya

# Taarifa ya Afisa Mkuu Mtendaji (yaendelea)

Standard Chartered kote nchini Kenya.  
Pamoja, tumekuwa kundi imara lenye  
uwezo wa kuwasilisha matokeo bora  
mno ya kifedha kama nilivytangaza.  
Pamoja hatukuepuka tu hali ngumu za  
kiuchumi, bali tulitumia fursa hiyo  
kuimarisha shughuli zetu.

Pia ninashukuru sana kwa msaada  
tulipopata kutoka kwa wateja wetu,  
wawekezaji wetu na serikali. Ingawa  
sipuuzi changamto zilizokuweko na  
hali zisizobashirika, Nina furaha kwa  
nafasi tulizopata.

**Richard Etemesi**  
Mkurugenzi Mkuu  
na Afisa Mkuu Mtendaji

3 Machi 2010

# Sustainability review

## We are determined to lead by example within the markets in which we operate

Millions of people throughout the world struggle to access the basic necessities of clean water, energy, food and healthcare. As an international bank, we believe we can make a major contribution to addressing these challenges.

Through our banking activities, through the use of our core skills, expertise, experience and resources, we are helping to foster economic growth, tackle climate change, and to alleviate poverty; bringing down the barriers to social, environmental and economic progress.

### Our highlights and achievements in 2009

- our investment in our communities, aimed at alleviating poverty and enriching and empowering people, totaled KShs 93 million in 2009 up from KShs 64 million in 2008. We were able to deepen our relationships with customers and key stakeholders as a result;
- we expanded our flagship community initiative 'Seeing is Believing', investing all the proceeds of KShs 12.5 million from the 2008 Nairobi Marathon into this initiative;
- on the environment, we integrated our environmental mitigation efforts into our products when we rolled out mBanking, e-statements and Online Banking services through our Consumer Banking division. We also honoured our pledge by completing the last phase of planting 4,000 trees at Ondiri swamp. The Bank made this commitment on World Environment Day 2008;
- we increased our financing of microfinance institutions to US\$22 million, significantly increasing access to funds to this sector. We also advanced Faulu Kenya, one of our key microfinance partners, KShs 450 million, the largest facility provided to a microfinance institution in Kenya;
- we remained focused on building a sustainable business in Kenya through robust risk management procedures and strict international governance ethics. This is evidenced by our sustained growth in 2009 at a time when the financial sector in Kenya faced serious effects from the global financial crisis; and
- we continued to enhance our commitment to make the Bank an employer of choice through high-quality training for our staff, employee engagement and creating an inclusive culture.

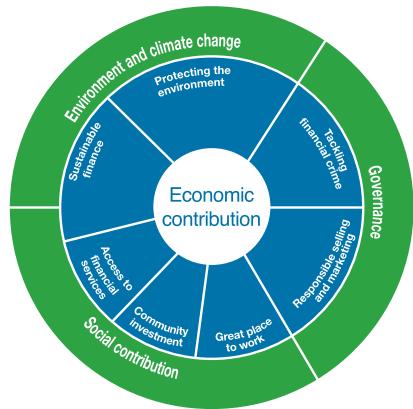
Our strategy has been to continue to focus on making a real difference through sustainable investments. While we will continue to manage our banking practices responsibly, the Bank has additionally focused on seven areas which have been at the heart of our sustainability agenda. We have selected specific areas where we can make the maximum difference and which fully integrate into our business strategy.

- Protecting the environment;
- Community investment;
- Responsible selling and marketing;
- Tackling financial crime;
- Sustainable finance;
- Access to financial services; and
- Great place to work.

## Highlights

- ▶ **KShs 93 million**  
invested in the community in 2009
- ▶ **KShs 12.5 million**  
invested in 'Seeing is Believing' in 2009
- ▶ **4,000**  
trees planted at Ondiri swamp during World Environment Day 2009

### Our Sustainable Business Priorities



# Protecting the environment

The natural disasters of 2009 clearly highlighted the magnitude of the global challenge of environmental degradation. Climate change is making natural disasters more frequent and more dangerous. The severe drought, destructive floods and extreme weather conditions experienced in Kenya last year vividly illustrated the human and financial cost of climate change and the urgency of addressing these issues.

Climate change clearly presents challenges, but also provides opportunities for Standard Chartered Bank to reduce our use of natural resources and to provide products and services that will stimulate a shift to a low-carbon, low resource world.

Our strategy on the environment in Africa is based on the following:

- **Operational impact:** leading by example through reducing the environmental impact of the Bank's own activities;
- **Sustainable lending:** our lending policies are in line with our agenda of contributing towards economic development. We ensure that the organisations we lend to and do business with also make a reasonable contribution to economic development and exercise responsible business practices; and
- **Engagement:** raising awareness among employees and wider stakeholders about the consequences of poor environmental stewardship and the importance of environmental protection through partnerships with the media, government and Non Governmental Organisations (NGOs). This is achieved through thought-leadership and specific environmental initiatives.

## Operational impact

As a Bank, our operations have little impact on the environment compared with many other businesses, but we can make a difference by focusing on three key areas:

- energy consumption in our buildings;
- emissions from air travel; and
- use of paper, which not only depletes forests but its production is energy and water intensive.

Achieving our ambitious targets requires rigorous systems and new ideas. As a result, in 2008, the Standard Chartered Bank Group, introduced programmes ranging from energy management to electronic information flows.

## Energy use in buildings: Management and information systems

We monitor energy consumption in our buildings using our Global Environmental Management System (GEMS), which is modeled on ISO 14001, the international environment management standard. In 2009, we increased the number of buildings covered by GEMS from 52 to 81 or 47,000 employees worldwide.

We internally verified GEMS data in our branches. In addition, GEMS requires specific plans for the buildings it covers, detailing how the use of resources will be reduced.



As a Group, we now use environmental certification for all new buildings by the recognised Leadership in Environment and Energy Design (LEED) in the United States. We look for high performance and will not accept less than the equivalent of the US LEED 'Gold' rating.

In Kenya, the Bank will soon be moving its headquarters from Moi Avenue to Chiromo Road in Nairobi. The new building will have acquired Gold LEED status in all aspects.

## Highlights

► 81

buildings covered by GEMS globally

► 47,000

employees covered by GEMS globally

# Protecting the environment (continued)

## Our products

We have continued to promote online banking services to our retail customers. Electronic banking reduces paper consumption, as well as the energy needed to distribute hard copies of statements and other communications. We have launched and enhanced our online banking offering from 16 countries to 25 countries in 2009 with a 25 per cent year-to-date increase in registered customers and 35 per cent increase in activities.

In 2009, SCB Kenya launched online banking, mobile banking and e-statements. 34,000 customers have signed up for e-statements, 15,000 customers are transacting through our mBanking platform and 4,800 customers are using our online banking facility.

We aim to reduce the use of paper statements across our key markets in the world by 40% by 2011 and have made significant progress towards this goal in 2009.

## Partnerships:

### 'Cycle with the Rhino'

Kenya is currently facing major environmental challenges as a result of climate change and extensive environmental degradation. Over the past several decades, we have witnessed the gradual encroachment of human settlement and the degradation of the Mau Complex, an important water catchment area for most of the rivers in western Kenya. The destruction has significantly impacted water levels in many of the lakes and rivers within the Rift Valley.

This has resulted in power shortages, leading to the escalation of power prices, water scarcity and severe drought in many parts of Kenya.

Standard Chartered Bank became involved in 'Cycle with the Rhino' three years ago, when we partnered with the Kenya Wildlife Service to raise money for the conservation of the Lake Nakuru ecosystem.

## Highlights

- ▶ **34,000**  
customers subscribing to e-statements
- ▶ **15,000**  
customers transacting through mBanking
- ▶ **4,800**  
customers using online banking facilities



The Bank has been supporting 'Cycle with the Rhino' an annual event held at Lake Nakuru National Park. Since 2007, the Bank has donated KShs 7 million as a lead sponsor. Proceeds from the event go towards the conservation of Lake Nakuru.

# Protecting the environment (continued)

Lake Nakuru is home to 450 bird species, 300 plant species and 50 species of mammals, and is an internationally acclaimed bird-watcher's paradise. It is therefore absolutely critical that such a valuable national treasure is conserved not only for the sake of enhancing tourist attractions within the area, but also for future generations to appreciate and enjoy.

The conservation efforts being promoted through 'Cycle with the Rhino' will go a long way in achieving this goal. In 2009, the Bank donated KShs 3 million and entered a staff team to participate in the event.

## 'Pride of Kenya' lion conservation initiative

In the last thirty years, lion populations in Africa may have fallen by as much as 75 per cent and it is believed that as few as 25,000 lions now remain. These are shocking statistics that we cannot ignore.

Lions are simply unable to cope with the seemingly endless barrage of threats. Indiscriminate poisoning, shrinking habitats, lack of prey species, trophy hunting, poaching and illegal trade are all taking a heavy toll.

Despite concerted efforts by the Kenya Wildlife Service, Kenya's lions are also feeling the strain; with only an estimated 2,100 lions remaining, urgent action must be taken to protect the remaining populations.

As a result, the 'Pride of Kenya' initiative was started; a public appeal and an art event that featured 50 life-size fibreglass lion sculptures uniquely painted, decorated and adorned by Kenyan artists. We adopted one of these lions, named 'Mr. Heritage'. The lion was stationed on Moi Avenue in front of Stanbank House for eight weeks.

All 50 lions unveiled on 17 June 2009 by the Born Free Foundation were sold at an auction on 4 November 2009 to raise funds for the conservation of lions in Kenya.



The Bank was a key sponsor of the 'Pride of Kenya' initiative where it sponsored 'Mr Heritage', one of the 50 lions that was displayed on the streets of Nairobi to raise awareness on lion conservation. The lion's name and artistic painting was inspired by the need to conserve our heritage hence the images of Mt. Kenya, the big five, the Kenyan coast and our legendary Maasai warrior.

## Highlights

- ▶ **KShs 7 million**  
the Bank's total sponsorship towards 'Cycle with the Rhino' since 2007
- ▶ **KShs 680,000**  
sponsorship towards the 'Pride of Kenya' initiative
- ▶ **25,000**  
lions remaining on the African continent

# Protecting the environment (continued)

Prior to that, the lion statues were showcased at the 2009 Standard Chartered Nairobi Marathon. This was to complement the Bank's efforts to raise awareness among employees and wider stakeholders about the consequences of poor environmental stewardship and the importance of environmental protection through partnerships with the media, government and with NGOs.

## Employee engagement

Enthusiastic involvement of employees is essential to achieve our targets. We need their commitment and welcome the fact that staff increasingly expect their companies to promote high environmental standards. We encourage employees to take action at work, at home and in their communities.

Communication with staff on the environment includes specific training on new initiatives such as our position statements on sensitive sectors and issues. We also use a range of interactive tools to engage and inspire staff.

Our Group intranet programme GEMS Office demonstrates the benefits of investment in environmentally-friendly infrastructure.

Our website also features a 'carbon calculator' that is unique in covering 70 countries. People use it to estimate their personal carbon footprint and it helps them understand how to reduce their contribution to climate change, as well as stimulating them to change their behaviour.

Our staff have also taken the initiative through the identification and support of projects which contribute towards protecting the environment; for example our staff volunteered and planted over 4,000 trees at Ondiri swamp.

## Highlights

### ► 4,000

trees planted by staff at Ondiri swamp



Our staff are highly engaged and informed on the urgency to conserve the environment.

The Bank sensitises staff on the need to conserve energy at the workplace as well as outside their offices.

On World Environment Week, the Bank ran an internal campaign sensitising staff on the drastic effects of environmental degradation and why they need to take personal responsibility towards conserving the environment.

# Community investment

HIV/AIDS is still a major challenge in Kenya. Over 6,800 new infections are recorded daily and more is yet to be done to curb the spread of the virus.

We have pledged through the Clinton Global Initiative to educate one million people on HIV and AIDS by 2010. We have extended our education programmes to SME customers in Africa, as well as to global corporations and to students around the world.

The challenges of preventable blindness and malaria also threaten lives and economic prospects across our markets. In October 2009, under the banner of 'Seeing is Believing – A New Vision', we made a commitment to provide eye-care services to 20 million people in 20 cities by 2015. Kenya is a major beneficiary of 'Seeing is Believing'.

## The Standard Chartered Nairobi Marathon

2009 saw Standard Chartered Bank once again sponsor the seventh Nairobi Marathon. Since its modest beginnings in 2003 with 4,000 participants, the marathon has grown to become the largest social and sporting event in Kenya. Our objectives for the marathon remain absolutely consistent:

- raise money to support 'Seeing is Believing', a charitable initiative aimed at combating preventable blindness;
- identify and provide new opportunities for Kenyan athletic talent;
- raise the international profile of Kenya; and
- create a fun and enjoyable event.

The 2009 Nairobi Marathon has been commended as the greatest marathon so far. The event, under the theme, 'Hesabika Tena, Run and be a hero in someone's eyes', saw over 13,000 participants taking part. The last two years have been particularly noteworthy.



Since 2003, the Bank has used the proceeds from the Nairobi Marathon to raise funds for 'Seeing is Believing'. In 2008, we raised KShs 12.5 million which helped fund 659 cataract surgeries in five hospitals.

The marathon has been extremely successful with participation, awareness and funds raised growing tremendously year after year.

## Highlights

- ▶ **13,000** participants in the 2009 marathon
- ▶ **KShs 7.62 million** prize money awarded in the 2009 marathon
- ▶ **US\$ 3.2 million** value of brand exposure in media publicity during the 2009 marathon

# Community investment (continued)

During this period, we have changed the route and have settled for a course that fully complies with the international standards as required by International Association of Athletics Federation (IAAF) and gives runners an opportunity to set excellent times even at high altitude. Indeed, the 2009 marathon had two winners breaking the course record in the 42 KM male and female races. The male winner Moses Kigen hit a record of 2 hours 10 minutes 12 seconds, while the female winner, Irene Jerotich recorded a time of 2 hours 28 minutes 57 seconds.

2009 was also marked by increased awareness and support for 'Seeing is Believing'. A combination of media support and goodwill from friends of the marathon and participants saw the contributions to 'Seeing is Believing' increase by 16 per cent. These contributions will facilitate over 700 cataract operations to children under the age of nine in the five hospitals sponsored by Standard Chartered Bank in Kenya. The proceeds will also support the expansion of Kapenguria, Kapsabet and Iten district hospital eye units.

## Key achievements in 2009

- number of participants increased by 7 per cent with 63 corporate organisations participating;
- contribution to 'Seeing is Believing' supported by the 'Hesabika Tena' theme increased by 16 per cent;
- media and publicity value increased from US\$ 1.2 million to US\$ 3.2 million in 2009, achieving increased event awareness;
- improved and efficient registration process with one-stop registration through-out the country;
- registration was also made more efficient by the introduction of a two-tier registration process enabling the early closure and a usable database;
- revamped wheelchair race with increased prize money of KShs 420,000 and increased participants from 30 to 103;
- good collaboration and support from key stakeholders forming the National Steering Committee.

## Highlights

- ▶ **KShs 12.5 million**  
funds raised from the 2008 marathon that supported 'Seeing is Believing' initiatives in 2009
- ▶ **5**  
number of hospitals benefiting from 'Seeing is Believing' across Kenya



We have partnered with Christian Blind Mission (CBM), who are our technical partners to reach out to over 3,000 children through cataract surgeries in Kenya.

Christine Ndunge Wambua is one of the 659 children who benefited from 'Seeing is Believing' by undergoing cataract surgeries on both eyes last year.

Christine was born with congenital cataracts that affected her eyesight thus hindering her movements. After a check up, doctors discovered that she had cataracts and was referred to Kikuyu Eye Hospital where she had her sight restored courtesy of 'Seeing is Believing'.

# Community investment (continued)

- increased staff engagement and volunteers with 25 cells and over 200 staff volunteers; and
- increased contribution in kind by sponsors which improved efficiency in executing the marathon.

## 'Seeing is Believing'

'Seeing is Believing' is the Bank's flagship sustainability initiative aimed at eradicating avoidable blindness. The challenges of preventable blindness threaten lives and economic prospects across our markets.

'Seeing is Believing', a global initiative to tackle the causes of avoidable blindness, has restored the eyesight of over two million people in 17 countries. In 2008, we launched 'A New Vision', our latest commitment to 'Seeing is Believing'. The Group will invest a further US\$ 20 million to provide sustainable eye-care services for 20 million people in deprived communities in 20 cities across the world.

'A New Vision' marks an evolution in the Bank's strategy as we progress from funding surgeries and medicine to developing systems and processes to ensure the long-term sustainability of the programme.

This builds on the Bank's strengths and more closely integrates 'Seeing is Believing' with our business and brand. The move responds to feedback from our partners, the International Agency for Prevention of Blindness (IAPB) and the World Health Organisation (WHO).

In Kenya, we have received very positive feedback from our staff who are very proud to be involved in 'Seeing is Believing' fundraising activities like the Nairobi Marathon.



At Lechet village, in the heart of Samburu district, we continued with our trachoma intervention initiative. We funded another comprehensive trachoma control project where trachoma surgeries were carried out, tetracycline tubes and mosquito treated nets distributed. We also sponsored the construction of a rock catchment for harvesting rain water to rid the community of the perennial water problem and improve the sanitation systems.

## Highlights

### ► US\$ 20 million

the Group's investment in providing sustainable eye-care services globally

### ► 20 million

number of people to benefit from eye-care services through 'Seeing is Believing' globally

### ► 20

number of cities that will benefit from 'Seeing is Believing' globally

# Community investment (continued)

Through the proceeds of the 2008 Nairobi Marathon, a total of 659 congenital cataract operations were carried out, compared to 371 operations in 2007. These operations were carried out in five hospitals: Kikuyu, Sabatia, Tenwek, Kwale and Lighthouse eye hospitals.

At Lechet village, in the heart of Samburu district, we continued with our trachoma intervention initiative. We funded another comprehensive trachoma control project where trachoma surgeries were carried out, tetracycline tubes and mosquito treated nets distributed. We also sponsored the construction of a rock catchment for harvesting rain water to rid the community of the perennial water problem and improve sanitation systems.

This was the second trachoma control project after we successfully completed a pilot project in neighbouring Siangan village in 2008.

## Capacity building in Iten, Kapsabet and Kapenguria district hospitals

One of the main objectives of 'Seeing is Believing-A New Vision' is to invest in the sustainability of all 'Seeing is Believing' projects in the world. We have therefore moved from funding cataract operations and buying medicines, to building systems and capacity for the future sustainability of the programmes.

In 2008, the Group invested in the expansion and capacity building of the eye units in three hospitals in the Rift Valley: Iten, Kapsabet and Kapenguria district hospitals.

The expansion will contribute substantially to the strengthening of primary eye-care systems and also ease pressure on the Moi Referral Hospital which is the only referral centre for all eye-care services in the Rift Valley. This will increase the level of comprehensive eye-care services to the affected populations, improve the quality of services and increase the opportunity to deliver to the poor.

The project will involve the rehabilitation and equipping of facilities, the training of workers and the entrenchment of high standard management systems.

## HIV/AIDS

### (a) Health at Home/ Kenya Impact initiative

The Bank partnered with other organisations in the ground-breaking Health at Home/Kenya Impact initiative, a collective-action initiative coordinated by the Global Business Coalition on HIV, Tuberculosis and Malaria.

## Highlights

### ► 659

cataract operations performed through 'Seeing is Believing' in 2009

### ► 1 million

Target number of people to be reached through HIV/AIDS education

# Community investment (continued)

The initiative is providing home-based HIV/AIDS testing and counseling for two million people in Western Kenya. This innovative door-to-door HIV testing model includes community preparation and pre-visits by local mobilisers.

To date, 97 per cent of households reached by the Health at Home/Kenya Impact initiative have welcomed HIV/AIDS counselors in their homes. These remarkably high numbers demonstrate how the initiative is having a tremendous impact on people's health and well-being.

Those found to be HIV positive were directly connected to treatment programmes.

## (b) 'Living with HIV' Programme

In the absence of a cure or vaccine, the only hope of tackling HIV/AIDS is to educate people on how to avoid contracting the virus in the first place or passing it on if they are HIV positive.

The Bank, through the Clinton Global Initiative has committed to educate one million people on HIV and AIDS by March 2010. So far, pledges are in place to reach over 1 million people across 50 countries. This volunteer-driven programme, called 'Living with HIV', uses educational materials that are available free of charge from the Bank. The programme is provided in 10 languages.

## Highlights

▶ 50

countries to benefit from the HIV/AIDS education pledge

▶ 10

languages through which the HIV/AIDS education is provided



Through the Clinton Global Initiative, the Bank has pledged to educate 1 million people on HIV and AIDS across 50 countries by 2010 through a volunteer driven initiative called 'Living with HIV'.

# Community investment (continued)

Last year, Standard Chartered Bank further expanded the reach of 'Living with HIV' with the launch of HYPERLINK "http://www.vir.us" www.vir.us, with interactive web-learning modules which deliver HIV and AIDS education in a fun and engaging format. The site was developed to reach 15-24 year olds, who account for 40 per cent of all new infections.

In addition, the Bank focuses on our core competencies to migrate best practice to organisations directly involved in the fight against HIV/AIDS. In this respect, the Bank trained 18 NGOs and Community Based Organisations involved in the fight against HIV/AIDS in 2009.

## Staff projects and volunteering

Our employees always show huge commitment to supporting their communities. We encourage employee volunteering to forge stronger relationships between us and the communities in which we operate.

Volunteering gives employees the opportunity to use their skills to make a unique contribution to the organisations and causes they support.

Under the Bank's Employee Volunteering programme, we provide employees with an extra two days paid leave a year to volunteer in projects aligned with our community and environmental programmes. The number of employees volunteering continues to grow, with more than 700 days clocked in 2009.

The aim of our employee volunteering programme is to make even more people aware of the benefits of volunteering and to measure its contribution to community investment.



Our staff are committed to being part and parcel of our sustainability agenda. They have been contributing to various projects that fall within our strategy including HIV/AIDS and the environment.

The Bank has put aside a kitty to boost these efforts. Through the shilling-for-shilling initiative, the Bank encourages staff to contribute towards making a difference to the communities in which we operate.



Financial Markets Operations Unit relationship with Neema Children Home, Naivasha started in 2007 with visitations and donations of food and clothing.

In 2009, the team constructed drainable toilets at the home. This project was informed by the long queues of students waiting to share the latrines that were filling up pretty fast which the team witnessed during their visits to the school.

## Highlights

### ► 15-24 years

age group targeted by our new highly interactive HIV/AIDS education website

### ► 700

employee volunteering days in 2009

# Community investment (continued)

In 2009, we continued to bolster efforts by staff through the Bank's shilling-for-shilling initiative. This programme has continued to give our staff the freedom to own and drive projects that fall within the Bank's sustainability agenda.

With the environmental challenges in Kenya in 2009, our staff led the way in contributing to projects aimed at environmental protection. The winning project of the year was driven by the Finance department which raised money and ran a competition to win energy-saving bulbs. 250 staff members have so far benefited from this initiative.

Following severe water shortages resulting from the prolonged drought in 2009, Consumer Credit department provided water tanks to three public schools in Nairobi; Buruburu 1 Primary School, Uhuru Primary School and Nairobi River Primary School. Beneficiaries of this gesture also included residents of Kiambiu slum. The tanks were used to harvest rain water and cushion the beneficiaries against shortages during the dry spell.

Through the Bank's staff volunteering programme, staff completed five projects across the country as reflected in the table below:

Beneficiary	Project	Participating department
Buruburu 1 Primary School, Uhuru Primary School, Nairobi River Primary School and residents of Kiambiu slum	Water tanks	Consumer Credit department
Mater Hospital	Mater Heart Run	SSC Reconciliation department
Neema Children's Home	Sanitation	Financial Markets department
SCB Staff	'Make the Big Switch' (energy-saving light bulbs)	Finance department
Slum Outreach in Kibera	Desks	Consumer Banking



Following the severe drought experienced last year, there was urgent need to conserve energy and reverse the effects of environmental degradation.

Finance department came up with a creative project; 'Make the Big Switch' where they distributed over 1,000 energy-saving bulbs to over 250 staff in the Bank.

