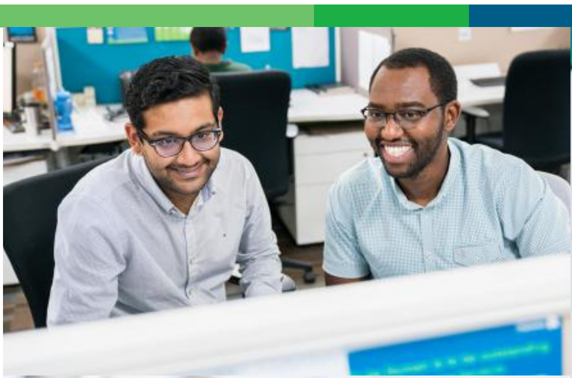
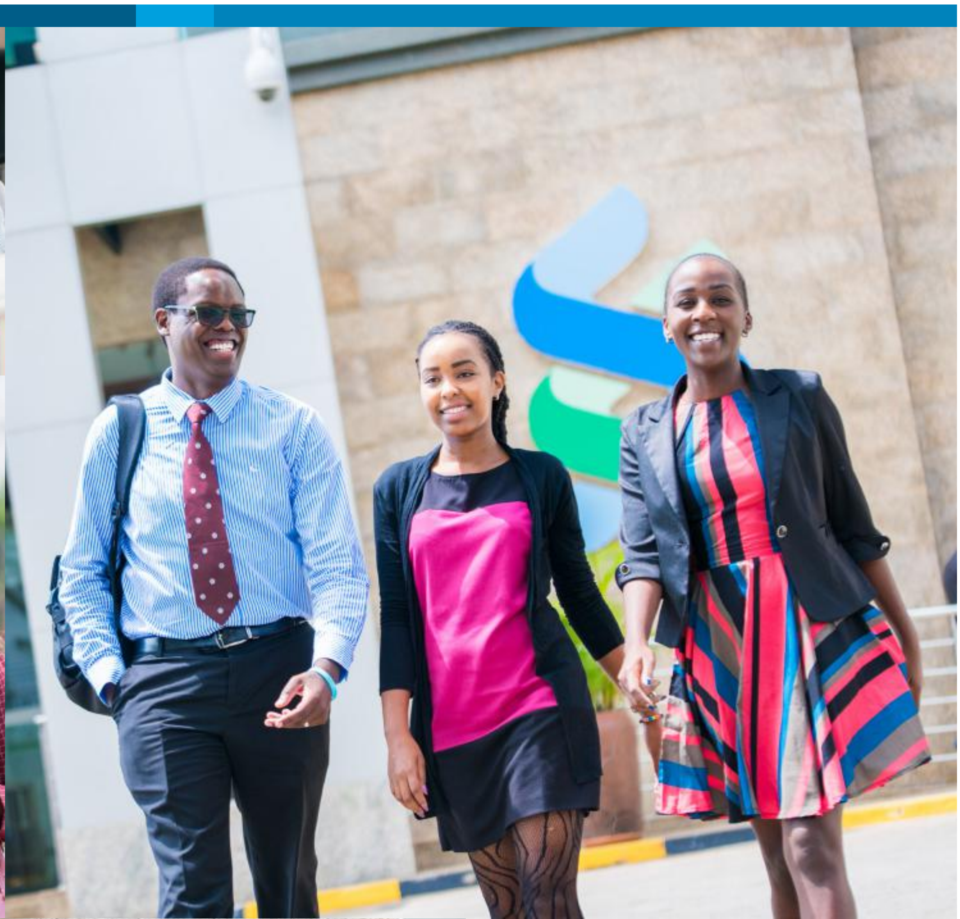
Standard Chartered