## Highlights

► 250

number of staff who benefited from the energy-saving bulbs project by Finance department

# Responsible selling and marketing

At Standard Chartered Bank, our approach to selling and marketing is guided by our brand promise of 'Leading by Example to be The Right Partner'. Our brand promise helps define the Bank's culture and creates the foundation to embed the United Kingdom Financial Services Authority's principle of Treating Customers Fairly in our interactions with customers and clients.

The current financial crisis has highlighted the critical role of responsible selling and marketing in banking. We are committed to treating our customers fairly in setting high standards for employee training, product development, marketing and sales as well as after-sales service processes and managing customer complaints. We want to ensure that we are transparent in our dealings with our customers and that we offer them the right products and advice.

This is underpinned by three of our core values of being trustworthy, courageous and responsive. We apply these values to maintain customer loyalty, reinforce a culture which seeks fairness in customer relationships and ensure customers understand the risks involved.

## The Code of Conduct

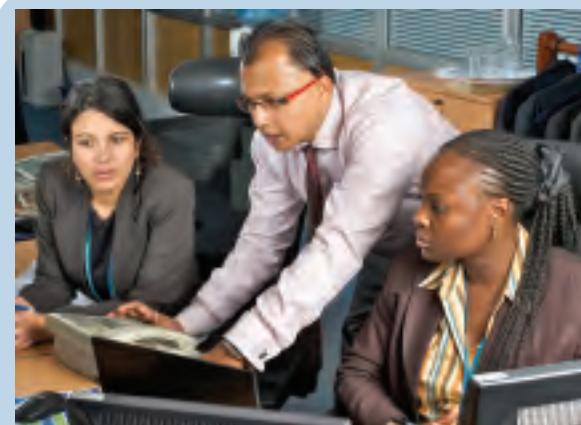
At the heart of our approach is the Bank's Code of Conduct, which sets Group-wide standards of behaviour that employees must follow with each other, and with their customers, communities, investors and regulators, to ensure the right culture of fair treatment is followed across Standard Chartered Bank.

In September 2008, Standard Chartered Bank launched the refreshed Code of Conduct. Employees are required to make the Code an integral part of how they work, as it is essential for the Bank's continued success.

## Highlights

► **522**

staff trained on customer service



All Consumer Banking staff undergo thorough training in various areas aimed at equipping them to serve our customers better. All staff undergo training on 'Treating Customers Fairly' within three months of joining the Bank alongside other targeted customer service training.

# Responsible selling and marketing (continued)

## Training

All staff in Consumer Banking are required to complete training on 'Treating Customers Fairly' (TCF) within three months of joining the Bank. It covers the whole product life cycle, which includes testing different aspects of fairness applied to practical banking scenarios.

Our direct sales representatives undergo further training which, along with robust performance standards, ensures that the customer experience and fairness issues are managed effectively.

In March 2009, 456 branch staff, 34 Customer Experience Officers and 32 Personal Financial Consultants were trained on customer service.

## Voice of the customer

The Bank examines its measures of customer service in detail to ensure market survey data and customer feedback is best used to develop services aligned to customers' needs and improve responsiveness to customers. The Consumer Bank's Voice of Customer (VOC) surveys are used to review overall service performance and customer analytics to identify systemic issues and shape our service transformation agenda. VOC survey scores improved from 73% to 83% against a target of 80% of customers giving an overall High Score of 8,9 or 10 in the service survey. Net Promoter Score, Customer Loyalty and Advocacy index were tracked at 82% which underpins the importance of achieving customer satisfaction.

## Education and financial literacy

The Consumer Banking business engages in consumer education programmes to increase customers' financial literacy. The Bank organises quarterly financial seminars for its Diva Account holders and other investment seminars for our customers.



Diva Club has continued to set the standards for providing financial services to women in Kenya.

Last year, we refreshed the Diva Account. The refreshed Diva Club account now targets women between 25-40 years old and comes with special benefits for this group of customers.

In addition, the Bank conducts quarterly financial training workshops for Diva Account holders aimed at enlightening our customers on financial matters. During these workshops, we engage industry leading financial experts for a full day of training.

## Highlights

► 83%

VOC survey in 2009

► 82%

Net Promoter Score, Customer Loyalty and Advocacy Index was tracked at 82%

# Tackling financial crime

The Bank is highly committed to tackling financial crime because it affects every market, no matter how sophisticated, and it has wide implications beyond financial losses. Victims range from global organisations to individuals. Communities and whole economies can suffer.

New technology constantly improves security but it also provides criminals with new opportunities. For example, emails disguised as being from banks and other official organisations (known as phishing) are frequently used to steal personal information such as account details and passwords.

We work hard to minimise the damage criminals can inflict on our customers, our communities and our business. In 2009, our efforts on Anti-Money Laundering (AML) and Countering Terrorist Financing (CTF) continued to recognise these risks.

As a Group, we have introduced a new Group strategy to tackle money laundering and extended the use of Norkom, our AML system for identifying suspicious transactions. We also introduced an improved system to screen all new accounts.

In addition, we have done extensive work on fraud prevention.

2009 saw an increase of frauds across the banking industry. The trend was varied from cheque frauds and skimmed cards. As a result of the heightened risk, our Financial Crime Risk department embarked on an ambitious programme to create increased awareness amongst our staff. Measures included training on AML and fraud awareness, relaunching our 'Speak up' Policy, conducting fraud risk assessments and driving an increase in best practice sharing of fraud incidences across Africa.

## Highlights

### ► 1,442

all 1,442 SCB staff were targeted during the 'Speak up' awareness campaign

**You speak out  
on wrongdoing  
we'll act in  
confidence**

The Bank continues to conduct fraud awareness training and encourage staff to speak up on suspected cases of fraud, breach in policies and procedures.

# Tackling financial crime (continued)

## AML training

The Financial Crime Risk team trained more than 800 members of staff on the Group's AML Policy and Procedures and the Central Bank of Kenya's Prudential Guidelines on AML issues. They also trained the Consumer Bank's Transaction Monitoring Unit (tasked to monitor transactions on customers' accounts) on how to identify suspicious transactions.

## 'Speak up' Policy

All staff were trained on the Group's 'Speak up' Policy and encouraged to speak up (whistle blowing) on suspected cases of fraud, breaches of Group Policies and Procedures and against the violation of local laws to a dedicated voicemail number. Kenya is now a centre of excellence for the Africa region.

## Fraud awareness training

The team conducted fraud awareness training to staff in all branches, direct sales representatives, new joiners and at the Shared Service Centre. As a result, there was a significant decline in the number of successful frauds against the Bank and our customers. We remain a market leader within the industry in terms of being committed to mitigating against frauds and on the way in which we guard against financial crime.

## Fraud risk assessment

We also conducted fraud risk assessment training for our Credit Risk Control Hub, Account Services and Trade Services departments and published a report of findings with recommendations that have now been adopted.

There is now an assurance that customers' data for account opening is properly captured and secured, processing and control of trade instruments is robust and the Bank is not exposed to unnecessary risk of loss during loans processing.



The Financial Crime Risk team trained more than 800 members of staff on the Group's AML Policy and Procedures and the Central Bank of Kenya's Prudential Guidelines on AML issues.

## Highlights

► 800

staff trained on the Group's AML Policy and Procedures

# Sustainable finance and access to financial services

At Standard Chartered Bank, we recognise that as a leading international bank we have an exceptional ability and responsibility to contribute to the long-term sustainability of our planet.

By far the biggest impact we have on society and our environment is through our support for the business activities of our clients. Our financing decisions – who and what we finance—enable us to make our strongest contribution to sustainable development.

We seek to lead by example and we work with clients who share our commitment to driving sustainable economic growth, protecting the environment and contributing positively to the societies in which we live and work. As a partner to our clients, we work with them to manage environmental, social and governance risk and support business activities that improve peoples' livelihoods.

Improving access to finance is a key part of our focus on building a sustainable business. Microfinance is one way of increasing access to financial services. Improved access to finance provides clients with the opportunity to grow their enterprises, increase their income, pay for emergencies and invest in the health, housing and education of their families.

We believe that our long-term financial performance is dependent on having the right social and environmental conditions for growth in our markets.

Through microfinance, the Bank aims to contribute to poverty reduction and economic development. Microfinance is a commercial opportunity, which has the potential to make a real contribution to broadening social inclusion.

Standard Chartered Bank has continued to work closely with the microfinance industry as we fulfill the commitments made to the Clinton Global Initiative (CGI).

Through the CGI, we have established a US\$ 500 million Microfinance Facility over a five year period. Standard Chartered Bank will provide development organisations and fund managers with US\$ 500 million of credit and financial instruments as well as technical assistance to finance Microfinance Institutions (MFIs) in Africa and Asia. It is estimated that this facility will benefit 4 million people who are currently excluded from participation in the financial sector.

## Our approach and offering

The Bank's microfinance portfolio has grown from 3 MFIs in 3 markets in 2005 to 120 clients in 22 markets by January 2010. Our offering focuses on the three areas outlined below.

**Microfinance Institutions (MFIs):** By adopting a wholesale microfinance approach, we provide the full range of banking products and services to MFIs across Asia, Africa and the Middle East, supporting them to multiply their outreach and impact.

## Highlights

- ▶ **US\$ 500 million** pledge to support microfinance through the Clinton Global Initiative (CGI)
- ▶ **4 million** people who will benefit directly and indirectly from the pledge

# Sustainable finance and access to financial services (continued)

Our aim is to be a full service banking partner to our microfinance clients and our product offering includes: local currency funding, cross border loans, debt capital markets, transaction banking solutions, foreign exchange and derivatives.

**Development Organisations and Socially Responsible Investors (SRIs):** We work with Development Organisations and SRIs to increase the flow of funds to the microfinance sector.

The Bank is leveraging alliances with Development Organisations clients to mitigate risk, develop the sector and provide technical assistance.

**Technical assistance:** We invest in technical assistance initiatives to increase the capacity of MFIs and influence regulatory policy. In addition, we support research and innovation, promote industry events and foster employee engagement.

This strategy aims to build upon the Bank's expertise in governance, risk management and human resources to share best practices with our MFI partners. In Kenya, we have increased lending to the microfinance sector. Total lending to Faulu Kenya, Kenya Women Finance Trust (KWFT) and KADET, our main MFIs, stood at US\$ 22 million. This represents an increase of more than US\$ 8 million over the previous year which reinforces our increased confidence in this sector. 2009 was an exciting year for Faulu Kenya and the MFI industry in general.

The Central Bank of Kenya licensed Faulu Kenya as the first ever Deposit Taking Microfinance institution (DTM) in Kenya. On the back of a guarantee from International Finance Corporation (IFC), Standard Chartered Bank extended a five year term loan facility worth KShs 450 million on very competitive rates to help Faulu kick-start its operations as a fully fledged DTM outfit. This was a ground-breaking deal for Faulu as it was the largest facility extended to a microfinance institution in Kenya.



The Bank has been a right partner for Faulu Kenya for many years. We have seen Faulu grow from strength to strength to be among Kenya's largest microfinance institutions.

2009 marked a milestone for Faulu as they were licensed by the Central Bank of Kenya to be a Deposit Taking Microfinance institution (DTM). The Bank has walked with Faulu through this journey providing financial and capacity building solutions.

With a guarantee from the IFC, the Bank structured a KShs 450 million loan facility for Faulu, the largest credit facility extended to a microfinance institution in Kenya. The funds enabled Faulu Kenya to kick-start its operations as a fully fledged DTM outfit.

## Highlights

- ▶ **KShs 450 million**  
facility extended to Faulu Kenya in 2009

# Sustainable finance and access to financial services (continued)

Standard Chartered Bank also provided technical assistance to Faulu during this transition. The initial phase of the assistance involved teller training for the branch staff. As KWFT and KADET prepare to be licensed, we commit to continue offering technical assistance in the structure and delivery of training programmes for their staff as well as thought-leadership to these institutions.

Standard Chartered Bank will continue to work closely with multilateral and bilateral lending institutions supporting microfinance in order to ensure affordable facilities are availed to the institutions in this industry. The Bank will endeavor to structure facilities that will also reduce the foreign exchange exposures that key players in the microfinance industry face.

We have positioned ourselves as the Clearing and Settlement bank for MFIs as they transform into DTMs through our award winning Transaction Banking capabilities.

## Highlights

### ► US\$ 22 million

lending to the microfinance sector in Kenya in 2009

# Great place to work

Standard Chartered Bank firmly believes that to realise its vision, it must nurture and constantly develop its winning formula; a combination of service excellence, quality, participative management and empowerment. The organisation also realises that this will only be achieved if it continues to value and care for its employees. At Standard Chartered Bank we take the management of people extremely seriously.

## Employee Wellness

Employee wellbeing is a key priority for the Bank. In 2009, we continued our relationship with Independent Counselling and Advisory Services (ICAS).

Through this programme, staff and their relatives access advice on issues related to work, health and relationships. This programme complements our human resources policies and people practices, to ensure our employees are healthier and more productive thus enhancing business performance. We continue to manage HIV/AIDS in the workplace by ensuring our non-discrimination policy and the provision of medical care to those affected or infected. Our HIV/AIDS programme is now a fully integrated part of our Wellbeing programme.

In 2009, we invested in educating our staff and the community as well on HIV/AIDS. We ran an in-house testing and education campaign to mark the World AIDS Day in 2009. We also partnered with the Association of Students in Economics and Commerce (AISEC) to educate more students on HIV/AIDS and additionally introduced this to our SME customers.

## Talent development

Our staff are our greatest asset. We continue to invest and ensure that they are properly equipped to deliver on their roles and on the overall Bank strategy, as well as keep them highly motivated and engaged.

Consumer Banking has been going through a transformation journey that required the re-alignment of talent to ensure that staff were clear on their roles in moving the business forward.

The re-alignment has involved training and enhancing the skills of the frontline staff and our sales force, as the Consumer Bank shifts to a more customer-centric approach. For the first time, a robust and comprehensive training programme has been launched for relationship managers and branch managers across the business. The choice of skills and capabilities developed within the certification programmes are geared towards equipping all frontline staff with the skills and capabilities that guarantee the best in class customer experience in each of our key customer segments.

In 2009, we increased our sales force by 100%.

## Highlights

### ► 100%

the Bank increased its sales force by 100% in 2009

# Great place to work (continued)

## Diversity and Inclusion (D&I)

The Bank is deeply committed to creating an inclusive culture. We value our diversity, with opportunities being provided equally to all to excel and grow irrespective of gender, race or disability.

Our strategy is based on our GLOBAL DIVERSITY AND INCLUSION principles:

- valuing the broad range of cultural and personal differences our people offer in line with our strengths-based approach;
- creating an inclusive environment where everyone has an equal opportunity to maximise their potential and perform to their very best;
- leveraging differences in individual viewpoints, experiences and perspectives;
- respecting our employees' needs to balance their work and personal commitments by creating a flexible environment that, as far as possible, is sensitive to the different needs of individuals;
- ensuring our people management processes are objective and focus on individual performance, potential and contribution to the business;
- establishing an environment where employees feel safe and free from harassment and discrimination; and
- understanding and respecting the markets and communities in which we operate, gaining recognition both internally and externally.

Last year we took our D&I commitment to a new level with the launch of the Women's Forum. Dubbed 'SKIRTS' (Sisterhood, Knowledge, Integrity, Respect, Tenacity, and Substance), the forum aims to bring together all the women in the Bank and provide a platform where women challenge each other, discuss opportunities and find ways of balancing their careers with their lives outside the Bank.

Our gender balance is broadly equal with 48% of our employees being female. 2010 will be a great opportunity for us to continue to broaden our horizons and strengthen our collective application of our D&I message.

## Highlights

► **48%**

percentage of women employees in the Bank in Kenya



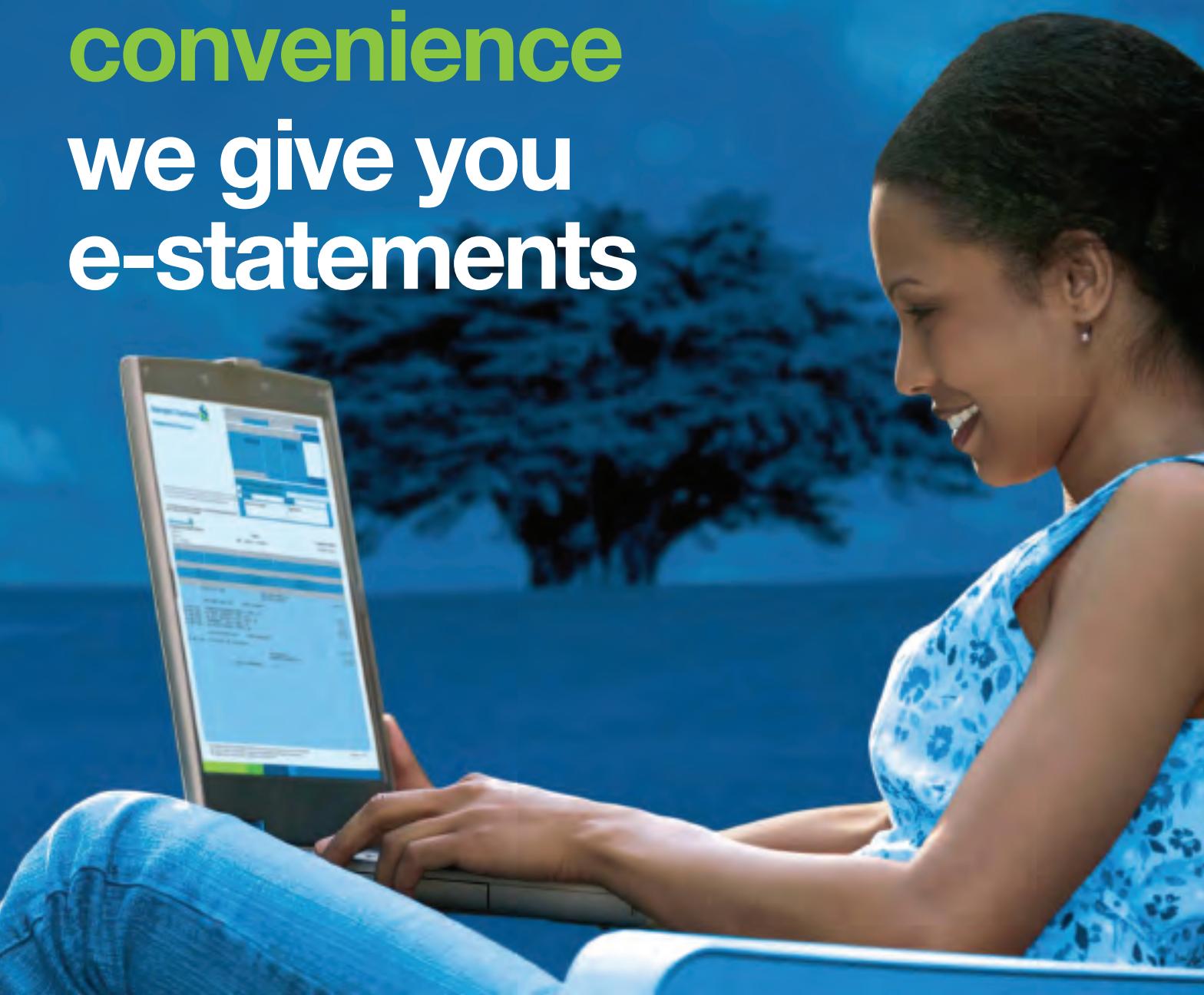
The Bank endeavours to foster an inclusive culture in the workplace.

We value our diversity and opportunities are provided for all irrespective of gender, tribe or physical capability.

We have ensured gender balance in our workforce with 48% of our employees being

female. Under D&I, the Women's Forum was formed last year, a platform through which women within the Bank interact with each other and share experiences.

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### I E-statement I

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# Board of Directors

## 1. Wilfred Kiboro, Chairman

Appointed to the Board on 2 April 2007 and became Chairman on 28 May 2009. He is a vastly experienced manager who is highly regarded due to his enviable track record in the Kenyan corporate scene. He is the Chairman of the Board of Nation Media Group. Previous appointments include Managing Director of Rank Xerox Kenya, Managing Director of Nation Newspapers and Group Chief Executive Officer of Nation Media Group. Age 65.

## 2. Richard M. Etemesi, Managing Director & Chief Executive Officer

Appointed to the Board on 19 February 2004. Appointed as Managing Director & Chief Executive Officer on 1 November 2006. Immediately prior to this, he was the Executive Director in charge of Finance and Strategy. He previously held senior management positions in the Bank in Kenya and Zambia as well as being the Managing Director of Standard Chartered Bank Uganda Limited. Age 47.

## 3. Michael C. Hart, Non-Executive Director

Appointed to the Board on 20 February 2003. He is the Chief Executive Officer for Standard Chartered Bank in Africa. His previous senior appointments include Managing Director, Standard Chartered Bank Kenya Limited, Group Head of Audit and Investigations, Group Head of Operations and Head of International Consumer Finance in Asia Pacific. Age 58.

## 4. Kariuki Ngari, Executive Director, Consumer Banking

Appointed to the Board on 24 February 2009. He joined the Bank in January 2009 and is in charge of Consumer Banking. He has wide experience in Consumer Banking. Before his appointment to the Board of Standard Chartered Bank Kenya Limited, he was the Consumer Banking Director at Barclays Bank of Kenya Limited and prior to that the Head of Retail Performance. He also worked for Standard Chartered Bank Kenya Limited in various capacities before he left for Barclays in 2001. Age 43.

## 5. Chemutai Murgor, Executive Director, Finance & Chief Finance Officer

Appointed to the Board on 1 March 2007. She has been with the Bank for 9 years. She was appointed as Finance Director in March 2007. She has wide experience in finance having worked previously as the Head of Finance as well as Head of Business Finance. She has also held senior positions at Deloitte & Touche both in Kenya and the United Kingdom. Age 40.

## 6. Kaushik Shah, Non-Executive Director

Appointed to the Board on 19 February 2004. He is the Regional Chief Executive Officer, Horn of Africa for Safal Group. He chairs the Kenya Association of Manufacturers Trade Promotion Committee. He sits on the Board of Bahari Insurance Brokers Limited and Mwanzi Road Development Limited. Age 57.

## 7. Segun Odusanya, Executive Director, Origination & Client Coverage

Appointed to the Board in October 2009. He joined Standard Chartered Bank Kenya Limited as Head, Origination & Client Coverage in 2009. He has been with the Bank for 10 years where he has served in various capacities including Head of Origination & Client Coverage in Uganda and Head of Corporate Sales in Nigeria. Age 43.

## 8. Nancy N. Oginde, Board Secretary

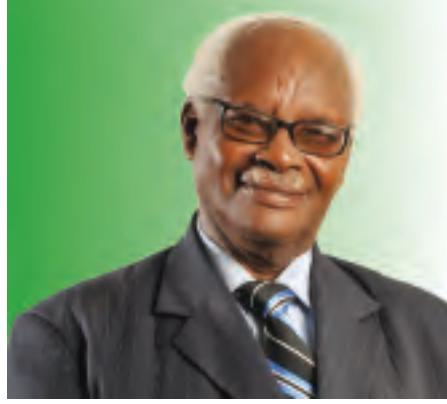
Appointed on 1 March 1999 as Secretary to the Board. She served the Bank in various capacities before her appointment. She is an Advocate of the High Court and served as a resident magistrate before joining the Bank. Age 49.

## 9. Harris Mule, Non-Executive Director

Appointed to the Board on 20 May 2004. He is an experienced development economist and policy analyst. He is the Chancellor of Kenyatta University. Previous appointments include Permanent Secretary, Ministry of Finance and Economic Planning and Assistant President of the International Fund for Agricultural Development. Age 73.

## 10. Anne Mutahi, Non-Executive Director

Appointed to the Board on 24 February 2009. She has vast experience in the financial sector having worked for various financial institutions including Middle East Bank, ABN AMRO Bank, Citibank and Jitegemee Trust Limited where she recently served as the Chief Executive Officer. Age 49.



1	2	3
4	5	6
7	8	9
10		

# Management Committee

## 1. Richard M. Etemesi, Chief Executive Officer

He has been with the Bank for 18 years. He was appointed Chief Executive Officer in November 2006 and Area General Manager for East Africa in February 2008. Before then he was the Executive Director, Finance & Strategy. He has previously worked in senior management positions in the Bank in Kenya and Zambia as well as being the Managing Director of Standard Chartered Bank Uganda Limited.