Annual Report 2018

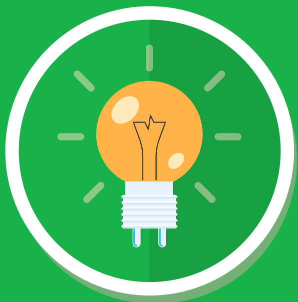
Here for good

Driving commerce and prosperity
through our unique diversity

Standard Chartered

Truly live our valued behaviours

Do the right thing



Never settle

Better together

#wordsintoaction

Contents

Page

Who we are

Standard Chartered Bank Kenya Limited was established in 1911 with the first branch opened in Mombasa Treasury Square. The Bank was listed on the Nairobi Securities Exchange in 1989. The public shareholding is just under 25 per cent (remainder held by Standard Chartered PLC), and comprises over 30,000 shareholders. We have a total of 33 branches spread across the country, 105 ATMs and more than 1,500 employees.

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

Standard Chartered Bank Kenya Limited is a member of the Standard Chartered Group which is a leading international banking Group. Among international banks, the Standard Chartered Bank Group has the broadest presence across sub-saharan Africa by number of markets. Our heritage and our values are expressed in our brand promise, Here for good.

Our valued behaviours

Do the right thing

Never settle

Better together

About this report

Our *Annual Report and Financial Statements* for the year ended December 2018 provides insights into our progress in realising our purpose; to drive commerce and prosperity through our unique diversity. It provides details on our business, our strategy, our risk management, our governance and our financial performance. Sustainability reporting is embedded across our annual report.

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

OUR PURPOSE AND PROGRESS

At Standard Chartered our purpose is to drive commerce and prosperity through our unique diversity.