## 2. Segun Odusanya, Head, Origination & Client Coverage

He joined the Bank as Head, Origination & Client Coverage in October 2009. He has been with the Bank for 10 years where he has served in various capacities including Head of Origination & Client Coverage in Uganda and Head of Corporate Sales in Nigeria.

## 3. Kariuki Ngari, Head, Consumer Banking

He joined the Bank in January 2009 and is in charge of Consumer Banking, East Africa. He has wide experience in Consumer Banking having worked with Barclays Bank of Kenya Limited as the Consumer Banking Director and prior to this the Head of Retail Performance. He also worked for Standard Chartered Bank Kenya Limited in various capacities before he left for Barclays in 2001.

## 4. Chemutai Murgor, Chief Finance Officer

She has been with the Bank for 9 years. She has a wide experience in finance having worked previously as the Head of Finance as well as Head of Business Finance. She has also held various senior positions at Deloitte & Touche both in Kenya and the United Kingdom.

## 5. George Akello, Chief Risk Officer

He has been with the Bank for 12 years. He has held several risk management roles including Group Audit, Credit Officer for Wholesale Banking and Regional Head of Consumer Banking Credit, East Africa where he was involved in the review of the Bank's business and operations across Africa and Asia.

## 6. Saloum Jobarteh, Head, Financial Markets

He has been with the Bank for 13 years. He has previously worked for the Bank in the Gambia and Zambia as Head of Financial Markets and has a wealth of experience in this area. He was appointed Area Head of Financial Markets for East Africa in January 2006. Previous positions held with other employers include Business Development Manager and Relationship Manager with Meridian Bank in the Gambia.

## 7. Geoffrey Githinji, Chief Information Officer

He has been with the Bank for 16 years. He was appointed Chief Information Officer in 2004. He previously worked in the Bank as Regional Head of IT, Africa, Area Head, Systems & Processes – East Africa and Head of the Africa Telecoms Group.

## 8. Nancy N. Oginde, Head, Legal & Company Secretary

She has been with the Bank for 18 years. She was appointed Head of Legal and Compliance in 1999. She served the Bank in various capacities before her appointment. She is an advocate of the High Court and had served as a resident magistrate before joining the Bank.

## 9. Annie Kigira-Kinuthia, Head, Corporate Affairs

She has been with the Bank for over two years. She was appointed Head of Corporate Affairs in August 2007. She has over 14 years of experience in corporate affairs having worked at Equity Bank, World Vision Kenya and Unga Group in senior positions.

## 10. Simon Burutu, Senior Credit Officer

He was appointed Senior Credit Officer in February 2009. He has been with the Bank for over 33 years. He has held various positions in the Bank including Senior Credit Officer, Zambia and Zimbabwe and Head of Credit & Service, Zimbabwe.

## 11. Reuben Mbindu, Head, Human Resources

He has been with the Bank for over 14 years, holding management positions in Corporate Affairs and Human Resources. He has a wealth of experience and knowledge of the Bank having worked in London, Hong Kong, Zambia, Tanzania and South Africa. Prior to his current role, he was the Head of Corporate Affairs.



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4	5	6
7	8	9
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# The Board and Statutory Information

## Directors

W. Kiboro	Chairman (Appointed 28 May 2009)
D.G. Njoroge	Chairman (Resigned 28 May 2009)
R.M. Etemesi	Chief Executive Officer
M.C. Hart*	
K. Shah*	
H. Mule	
C.W. Murgor	
D. Godwin*	(Resigned 15 October 2009)
J.A. Mugo	(Resigned 7 May 2009)
A.W. Mutahi	
K. Ngari	
A. Rahim**	(Appointed 24 February 2009) and resigned 30 September 2009)
S. Odusanya***	(Appointed 29 October 2009)

\* British

\*\* Pakistani

\*\*\* Nigerian

## Secretary

N.N. Oginde  
Stanbank House  
Moi Avenue  
P.O. Box 30003  
00100 Nairobi GPO.

## Auditors

KPMG Kenya  
16<sup>th</sup> Floor, Lonrho House  
Standard Street  
P.O. Box 40612  
00100 Nairobi GPO.

## Registered Office

Stanbank House  
Moi Avenue  
P.O. Box 30003  
00100 Nairobi GPO.

## Registrars and Transfer Office

Custody & Registrars Services (CRS)  
6<sup>th</sup> Floor, Bruce House  
Standard Street  
P.O. Box 8484  
00100 Nairobi GPO.

## Board Sub-committees

### Board Audit Committee

K. Shah	Chairman
H. Mule	
A. Mutahi	
N.N. Oginde	Secretary

### Board Risk Committee

H. Mule	Chairman
A. Mutahi	
R.M. Etemesi	
K. Ngari	
S. Odusanya	
G. Akello	
S. Burutu	
N.N. Oginde	Secretary

### Board Nomination, Evaluation and Remuneration Committee

W. Kiboro	Chairman
R.M. Etemesi	
R. Mbindu	
N.N. Oginde	Secretary

### Asset and Liability Committee (ALCO)

R.M. Etemesi	Chairman
K. Ngari	
S. Odusanya	
S. Burutu	
C.W. Murgor	
G. Akello	
S. Jobarteh	Secretary

### Management Committee

R.M. Etemesi	Chairman
K. Ngari	
S. Odusanya	
S. Burutu	
C.W. Murgor	
S. Jobarteh	
R. Mbindu	
G. Githinji	
N.N. Oginde	
G. Akello	
A. Kigira-Kinuthia	

# Report of the Directors

## for the year ended 31 December 2009

The directors are happy to submit their report together with the audited financial statements for the year ended 31 December 2009 in accordance with Section 22 of the Banking Act and Section 157 of the Kenyan Companies Act which discloses the state of affairs of the Group and Company.

### 1. Activities

The Group is engaged in the business of banking and provision of related services and is licensed under the Banking Act.

### 2. Results

The results for the year are set out in the attached financial statements on pages 56 to 111.

### 3. Dividends

The Board has resolved to recommend to the shareholders at the forthcoming Annual General Meeting, the payment of a final dividend for the year of KShs 7.00 for every ordinary share of KShs 5.00. Two interim dividends of KShs 2.50 each for every ordinary share of KShs 5.00 were paid in September and December 2009. The total dividend therefore, is KShs 12.00 (2008 – KShs 10.00).

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 and paid in September 2009. This will bring the total dividend for the year to KShs 168,000,000 (2008 – 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 the shareholders registered on the Company's Register at the close of business on 6 April 2010 and will be paid on or after 13 May 2010. The Register will remain closed on 7 April 2010 for the preparation of dividend warrants.

### 4. Directors

The directors who served during the year are set out on page 43.

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

- Ms. Chemutai Murgor, a director retiring by rotation who being eligible offers herself for re-election;
- Mr. Michael Hart, a director retiring by rotation who being eligible offers himself for re-election; and
- Mr. Segun Odusanya, a casual director retiring by rotation who being eligible offers himself for re-election.

### Special resolution

Special Notice pursuant to Sections 142 and 186(5) of the Kenyan Companies Act having been received by the Company, of the intention to move a resolution that Mr. Harris Mule continues in office as a director of the Company for a period of one year, notwithstanding him having attained the age of seventy years, to consider and if thought fit, pass the following resolution:

"That pursuant to Section 186(5) of the Kenyan Companies Act, Mr. Harris Mule, who has attained the age of seventy years continues in office as a director of the Company for a period of one year notwithstanding him having attained such age."

### 5. Auditors

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

### 6. Approval of financial statements

The financial statements were approved by the Board of Directors on 3 March 2010.

BY ORDER OF THE BOARD

**N.N Oginde**  
Company Secretary

3 March 2010

# Statement on Corporate Governance

for the year ended 31 December 2009

Corporate governance deals with the way companies are led and managed, the role of the Board of Directors and a framework of internal controls. The Board of Standard Chartered Bank Kenya Limited is committed to upholding high standards of corporate governance.

## Highlights

- intensified focus on liquidity, cost and risk management;
- robust compliance in line with regulatory developments; and
- continued focus on acting in our stakeholders' best interests.

## Our priorities in 2010

- continued review of the role of the Board, its composition and the responsibilities of directors;
- proactive engagement with regulators;
- identification of new independent non-executive directors; and
- increased focus on value-adding activities to maximise our role as trusted guardians and advisors of corporate governance standards.

## THE BOARD

### Board composition

Strong governance is dependent upon a board of directors that is cohesive, independent in nature, fully engaged and committed to the role and, as a result, operates effectively.

The Board is made up of the chairman, four executive directors and five non-executive directors, four of whom are independent non-executive directors.

In 2009, the Board welcomed the appointment of Wilfred Kiboro as Chairman following the retirement of David Njoroge. Segun Odusanya was appointed on 29 October 2009 as an executive director. The Board would like to thank David Njoroge, Jacqueline Mugo, David Godwin and Azeem Rahim who stepped down during the year, for their dedication and valuable contribution during their years of service.

The Board considers that there is a balance of executive and non-executive directors. There will be a review of the board composition during the year 2010 with the intention of bringing in more talent.

### Appointments to the Board

All directors are subject to periodic re-appointment in accordance with the Company's Articles of Association. On appointment, the directors receive an induction covering the Company's business and operations and an appreciation of the areas particularly the Risk and Audit functions. The directors are advised of the legal, regulatory and other obligations of a director of a listed company.

### Succession planning

The Company has in place a robust succession plan fully documented, which is updated regularly to include high performers.

# Statement on Corporate Governance (continued)

for the year ended 31 December 2009

## Roles and responsibilities

The Board of Standard Chartered Bank Kenya Limited as a whole provides strategic input and leadership through oversight, review and counsel. It is the primary decision-making body for all matters significant to the Company.

The Board is responsible for the overall management of the Company including the approval of the Company's long-term strategy. It oversees the Company's compliance with statutory and regulatory obligations and its capital and corporate structure. It also reviews performance in light of the Company's strategy, objectives, business plans and budgets.

The Board has a rolling agenda to ensure that each key strategic business is reviewed on a periodic basis. During 2009, the Board focused on liquidity, cost, risk management and employee engagement. The Board is responsible for establishing and maintaining the Company's overall internal control of financial, operational and compliance risks as well as monitoring the performance of the executive management.

All the directors have access to the Company Secretary, who is responsible for ensuring that Board procedures are followed and that applicable laws and regulations are complied with. The Board is entitled to seek independent professional advice.

## Chairman and Chief Executive Officer

The roles of the Chairman and the Chief Executive Officer are clearly defined in written role descriptions which have been approved by the Board.

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

## Independent non-executive directors

The Board considers all of the non-executive directors to be 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 Board reviews all directors' interests which may give rise to a potential or perceived conflict.

W. Kiboro ①  
D.G. Njoroge  
R.M. Etemesi  
M.C. Hart  
K. Shah  
H. Mule  
J.A. Mugo ②  
A. Mutahi  
D. Godwin ③  
C.W. Murgor  
K. Ngari  
A. Rahim ④  
S. Odusanya ⑤

① resigned 28 May 2009

② resigned 7 May 2009

③ resigned 15 October 2009

④ resigned 30 September 2009

⑤ appointed 29 October 2009

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

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

## Board effectiveness evaluation

To assess the performance of the Board, its committees and individual directors, the Company conducts a rigorous performance evaluation each year. The process is led by the Chairman and supported by the Company Secretary.

In 2009, the directors completed an evaluation questionnaire that covered a self-evaluation, evaluation of the Chairman and the overall Board. The conclusion of the evaluation was that the Board operated effectively. The results of the evaluation were submitted to the Central Bank of Kenya and action points implemented as part of the process improvement.

## Induction and ongoing development

On appointment, each director receives a comprehensive and tailored induction covering the Company's business and operations as well as the legal, regulatory and other personal obligations of a director of a listed company.

During the year, the directors received briefings on compliance risk, regulatory trends, regulatory requirements for the Board and directors, and personal responsibilities covered under Kenyan law and under common law.

## Board meetings and attendance

The full Board meets regularly, at least five times a year, and has a formal schedule of matters reserved for it. The directors receive appropriate and timely information to enable them maintain full and effective control over strategic, financial, operational, compliance and governance issues.

Six board meetings were held in 2009. The following table shows the number of board meetings held during the year and the attendance of individual directors.

	Scheduled 5	Adhoc 1
	5	1
	2	1
	5	1
	5	1
	5	1
	5	1
	1	1
	4	1
	2	1
	5	1
	5	1
	2	1
	2	–

# Statement on Corporate Governance (continued)

for the year ended 31 December 2009

## Re-election of directors

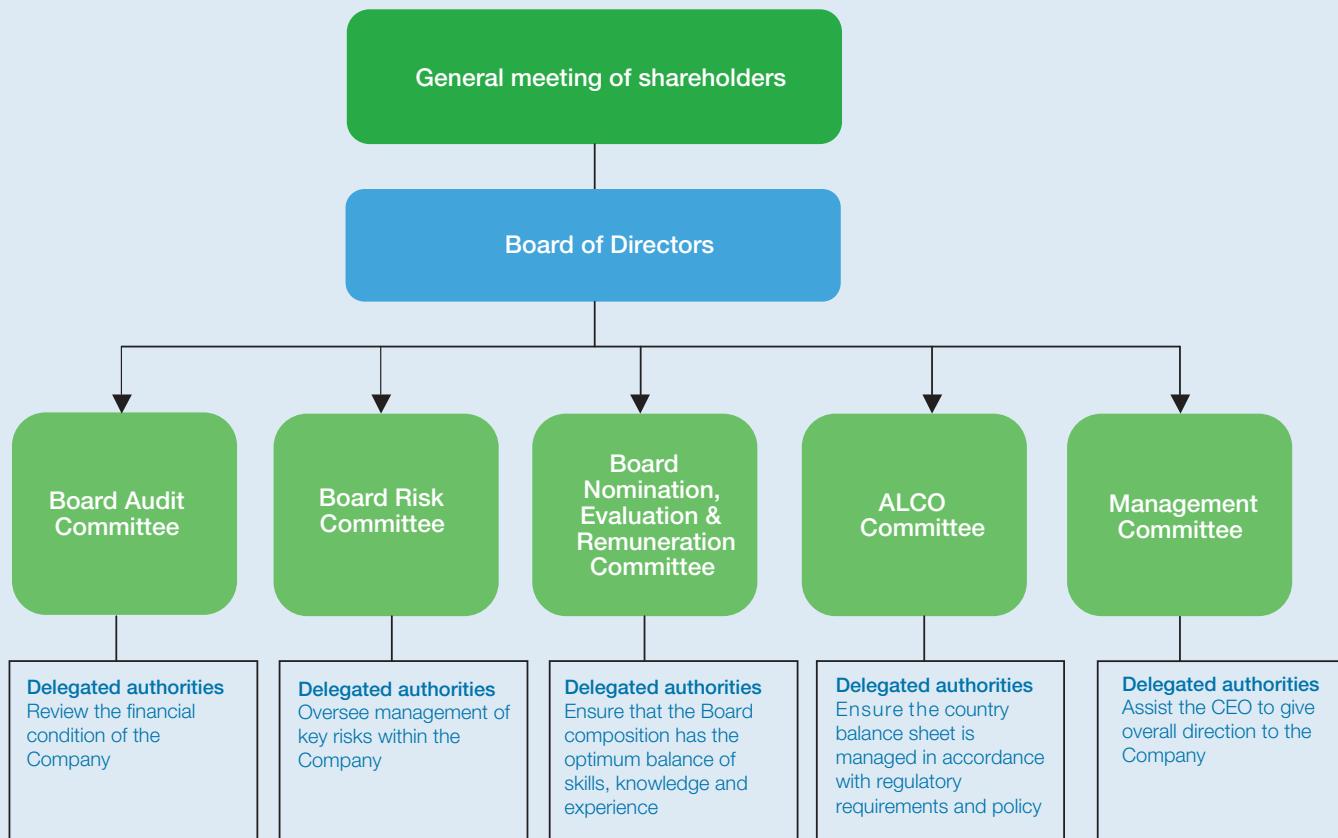
All directors are subject to election by shareholders at the first Annual General Meeting (AGM) following their appointment, and to re-election thereafter at intervals of not more than three years. At least one-third of directors retire by rotation and offer themselves as appropriate for re-election at each AGM. Details of those retiring by rotation and seeking re-election can be found in the Notice of the AGM.

## BOARD COMMITTEES

The Board has five Committees with specific delegated authorities. These are the Board Audit Committee, the Board Risk Committee, the Board Nomination, Evaluation and Remuneration Committee, the Asset and Liability Committee (ALCO) and the Management Committee. Each committee is responsible for the review and oversight of the activities within its defined terms of reference.

The Board committees assist the Board in discharging its responsibilities. The committees have clear defined roles and terms of references that have been approved by the Board. The committees are chaired by non-executive directors except for the operational committees. At the scheduled board meetings, the chairman of each committee provides the Board with a summary of key issues considered at the meetings of the committees.

### Board governance structure



# Statement on Corporate Governance (continued)

for the year ended 31 December 2009

Details of these committees and membership are shown below.

## Board Audit Committee Members

K. Shah	Chairman
H. Mule	
A. Mutahi	
N.N. Oginde	Secretary

## Number of meetings in 2009

## Scheduled 4

K. Shah	4
W. Kiboro ①	2
H. Mule	4
A. Mutahi ②	1

① resigned 28 May 2009 following appointment as Chairman of the Board

② appointed 14 July 2009

\* Experts and business representatives are invited to make reports and presentations on a need basis.

## Role and function

The Committee reviews the financial condition of the Company and receives reports on the findings of the internal and external audits. The Committee tracks the actions on audit findings. In addition, the Committee regularly reviews and reports to the Board on the effectiveness of the Company's system of internal control.

Other responsibilities of the Committee are:

- review the integrity of the financial statements;
- nominate external auditors for appointment by shareholders; and
- review and approve audit plans and methodology.

The Committee held four meetings in the year. The Committee received regular reports from the Head of Internal Audit on internal audits, compliance and legal risks and on the assurance framework. The Director in charge of Finance, Head of Internal Audit, the external auditors and the Business Heads are regularly invited to the meetings.

## Board Risk Committee Members

H. Mule	Chairman
A. Mutahi	
R.M. Etemesi	
K. Ngari	
S. Odusanya	
G. Akello	
S. Burutu	
N. Oginde	Secretary

## Number of meetings in 2009

## Scheduled 4

H. Mule	4
D.G. Njoroge ①	2
R.M. Etemesi	4
A. Mutahi	3
K. Ngari ②	4
A. Rahim ③	2
S. Odusanya ③	1
G. Akello	4
S. Burutu	4

① resigned 28 May 2009

② resigned 30 September 2009

③ appointed 15 October 2009

\* Experts and business representatives are invited on a need basis.

## Role and function

The Board has delegated authority to the Board Risk Committee to oversee the management of all risks of the Company including operational risk, country risk, credit risk, liquidity risk, market risk, regulatory risk, legal risk, reputational risk and compliance risk.

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

The Committee held four scheduled meetings in the year and received reports on all aspects of risk management from the risk sub-committees and risk managers.

# Statement on Corporate Governance (continued)

for the year ended 31 December 2009

## Board Nomination, Evaluation and Remuneration Committee

### Members

W. Kiboro	Chairman
R.M. Etemesi	
R. Mbindu	
N.N. Oginde	Secretary

### Role and function

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

## Asset and Liability Committee (ALCO)

### Members

R.M. Etemesi	Chairman
K. Ngari	
S. Odusanya	
S. Burutu	
C.W. Murgor	
G. Akello	
S. Jobarteh	Secretary

### 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.

## Management Committee

### Members

R.M. Etemesi	Chairman
K. Ngari	
S. Odusanya	
S. Burutu	
C.W. Murgor	
S. Jobarteh	
R. Mbindu	
G. Githinji	
N.N. Oginde	
G. Akello	
A. Kigira-Kinuthia	

### Role and function

The Management Committee is the link between the Board and management. The Committee assists the Chief Executive Officer in giving overall direction to the Company. The Committee is responsible for the day-to-day running of the Company 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 once a week.

## DIRECTORS' REMUNERATION

The remuneration of all directors is subject to regular review to ensure that levels of remuneration and compensation are appropriate. Directors are paid annual fees and a sitting allowance for meetings attended. Information on the aggregate amount of emoluments and fees paid to directors are disclosed in Note 14 of the financial statements.

## DIRECTORS' SHAREHOLDING

One director holds 2,310 shares of the Company. The other directors do not hold any shares of the Company.

## CONFLICTS OF INTEREST

All directors are under a duty to avoid conflicts of interest. This entails not engaging, directly or indirectly in any business that competes or conflicts with the Company's business. The Company has established a robust process requiring directors to disclose proposed outside business interests before they are entered into. Any potential or actual conflicts of interest are reported to the Company Secretary.

## INTERNAL CONTROLS

The Board is committed to managing risk and to controlling its business and financial activities in a manner which enables it to maximise profitable business opportunities, avoid or reduce risks which can cause loss or reputational damage, ensure compliance with applicable laws and regulations and enhance resilience to external events.

# Statement on Corporate Governance (continued)

for the year ended 31 December 2009

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

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

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

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

## GROUP CODE OF CONDUCT

The Board adopted the updated Group Code of Conduct, relating to the lawful and ethical conduct of business and this is supported by the Company's core values. The Group Code of Conduct has been communicated to all directors and employees, all of whom are expected to observe high standards of integrity and fair dealing in relation to customers, staff and regulators.

The directors and management of the Company also comply with the Central Bank of Kenya Code of Conduct as set out in the Prudential Guidelines.

## INSIDER TRADING

The Company has a policy on insider trading which is strictly observed. Directors, management and staff are aware that they ought not to trade in the Company's shares while in possession of any insider information not available to the public or during a closed period. The closed period is the period between 1 January until the publication of the full year results, and 1 July until the publication of the half year results. The Dealing Policy requires specific staff to declare any dealings in securities all year round.

## GOING CONCERN

The Board confirms that it is satisfied that the Company has adequate resources to continue in business for the foreseeable future. For this reason, it continues to adopt the going concern basis when preparing the financial statements.

## RELATIONS WITH SHAREHOLDERS

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

In upholding and protecting shareholders' rights, the Board recognises that every shareholder has a right to participate and vote at the general shareholders meeting. The Board also invites shareholders to seek clarity on the Company's performance in general meetings.

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

The Board has four independent non-executive directors.

# 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 56 to 111 which comprise the statement of financial position at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Directors responsibility includes: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances; designing, implementing and maintaining internal controls relevant to the preparation and presentation of these financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Under the Kenyan Companies Act, the Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the operating results of the company for that year. It also requires the Directors to ensure the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the company.

The Directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by

the Kenyan Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results.

The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Directors have made an assessment of the company's ability to continue as a going concern and have no reason to believe the company will not be a going concern for at least the next twelve months from the date of this statement.

## Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors on 3 March 2010 and were signed on its behalf by:

Director: [W. Kiboro](#)

Director: [R.M. Etemesi](#)

Director: [C.W. Murgor](#)

3 March 2010

# Report of the Independent Auditors

## to the Members of Standard Chartered Bank Kenya Limited

We have audited the group financial statements of Standard Chartered Bank Kenya Limited set out on pages 56 to 111 which comprise the statement of financial position of the group and the company at 31 December 2009, and the group's statement of comprehensive income, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Directors' responsibility for the financial statements

As stated on page 54, the directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the group and the company at 31 December 2009, and the group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

### Report on other legal requirements

The Kenyan Companies Act requires us to expressly report to you, based on our audit, that:

- (i) we have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;
- (ii) in our opinion, proper books of account have been kept by the company, so far as appears from our examination of those books; and
- (iii) the statement of financial position of the company is in agreement with the books of account.

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

3 March 2010

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2009

	Note	2009 KShs '000	2008 KShs '000
Interest income	8	9,347,475	7,445,466
Interest expense	9	(2,010,197)	(1,568,347)
<b>Net interest income</b>		<b>7,337,278</b>	5,877,119
Fee and commission income	10	2,424,706	2,232,359
Fee and commission expense	10	(42,492)	(75,596)
<b>Net fee and commission income</b>		<b>2,382,214</b>	2,156,763
Net trading income	11	2,128,392	2,058,143
Other operating income	12	398,548	18,045
<b>OPERATING INCOME</b>		<b>12,246,432</b>	10,110,070
Staff costs	13	(2,840,833)	(2,998,390)
Premises and equipment costs	13	(539,964)	(538,344)
General administrative expenses	13	(1,364,669)	(1,263,592)
Depreciation and amortisation	13	(297,583)	(224,581)
<b>OPERATING EXPENSES</b>		<b>(5,043,049)</b>	(5,024,907)
<b>OPERATING PROFIT BEFORE IMPAIRMENT</b>			
<b>LOSSES AND TAXATION</b>		<b>7,203,383</b>	5,085,163
Net impairment losses on loans and advances	22(b)	(474,936)	(365,349)
<b>PROFIT BEFORE TAXATION</b>	14	<b>6,728,447</b>	4,719,814
<b>INCOME TAX EXPENSE</b>	15	<b>(1,995,693)</b>	(1,469,001)
<b>NET PROFIT FOR THE YEAR</b>		<b>4,732,754</b>	3,250,813
<b>OTHER COMPREHENSIVE INCOME</b>			
Change in fair value of available-for-sale investments		<b>838,732</b>	26,470
Deferred tax on change in fair value of available-for-sale investments		<b>(265,510)</b>	5,950
Revaluation surplus		—	262,877
Deferred tax on revaluation surplus		—	(75,173)
<b>TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>573,222</b>	220,124
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>5,305,976</b>	3,470,937
<b>BASIC AND DILUTED EARNINGS PER SHARE - (KShs)</b>	16	<b>16.78</b>	11.34
<b>DIVIDEND PER SHARE - (KShs)</b>	17	<b>12.00</b>	10.00

The notes set out on pages 62 to 111 form an integral part of these financial statements.

# Consolidated Statement of Financial Position

at 31 December 2009

	Note	2009 KShs '000	2008 KShs '000
<b>ASSETS</b>			
Cash and balances with Central Bank of Kenya	18	<b>7,728,872</b>	7,380,062
Government and other securities held for trading	19	<b>2,326,700</b>	1,615,561
Derivative financial instruments	20	<b>70,040</b>	2,013,917
Loans and advances to banks	21	<b>1,492,177</b>	1,379,889
Loans and advances to customers	22 (a)	<b>56,694,876</b>	43,298,819
Investment securities	23	<b>43,473,479</b>	22,273,708
Amounts due from group companies	24	<b>7,384,694</b>	15,683,293
Tax recoverable		-	41,751
Property and equipment	26	<b>2,343,765</b>	1,512,616
Intangible assets	27	<b>3,302</b>	6,604
Prepaid operating lease rentals	28	<b>204,449</b>	209,079
Deferred tax asset	29 (a)	<b>80,616</b>	274,858
Other assets	30	<b>1,976,002</b>	3,329,414
<b>TOTAL ASSETS</b>		<b>123,778,972</b>	99,019,571
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Deposits from banks	31	<b>10,532,297</b>	2,806,333
Deposits from customers	32	<b>86,773,652</b>	76,898,456
Derivative financial instruments	20	<b>242,930</b>	3,696,116
Amounts due to group companies	24	<b>7,846,663</b>	138,264
Tax payable		<b>309,423</b>	-
Retirement benefit obligations	33	<b>121,413</b>	135,007
Other liabilities	34	<b>4,035,029</b>	3,846,588
<b>TOTAL LIABILITIES</b>		<b>109,861,407</b>	87,520,764
<b>Shareholders' equity (Page 60)</b>			
Share capital	35	<b>1,639,839</b>	1,639,839
Share premium	35	<b>2,520,000</b>	2,520,000
Revaluation reserves	35	<b>316,641</b>	329,787
Fair value reserve	35	<b>666,296</b>	93,074
Statutory credit risk reserve	35	<b>179,070</b>	191,336
Retained earnings		<b>6,607,254</b>	5,280,702
Proposed dividends		<b>1,988,465</b>	1,444,069
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>13,917,565</b>	11,498,807
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>123,778,972</b>	99,019,571

The financial statements set out on pages 56 to 111 were approved by the Board of Directors on 3 March 2010 and were signed on its behalf by:

Director W. Kiboro Director C.W. Murgor

Director R.M. Etemesi Secretary N.N. Oginde

The notes set out on pages 62 to 111 form an integral part of these financial statements.

# Company Statement of Financial Position

at 31 December 2009

	Note	2009 KShs '000	2008 KShs '000
<b>ASSETS</b>			
Cash and balances with Central Bank of Kenya	18	<b>7,728,872</b>	7,380,062
Government and other securities held for trading	19	<b>2,326,700</b>	1,615,561
Derivative financial instruments	20	<b>70,040</b>	2,013,917
Loans and advances to banks	21	<b>1,492,177</b>	1,379,889
Loans and advances to customers	22 (a)	<b>56,694,876</b>	43,298,819
Investment securities	23	<b>43,473,479</b>	22,273,708
Amounts due from group companies	24	<b>7,384,694</b>	15,683,293
Tax recoverable			31,136
Investment in subsidiaries	25	<b>140,243</b>	140,243
Property and equipment	26	<b>2,343,765</b>	1,512,616
Intangible assets	27	<b>3,302</b>	6,604
Prepaid operating lease rentals	28	<b>204,449</b>	209,079
Deferred tax asset	29 (b)	<b>74,333</b>	267,726
Other assets	30	<b>1,972,189</b>	3,327,554
<b>TOTAL ASSETS</b>		<b>123,909,119</b>	99,140,207
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Liabilities</b>			
Deposits from banks	31	<b>10,532,297</b>	2,806,333
Deposits from customers	32	<b>86,773,652</b>	76,898,456
Derivative financial instruments	20	<b>242,930</b>	3,696,116
Amounts due to group companies	24	<b>7,846,663</b>	138,264
Amounts due to subsidiaries		<b>247,985</b>	248,646
Tax payable		<b>320,632</b>	—
Retirement benefit obligations	33	<b>121,413</b>	135,007
Other liabilities	34	<b>4,016,614</b>	3,827,566
<b>TOTAL LIABILITIES</b>		<b>110,102,186</b>	87,750,388
<b>Shareholders' equity (Page 61)</b>			
Share capital	35	<b>1,639,839</b>	1,639,839
Share premium	35	<b>2,520,000</b>	2,520,000
Revaluation reserves	35	<b>316,641</b>	329,787
Fair value reserve	35	<b>666,296</b>	93,074
Statutory credit risk reserve	35	<b>179,070</b>	191,336
Retained earnings		<b>6,496,622</b>	5,171,714
Proposed dividends		<b>1,988,465</b>	1,444,069
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>13,806,933</b>	11,389,819
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>123,909,119</b>	99,140,207

The financial statements set out on pages 56 to 111 were approved by the Board of Directors on 3 March 2010 and were signed on its behalf by:

Director W. Kiboro Director C.W. Murgor

Director R.M. Etemesi Secretary N.N. Oginde

The notes set out on pages 62 to 111 form an integral part of these financial statements.

# Consolidated Cash Flow Statement

for the year ended 31 December 2009

	Note	2009 KShs '000	2008 KShs '000
<b>Net cash flows from operating activities</b>	36 (a)	<b>(17,594,257)</b>	6,161,522
<b>Cash flows from investing activities</b>			
Purchase of property and equipment		(1,120,922)	(400,544)
Purchase of intangible assets		–	(9,905)
Proceeds from sale of equity shares		183,081	131,705
<b>Net cash used in investing activities</b>		<b>(937,841)</b>	(278,744)
<b>Cash flows from financing activities</b>			
Dividends paid on ordinary shares:			
– Final 2008/2007		(1,359,839)	(1,359,839)
– Interim 2009/2008		(1,359,839)	(1,359,839)
Dividends paid on preference shares:			
– Final 2008/2007		(84,230)	(84,690)
– Interim 2009/2008		(83,310)	(83,770)
<b>Net cash used in financing activities</b>		<b>(2,887,218)</b>	(2,888,138)
<b>(Decrease)/increase in cash and cash equivalents</b>		<b>(21,419,316)</b>	2,994,640
<b>Cash and cash equivalents at 1 January</b>		<b>13,301,807</b>	10,307,167
<b>Cash and cash equivalents at 31 December</b>	36 (b)	<b>(8,117,509)</b>	13,301,807

The notes set out on pages 62 to 111 form an integral part of these financial statements.

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2009

	Share capital KShs '000	Share premium KShs '000	Revaluation reserves KShs '000	Fair value reserve KShs '000	Statutory credit risk reserve KShs '000	Retained earnings KShs '000	Proposed dividends KShs '000	Total KShs '000
<b>At 1 January 2008</b>	<b>1,639,839</b>	<b>2,520,000</b>	<b>148,413</b>	<b>60,654</b>	<b>194,650</b>	<b>4,907,923</b>	<b>1,444,529</b>	<b>10,916,008</b>
Net profit for the year	—	—	—	—	—	3,250,813	—	3,250,813
<b>Other comprehensive income</b>								
Change in fair value of available-for-sale investments	—	—	—	26,470	—	—	—	26,470
Deferred tax on change in fair value of available-for-sale investments	—	—	—	5,950	—	—	—	5,950
Revaluation surplus	—	—	262,877	—	—	—	—	262,877
Deferred tax on revaluation surplus	—	—	(75,173)	—	—	—	—	(75,173)
Excess depreciation transfer	—	—	(9,043)	—	—	9,043	—	—
Deferred tax on excess depreciation transfer	—	—	2,713	—	—	(2,713)	—	—
<b>Total other comprehensive income</b>	<b>—</b>	<b>—</b>	<b>181,374</b>	<b>32,420</b>	<b>—</b>	<b>6,330</b>	<b>—</b>	<b>220,124</b>
<b>Total comprehensive income for the year</b>	<b>—</b>	<b>—</b>	<b>181,374</b>	<b>32,420</b>	<b>—</b>	<b>3,257,143</b>	<b>—</b>	<b>3,470,937</b>
<b>Transactions with owners, recorded directly in equity</b>								
Transfer from statutory credit risk reserve	—	—	—	—	(3,314)	3,314	—	—
Dividends paid:								
– Final 2007	—	—	—	—	—	—	(1,444,529)	(1,444,529)
– Interim 2008	—	—	—	—	—	(1,359,839)	—	(1,359,839)
– Preference shares	—	—	—	—	—	(83,770)	—	(83,770)
Proposed final dividends:								
– Ordinary shares	—	—	—	—	—	(1,359,839)	1,359,839	—
– Preference shares	—	—	—	—	—	(84,230)	84,230	—
<b>Total contributions by and distributions to owners</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(3,314)</b>	<b>(2,884,364)</b>	<b>(460)</b>	<b>(2,888,138)</b>
<b>At 31 December 2008</b>	<b>1,639,839</b>	<b>2,520,000</b>	<b>329,787</b>	<b>93,074</b>	<b>191,336</b>	<b>5,280,702</b>	<b>1,444,069</b>	<b>11,498,807</b>
<b>At 1 January 2009</b>	<b>1,639,839</b>	<b>2,520,000</b>	<b>329,787</b>	<b>93,074</b>	<b>191,336</b>	<b>5,280,702</b>	<b>1,444,069</b>	<b>11,498,807</b>
Net profit for the year	—	—	—	—	—	4,732,754	—	4,732,754
<b>Other comprehensive income</b>								
Change in fair value of available-for-sale investments	—	—	—	838,732	—	—	—	838,732
Deferred tax on change in fair value of available-for-sale investments	—	—	—	(265,510)	—	—	—	(265,510)
Excess depreciation transfer	—	—	(18,781)	—	—	18,781	—	—
Deferred tax on excess depreciation transfer	—	—	5,635	—	—	(5,635)	—	—
<b>Total other comprehensive income</b>	<b>—</b>	<b>—</b>	<b>(13,146)</b>	<b>573,222</b>	<b>—</b>	<b>13,146</b>	<b>—</b>	<b>573,222</b>
<b>Total comprehensive income for the year</b>	<b>—</b>	<b>—</b>	<b>(13,146)</b>	<b>573,222</b>	<b>—</b>	<b>4,745,900</b>	<b>—</b>	<b>5,305,976</b>
<b>Transactions with owners, recorded directly in equity</b>								
Transfer from statutory credit risk reserve	—	—	—	—	(12,266)	12,266	—	—
Dividends paid:								
– Final 2008	—	—	—	—	—	—	(1,444,069)	(1,444,069)
– Interim 2009	—	—	—	—	—	(1,359,839)	—	(1,359,839)
– Preference shares	—	—	—	—	—	(83,310)	—	(83,310)
Proposed final dividends:								
– Ordinary shares	—	—	—	—	—	(1,903,775)	1,903,775	—
– Preference shares	—	—	—	—	—	(84,690)	84,690	—
<b>Total contributions by and distributions to owners</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(12,266)</b>	<b>(3,419,348)</b>	<b>544,396</b>	<b>(2,887,218)</b>
<b>At 31 December 2009</b>	<b>1,639,839</b>	<b>2,520,000</b>	<b>316,641</b>	<b>666,296</b>	<b>179,070</b>	<b>6,607,254</b>	<b>1,988,465</b>	<b>13,917,565</b>

The notes set out on pages 62 to 111 form an integral part of these financial statements.

# Company Statement of Changes in Equity

for the year ended 31 December 2009

	Share capital KShs '000	Share premium KShs '000	Revaluation reserves KShs '000	Fair value reserve KShs '000	Statutory credit risk reserve KShs '000	Retained earnings KShs '000	Proposed dividends KShs '000	Total KShs '000
<b>At 1 January 2008</b>	<b>1,639,839</b>	<b>2,520,000</b>	<b>148,413</b>	<b>60,654</b>	<b>194,650</b>	<b>4,807,544</b>	<b>1,444,529</b>	<b>10,815,629</b>
Net profit for the year	–	–	–	–	–	3,242,204	–	3,242,204
<b>Other comprehensive income</b>								
Change in fair value of available-for-sale investments	–	–	–	26,470	–	–	–	26,470
Deferred tax on change in fair value of available-for-sale investments	–	–	–	5,950	–	–	–	5,950
Revaluation surplus	–	–	262,877	–	–	–	–	262,877
Deferred tax on revaluation surplus	–	–	(75,173)	–	–	–	–	(75,173)
Excess depreciation transfer	–	–	(9,043)	–	–	9,043	–	–
Deferred tax on excess depreciation transfer	–	–	2,713	–	–	(2,713)	–	–
<b>Total other comprehensive income</b>	<b>–</b>	<b>–</b>	<b>181,374</b>	<b>32,420</b>	<b>–</b>	<b>6,330</b>	<b>–</b>	<b>220,124</b>
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>181,374</b>	<b>32,420</b>	<b>–</b>	<b>3,248,534</b>	<b>–</b>	<b>3,462,328</b>
<b>Transactions with owners, recorded directly in equity</b>								
Transfer from statutory credit risk reserve	–	–	–	–	(3,314)	3,314	–	–
Dividends paid:								
– Final 2007	–	–	–	–	–	–	(1,444,529)	(1,444,529)
– Interim 2008	–	–	–	–	–	(1,359,839)	–	(1,359,839)
– Preference shares	–	–	–	–	–	(83,770)	–	(83,770)
Proposed final dividends:								
– Ordinary shares	–	–	–	–	–	(1,359,839)	1,359,839	–
– Preference shares	–	–	–	–	–	(84,230)	84,230	–
<b>Total contributions by and distributions to owners</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(3,314)</b>	<b>(2,884,364)</b>	<b>(460)</b>	<b>(2,888,138)</b>
<b>At 31 December 2008</b>	<b>1,639,839</b>	<b>2,520,000</b>	<b>329,787</b>	<b>93,074</b>	<b>191,336</b>	<b>5,171,714</b>	<b>1,444,069</b>	<b>11,389,819</b>
<b>At 1 January 2009</b>	<b>1,639,839</b>	<b>2,520,000</b>	<b>329,787</b>	<b>93,074</b>	<b>191,336</b>	<b>5,171,714</b>	<b>1,444,069</b>	<b>11,389,819</b>
Net profit for the year	–	–	–	–	–	4,731,110	–	4,731,110
<b>Other comprehensive income</b>								
Change in fair value of available-for-sale investments	–	–	–	838,732	–	–	–	838,732
Deferred tax on change in fair value of available-for-sale investments	–	–	–	(265,510)	–	–	–	(265,510)
Excess depreciation transfer	–	–	(18,781)	–	–	18,781	–	–
Deferred tax on excess depreciation transfer	–	–	5,635	–	–	(5,635)	–	–
<b>Total other comprehensive income</b>	<b>–</b>	<b>–</b>	<b>(13,146)</b>	<b>573,222</b>	<b>–</b>	<b>13,146</b>	<b>–</b>	<b>573,222</b>
<b>Total comprehensive income for the year</b>	<b>–</b>	<b>–</b>	<b>(13,146)</b>	<b>573,222</b>	<b>–</b>	<b>4,744,256</b>	<b>–</b>	<b>5,304,332</b>
<b>Transactions with owners, recorded directly in equity</b>								
Transfer from statutory credit risk reserve	–	–	–	–	(12,266)	12,266	–	–
Dividends paid:								
– Final 2008	–	–	–	–	–	–	(1,444,069)	(1,444,069)
– Interim 2009	–	–	–	–	–	(1,359,839)	–	(1,359,839)
– Preference shares	–	–	–	–	–	(83,310)	–	(83,310)
Proposed final dividends:								
– Ordinary shares	–	–	–	–	–	(1,903,775)	1,903,775	–
– Preference shares	–	–	–	–	–	(84,690)	84,690	–
<b>Total contributions by and distributions to owners</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(12,266)</b>	<b>(3,419,348)</b>	<b>544,396</b>	<b>(2,887,218)</b>
<b>At 31 December 2009</b>	<b>1,639,839</b>	<b>2,520,000</b>	<b>316,641</b>	<b>666,296</b>	<b>179,070</b>	<b>6,496,622</b>	<b>1,988,465</b>	<b>13,806,933</b>

The notes set out on pages 62 to 111 form an integral part of these financial statements.

# Notes to the Consolidated Financial Statements

for the year ended 31 December 2009

## 1 REPORTING ENTITY

The Bank is incorporated as a limited company in Kenya under the Kenyan Companies Act, and is domiciled in Kenya. The address of its registered office is as follows:

Stanbank House  
Moi Avenue  
P.O. Box 30003  
00100 Nairobi GPO.

## 2 BASIS OF PREPARATION

### (i) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

### (ii) Basis of measurement

The consolidated financial statements set out on pages 56 to 111 have been prepared on the historical cost basis of accounting except for the following:

- derivative financial instruments are measured at fair value;
- financial instruments at fair value through profit or loss are measured at fair value;
- available-for-sale financial assets are measured at fair value; and
- the liability for defined benefit obligations is recognised as the present value of the defined obligation less the net total of the plan assets, plus unrecognised actuarial gains, less unrecognised past service costs and unrecognised actuarial losses.

### (iii) Functional and presentation currency

These consolidated financial statements are presented in Kenya shillings (KShs), which is the Group's functional currency. Except as otherwise indicated, financial information presented in Kenya shillings has been rounded to the nearest thousand.

Items included in the financial statements are measured using the currency of primary economic environment in which the entity operates i.e. Kenya shillings.

### (iv) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires

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

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

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

### (v) New accounting standards adopted

On 1 January 2009, the Group retrospectively adopted IAS 1 'Presentation of Financial Statements' (revised 2007). As a result, in the Group's financial statements certain disclosures and terminology has changed.

On 1 January 2009, the Group retrospectively adopted IFRS 8 'Operating Segments' which did not have a material impact on the Group's financial statements.

On 1 January 2009, the Group prospectively adopted amendments to IFRS 7 'Financial Instruments: Disclosures' issued in March 2009 and the

required enhanced disclosures about fair value measurements and liquidity risk in respect of financial instruments.

The amendments require that fair value measurement disclosures use a three-level-fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorised as level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between level 1 and level 2 of the fair value hierarchy be disclosed separately, distinguishing between transfers into and out of each level. Furthermore, changes in valuation techniques from one period to another, including the reasons therefore, are required to be disclosed for each class of financial instruments.

The revised disclosures in respect of fair values of financial instruments are presented in Note 7 to these financial statements.

Further, the definitions of liquidity risk has been amended and it is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

The amendments require disclosure of a maturity analysis for non-derivative financial liabilities, but contractual maturities are required to be disclosed for derivative financial liabilities only when contractual maturities are essential for an understanding of the timing of cash flows. For issued financial guarantee contracts, the amendments require the maximum amount of the guarantee to be disclosed in the earliest period in which the guarantee could be called.

Revised disclosures in respect of liquidity risk are included in Note 4.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 3 SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these consolidated financial statements have been applied consistently across the Group entities and to all periods presented in these financial statements, as set out below:

### (a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 31 December 2009. These subsidiaries are shown in Note 25.

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly and indirectly, to govern the financial and operating activities of the subsidiaries so as to obtain benefits from the activities. In assessing control, potential voting rights that are presently exercisable are taken into account.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date control ceases.

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

### (b) Transactions in foreign currencies

Transactions in foreign currencies during the year are converted into the respective functional currencies at rates prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rates ruling at the reporting date. The resulting differences from conversion are dealt with in the statement of comprehensive income in the year in which they arise.

### (c) Income recognition

Income is derived substantially from banking business and related activities and comprises net interest income, fee and commission income and net trading income.

For available-for-sale assets and financial assets and liabilities held at amortised cost, interest income and interest expense is recognised in the statement of comprehensive income using the effective interest rate method.

Gains and losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss, as well as any interest receivable or payable, is included in the statement of comprehensive income in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale financial assets, other than foreign exchange gains or losses from monetary items, are recognised in other comprehensive income, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the statement of comprehensive income.

#### (i) Net interest income

Interest income and expense on available-for-sale assets and financial assets or liabilities held at amortised cost is recognised in the statement of comprehensive 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 allocating interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the carrying amount of the financial asset or financial liability. The effective interest rate is established on initial recognition of

the financial asset and liability and is not revised subsequently. When calculating the effective interest rate, the Group estimates the cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received, between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other discounts and premiums. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

#### (ii) Fee and commission income

Fee and commission income and expenses that are integral to the effective interest rate of a financial asset or liability are included in the measurement of the effective interest rate.

Other fee and commission income, including account servicing fees, sales commissions and syndication fees are generally recognised on an accrual basis when the service has been provided. Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself, or retained a part at the same effective interest rate for the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionable basis.

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

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## (iii) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

## (iv) Dividend income

Dividend income is recognised when the right to receive income is established. Usually this is the ex-dividend date for equity securities. Dividend income is reflected as a component of net trading income, net income from other financial instruments at fair value through profit or loss or other operating income based on the underlying classification of the equity instrument.

## (d) Income tax expense

Income tax expense comprises current and change in deferred tax. Income tax expense is recognised in the statement of comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity, or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities in a transaction that is not a business combination and which affect neither accounting nor taxable profit.

Deferred tax is calculated on the basis of the tax rates currently enacted or substantively enacted at the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

## (e) Financial assets and financial liabilities

### (i) Recognition

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

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

### (ii) Derecognition

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

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

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

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

Where a financial asset is derecognised in its entirety, the difference between the carrying amount and the value of the consideration received together with any gain or loss previously recognised in other comprehensive income.

### (iii) Offsetting of financial assets and liabilities

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

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

### (iv) Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged or liability settled between knowledgeable willing parties in an arm's length transaction on the measurement date.

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. The Group uses widely recognised valuation models for determining the fair value of common and simpler financial instruments like options, interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

For more complex instruments, the Group uses proprietary models, which usually are developed from recognised valuation models. Some or all of the inputs into

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions. When entering into a transaction, the financial instrument is recognised initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price.

This initial difference, usually an increase, in fair value indicated by valuation techniques is recognised in income depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

The value produced by a model or other valuation techniques is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors.

Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value on the statement of financial position.

## (v) Amortised cost measurement

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

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

At each reporting date, the Group assesses whether there is objective evidence that a financial asset not carried at fair value through profit or loss is impaired. Financial assets are impaired when objective evidence demonstrates

that a loss event has occurred after the initial recognition of the assets, and that the loss event has an impact on the future cash flows on the assets that can be estimated reliably.

The Group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

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

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

Losses are recognised in the statement of comprehensive income and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through the statement of comprehensive income.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of other comprehensive income to the statement of comprehensive income. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through the statement of comprehensive income.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in other comprehensive income. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

## (f) Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including: notes and coins on hand, unrestricted balances deposited with the Central Bank of Kenya and highly liquid assets, subject to insignificant changes in their fair value.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

## (g) Trading assets and trading liabilities

Trading assets and trading liabilities are

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

those that the Group principally holds for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and trading liabilities are initially recognised and subsequently measured at fair value in the statement of financial position with transaction costs taken directly to the statement of comprehensive income. All changes in fair value are recognised as part of net trading income in the statement of comprehensive income. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets. For all other financial instruments, fair value is determined by using valuation techniques such as the net present value techniques and the discounted cash flow method.

## (h) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term. They arise when the Group provides money directly to borrowers, other than those created with the intention of short-term profit taking. They are recognised at the date they are transferred to the Group.

Subsequent to initial recognition, these are carried at amortised cost, which is the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Loan origination fees together with related direct costs are treated as part of the cost of the transaction.

Amortised cost is calculated using the effective interest method. The amortisation and accretion of premiums and discounts is included in interest income.

### (i) Investment securities

Investment securities are initially measured at fair value plus, in the case of investment securities not at fair value through profit or loss or available-for-sale, incremental direct transaction costs and subsequently accounted for depending on their classification either as held-to-maturity or available-for-sale.

#### (i) Held-to-maturity

These are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. The sale of a significant amount of held-to-maturity assets not close to their maturity would taint the entire category leading to reclassification as available-for-sale and prevent the Group from reclassifying investment securities as held-to-maturity for the current and the following two financial years.

However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Group has collected substantially all of the asset's original principal; and
- sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

Held-to-maturity investments are carried at amortised cost using the effective interest method.

#### (ii) Available-for-sale

Financial assets that are not classified as another category of financial assets, held by the Group are classified as available-for-sale and are initially recognised at fair value, including transaction costs.

Subsequent to initial recognition, available-for-sale financial assets are stated at fair value based on quoted bid prices. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income and presented in equity in the fair value reserve, net of deferred tax.

When these investments are derecognised, the cumulative gain or loss previously directly recognised in other comprehensive income is charged to the statement of comprehensive income.

### (j) Property and equipment

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

Freehold land and buildings and buildings on leasehold land are included in the financial statements at their historical cost or amount of any subsequent valuation less accumulated depreciation and accumulated impairment losses.

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

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of day-to-day servicing of property and equipment are recognised in the statement of comprehensive income as incurred.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## (ii) Depreciation

Depreciation is calculated on a straight line basis to allocate the cost or revalued amount to their residual values over their estimated useful lives as follows:

Fixtures and fittings	10%
Equipment	10%
Computers	30 – 33%
Motor vehicles	25%

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

Freehold land is not depreciated.

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

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

Decreases that offset previous increases of the same asset are recognised in other comprehensive income with all other decreases being charged to the statement of comprehensive income.

Revaluation surpluses are not distributable.

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

Gains and losses on disposal of property and equipment are determined by comparing the proceeds from disposal

with the carrying amount of the item of property and equipment and are recognised in the statement of comprehensive income in the year in which they arise.

## (k) Intangible assets

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

Computer development costs that are directly associated with the production of identifiable and unique software products that will probably generate economic benefits in excess of its costs are capitalised. Internally developed software is stated at cost less accumulated amortisation and accumulated impairment losses.

Costs associated with maintaining software are recognised as an expense as incurred.

The costs are amortised on a straight line basis over the expected useful lives, from the date it is available for use, not exceeding three years.

## (l) Operating leases

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

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

## (m) Impairment for non-financial assets

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

indication exists then the asset's recoverable amount is estimated.

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

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

A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the statement of comprehensive income. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

## (n) Derivative financial instruments

Derivative financial instruments are initially recognised at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. The gain or loss on re-measurement to fair value is recognised immediately in the statement of comprehensive income. The Group uses the following derivative instruments:

### Currency forwards

Currency forwards represent commitments to purchase foreign and domestic currency,

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

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

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

#### *Currency and interest rate swaps*

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

#### *Foreign currency and interest rate options*

Foreign currency and interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or

interest rate risk. Options may be either exchange-traded or negotiated between the Group and a customer i.e over-the-counter (OTC). The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

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

#### (o) **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.

#### (p) **Employee benefits**

##### (i) **Pension obligations**

The Group's employees are eligible for retirement benefits under a defined contribution scheme. Pensioners and deferred pensioners existing at 31 December 1998 are eligible for retirement benefits under a defined benefit scheme.

For the defined benefit scheme, the pension costs are assessed using the unit credit method. Under this method, the

cost of providing pensions is charged to the statement of comprehensive income so as to spread the regular cost over the lives of pensioners in accordance with the advice of qualified actuaries who carry out a full valuation of the scheme every three years. The pension obligation is measured as the present value of the estimated future cash outflows using interest rates on government securities, that have maturity dates approximating the terms of the Group's obligations.

All the actuarial gains and losses have been recognised as there are no remaining working lives for the pensioners and deferred pensioners participating in the scheme.

Contributions to the defined contribution scheme are charged to the statement of comprehensive income as incurred.

The employees and Group also contribute to the National Social Security Fund, a national retirement scheme.

Contributions are determined by local statutes and the Group's contributions are charged to the statement of comprehensive income in the year to which they relate.

#### (ii) **Share based payments**

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

In addition, employees have the choice of opening a three-year or five-year savings contract. Within a period of six months after the third or fifth anniversary, as appropriate, employees may purchase ordinary shares of Standard Chartered PLC. The price at which they may purchase shares is at a discount of upto twenty per cent on the share price at the

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

date of invitation. There are no performance conditions attached to options granted under all employee share save schemes.

The fair value of the awards under each scheme is determined at the date of grant and the cost is spread over the vesting period.

The amounts charged to the statement of comprehensive income are disclosed in Note 13.

## (iii) Termination benefits

Termination benefits are recognised as an expense when the Group is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised if the Group has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date then they are discounted to their present value.

## (q) Preference share capital

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

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

## (r) Earnings per share

Basic and diluted earnings per share (EPS) data for ordinary shares are presented in the financial statements. Basic EPS is calculated by dividing the profit or loss

attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares if any.

## (s) Dividends

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

## (t) Contingent liabilities

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

## (u) Sale and repurchase agreements

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

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

## (v) Related parties

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

## (w) Segment reporting

An operating segment is a component of the Group that engages in business

activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group's Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which distinct financial information is available.

## (x) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2009, and have not been applied in preparing these consolidated financial statements as follows:

### (i) Revised IFRS 3 *Business Combinations* (2008)

- Revised IFRS 3 *Business Combinations* (2008) incorporates the following changes:
- the definition of a business has been broadened, which may result in more acquisitions being treated as business combinations;
  - contingent consideration will be measured at fair value, with subsequent changes in fair value recognised in the statement of comprehensive income;
  - transaction costs, other than share and debt issue costs, will be expensed as incurred;
  - any pre-existing interest in an acquiree will be measured at fair value, with the related gain or loss recognised in the statement of comprehensive income; and
  - any non-controlling (minority) interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of an acquiree, on a transaction-by-transaction basis.

Revised IFRS 3, which becomes mandatory for the Group's 2010 consolidated financial statements, will be applied prospectively and therefore there will be no impact on prior periods in the Group's 2010 consolidated financial statements.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

- (ii) Amended IAS 27 *Consolidated and Separate Financial Statements (2008)* requires accounting for changes in ownership interests in a subsidiary that occur without loss of control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in the statement of comprehensive income. The amendments to IAS 27, which become mandatory for the Group's 2010 consolidated financial statements, are not expected to have a significant impact on the consolidated financial statements.
- (iii) Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. The amendments will become mandatory for the Group's 2010 consolidated financial statements, with retrospective application required. The Group is currently in the process of evaluating the potential effect of this amendment.
- (iv) IFRS 9 *Financial Instruments*, published on 12 November 2009 as part of phase 1 of the IASB's comprehensive project to replace IAS 39, deals with classification and measurement of financial assets. The requirements of this standard represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets; amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of *held-to-maturity*, *available-for-sale* and *loans and receivables*. For an investment in an equity

instrument which is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income. No amount recognised in other comprehensive income would ever be reclassified to the statement of comprehensive income at a later date. However, dividends on such investments are recognised in the statement of comprehensive income, rather than other comprehensive income unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in other comprehensive income would be measured at fair value with changes in fair value recognised in the statement of comprehensive income.

The standard requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated; instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortised cost or fair value.

The standard is effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted.

The Group is currently in the process of evaluating the potential effect of this standard. Given the nature of the Group's operations, this standard is expected to have a pervasive impact on the Group's financial statements.

## 4 FINANCIAL RISK MANAGEMENT

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

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

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

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

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

### Stress testing

Stress testing and scenario analysis are important components of the Group's risk assessment processes, and are used to

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

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

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

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

## (a) Credit risk

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

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

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

### Wholesale Banking

Within the Wholesale Banking business, a

numerical grading system is used for quantifying the risk associated with a counterparty. The grading is based on a probability of default measure with customers analysed against a range of quantitative and qualitative measures. The numeric grades run from 1 to 14.

Counterparties with lower credit grades are assessed as being less likely to default. An A to C scale is assigned to the original numeric rating scale, to enable more granular mapping of the probability to default, which results in more refined risk assessment, risk control and pricing.

A counterparty with an A suffix has a lower probability of default than a counterparty with a C suffix. Credit grades 1A to credit grade 12C are assigned to performing customers while credit grades 13 and 14 are assigned to non-performing (or defaulted) customers.

Origination and approval roles are segregated.

There is no direct relationship between the Group's internal credit grades and those used by external rating agencies. The Group's credit grades are not intended to replicate external credit grades, although as the factors used to grade a borrower are often similar, a borrower rated poorly by an external rating agency is typically rated in the lower rank of the Group's internal credit grades.

In addition to nominal aggregate exposure, expected loss is used in the assessment of individual exposures and for portfolio analysis. Expected loss is the long-run average credit loss across a range of typical economic conditions. It is used in the delegation of credit approval authority and must be calculated for every transaction to determine the appropriate level of approval. To assist risk officers in monitoring the portfolio, various internal risk management reports are available on a regular basis, providing individual counterparty, counterparty group and portfolio exposure information, the status of accounts showing signs of weakness or financial deterioration and updates on credit markets.

### Consumer Banking

Credit risk in Consumer Banking, is also managed through a framework of policies and procedures. Origination and approval roles are segregated. To aid credit managers in portfolio management, regular internal risk management reports contain information on key environmental and economic trends across major portfolios, portfolio delinquency and loan impairment performance as well as information on migration across credit grades and other trends.

Credit grades within Consumer Banking are based on a probability of default. An alphanumeric grading system identical to that of Wholesale Banking business is used as an index of portfolio quality.

### Problem credit management and provisioning

#### (i) Wholesale Banking

In Wholesale Banking, accounts or portfolios are placed on Early Alert when they display signs of weakness or financial deterioration, for example where there is a rapid decline in the client's position within the industry, a breach of covenants, non-performance of an obligation, or there are issues relating to ownership or management.

Such accounts and portfolios are subject to a dedicated process with oversight involving the Senior Risk Officer and Group Special Asset Management ("GSAM"). Account plans are re-evaluated and remedial actions are agreed and monitored until complete. Remedial actions include, but are not limited to, exposure reduction, security enhancement, exit of the account or immediate movement of the account into the control of GSAM, the specialist recovery unit.

Loans are designated as impaired and considered non-performing where analysis and review indicates that full payment of either interest or principal becomes questionable or as soon as payment of interest or principal is 90 days or more overdue. Impaired accounts are

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

managed by GSAM, which is independent of the main businesses of the Group. Where any amount is considered uncollectable, an individual impairment provision is raised, being the difference between the loan carrying amount and the present value of estimated future cash flows. In any decision relating to the raising of provisions, the Group attempts to balance economic conditions, local knowledge and experience, and the results of independent asset reviews.

A portfolio impairment provision is held to cover the inherent risk of losses, which, although not identified, are known through experience to be present in any loan portfolio. In Wholesale Banking, the portfolio impairment provision is set with reference to past experience using loss rates, and judgmental factors such as the economic environment and the trends in key portfolio indicators.

## (ii) Consumer Banking

In Consumer Banking, where there are large numbers of small value loans, a primary indicator of potential impairment is delinquency. However, not all delinquent loans (particularly those in the early stage of delinquency) will be impaired.

Within Consumer Banking, an account is considered to be delinquent when payment is not received on the due date. Accounts that are overdue by more than 30 days are considered delinquent. For delinquency reporting purposes, the Group follows industry standards, measuring delinquency as of 1, 30, 60, 90, 120 and 150 days past due. Accounts that are overdue by more than 30 days are closely monitored and subject to specific collection processes.

Provisioning within Consumer Banking reflects the fact that the product portfolios (excluding medium enterprises among SME customers) consist of a large number of comparatively small exposures. As a result, much of the provisioning is initially done at an account

level for each product and a Portfolio Impairment Provision ("PIP") is raised on a portfolio basis.

A portfolio impairment provision ("PIP") is held to cover the inherent risk of losses, which, although not identified, are known through experience to be present in the loan portfolio. PIP covers both performing loans and loans overdue for less than 150 days. The provision is set with reference to past experience using flow rate methodology, as well as taking account of judgment factors such as the economic and business environment and the trends in a range of portfolio indicators. These include flow rates across all delinquency buckets, portfolio loss severity, collections and recovery performance trends.

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

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

The procedures for managing problem credits for the medium enterprises in the SME segment of Consumer Banking are similar to those adopted for Wholesale Banking described above.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 4 FINANCIAL RISK MANAGEMENT (continued)

### (a) Credit risk (continued)

The Group exposure to credit risk is analysed as follows:

	2009 KShs '000	2008 KShs '000
<b>Individually impaired</b>		
Grade 13: Impaired	504,500	309,685
Grade 14: Impaired	969,250	1,427,660
	<b>1,473,750</b>	1,737,345
Allowance for impairment	(754,156)	(1,134,808)
	<b>719,594</b>	602,537
<b>Loans past due but not impaired</b>		
Past due upto 30 days	1,251,877	726,533
Past due 31 – 60 days	107,443	244,719
Past due 61 – 90 days	26,896	87,842
Past due 91 – 150 days	–	77,502
	<b>1,386,216</b>	1,136,596
<b>Loans neither past due nor impaired</b>		
Grade 1	55,825	2,939
Grade 2	–	26,805
Grade 3	6,305,802	3,253,824
Grade 4	21	4,322,039
Grade 5	238,701	1,515,691
Grade 6	6,543,270	913,187
Grade 7	7,686,852	4,192,916
Grade 8	2,492,032	2,225,786
Grade 9	8,004,194	4,048,242
Grade 10	4,380,767	3,258,408
Grade 11	17,540,569	15,992,362
Grade 12 – watch	1,908,011	2,231,632
	<b>55,156,044</b>	41,983,831
Portfolio impairment provision	(566,978)	(424,145)
	<b>54,589,066</b>	41,559,686
<b>Net loans and advances</b>	<b>56,694,876</b>	43,298,819

#### (i) Fair value of collateral held

Fair value of collateral held:

- Against impaired loans	1,366,758	1,208,075
- Against past due but not impaired loans	436,934	2,665,167

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

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

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 4 FINANCIAL RISK MANAGEMENT (continued)

### (a) Credit risk (continued)

#### Loans and advances to customers (continued)

##### (i) Fair value of collateral held (continued)

Collateral held against impaired loans is maintained at fair value. The valuation of collateral is monitored regularly and is back-tested 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 2009 or 2008.

	2009 KShs '000	2008 KShs '000
Business services	2,884,390	1,246,767
Manufacturing	6,546,930	11,597,159
Wholesale and retail trade	4,173,314	9,885,348
Transport and communication	4,298,880	6,972,489
Real estate	4,529,449	4,414,795
Others	35,583,047	10,741,214
	<b>58,016,010</b>	44,857,772

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

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

	2009 KShs '000	2008 KShs '000
Consumer Banking	18,886,678	15,846,985
Wholesale Banking	39,129,332	29,010,787
	<b>58,016,010</b>	44,857,772

#### Other financial assets

##### Neither past due nor impaired

Cash and balances with Central Bank of Kenya	7,728,872	7,380,062
Government and other securities held for trading	2,326,700	1,615,561
Derivative financial instruments	70,040	2,013,917
Loans and advances to banks	1,492,177	1,379,889
Investment securities	43,473,479	22,273,708
Amounts due from group companies	7,384,694	15,683,293

##### Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to failure of an entity to honour its obligations to deliver cash, securities or other assets as contractually agreed.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 4 FINANCIAL RISK MANAGEMENT (continued)

### (a) Credit risk (continued)

For certain types of transactions the Group mitigates this risk by conducting settlements through a settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Group Risk.

#### Derivatives

The credit risk arising from derivatives is managed as part of the overall lending limits to banks and customers. The amount of credit risk is the current positive fair value of the underlying contract together with potential exposures from future market movements. The group further limits its exposures to credit losses in the event of default by entering into master netting agreements with certain market counterparties. As required by IAS 32, exposures are not presented net in the financial statements as in the ordinary course of business they are not intended to be settled net.

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

#### Loans with renegotiated terms

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

#### Write-off policy

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

### (b) Liquidity risk

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

The Group manages liquidity risk both on a short-term and medium-term basis. In the short-term, the focus is on ensuring that the cash flow demands can be met through asset maturities, customer deposits and wholesale funding where required. In the medium-term, the focus is on ensuring the statement of financial position remains structurally sound.

ALCO is responsible for ensuring that the Group is self-sufficient and is able to meet all its obligations to make payments as they fall due by operating within the set liquidity limits. It also has primary responsibility for compliance with regulations and Group policy and maintaining a liquidity crisis contingency plan.

The Group liquidity risk management framework requires limits to be set for prudent liquidity management. These limits are on:

- the mismatch in local and foreign currency behavioural cash flows;
- the level of wholesale borrowing to ensure that the size of this funding is proportional to the local market and the Group's operations;
- commitments, both on and off-balance sheet, 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.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 4 FINANCIAL RISK MANAGEMENT (continued)

### (b) Liquidity risk (continued)

In addition, the Group prescribes a liquidity stress scenario that assumes accelerated withdrawal of deposits over a period of time. The Group has to ensure that cash flows exceed outflows under such a scenario.

All limits are reviewed at least annually, and more frequently if required, to ensure that they are relevant given market conditions and business strategy. Compliance with limits is monitored independently by Group Market Risk. Limit excesses are escalated and approved under a delegated authority structure and reviewed by ALCO.

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

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

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

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

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

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

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

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

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

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

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

Company	2009	2008
	%	%
At 31 December	45	58
Average for the period	60	58
Highest for the period	69	62
Lowest for the period	45	54

The Group also monitors on a regular basis the advances to deposit ratio. This is defined as the ratio of total loans and advances to customers relative to total customer deposits. A low advances to deposit ratio demonstrates that customer deposits exceed customer loans resulting from the emphasis placed on generating a high level of stable funding from customers.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 4 FINANCIAL RISK MANAGEMENT (continued)

### (b) Liquidity risk (continued)

The advances to deposits ratio at 31 December 2009 was as follows:

	2009 KShs '000	2008 KShs '000
Loans and advances to customers	<b>56,694,876</b>	43,298,819
Deposits from customers	<b>86,773,652</b>	76,898,456
Advances to deposits ratio	<b>65</b>	56

The table below analyses financial liabilities into relevant maturity groupings based on the remaining period at 31 December 2009 to the contractual maturity date:

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

<b>31 December 2009:</b> <b>LIABILITIES</b>	<b>Up to 1 month</b>	<b>1 – 3 months</b>	<b>3 – 12 months</b>	<b>1 – 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Deposits from banks	10,289,777	242,520	–	–	–	<b>10,532,297</b>
Deposits from customers	73,532,061	15,147	298,626	12,637,598	290,220	<b>86,773,652</b>
Derivative financial instruments	242,930	–	–	–	–	<b>242,930</b>
Amounts due to group companies	5,719,499	78,791	2,048,373	–	–	<b>7,846,663</b>
Other liabilities	291,013	1,266,813	1,006,420	52,263	443,296	<b>4,035,029</b>
<b>At 31 December 2009</b>	<b>90,075,280</b>	<b>1,603,271</b>	<b>3,353,419</b>	<b>12,689,861</b>	<b>733,516</b>	<b>105,686,555</b>

### 31 December 2008:

<b>LIABILITIES</b>	<b>Up to 1 month</b>	<b>1 – 3 months</b>	<b>3 – 12 months</b>	<b>1 – 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
Deposits from banks	2,806,333	–	–	–	–	<b>2,806,333</b>
Deposits from customers	62,027,459	11,374,533	2,979,191	517,273	–	<b>76,898,456</b>
Derivative financial instruments	3,696,116	–	–	–	–	<b>3,696,116</b>
Amounts due to group companies	62,336	75,928	–	–	–	<b>138,264</b>
Other liabilities	895,752	–	–	–	–	<b>895,752</b>
<b>At 31 December 2008</b>	<b>69,487,996</b>	<b>11,450,461</b>	<b>2,979,191</b>	<b>517,273</b>	–	<b>84,434,931</b>

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

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

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

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

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 4 FINANCIAL RISK MANAGEMENT (continued)

### (c) Market risk

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

The primary categories of market risk for the Group are:

- Interest rate risk: arising from changes in yield curves, credit spreads and implied volatilities on interest rate options;
- Currency exchange rate 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 e.t.c.

Overall responsibility for market risk is vested in ALCO, who approve the Group's market risk appetite taking into account the market volatility, the range of traded products and asset classes, business volumes and transaction sizes. Market risk appetite has remained broadly stable in 2009.

Group Market Risk (GMR) is responsible for setting Value at Risk (VaR) and stress loss limits for market risk within the Group's risk appetite. It is also responsible for policies and other standards for the control of market risk and overseeing their effective implementation. These policies cover both the trading and non-trading books of the Group.

GMR approves the limits within delegated authorities and monitors exposures against these limits and reports to ALCO. Additional limits are placed on specific instruments and position concentrations where appropriate. Sensitivity measures are used in addition to VaR as risk management tools. For example, interest rate sensitivity is measured in terms of exposure to one basis point increase in yields, whereas foreign exchange, commodity and equity sensitivities are measured in terms of underlying values or amounts involved.

#### **Sensitivity analysis**

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

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

The Group applies two VaR methodologies:

- Historic simulation: involves the revaluation of all unmatured contracts to reflect the effect of historically observed changes in market risk factors on the valuation of the current portfolio. This approach is applied for general market risk factors; and
- Monte Carlo simulation: this methodology is similar to historic simulation but with considerably more input risk factor observations. These are generated by random sampling techniques, but the results retain the essential variability and correlations of historically observed risk factor changes. This approach is applied for credit spread VaR.

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

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

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 4 FINANCIAL RISK MANAGEMENT (continued)

### (c) Market risk (continued)

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

The Group performs regular back-testing, where actual profits and losses are compared with VaR estimates to track the statistical validity of the VaR model.

Losses beyond the confidence interval are not captured by a VaR calculation, which therefore give no indication of the size of unexpected losses in these situations. To manage the risk arising from such events, which the VaR methodology does not fully capture, the Group regularly stress tests its main market risk exposures. Stress testing involves valuing portfolios at prices, which assume extreme changes in risk factors beyond the range of normal experience.

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

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

#### 31 December 2009:

Daily value at risk:	At 31 December	Average	High	Low
Foreign exchange risk	2,125	3,719	7,590	1,366
Interest rate risk	86,981	81,365	88,196	72,409
	<b>89,106</b>	<b>85,084</b>	<b>95,786</b>	<b>73,775</b>

#### 31 December 2008:

Daily value at risk:	At 31 December	Average	High	Low
Foreign exchange risk	1,173	5,239	19,315	547
Interest rate risk	199,957	100,487	132,705	64,593
	<b>201,130</b>	<b>105,726</b>	<b>152,020</b>	<b>65,140</b>

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 4 FINANCIAL RISK MANAGEMENT (continued)

### (c) Market risk (continued)

#### (i) Interest rate risk

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

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

**31 December 2009:**

ASSETS	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non interest bearing	Total
Cash and balances with							
Central Bank of Kenya	–	–	–	–	–	7,728,872	<b>7,728,872</b>
Government and other securities held for trading	–	–	–	655,480	1,604,282	66,938	<b>2,326,700</b>
Derivative financial instruments	70,040	–	–	–	–	–	<b>70,040</b>
Deposits and advances to banks	–	–	–	1,450,000	–	42,177	<b>1,492,177</b>
Loans and advances to customers	54,347,388	1,119	10,380	206,457	1,358,704	770,828	<b>56,694,876</b>
Investment securities	2,950,000	2,637,550	11,930,482	20,875,800	3,905,800	1,173,847	<b>43,473,479</b>
Amounts due from group companies	3,139,160	1,749,929	1,518,000	–	–	977,605	<b>7,384,694</b>
Other assets	–	–	–	–	–	605,106	<b>605,106</b>
<b>At 31 December 2009</b>	<b>60,506,588</b>	<b>4,388,598</b>	<b>13,458,862</b>	<b>23,187,737</b>	<b>6,868,786</b>	<b>11,365,373</b>	<b>119,775,944</b>

#### EQUITY AND LIABILITIES

Deposits from banks	10,289,777	242,520	–	–	–	–	<b>10,532,297</b>
Deposits from customers	27,955,084	12,062	298,623	12,737,117	288,474	45,482,292	<b>86,773,652</b>
Derivative financial instruments	242,930	–	–	–	–	–	<b>242,930</b>
Amounts due to group companies	5,363,071	–	2,000,000	–	–	483,592	<b>7,846,663</b>
Retirement benefit obligations	–	–	–	–	–	121,413	<b>121,413</b>
Other liabilities	–	–	–	–	–	291,013	<b>291,013</b>
<b>At 31 December 2009</b>	<b>43,850,862</b>	<b>254,582</b>	<b>2,298,623</b>	<b>12,737,117</b>	<b>288,474</b>	<b>46,378,310</b>	<b>105,807,968</b>

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 4 FINANCIAL RISK MANAGEMENT (continued)

### (c) Market risk (continued)

#### (i) Interest rate risk (continued)

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

31 December 2008:

ASSETS	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non interest bearing	Total
Cash and balances with Central Bank of Kenya	–	–	–	–	–	7,380,062	7,380,062
Government and other securities held for trading	–	–	168,800	200,000	1,162,000	84,761	1,615,561
Derivative financial instruments	2,013,917	–	–	–	–	–	2,013,917
Deposits and advances to banks	300,924	–	–	–	–	1,078,965	1,379,889
Loans and advances to customers	16,506,536	1,921,842	4,319,593	15,392,248	4,478,561	680,039	43,298,819
Investment securities	254,200	2,680,000	5,050,117	13,761,882	100,000	427,509	22,273,708
Amounts due from group companies	8,099,449	6,246,700	734,600	–	–	602,544	15,683,293
Other assets	–	–	–	–	–	2,080,437	2,080,437
<b>At 31 December 2008</b>	<b>27,175,026</b>	<b>10,848,542</b>	<b>10,273,110</b>	<b>29,354,130</b>	<b>5,740,561</b>	<b>12,334,317</b>	<b>95,725,686</b>
<b>EQUITY AND LIABILITIES</b>							
Deposits from banks	2,600,000	–	–	–	–	206,333	2,806,333
Deposits from customers	9,260,127	21,151,224	2,979,191	517,273	–	42,990,641	76,898,456
Derivative financial instruments	3,696,116	–	–	–	–	–	3,696,116
Amounts due to group companies	54,562	–	–	–	–	83,702	138,264
Retirement benefit obligations	–	–	–	–	–	135,007	135,007
Other liabilities	–	–	–	–	–	895,752	895,752
<b>At 31 December 2008</b>	<b>15,610,805</b>	<b>21,151,224</b>	<b>2,979,191</b>	<b>517,273</b>	<b>–</b>	<b>44,311,435</b>	<b>84,569,928</b>

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 4 FINANCIAL RISK MANAGEMENT (continued)

### (c) Market risk (continued)

#### (ii) Currency rate risk

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

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

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

<b>31 December 2009:</b>	<b>USD</b>	<b>GBP</b>	<b>Euro</b>	<b>Other</b>	<b>Total</b>
<b>ASSETS</b>					
Deposits and advances to banks	1,042,659	68,749	453,114	72,525	<b>1,637,047</b>
Loans and advances to customers	14,459,757	1,213,054	278,979	203,328	<b>16,155,118</b>
Amounts due from group companies	2,277,124	156	1,828,484	801,307	<b>4,907,071</b>
Other assets	4,892,277	1,405	660,182	2,860	<b>5,556,724</b>
<b>At 31 December 2009</b>	<b>22,671,817</b>	<b>1,283,364</b>	<b>3,220,759</b>	<b>1,080,020</b>	<b>28,255,960</b>
<b>LIABILITIES</b>					
Deposits from banks	–	–	–	23,101	<b>23,101</b>
Deposits from customers	16,521,502	876,586	2,268,201	803,305	<b>20,469,594</b>
Amounts due to group companies	5,573,240	141,941	–	110,655	<b>5,825,836</b>
Other liabilities	1,707,271	16,922	674,171	29,688	<b>2,428,052</b>
<b>At 31 December 2009</b>	<b>23,802,013</b>	<b>1,035,449</b>	<b>2,942,372</b>	<b>966,749</b>	<b>28,746,583</b>
<b>Net balance sheet position</b>	<b>(1,130,196)</b>	<b>247,915</b>	<b>278,387</b>	<b>113,271</b>	<b>(490,623)</b>
<b>31 December 2008:</b>					
<b>ASSETS</b>					
Deposits and advances to banks	512,461	165	–	149,140	<b>661,766</b>
Loans and advances to customers	8,841,403	852,334	468,368	597,051	<b>10,759,156</b>
Amounts due from group companies	7,991,102	707,209	1,116,534	11,123	<b>9,825,968</b>
Other assets	1,934,955	109,884	1,062,996	46,684	<b>3,154,519</b>
<b>At 31 December 2008</b>	<b>19,279,921</b>	<b>1,669,592</b>	<b>2,647,898</b>	<b>803,998</b>	<b>24,401,409</b>
<b>LIABILITIES</b>					
Deposits from banks	1,264,206	–	21,069	–	<b>1,285,275</b>
Deposits from customers	10,790,616	1,228,770	1,695,382	99,677	<b>13,814,445</b>
Amounts due to group companies	494,072	78,978	–	152,975	<b>726,025</b>
Other liabilities	1,203,010	73,575	20,578	149,509	<b>1,446,672</b>
<b>At 31 December 2008</b>	<b>13,751,904</b>	<b>1,381,323</b>	<b>1,737,029</b>	<b>402,161</b>	<b>17,272,417</b>
<b>Net balance sheet position</b>	<b>5,528,017</b>	<b>288,269</b>	<b>910,869</b>	<b>401,837</b>	<b>7,128,992</b>

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 4 FINANCIAL RISK MANAGEMENT (continued)

### (d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

The Group seeks to ensure that key operational risks are managed in a timely and effective manner through a framework of policies, procedures and tools to identify, assess, monitor, control and report such risks.

Compliance with operational risk policies and procedures is the responsibility of all managers. CORG has the governance responsibility for ensuring that an appropriate and robust risk management framework is in place to monitor and manage operational risk.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This is supported by the development of overall Group standards for the management of operational risk in areas such as compliance with regulatory requirements, ethical and business standards, training and professional development, documentation of controls and procedures and requirements for the reconciliation and monitoring of transactions amongst others.

### (e) Capital management

The Central Bank of Kenya sets and monitors capital requirements for all banks.

The objective of the Central Bank of Kenya is to ensure that a bank maintains a level of capital which:

- is adequate to protect its depositors and creditors;
- is commensurate with the risks associated with its activities and profile; and
- promotes public confidence in the bank.

In implementing current capital requirements, the Central Bank of Kenya requires banks to maintain a prescribed ratio of total capital to total risk-weighted assets.

Capital adequacy and use of regulatory capital are monitored regularly by management employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank of Kenya for supervisory purposes.

The Central Bank of Kenya requires a bank to maintain at all times:

- a core capital of not less than 8% of total risk weighted assets, plus risk weighted off-balance sheet items;
- a core capital of not less than 8% of its total deposit liabilities; and
- a total capital of not less than 12% of its total risk weighted assets, plus risk weighted off-balance sheet items.

In addition, a bank must maintain a minimum core capital of KShs 250 million.

However, the Central Bank of Kenya amended the Banking Act in 2009 to require banks to increase their core capital as follows:

Compliance date	Minimum core capital
31 December 2009	350 million
31 December 2010	500 million
31 December 2011	700 million
31 December 2012	1,000 million

The Bank is already compliant with this new requirement.

Capital is segregated into core capital (Tier 1) and supplementary capital (Tier 2).

Core capital includes ordinary share capital, irredeemable preference shares, share premium and retained earnings after deductions for goodwill and intangible assets.

Supplementary capital on the other hand includes 25% of revaluation reserves of property and equipment, subordinated debt not exceeding 50% of core capital and any other approved reserves.

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

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 4 FINANCIAL RISK MANAGEMENT (continued)

### (e) Capital management (continued)

The Bank's regulatory capital position at 31 December 2009 was as follows:

	2009 KShs '000	2008 KShs '000
<b>Core capital (Tier 1)</b>		
Share capital	1,639,839	1,639,839
Share premium	2,520,000	2,520,000
Retained earnings	6,496,622	5,171,714
	<b>10,656,461</b>	9,331,553
<b>Supplementary capital (Tier 2)</b>		
Revaluation reserves (25%)	79,160	82,447
Statutory credit risk reserve	179,070	191,336
	<b>258,230</b>	273,783
<b>Total capital</b>	<b>10,914,691</b>	9,605,336
<b>Risk weighted assets</b>		
On-balance sheet	63,703,727	52,046,915
Off-balance sheet	11,758,734	7,228,608
<b>Total risk weighted assets</b>	<b>75,462,461</b>	59,275,523
<b>Deposits from customers</b>	<b>86,773,652</b>	76,898,456
<b>Capital ratios</b>		
Core capital/total deposit liabilities (CBK minimum 8%)	12%	12%
Core capital/total risk weighted assets (CBK minimum 8%)	14%	16%
Total capital/total risk weighted assets (CBK minimum 12%)	14%	16%

### Capital allocation

The Bank's capital management approach is driven by its desire to maintain a strong capital base to support the development of its business, to meet regulatory capital requirements at all times and to maintain good credit ratings.

Strategic business and capital plans are drawn up annually. The plan ensures that adequate levels of capital and optimum mix of the different components of capital are maintained by the Group to support the strategy. This is integrated with the Group's annual planning process that takes into consideration business growth assumptions across products and the related impact on capital resources.

The capital plan takes the following into account:

- regulatory capital requirements;
- forecast demand for capital to maintain credit ratings;
- increases in demand for capital due to business growth, market shocks or stresses;
- available supply of capital and capital raising options; and
- internal controls and governance for managing the Bank's risk, performance and capital.

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

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 4 FINANCIAL RISK MANAGEMENT (continued)

### (e) Capital management (continued)

#### Capital allocation (continued)

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

### (f) Compliance and regulatory risk

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

### (g) Legal risk

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

### (h) Reputational risk

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

The Group manages reputational risk through the Reputational Risk Committee.

### (i) Independent monitoring

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

## 5 USE OF ESTIMATES AND JUDGMENTS

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

### (a) Loan loss provisioning

#### (i) Consumer Banking

An account is considered to be in default when payment is not received on the due date. Accounts that are overdue by more than 30 days are considered delinquent. These accounts are closely monitored and subject to a collection process.

The process used for raising provisions is dependent on the product. For mortgages, individual impairment provisions ("IIP") are generally raised at 150 days past due based on the difference between the outstanding amount on the loan and the present value of the estimated future cash flows. Loan impairment for other secured loans utilises the forced sale value of the collateral without discounting. For unsecured products, individual provisions are raised for the entire outstanding amount at 150 days past due. For all products there are certain accounts, such as cases involving bankruptcy, fraud and death, where the loss recognition process is accelerated.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 5 USE OF ESTIMATES AND JUDGMENTS (continued)

### (a) Loan loss provisioning (continued)

#### (i) Consumer Banking (continued)

A portfolio impairment provision ("PIP") is held to cover the inherent risk of losses, which, although not identified, are known through experience to be present in the loan portfolio. PIP covers both performing loans and loans overdue for less than 150 days. The provision is set with reference to past experience using flow rate methodology, as well as taking account of judgment factors such as the economic and business environment and the trends in a range of portfolio indicators.

#### (ii) Wholesale Banking

The Group's loan loss provisions are established to recognise incurred impairment losses either on specific loan assets or within a portfolio of loans and receivables.

Impairment losses for specific loan assets are assessed either on an individual or on a portfolio basis. Individual impairment losses are determined as the difference between the carrying amount and the present value of estimated future cash flows, discounted at the loans' original effective interest rate. Impairment losses determined on a portfolio basis are assessed based on the probability of default inherent within the portfolio of impaired loans or receivables.

Estimating the amount and timing of future recoveries involves significant judgment, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market.

Loan losses that have been incurred but have not been separately identified at the reporting date are determined on a portfolio basis, which takes into account past loss experience and defaults based on portfolio trends. Actual losses identified could differ significantly from the impairment provisions reported as a result of uncertainties arising from the economic environment.

### (b) Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

All financial instruments are initially recognised at fair value, which is normally the transaction price. In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market inputs.

Subsequent to initial recognition, some of the Group's financial instruments are carried at fair value, with changes in fair value either reported within the statement of comprehensive income or in other comprehensive income until the instrument is sold or becomes impaired. Details of the type and classification of the Group's financial instruments are set out in note 7 and the accounting policy set out in note 2 to the accounts.

The fair values of quoted financial instruments in active markets are based on current prices. If the market for a financial instrument is not active, and for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market data.

The fair value for the majority of the Group's financial instruments is based on observable market prices or derived from observable market parameters.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 5 USE OF ESTIMATES AND JUDGMENTS (continued)

### (b) Fair value of financial instruments (continued)

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

The equity investment in Visa Inc. was sold in the course of the year.

### (c) Pensions

Actuarial assumptions are made in valuing future defined benefit obligations and are updated periodically. The principal assumption relates to the discount rate. The discount rate is equal to the yield on government securities which have a term to maturity approximating that of the related liability, and is potentially subject to significant variation. As a result, there is uncertainty that this assumption will continue in the future.

### (d) Impairment of property and equipment

Critical estimates are made by the directors in determining depreciation rates for property and equipment.

### (e) Taxes

Determining income tax provisions involves judgment on the tax treatment of certain transactions. Deferred tax assets are recognised on tax losses not yet used and on temporary differences where it is probable that there will be taxable revenue against which these can be offset. Management has made judgments as to the probability of tax losses being available for offset at a later date.

### (f) Share based payments

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

Equity-settled share awards are recognised as an expense based on their fair value at date of grant. The fair value of equity-settled share options is estimated through the use of option valuation models; which require inputs such as risk-free interest rate, expected dividends, expected volatility and the expected option life and is expensed over the vesting period. Some of the inputs used, such as the expected option life, are not market observable and are based on estimates derived from available data, such as employee exercise behaviour. The models utilised, such as the binomial option pricing model, are intended to value options traded in active markets. The share options issued by Standard Chartered PLC, however have a number of features that make them incomparable to such trade options. Using different input estimates or models could produce different option values, which would result in the recognition of higher or lower expense.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 6 SEGMENT REPORTING

### Business segments

The Group is organised for management and reporting purposes into two main business segments: Consumer Banking and Wholesale Banking. Wholesale Banking comprises Financial Markets and Origination & Client Coverage.

The segment results were as follows:

#### Statement of comprehensive income for year ended

31 December 2009

	Consumer Banking KShs '000	Wholesale Banking KShs '000	Total KShs '000
Net interest income	3,900,446	3,436,832	<b>7,337,278</b>
Non funded income	1,825,658	3,083,496	<b>4,909,154</b>
<b>Operating income</b>	<b>5,726,104</b>	<b>6,520,328</b>	<b>12,246,432</b>
Operating expenses	2,855,791	2,187,258	<b>5,043,049</b>
Net impairment losses on loans and advances	404,969	69,967	<b>474,936</b>
<b>Profit before taxation</b>	<b>2,465,344</b>	<b>4,263,103</b>	<b>6,728,447</b>

#### Statement of comprehensive income for year ended

31 December 2008

Net interest income	3,514,423	2,362,696	<b>5,877,119</b>
Non funded income	1,506,155	2,726,796	<b>4,232,951</b>
<b>Operating income</b>	<b>5,020,578</b>	<b>5,089,492</b>	<b>10,110,070</b>
Operating expenses	2,928,462	2,096,445	<b>5,024,907</b>
Net impairment losses on loans and advances	284,493	80,856	<b>365,349</b>
<b>Profit before taxation</b>	<b>1,807,623</b>	<b>2,912,191</b>	<b>4,719,814</b>

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 6 SEGMENT REPORTING (continued)

Statement of financial position as at  
31 December 2009

	Consumer Banking KShs '000	Wholesale Banking KShs '000	Unallocated KShs '000	Total KShs '000
<b>Assets</b>				
Segment assets	18,418,449	93,023,517	–	111,441,966
Unallocated assets	–	–	12,337,006	12,337,006
<b>Total assets</b>	<b>18,418,449</b>	<b>93,023,517</b>	<b>12,337,006</b>	<b>123,778,972</b>

### Liabilities and shareholders' equity

Segment liabilities	55,006,669	50,388,873	–	105,395,542
Unallocated liabilities	–	–	18,383,430	18,383,430
Inter-segment lending	(36,588,220)	42,634,644	(6,046,424)	–

<b>Total liabilities and shareholders' equity</b>	<b>18,418,449</b>	<b>93,023,517</b>	<b>12,337,006</b>	<b>123,778,972</b>
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### Other segment items

Impairment losses on loans and advances to customers	404,969	69,967	–	474,936
Depreciation and amortisation	112,468	21,526	155,672	289,666
Redundancy provision	(27,916)	–	–	(27,916)
Capital expenditure	163,741	3,543	953,638	1,120,922

Statement of financial position as at  
31 December 2008

### Assets

Segment assets	15,413,767	70,851,420	–	86,265,187
Unallocated assets	–	–	12,754,384	12,754,384
<b>Total assets</b>	<b>15,413,767</b>	<b>70,851,420</b>	<b>12,754,384</b>	<b>99,019,571</b>

### Liabilities and shareholders' equity

Segment liabilities	49,185,192	34,353,977	–	83,539,169
Unallocated liabilities	–	–	15,480,402	15,480,402
Inter-segment lending	(33,771,425)	36,497,443	(2,726,018)	–

<b>Total liabilities and shareholders' equity</b>	<b>15,413,767</b>	<b>70,851,420</b>	<b>12,754,384</b>	<b>99,019,571</b>
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### Other segment items:

Impairment losses on loans and advances to customers	284,493	80,856	–	365,349
Depreciation and amortisation	80,725	14,775	117,386	212,886
Redundancy provision	103,260	–	–	103,260
Capital expenditure	238,898	27,062	134,584	400,544

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 7. FINANCIAL ASSETS AND LIABILITIES

### Accounting classifications and fair values

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

**31 December 2009:**

	Held for trading KShs '000	Held-to -maturity KShs '000	Loans and receivables KShs '000	Available- for-sale KShs '000	Other amortised cost KShs '000	Total carrying amount KShs '000	Fair value KShs '000
<b>Assets</b>							
Cash and balances with Central Bank of Kenya	—	—	7,728,872	—	—	7,728,872	7,728,872
Government and other securities held for trading	2,326,700	—	—	—	—	2,326,700	2,326,700
Derivative financial instruments	70,040	—	—	—	—	70,040	70,040
Deposits and advances to banks	—	—	1,492,177	—	—	1,492,177	1,492,177
Loans and advances to customers	—	—	56,694,876	—	—	56,694,876	56,694,876
Investment securities	—	2,280,585	—	41,192,894	—	43,473,479	43,461,733
Amounts due from group companies	—	—	7,384,694	—	—	7,384,694	7,384,694
Other assets	—	—	605,106	—	—	605,106	605,106
<b>Total assets</b>	<b>2,396,740</b>	<b>2,280,585</b>	<b>73,905,725</b>	<b>41,192,894</b>	—	<b>119,775,944</b>	<b>119,764,198</b>
<b>Liabilities</b>							
Deposits from banks	—	—	—	—	10,532,297	10,532,297	10,532,297
Deposits from customers	—	—	—	—	86,773,652	86,773,652	86,773,652
Derivative financial instruments	242,930	—	—	—	—	242,930	242,930
Amounts due to group companies	—	—	—	—	7,846,663	7,846,663	7,846,663
Other liabilities	—	—	—	—	291,013	291,013	291,013
<b>Total liabilities</b>	<b>242,930</b>	—	—	—	<b>105,443,625</b>	<b>105,686,555</b>	<b>105,686,555</b>

**31 December 2008:**

<b>Assets</b>							
Cash and balances with Central Bank of Kenya	—	—	7,380,062	—	—	7,380,062	7,380,062
Government and other securities held for trading	1,615,561	—	—	—	—	1,615,561	1,615,561
Derivative financial instruments	2,013,917	—	—	—	—	2,013,917	2,013,917
Deposits and advances to banks	—	—	1,379,889	—	—	1,379,889	1,379,889
Loans and advances to customers	—	—	43,298,819	—	—	43,298,819	43,298,819
Investment securities	—	2,777,046	—	19,496,662	—	22,273,708	22,164,411
Amounts due from group companies	—	—	15,683,293	—	—	15,683,293	15,683,293
Other assets	—	—	2,080,437	—	—	2,080,437	2,080,437
<b>Total assets</b>	<b>3,629,478</b>	<b>2,777,046</b>	<b>69,822,500</b>	<b>19,496,662</b>	—	<b>95,725,686</b>	<b>95,616,389</b>
<b>Liabilities</b>							
Deposits from banks	—	—	—	—	2,806,333	2,806,333	2,806,333
Deposits from customers	—	—	—	—	76,898,456	76,898,456	76,898,456
Derivative financial instruments	3,696,116	—	—	—	—	3,696,116	3,696,116
Amounts due to group companies	—	—	—	—	138,264	138,264	138,264
Other liabilities	—	—	—	—	895,752	895,752	895,752
<b>Total liabilities</b>	<b>3,696,116</b>	—	—	—	<b>80,738,805</b>	<b>84,434,921</b>	<b>84,434,921</b>

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 7. FINANCIAL ASSETS AND LIABILITIES (continued)

### Accounting classifications and fair values (continued)

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

#### **Derivative financial instruments and government securities held for trading**

Derivative financial instruments and government securities held for trading are measured at fair value as set out in notes 20 and 3(g) respectively.

#### **Cash and balances with Central Bank of Kenya**

Cash and balances with Central Bank of Kenya are measured at amortised cost.

The fair value of cash and balances with Central Bank of Kenya approximates their carrying amounts.

#### **Deposits and advances to banks**

The fair value of floating rate placements and overnight deposits approximates their carrying amounts. 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 reprice 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 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 are within 6 months and hence the fair value approximates their carrying amounts.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 7. FINANCIAL ASSETS AND LIABILITIES (continued)

### (b) Valuation hierarchy

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

	Level 1	Level 2	Level 3
Fair value determined using:	Unadjusted quoted prices in an active market for identical assets and liabilities.	Valuation models with directly or indirectly market observable inputs.	Valuation models using significant non-market observable inputs.
Types of financial assets:	Actively traded government and other agency securities. Listed derivative instruments. Listed equities.	Corporate and other government bonds and loans. Over-the-counter (OTC) derivatives.	Highly structured OTC derivatives with unobservable parameters. Corporate bonds in illiquid markets.
Types of financial liabilities:	Listed derivative instruments.	Over-the-counter (OTC) derivatives.	Highly structured OTC derivatives with unobservable parameters.

The table below shows the classification of financial instruments held at fair value into the valuation hierarchy set out below as at 31 December 2009:

	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total KShs '000
<b>31 December 2009:</b>				
<b>Assets</b>				
Government and other securities held for trading	–	2,326,700	–	<b>2,326,700</b>
Derivative financial instruments	–	70,040	–	<b>70,040</b>
Investment securities	–	41,192,894	–	<b>41,192,894</b>
Amounts due from group companies	32,708	371,944	–	<b>404,652</b>
<b>Total assets</b>	<b>32,708</b>	<b>43,961,578</b>	–	<b>43,994,286</b>
<b>Liabilities</b>				
Derivative financial instruments	–	242,930	–	<b>242,930</b>
Amounts due to group companies	37,443	318,957	–	<b>356,400</b>
<b>Total liabilities</b>	<b>37,443</b>	<b>561,887</b>	–	<b>599,330</b>

**31 December 2008:**

	Level 1 KShs '000	Level 2 KShs '000	Level 3 KShs '000	Total KShs '000
<b>Assets</b>				
Government and other securities held for trading	–	1,615,561	–	<b>1,615,561</b>
Derivative financial instruments	–	2,013,917	–	<b>2,013,917</b>
Investment securities	161,188	19,335,474	–	<b>19,496,662</b>
<b>Total assets</b>	<b>161,188</b>	<b>22,964,952</b>	–	<b>23,126,140</b>
<b>Liabilities</b>				
Derivative financial instruments	–	3,696,116	–	<b>3,696,116</b>
<b>Total liabilities</b>	<b>–</b>	<b>3,696,116</b>	–	<b>3,696,116</b>

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

	2009 KShs '000	2008 KShs '000
<b>8 INTEREST INCOME</b>		
Loans and advances to customers	<b>5,733,069</b>	4,709,243
Loans and advances to banks	<b>595,089</b>	547,853
Investment securities:		
Held-to-maturity	<b>196,616</b>	282,770
Available-for-sale	<b>2,766,261</b>	1,815,290
Accrued on impaired assets (Discount unwind)	<b>56,440</b>	90,310
	<b>9,347,475</b>	7,445,466
<b>9 INTEREST EXPENSE</b>		
Deposits from customers	<b>1,774,474</b>	1,366,287
Deposits from banks	<b>235,723</b>	202,060
	<b>2,010,197</b>	1,568,347
<b>10 NET FEE AND COMMISSION INCOME</b>		
<b>Fee and commission income</b>		
Commissions	<b>1,200,148</b>	1,240,131
Service fees	<b>1,224,558</b>	992,228
	<b>2,424,706</b>	2,232,359
<b>Fee and commission expense</b>		
Inter-bank transaction fees	—	27,224
Other	<b>42,492</b>	48,372
	<b>42,492</b>	75,596
<b>11 NET TRADING INCOME</b>		
Gains less losses on foreign currency	<b>1,752,797</b>	1,773,587
Interest income	<b>271,365</b>	241,480
Other trading profits	<b>104,230</b>	43,076
	<b>2,128,392</b>	2,058,143
<b>12 OTHER OPERATING INCOME</b>		
Gains less losses on disposal of available-for-sale securities:		
– Government treasury bonds	<b>118,528</b>	19,339
– Government treasury bills	<b>2,603</b>	—
– Equity shares	<b>68,197</b>	(6,113)
Rental income	<b>13,830</b>	7,008
Loss on sale of property and equipment	<b>(107)</b>	(2,626)
Loss on sale of prepaid operating lease rentals	<b>(15)</b>	—
Dividend income on equity shares	<b>230</b>	437
Other	<b>195,282</b>	—
	<b>398,548</b>	18,045

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

	2009 KShs '000	2008 KShs '000
<b>13 OPERATING EXPENSES</b>		
<b>Staff costs</b>		
Salaries and wages	2,165,034	2,079,326
Contributions to defined contribution plan	218,507	242,751
Increase in retirement benefit obligations (Note 33)	12,806	129,707
Redundancy provision	(27,916)	103,260
Charge for employee share based payments	61,556	49,956
Other staff costs	410,846	393,390
	<b>2,840,833</b>	2,998,390
The number of employees at the year end was:		
Management	No. 830	No. 823
Unionisable	426	454
Other	186	169
	<b>1,442</b>	1,446
<b>Premises and equipment costs</b>		
Rental of premises	2009 KShs '000 190,383	2008 KShs '000 166,159
Rental of computers and equipment	77,107	70,434
Electricity	97,693	75,475
Reversal of revaluation deficit from prior years	-	(9,674)
Other premises and equipment costs	174,781	235,950
	<b>539,964</b>	538,344
<b>General administrative expenses</b>	<b>1,364,669</b>	1,263,592
<b>Depreciation and amortisation</b>		
Premises	29,217	19,709
Fixtures, fittings and equipment	257,316	190,044
Motor vehicles	3,133	3,133
Depreciation on property and equipment (Note 26)	289,666	212,886
Amortisation of intangible assets (Note 27)	3,302	7,079
Amortisation of prepaid operating lease rentals (Note 28)	4,615	4,616
	<b>297,583</b>	224,581
<b>14 PROFIT BEFORE TAXATION</b>		
Profit before taxation is arrived at after charging:		
Depreciation	289,666	212,886
Amortisation of intangible assets	3,302	7,079
Directors' emoluments - Fees	6,782	5,195
- Other	100,348	82,170
Auditors' remuneration	9,800	8,900
Loss on sale of property and equipment	107	2,626
Loss on sale of prepaid operating lease rentals	15	
Amortisation of prepaid operating lease rentals	4,615	4,616
And after crediting:		
Reversal of revaluation deficit from prior years	-	9,674

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

	2009 KShs '000	2008 KShs '000
<b>15 INCOME TAX EXPENSE</b>		
Current year's tax at 30%	<b>2,063,638</b>	1,581,412
Current tax prior year under-provision	3,323	718
	<b>2,066,961</b>	1,582,130
Deferred tax credit current year - Note 29(a)	(71,268)	(113,561)
Deferred tax charge prior year under-provision - Note 29(a)	-	432
<b>Income tax expense</b>	<b>1,995,693</b>	1,469,001
The tax on the Group's profit differs from the theoretical amount using the basic tax rate as follows:		
Accounting profit before taxation	<b>6,728,447</b>	4,719,814
Computed tax using the applicable corporation tax rate at 30%	<b>2,018,534</b>	1,415,944
Non-deductible costs and non-taxable income	(26,164)	51,907
Current tax prior year under-provision	3,323	718
Deferred tax charge prior year under-provision - Note 29(a)	-	432
<b>Income tax expense</b>	<b>1,995,693</b>	1,469,001

## 16 BASIC AND DILUTED EARNINGS PER SHARE

The calculation of basic earnings per share at 31 December 2009 was based on the profit attributable to ordinary shareholders of KShs 4,564,754,000 (2008 - KShs 3,082,813,000) and a weighted average number of ordinary shares outstanding during the year of 271,967,811 (2008 - 271,967,811).

Profit attributable to ordinary shareholders:	2009 KShs '000	2008 KShs '000
Net profit for the year	<b>4,732,754</b>	3,250,813
Dividends on non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares	(168,000)	(168,000)
	<b>4,564,754</b>	3,082,813
<b>Basic earnings per share (KShs)</b>	<b>16.78</b>	11.34

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 2009 and 2008.

## 17 DIVIDEND PER SHARE

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

At the Annual General Meeting to be held on 13 May 2010, a final dividend in respect of the year ended 31 December 2009 of KShs 7.00 (2008 - KShs 5.00) for every ordinary share of KShs 5.00 is to be proposed. Two interim dividends of KShs 2.50 each for every ordinary share of KShs 5.00 were declared and paid during the year. This will bring the total dividend for the year to KShs 12.00 (2008 - KShs 10.00).

At the Annual General Meeting to be held on 13 May 2010, a final dividend in respect of the year ended 31 December 2009 of KShs 84,690,411 (2008 - KShs 84,230,137) for the preference shares is to be proposed. An interim dividend of KShs 83,309,589 (2008 - KShs 83,769,863) was declared and paid during the year. This will bring the total dividend for the year to KShs 168,000,000 (2008 - 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.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

	2009 KShs '000	2008 KShs '000
<b>18 CASH AND BALANCES WITH CENTRAL BANK OF KENYA</b>		
<b>Group and Company</b>		
Cash on hand	<b>2,909,461</b>	2,706,059
Balances with Central Bank of Kenya:		
-Restricted balances (Cash Reserve Ratio)	<b>4,006,415</b>	3,970,068
-Unrestricted balances	<b>812,996</b>	703,935
	<b>7,728,872</b>	7,380,062

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 2009, the Cash Reserve Ratio requirement was 4.50% of all deposits (2008 - 5.00%). These funds are not available for use by the Bank in its day to day operations.

## 19 GOVERNMENT AND OTHER SECURITIES HELD FOR TRADING

	2009 KShs '000	2008 KShs '000
Treasury bonds	<b>2,197,508</b>	1,443,217
Money market bonds	<b>129,192</b>	172,344
<b>Government and other securities held for trading</b>	<b>2,326,700</b>	1,615,561

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

	2009	2008				
	Treasury bonds KShs '000	Money market bonds KShs '000	Total KShs '000	Treasury bonds KShs '000	Money market bonds KShs '000	Total KShs '000
At 1 January	1,443,217	172,344	1,615,561	2,182,402	215,319	2,397,721
Additions	9,083,100	-	9,083,100	7,432,700	-	7,432,700
Disposals and maturities	(8,430,800)	(42,200)	(8,473,000)	(8,249,850)	(42,400)	(8,292,250)
Changes in fair value	101,991	(952)	101,039	77,965	(575)	77,390
<b>At 31 December</b>	<b>2,197,508</b>	<b>129,192</b>	<b>2,326,700</b>	1,443,217	172,344	1,615,561

The weighted average effective interest rate on government and other securities held for trading at 31 December 2009 was 11.59% (2008 - 11.76%).

## 20 DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. The types of derivatives used by the Group are set out below.

All derivatives are recognised and subsequently measured at fair value, with all revaluation gains and losses recognised in the statement of comprehensive income. This table analyses 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.

	2009			2008		
	Notional principal amounts KShs '000	Assets KShs '000	Liabilities KShs '000	Notional principal amounts KShs '000	Assets KShs '000	Liabilities KShs '000
Foreign exchange derivative contracts	24,440,044	70,040	146,470	30,753,563	410,807	2,093,006
Commodity derivative contracts	-	-	96,460	-	1,603,110	1,603,110
	<b>24,440,044</b>	<b>70,040</b>	<b>242,930</b>	30,753,563	2,013,917	3,696,116

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

	2009 KShs '000	2008 KShs '000
<b>21 LOANS AND ADVANCES TO BANKS</b>		

**Group and Company**

Loans and advances to banks

**1,492,177**

2008  
KShs '000  
1,379,889

The weighted average effective interest rate on loans and advances to banks at 31 December 2009 was 9.48% (2008 - 6.50%).

## 22 LOANS AND ADVANCES TO CUSTOMERS

**Group and Company**

**(a) Classification**

	2009 KShs '000	2008 KShs '000
Overdrafts	<b>11,869,893</b>	11,445,270
Loans	<b>46,143,271</b>	33,354,088
Bills discounted	<b>2,846</b>	58,414
<b>Gross loans and advances</b>	<b>58,016,010</b>	44,857,772
Less: Impairment losses on loans and advances	<b>(1,321,134)</b>	(1,558,953)
<b>Net loans and advances</b>	<b>56,694,876</b>	43,298,819

Repayable on demand	12,121,930	11,445,270
Less than 3 months	267,267	7,217,606
3 months to 1 year	4,544,041	3,559,741
1 to 5 years	37,022,393	13,728,925
5 to 10 years	1,470,420	6,078,308
Over 10 years	2,589,959	2,827,922
<b>Gross loans and advances</b>	<b>58,016,010</b>	44,857,772

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 22 LOANS AND ADVANCES TO CUSTOMERS (continued)

### Group and Company

#### (b) Impairment losses on loans and advances

##### 31 December 2009:

At 1 January  
Provisions during the year  
Amounts written off during the year  
Amounts released to interest income

	Specific impairment losses KShs '000	Portfolio impairment provision KShs '000	Total KShs '000
At 1 January	1,134,808	424,145	1,558,953
Provisions during the year	497,185	142,833	640,018
Amounts written off during the year	(821,397)	—	(821,397)
Amounts released to interest income	(56,440)	—	(56,440)

##### At 31 December

Provisions during the year	497,185	142,833	640,018
Amounts recovered during the year	(165,082)	—	(165,082)

**Net charge to the statement of comprehensive income** **332,103** **142,833** **474,936**

##### 31 December 2008:

At 1 January	1,234,108	322,727	1,556,835
Provisions during the year	445,521	101,418	546,939
Amounts written off during the year	(454,511)	—	(454,511)
Amounts released to interest income	(90,310)	—	(90,310)

**At 31 December** **1,134,808** **424,145** **1,558,953**

Provisions during the year	445,521	101,418	546,939
Amounts recovered during the year	(181,590)	—	(181,590)

**Net charge to the statement of comprehensive income** **263,931** **101,418** **365,349**

The weighted average effective interest rate on loans and advances to customers at 31 December 2009 was 11.59% (2008 – 11.90%).

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 23 INVESTMENT SECURITIES

### Group and Company

	2009 KShs '000	2008 KShs '000
<b>Available-for-sale</b>		
Treasury bonds	<b>26,395,460</b>	16,486,380
Treasury bills	<b>12,483,804</b>	2,545,287
Money market bonds	<b>2,313,630</b>	303,807
Equity shares	—	161,188
	<b>41,192,894</b>	19,496,662
<b>Held-to-maturity</b>		
Treasury bonds	<b>2,280,585</b>	2,777,046
<b>Total investment securities</b>	<b>43,473,479</b>	22,273,708

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

	2009				2008			
	Treasury bonds and bills KShs '000	Money market bonds KShs '000	Equity shares KShs '000	Total KShs '000	Treasury bonds and bills KShs '000	Money market bonds KShs '000	Equity shares KShs '000	Total KShs '000
	21,808,713	303,807	161,188	22,273,708	24,492,271	103,613	252,702	24,848,586
Additions	36,137,526	1,832,500	—	37,970,026	15,510,472	200,000	—	15,710,472
Disposals and maturities	(18,380,172)	(30,000)	(114,884)	(18,525,056)	(18,442,849)	(20,000)	(137,818)	(18,600,667)
Changes in fair value	1,034,437	207,323	(46,304)	1,195,456	(161,229)	20,194	46,304	(94,731)
Amortisation of discounts and premiums	559,345	—	—	559,345	410,048	—	—	410,048
<b>At 31 December</b>	<b>41,159,849</b>	<b>2,313,630</b>	—	<b>43,473,479</b>	<b>21,808,713</b>	<b>303,807</b>	<b>161,188</b>	<b>22,273,708</b>

The weighted average effective interest rate on treasury bonds at 31 December 2009 was 9.80% (2008 – 8.85%) and on treasury bills was 7.70% (2008 – 8.32%). There were no treasury bills under repurchase agreements outstanding at 31 December 2009 and 2008.

The weighted average effective interest rate on money market bonds at 31 December 2009 was 12.30% (2008 – 10.86%).

At 31 December 2009, unamortised premiums on investment securities amounted to KShs 348,153,000 (2008 – KShs 252,528,000) and unamortised discounts amounted to KShs 772,908,000 (2008 – KShs 391,187,000).

The investment in equity shares related to ownership of Class CEMEA common stock in Visa Inc which were listed. The shares were sold in the course of the year.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 24 GROUP COMPANY BALANCES

### Group and Company

	2009 KShs '000	2008 KShs '000
Amounts due from group companies	<b>7,384,694</b>	15,683,293
Amounts due to group companies	<b>7,846,663</b>	138,264

The weighted average effective interest rate at 31 December 2009 on amounts due from group companies was 3.30% (2008 – 4.76%) and on amounts due to group companies was 2.49% (2008 – 2.20%).

## 25 INVESTMENT IN SUBSIDIARIES

The following subsidiaries are wholly owned by the Company:

Company	Status	2009 KShs '000	2008 KShs '000
Standard Chartered Investment Services Limited	Active	<b>20,000</b>	20,000
Standard Chartered Financial Services Limited	Dormant	<b>120,241</b>	120,241
Standard Chartered Kenya Nominees Limited	Dormant	<b>2</b>	2
		<b>140,243</b>	140,243

Standard Chartered Financial Services Limited owns 100% of Standard Chartered Management Services Limited which is also dormant.

The investment in the above undertakings is carried at cost. All the subsidiaries are incorporated in Kenya.

## 26 PROPERTY AND EQUIPMENT

### Group and Company

31 December 2009:	Freehold land and buildings KShs '000	Buildings on leasehold land KShs '000	Fixtures, fittings and equipment KShs '000	Motor vehicles KShs '000	Capital work in progress KShs '000	Total KShs '000
<b>Cost or valuation:</b>						
At 1 January 2009	100,000	713,250	2,478,028	13,522	286,261	3,591,061
Additions	–	–	300,449	–	820,473	1,120,922
Transfers	–	–	14,634	–	(14,634)	–
Disposals	–	–	(207,883)	–	–	(207,883)
<b>At 31 December 2009</b>	<b>100,000</b>	<b>713,250</b>	<b>2,585,228</b>	<b>13,522</b>	<b>1,092,100</b>	<b>4,504,100</b>
<b>Depreciation:</b>						
At 1 January 2009	225	7,080	2,063,102	8,038	–	2,078,445
Charge for the year	900	28,317	257,316	3,133	–	289,666
On disposals	–	–	(207,776)	–	–	(207,776)
<b>At 31 December 2009</b>	<b>1,125</b>	<b>35,397</b>	<b>2,112,642</b>	<b>11,171</b>	<b>–</b>	<b>2,160,335</b>
<b>Net book value:</b>						
<b>At 31 December 2009</b>	<b>98,875</b>	<b>677,853</b>	<b>472,586</b>	<b>2,351</b>	<b>1,092,100</b>	<b>2,343,765</b>

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 26 PROPERTY AND EQUIPMENT (continued)

### Group and Company

**31 December 2008:**

	Freehold land and buildings KShs '000	Buildings on leasehold land KShs '000	Fixtures, fittings and equipment KShs '000	Motor vehicles KShs '000	Capital work in progress KShs '000	Total KShs '000
<b>Cost or valuation:</b>						
At 1 January 2008	85,000	505,316	2,172,107	13,522	205,456	2,981,401
Additions	–	–	304,112	–	96,432	400,544
Transfers	–	–	15,627	–	(15,627)	–
Revaluation surplus	15,000	207,934	–	–	–	222,934
Disposals	–	–	(13,818)	–	–	(13,818)
<b>At 31 December 2008</b>	<b>100,000</b>	<b>713,250</b>	<b>2,478,028</b>	<b>13,522</b>	<b>286,261</b>	<b>3,591,061</b>
<b>Depreciation:</b>						
At 1 January 2008	2,025	35,188	1,884,250	4,905	–	1,926,368
Charge for the year	900	18,809	190,044	3,133	–	212,886
Depreciation written back on revaluation	(2,700)	(46,917)	–	–	–	(49,617)
On disposals	–	–	(11,192)	–	–	(11,192)
<b>At 31 December 2008</b>	<b>225</b>	<b>7,080</b>	<b>2,063,102</b>	<b>8,038</b>	<b>–</b>	<b>2,078,445</b>
<b>Net book value:</b>						
<b>At 31 December 2008</b>	<b>99,775</b>	<b>706,170</b>	<b>414,926</b>	<b>5,484</b>	<b>286,261</b>	<b>1,512,616</b>

Included in property and equipment are assets with a gross value of KShs 1,547,892,762 (2008 – KShs 1,587,227,238) which are fully depreciated but still in use. The notional depreciation charge on these assets would have been KShs 549,790,095 (2008 – KShs 403,998,958).

There were no idle assets as at 31 December 2009 and 2008.

Capital work in progress relates to the ongoing construction of the head office, branch expansion and refurbishment.

Freehold land and buildings were revalued on an open market basis by Lloyd Masika Limited, a firm of professional valuers as at 30 September 2008. 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 three 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 2008.

There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (2008:Nil)

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

	2009 KShs '000	2008 KShs '000
Cost	494,654	494,654
Accumulated depreciation	(190,308)	(183,609)
<b>Net book value</b>	<b>304,346</b>	<b>311,045</b>

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 27 INTANGIBLE ASSETS

Group and Company

	2009 KShs '000	2008 KShs '000
<b>Cost</b>		
At 1 January	610,368	600,463
Additions	—	9,905
Disposals	(424,556)	—
<b>At 31 December</b>	<b>185,812</b>	610,368
<b>Amortisation</b>		
At 1 January	603,764	596,685
Charge for the year	3,302	7,079
Disposals	(424,556)	—
<b>At 31 December</b>	<b>182,510</b>	603,764
<b>Net carrying amount at 31 December</b>	<b>3,302</b>	6,604

Assets with a gross value of KShs 175,906,875 (2008 – KShs 600,463,191) are fully amortised but still in use. The notional amortisation charge on these assets would have been KShs 58,635,533 (2008– KShs 200,154,214).

There were no idle assets as at 31 December 2009 and 2008.

## 28 PREPAID OPERATING LEASE RENTALS

Group and Company

	2009 KShs '000	2008 KShs '000
<b>Cost</b>		
At 1 January	245,437	245,437
Disposals	(29)	—
<b>At 31 December</b>	<b>245,408</b>	245,437
<b>Amortisation</b>		
At 1 January	36,358	31,742
Charge for the year	4,615	4,616
Disposals	(14)	—
<b>At 31 December</b>	<b>40,959</b>	36,358
<b>Net carrying amount at 31 December</b>	<b>204,449</b>	209,079

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 29 DEFERRED TAX ASSET

The net deferred tax assets at 31 December 2009 and 2008 are attributable to the following:

**2009**

**(a) Group Asset/(liability)**

	At 1 January KShs '000	Statement of comprehensive income Current Year KShs '000	Statement of comprehensive income Prior Year KShs '000	Other comprehensive income KShs '000	At 31 December KShs '000
Tax losses in subsidiaries	7,122	(3,296)	—	—	3,826
Property and equipment	153,459	37,675	—	—	191,134
Portfolio impairment provision	127,244	42,849	—	—	170,093
Revaluation surplus	(118,608)	5,634	—	—	(112,974)
Fair value reserve	(20,045)	—	—	(265,510)	(285,555)
Accrued interest	54,206	13,965	—	—	68,171
Redundancy provision	30,978	(28,892)	—	—	2,086
Other provisions		7,411			7,411
Retirement benefit obligations	40,502	(4,078)	—	—	36,424
	<b>274,858</b>	<b>71,268</b>	—	<b>(265,510)</b>	<b>80,616</b>

**(b) Company Asset/(liability)**

	At 1 January KShs '000	Statement of comprehensive income Current Year KShs '000	Statement of comprehensive income Prior Year KShs '000	Other comprehensive income KShs '000	At 31 December KShs '000
Property and equipment	153,449	37,677	—	—	191,126
Portfolio impairment provision	127,244	42,849	—	—	170,093
Revaluation surplus	(118,608)	5,634	—	—	(112,974)
Fair value reserve	(20,045)	—	—	(265,510)	(285,555)
Accrued interest	54,206	13,965	—	—	68,171
Redundancy provision	30,978	(28,892)	—	—	2,086
Other provisions		4,962			4,962
Retirement benefit obligations	40,502	(4,078)	—	—	36,424
	<b>267,726</b>	<b>72,117</b>	—	<b>(265,510)</b>	<b>74,333</b>

**2008**

**(a) Group**

**Asset/(liability)**

	At 1 January KShs '000	Statement of comprehensive income Current Year KShs '000	Statement of comprehensive income Prior Year KShs '000	Other comprehensive income KShs '000	At 31 December KShs '000
Tax losses in subsidiaries	8,768	(1,036)	(610)	—	7,122
Property and equipment	130,559	22,722	178	—	153,459
Portfolio impairment provision	96,818	30,426	—	—	127,244
Revaluation surplus	(46,148)	2,713	—	(75,173)	(118,608)
Fair value reserve	(25,995)	—	—	5,950	(20,045)
Accrued interest	53,360	846	—	—	54,206
Redundancy provision	—	30,978	—	—	30,978
Retirement benefit obligations	13,590	26,912	—	—	40,502
	<b>230,952</b>	<b>113,561</b>	<b>(432)</b>	<b>(69,223)</b>	<b>274,858</b>

**(b) Company Asset/(liability)**

	At 1 January KShs '000	Statement of comprehensive income Current Year KShs '000	Statement of comprehensive income Prior Year KShs '000	Other comprehensive income KShs '000	At 31 December KShs '000
Property and equipment	130,545	22,726	178	—	153,449
Portfolio impairment provision	96,818	30,426	—	—	127,244
Revaluation surplus	(46,148)	2,713	—	(75,173)	(118,608)
Fair value reserve	(25,995)	—	—	5,950	(20,045)
Accrued interest	53,360	846	—	—	54,206
Redundancy provision	—	30,978	—	—	30,978
Retirement benefit obligations	13,590	26,912	—	—	40,502
	<b>222,170</b>	<b>114,601</b>	<b>178</b>	<b>(69,223)</b>	<b>267,726</b>

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 30 OTHER ASSETS

	2009		2008	
	Group KShs '000	Company KShs '000	Group KShs '000	Company KShs '000
Uncleared effects	605,106	603,778	2,080,437	2,083,125
Prepayments	297,139	297,139	270,717	270,717
Other receivables	1,073,757	1,071,272	978,260	973,712
	<b>1,976,002</b>	<b>1,972,189</b>	<b>3,329,414</b>	<b>3,327,554</b>

## 31 DEPOSITS FROM BANKS

Group and Company

	2009 KShs '000	2008 KShs '000
Payable within 90 days	<b>10,532,297</b>	2,806,333

The weighted average effective interest rate on deposits from banks at 31 December 2009 was 3.93% (2008 – 6.56%).

## 32 DEPOSITS FROM CUSTOMERS

Group and Company

	2009 KShs '000	2008 KShs '000
<b>From government and parastatals</b>		
Payable on demand	<b>6,031,166</b>	6,938,611
<b>From private sector and individuals</b>		
Payable on demand	<b>67,500,895</b>	45,132,706
Payable within 3 months or less	<b>15,147</b>	21,330,675
Payable after 3 months	<b>13,226,444</b>	3,496,464
	<b>86,773,652</b>	76,898,456
Current and demand accounts	<b>55,454,333</b>	51,345,342
Savings deposits	<b>11,199,812</b>	8,234,831
Time deposits	<b>19,251,435</b>	16,573,804
Other	<b>868,072</b>	744,479
	<b>86,773,652</b>	76,898,456

The weighted average effective interest rate on interest bearing deposits from customers at 31 December 2009 was 3.28% (2008 – 3.52%).

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 33 RETIREMENT BENEFIT OBLIGATIONS

### Group and Company

Standard Chartered Bank Kenya Limited operates a defined contribution scheme for all full time permanent employees and a defined benefit scheme for pensioners and deferred pensioners who existed as at 31 December 1998.

The benefits provided by the defined benefit scheme are based on a formula taking into account years of service and remuneration levels, whilst the benefits provided by the defined contribution scheme are determined by accumulated contributions and returns on investments.

Both schemes are governed by the Retirement Benefits Act, 1997. This requires that an actuarial valuation be carried out at least every three years for the defined benefit scheme. The most recent actuarial valuation of the defined benefit scheme was carried out as at 31 December 2006 by an independent qualified actuary.

However, the Bank's actuary did a review for the year ended 31 December 2009. The review was consistent with previous valuations performed using the unit credit method.

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

	2009 KShs '000	2008 KShs '000
Fair value of plan assets	<b>710,587</b>	727,893
Present value of funded obligations	<b>(832,000)</b>	(862,900)
<b>Retirement benefit obligations as at 31 December</b>	<b>(121,413)</b>	(135,007)

Plan assets consist of the following:

Offshore investments	<b>53,316</b>	3,569
Government bonds	<b>414,810</b>	461,948
Corporate bonds	<b>66,073</b>	50,551
Other	<b>176,388</b>	211,825
	<b>710,587</b>	727,893

### Movement in plan assets

Fair value of plan assets at 1 January	<b>727,893</b>	785,700
Expected return on plan assets	<b>82,204</b>	80,306
Benefits paid by the plan	<b>(113,398)</b>	(107,500)
Employer contributions	<b>26,400</b>	40,000
Recognised actuarial losses	<b>(12,512)</b>	(70,613)
<b>Fair value of plan assets at 31 December</b>	<b>710,587</b>	727,893

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 33 RETIREMENT BENEFIT OBLIGATIONS (continued)

### Group and Company

	2009 KShs '000	2008 KShs '000
<b>Movement in the present value of the retirement benefit obligations</b>		
Retirement benefit obligations at 1 January	<b>862,900</b>	831,000
Past service costs	—	40,000
Interest cost	<b>96,905</b>	89,689
Benefits paid by the plan	<b>(113,398)</b>	(107,500)
Recognised actuarial (gains)/losses	<b>(14,407)</b>	9,711
<b>Retirement benefit obligations at 31 December</b>	<b>832,000</b>	862,900

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

	2009	2008
	% pa	% pa
Past service cost	—	40,000
Interest cost	<b>96,905</b>	89,689
Expected return on plan assets	<b>(82,204)</b>	(80,306)
Recognised actuarial (gains)/losses	<b>(1,895)</b>	80,324
<b>Total included in staff costs</b>	<b>12,806</b>	129,707

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

	2009	2008
	% pa	% pa
Discount rate	<b>12</b>	12
Expected return on plan assets	<b>12</b>	11
Future pension increases	<b>3</b>	3
<b>Total included in staff costs</b>	<b>12,806</b>	129,707

The overall expected long-term rate of return on the assets is 12% which is based on the portfolio as a whole and not on the sum of the returns on the individual assets.

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

	2009 KShs '000	2008 KShs '000
At 1 January	<b>(135,007)</b>	(45,300)
Employer contributions	<b>26,400</b>	40,000
Charge to the statement of comprehensive income	<b>(12,806)</b>	(129,707)
<b>At 31 December</b>	<b>(121,413)</b>	(135,007)

### Historical information

	2009 KShs '000	2008 KShs '000	2007 KShs '000	2006 KShs '000	2005 KShs '000
Fair value of plan assets	<b>710,587</b>	727,893	785,700	847,000	850,000
Present value of funded obligations	<b>(832,000)</b>	(862,900)	(831,000)	(700,000)	(770,000)
<b>Retirement benefit obligations</b>	<b>(121,413)</b>	<b>(135,007)</b>	<b>(45,300)</b>	<b>147,000</b>	<b>80,000</b>

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 34 OTHER LIABILITIES

	2009		2008	
	Group KShs '000	Company KShs '000	Group KShs '000	Company KShs '000
Bills payable	<b>291,013</b>	<b>291,013</b>	895,752	895,752
Other accounts payable	<b>3,744,016</b>	<b>3,725,601</b>	2,950,836	2,931,814
	<b>4,035,029</b>	<b>4,016,614</b>	3,846,588	3,827,566

## 35 SHARE CAPITAL AND RESERVES

### (a) Share capital

#### Authorised

The authorised share capital of the Company at 31 December 2009 was KShs 1,645 million (2008 – KShs 1,645 million) made up of 273 million (2008 – 273 million) ordinary shares of KShs 5.00 each and 56 million (2008 – 56 million) non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares of KShs 5.00 each.

#### Issued and fully paid

	2009 Number of ordinary shares	2009 Number of preference shares	2009 Share capital KShs'000	2008 Share capital KShs'000
<b>At 1 January and 31 December</b>	<b>271,967,811</b>	<b>56,000,000</b>	<b>1,639,839</b>	<b>1,639,839</b>

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 35 SHARE CAPITAL AND RESERVES (continued)

### (a) Share capital (continued)

The shareholders at 31 December 2009 that had large holdings were as follows:

Name	Number of shares	%
1. Standard Chartered Holdings (Africa) BV	200,751,336	73.81
2. Kabarak Limited	2,793,192	1.03
3. National Social Security Fund - Board of Trustees	1,882,538	0.69
4. Kenya Commercial Bank Nominees Limited – A/C 769G	1,454,915	0.53
5. National Social Security Fund	1,454,871	0.53
6. Standard Chartered Africa Holdings Limited	1,306,800	0.48
7. Barclays (Kenya) Nominees Limited – A/C 1256	987,800	0.36
8. Barclays (Kenya) Nominees Limited – A/C 9230	965,779	0.36
9. Kenya Commercial Bank Nominees Limited – A/C 744	875,674	0.32
10. Barclays (Kenya) Nominees Limited – A/C 9300	834,300	0.31
11. Others	58,660,606	21.58
	<b>271,967,811</b>	<b>100.00</b>

The distribution of shareholders as at 31 December 2009 and 2008 was as follows:

Share range	2009			2008		
	Number of shareholders	Shares held	%	Number of shareholders	Shares held	%
Less than 500	9,412	1,946,474	0.72	9,237	1,935,860	0.71
501 to 5,000	22,324	26,873,362	9.88	22,662	27,142,861	9.98
5,001 to 10,000	351	2,504,275	0.92	354	2,549,775	0.94
10,001 to 100,000	420	11,536,369	4.24	426	11,673,959	4.29
100,001 to 1,000,000	79	19,463,679	7.16	69	16,839,004	6.19
Above 1,000,000	6	209,643,652	77.08	7	211,826,352	77.89
<b>Total</b>	<b>32,592</b>	<b>271,967,811</b>	<b>100.00</b>	<b>32,755</b>	<b>271,967,811</b>	<b>100.00</b>

### (b) Share premium

These reserves arose at a time 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.

### (c) Revaluation reserve

Revaluation reserves arise from the periodic revaluation of freehold land and buildings. The book values of these assets are adjusted to the revaluations. Revaluation surpluses are not distributable.

### (d) Statutory credit risk reserve

Where impairment losses required by legislation or regulations exceed those computed 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.

### (e) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of available-for-sale investments, excluding impairment losses, until the net investment is derecognised.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 36 NOTES TO THE CASH FLOW STATEMENT

### (a) Reconciliation of profit before taxation to net cash flows from operating activities

	2009 KShs '000	2008 KShs '000
Profit before taxation	<b>6,728,447</b>	4,719,814
Depreciation	<b>289,666</b>	212,886
Amortisation of intangible assets	<b>3,302</b>	7,079
Loss on sale of property and equipment	<b>107</b>	2,626
Loss on sale of prepaid operating lease rentals	<b>15</b>	—
Amortisation of prepaid operating lease rentals	<b>4,615</b>	4,616
Reversal of revaluation deficit from prior years	<b>—</b>	(9,674)
Retirement benefit obligations	<b>12,806</b>	89,707
(Profit)/loss on disposal of equity shares	<b>(68,197)</b>	6,113
<b>(Increase)/decrease in operating assets</b>		
Balances with Central Bank of Kenya		
– Cash Reserve Ratio	<b>(36,347)</b>	53,927
Government and other securities held for trading	<b>(711,139)</b>	782,160
Derivative financial instruments	<b>1,943,877</b>	184,001
Loans and advances to banks	<b>(1,450,000)</b>	75,682
Loans and advances to customers	<b>(13,396,057)</b>	(3,830,297)
Investment securities	<b>(18,327,707)</b>	2,958,286
Amounts due from group companies	<b>(579,787)</b>	(4,414,960)
Other assets	<b>1,353,412</b>	2,057,514
<b>Increase/(decrease) in operating liabilities</b>		
Deposits from customers	<b>9,875,196</b>	3,057,893
Derivative financial instruments	<b>(3,453,186)</b>	1,874,522
Amounts due to group companies	<b>1,770,466</b>	—
Defined benefit obligations	<b>(26,400)</b>	—
Other liabilities	<b>188,441</b>	269,569
<b>Cash flows from operating activities</b>	<b>(15,878,470)</b>	8,101,464
Income taxes paid	<b>(1,715,787)</b>	(1,939,942)
<b>Net cash flows from operating activities</b>	<b>(17,594,257)</b>	6,161,522

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

Cash on hand	<b>2,909,461</b>	2,706,059
Unrestricted cash balances with Central Bank of Kenya	<b>812,996</b>	703,935
Treasury bills	<b>2,642,972</b>	494,756
Loans and advances to banks	<b>42,177</b>	1,379,889
Deposits from banks	<b>(10,532,297)</b>	(2,806,333)
Amounts due from group companies	<b>2,083,379</b>	10,961,765
Amounts due to group companies	<b>(6,076,197)</b>	(138,264)
	<b>(8,117,509)</b>	13,301,807

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 37 CONTINGENCIES AND COMMITMENTS

### Group and company

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

	2009 KShs '000	2008 KShs '000
Guarantees and standby letters of credit	<b>10,714,512</b>	12,974,377
Letters of credit, acceptances and other documentary credits	<b>12,659,789</b>	8,498,706
Performance bonds and warranties	—	18,251
	<b>23,374,301</b>	21,491,334

### Nature of contingent liabilities

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

**Letters of credit** commit the Bank 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 Bank expects most acceptances to be presented and reimbursement by the customer is almost immediate.

## 38 OTHER CONTINGENT LIABILITIES

In the ordinary course of business, the Bank and its subsidiaries are defendants in various litigations and claims. Although there can be no assurances, the directors believe, based on the information currently available and legal advice, that the claims can be successfully defended and therefore no provision has been made in the financial statements.

Two of the significant claims are described below:

One of the Bank's subsidiaries, Standard Chartered Financial Services Limited, is a litigant in a case in which a former customer was awarded damages amounting to KShs 251 million by the Court of Appeal of the Republic of Kenya.

The directors, having considered the award and obtained appropriate legal advice, challenged the ruling of the Court of Appeal of the Republic of Kenya at the Common Market for East and Southern Africa (COMESA) Court of Justice.

At an initial hearing, the COMESA court ruled, among others, that no execution should be levied in respect of the award granted by the Court of Appeal of the Republic of Kenya, pending the final determination of the case.

In June 2006, management withdrew the case from the COMESA Court of Justice and has now filed for review at the Court of Appeal of the Republic of Kenya with an expectation that the Court of Appeal of the Republic of Kenya will review its earlier decision.

The Bank is also a defendant in a legal suit filed by a former customer. In this case, the claimant has made claims for damages arising from the alleged failure by the Bank to account for money received amounting to KShs 55 million under a guarantee and a second claim for general damages for alleged wrongful termination of the claimant's credit facilities.

In addition, the Bank has some ongoing matters with the Kenya Revenue Authority. As at 31 December 2009, the directors have not made provisions for tax demand letters amounting to KShs 223 million as they are of the view, based on advice received, that these amounts are not payable.

## 39 ASSETS PLEDGED AS SECURITY

As at 31 December 2009, there were no assets pledged by the Group to secure liabilities and there were no secured Group liabilities.

# Notes to the Consolidated Financial Statements (continued)

for the year ended 31 December 2009

## 40 RELATED PARTY TRANSACTIONS

### Group and company

In the ordinary course of business, transactions are entered into with Standard Chartered PLC, the ultimate holding company and other companies related to Standard Chartered Bank Kenya Limited through common shareholding or common directorships. The relevant balances are shown in Note 24. These transactions are at arm's length.

The parent company also provides technical support and consultancy services which are charged at market rates.

The Bank 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 2009, deposits from SCKPF and SCKSRBS 2006 amounted to KShs 32,494,250 (2008 – KShs 59,654,235).

At 31 December 2009, balances relating to deposits from directors, employees and associates amounted to KShs 603,559,557 (2008 – KShs 557,603,349).

The interest expense paid on deposits from directors, employees and associates amounted to KShs 7,042,853 (2008 – KShs 7,416,839).

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

	2009 KShs '000	2008 KShs '000
<b>Loans and advances to directors, employees and associates</b>		
At start of the year	<b>1,437,791</b>	1,076,165
Amounts advanced during the year	<b>1,371,569</b>	885,971
Amounts repaid during the year	<b>(908,037)</b>	(524,345)
<b>At end of the year</b>	<b>1,901,323</b>	1,437,791
Loans and advances to directors or companies controlled by directors or their families	<b>19,914</b>	16,376
Loans and advances to employees	<b>1,881,409</b>	1,421,415
	<b>1,901,323</b>	1,437,791

The interest income earned on loans and advances to directors, employees and associates amounted to KShs 114,696,337 (2008 – KShs 91,725,313). The above loans and advances were given on commercial terms and conditions.

None of the loans and advances above are impaired (2008 – Nil).

	2009 KShs '000	2008 KShs '000
<b>Key management compensation</b>		
Salaries and other employee benefits	<b>293,925</b>	222,722

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

## 41 CAPITAL COMMITMENTS

### Group and company

	2009 KShs '000	2008 KShs '000
Authorised	<b>1,377,330</b>	2,330,682

## 42 FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

### Group and Company

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

	2009 KShs '000	2008 KShs '000
Within 1 year	<b>129,434</b>	121,809
After 1 year but less than 5 years	<b>284,739</b>	280,651
After 5 years	<b>327</b>	18,767
	<b>414,500</b>	421,227
	<b>123,968</b>	63,713

The majority of leases relating to premises are subject to rent escalations.

## 43 HOLDING COMPANY

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

# Notice of the Annual General Meeting

to the members of Standard Chartered Bank Kenya Limited

Notice is hereby given that the twenty fourth Annual General Meeting of the Company will be held at Kenyatta International Conference Centre (KICC) Nairobi on Thursday, 13 May 2010 at 11:30 a.m. for the following purposes:

1. To receive and consider the Report of the Directors and Statement of accounts and the Statement of Financial Position of the Company for the year ended 31 December 2009 with the Auditors' report thereon.
2. To confirm the payment of two interim dividends of KShs 2.50 each paid in September and December 2009 and to approve the payment of a final dividend of KShs 7.00 for each ordinary share of KShs 5.00 on the issued share capital of the Company in respect of the year ended 31 December 2009.
3. To elect the following Directors:
  - a) Ms. C.W. Murgor, a director retiring by rotation being eligible offers herself for re-election in accordance with Section 96 of the Memorandum and Articles of Association.
  - b) Mr. M.C. Hart, a director retiring by rotation who being eligible offers himself for re-election in accordance with Section 96 of the Memorandum and Articles of Association.
  - c) Mr. S. Odusanya, a casual director retiring by rotation who being eligible offers himself for re-election in accordance with Section 96 of the Memorandum and Articles of Association.

## 4. SPECIAL RESOLUTION

Special Notice pursuant to Sections 142 and 186(5) of the Kenyan Companies Act having been received by the Company, of the intention to move a resolution that Mr. Harris Mule continues in office as a director of the Company for a period of one year, notwithstanding him having attained the age of seventy years, to consider and if thought fit, pass the following resolution:

"That pursuant to Section 186(5) of the Kenyan Companies Act, Mr. Harris Mule, who has attained the age of seventy years continues in office as a director of the Company for a period of one year notwithstanding him having attained such age."

5. To authorise the Board to fix the Directors' remuneration.
6. To note continuance in office of KPMG Kenya as auditors in accordance with Section 159(2) of the Kenyan Companies Act and to authorise the Directors to fix their remuneration.

## BY ORDER OF THE BOARD

### N.N. Oginde

Company Secretary  
P.O. Box 30003, 00100 Nairobi GPO  
3 March 2010

#### Note:

A member entitled to attend and vote at the meeting may appoint a proxy to attend and vote on his/her behalf. A proxy need not be a member of the Company.

A Form of Proxy is provided at the back of this report. Shareholders unable to attend the meeting are requested to complete the proxy form and return it so as to reach the office of the Registrar, Custody & Registrars Services (CRS), 6<sup>th</sup> Floor, Bruce House, Standard Street, not later than 3.00 p.m. on Tuesday 11 May 2010.

# Notes

# Notes

# Form of Proxy

I/we: \_\_\_\_\_

being a member/members of Standard Chartered Bank Kenya Limited hereby appoint:

\_\_\_\_\_

of (address): \_\_\_\_\_

or failing him/her: \_\_\_\_\_

of (address): \_\_\_\_\_

and failing him/her the Chairman of the meeting to be my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the company to be held on Thursday 13, May 2010 at the Kenyatta International Conference Centre (KICC) at 11.30 a.m.

or any adjournment thereof.

As witness my/our hand/hands this day of \_\_\_\_\_ 2010

Signed: \_\_\_\_\_

**Note:**

1. The completed Form of Proxy by members must be lodged at the Share Registrar's office, 6<sup>th</sup> Floor, Bruce House, Standard Street, Nairobi or to be posted so as to reach Custody & Registrars Services (CRS), P.O. Box 8484, not later than 3.00 p.m. on Tuesday 11 May 2010, failing which it shall be invalid.
2. In case of a Corporation, the proxy must be under its common seal.

\_\_\_\_\_

Mimi/sisi: \_\_\_\_\_

\_\_\_\_\_

kama mwanahisa/wanahisa wa Standard Chartered Bank Kenya Limited nateua/tunateua

\_\_\_\_\_

\_\_\_\_\_

wa (anwani): \_\_\_\_\_

Na akikosa yeye: \_\_\_\_\_

wa (anwani): \_\_\_\_\_

Na akikosa yeye Mwenyekiti wa Mkutano kama Mwakilishi wangu/wetu wa kunipigia/kutupigia kura na kwa niaba yangu/yetu kwenye mkutano wa kila mwaka wa kampuni utakaofanywa Alhamisi saa tano na nusu za asubuhi Mei 13 2010, Kenyatta International Conference Centre (KICC), na wakati wa ahirisho lolote litakalotokea baadaye, kama

shahidi siku hii: \_\_\_\_\_ 2010

Sahihi: \_\_\_\_\_

**Muhimu:**

1. Hii fomu ya uwakilishi lazima irudishwe kwa afisi ya Custody & Registrars Services (CRS), 6<sup>th</sup> Floor, Bruce House, Standard Street, kabla ya Jumanne sa tisa alasiri Mei 11 2010. Mwanahisa/wanahisa watakaowasilisha fomu hii baada ya saa tisa, hataruhusiwa/hawataruhusiwa kushiriki katika uchaguzi wowote.
2. Ikiwa mteuzi ni Shirika, fomu hii ya uwakilishi lazima ifungwe kwa lakiri.



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Best Cash Management Bank in the Middle East Best Foreign Exchange Bank in Africa	Best Emerging Markets Platform Award	Best Trade Finance Bank in Asia Pacific	Top 2 for Best Bank for FX in Asia Pacific Top 3 for Best Bank for Emerging EMEA Currencies	Commodity/Energy Derivatives House of the Year	Best Trade Finance Bank in the Middle East & North Africa (Global) Best Trade Finance Bank in Sub-Saharan Africa (Global)	Best Islamic FX Bank	Best Domestic M&A Deal USD1.6 billion Tecty Group Offer for The Straits Trading Company
Best Fund Administrator for Islamic Products	Best FX Prime Broking Services (China) Best for Innovative FX Products & Structured Ideas (India & Korea)	The Banker CSR Awards 2008 Best Overall Bank Standard Chartered	Best Rural Finance Bank, Foreign Best SME Lending, Foreign Best Overall Bank	Most Innovative Securities Services Provider in Asia	Best Structured Trade Finance	Best Bank Risk Management & Best Bank Financial Supply Chain in Asia	Best Supply Chain Finance Provider in Asia
Best Bank for Liquidity Management in Africa & Middle East Best Bank for Risk Management in Asia	Best Debt House in India, Pakistan & Singapore	Best Corporate/Institutional Internet Bank (Global)	The Ship Finance Award	Top 2 in Kenya, Nigeria, Qatar & Sri Lanka Top 3 in Africa, Bahrain, Malaysia, Middle East, Pakistan & UAE	Best FX Derivatives Provider in Asia	Custodian of the Year Asia & Australia Custodian of the Year Middle East & Africa	Top 2 Overall: Best Bank for FX in Asia Pacific Best Bank for Emerging Asian Currencies
Best Debt House in Kuwait, Thailand & UAE	Best International Business Best Offshore Business Best Supply Chain Finance Provider in Asia	Best Foreign Cash Management Bank Top 2: Hong Kong (Large Corporates) Top 3: Korea, Malaysia, Philippines & Singapore (Small/Medium/Large Corporates)	Best Trade Finance Bank in Singapore Best International Trade Finance Bank in India Best Soft Commodity Finance Bank (Global)	Top for Currency Derivatives Top 3: Overall	Top for Best House for Derivatives Solutions (Singapore) Top 2 for Best Bond House for Secondary Trading (Hong Kong) Top 2 for Singapore Dollar Bond House of the Year	Best Transaction Bank, Best Trade Finance Bank, Best Domestic Custodian & Best Sub-Custodian in Korea	Best Sub-Custodian Bank in Asia, India, Indonesia, Middle East & UAE

At Standard Chartered Bank, we know that sustainable business success results from the right partnerships and alliances, especially in challenging economic times. With our proven track record of innovative, award-winning solutions and in-depth local knowledge of over 70 markets worldwide, you can count on our continued commitment to meet your growing needs.

Let our ability to deliver power your ambition.

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### For more information

- Call 329 3900 / 0722 203 666 / 0733 335 511
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