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

FINANCIAL KPIs

Return on equity
19.08% ↑ 263bps

Total capital
19.47% ↑ 95bps

Tier 1 capital
16.52% ↑ 90bps

NON-FINANCIAL KPIs

Employees
1,567

Branches
33

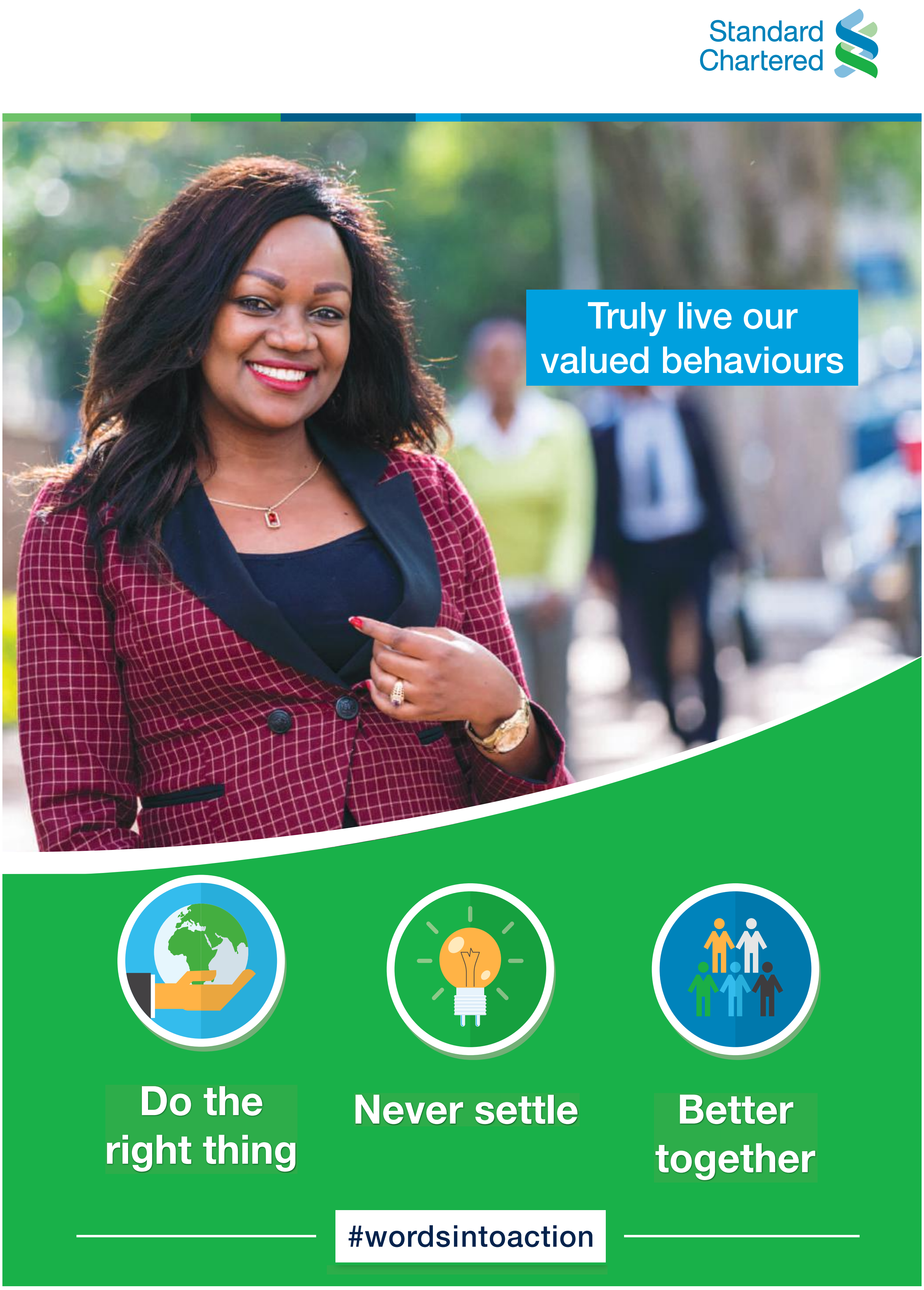
ATMs
105

OTHER FINANCIAL MEASURES

Operating income
KShs 27,775 m ↑ 4.31%

Profit before tax
KShs 11,847m ↑ 17.63%

Earnings per share
KShs 23.09 ↑ 17.56%


Standard Chartered
Truly live our valued behaviours
Do the right thing
Never settle
Better together
#wordsintoaction

Five Year Summary

Group

KShs Million Income Statement	2018	2017	2016	2015	2014
Operating income	27,775	26,626	27,395	24,814	25,587
Impairment losses on financial instruments	(1,349)	(3,770)	(1,878)	(4,591)	(1,047)
Operating expenses	(14,579)	(12,785)	(12,229)	(11,063)	(10,194)
Profit before taxation	11,847	10,071	13,288	9,160	14,346
Taxation	(3,748)	(3,157)	(4,239)	(2,818)	(3,910)
Profit after taxation	8,099	6,914	9,049	6,342	10,436
Information per ordinary share					
Basic earnings per share (KShs) (2014–2015 restated)	23.09	19.64	25.85	17.97	29.89
Dividend per share on each ordinary share (KShs)	19.00	17.00	20.00	17.00	17.00
Statement of Financial Position					
Loans and advances to customers (gross)	127,860	134,328	128,290	120,394	126,275
Impairment losses on financial instruments	(9,208)	(8,034)	(5,579)	(5,268)	(3,526)
Government securities	98,705	110,542	86,489	73,126	58,216
Other assets	68,047	48,888	41,282	45,714	41,531
Total assets	285,404	285,724	250,482	233,966	222,496
Deposits from customers	224,284	213,349	186,598	172,036	154,067
Other liabilities	14,480	26,710	19,280	20,678	27,771
Total liabilities	238,764	240,059	205,878	192,714	181,838
Net assets	46,640	45,665	44,604	41,252	40,658
Shareholders' funds	46,640	45,665	44,604	41,252	40,658
Ratios					
Cost income ratio	52%	48%	45%	45%	40%
Return on capital employed	19%	16%	23%	17%	28%
Impairment charge/gross loans and advances	1%	3%	1%	4%	1%
Gross loans and advances to deposits ratio	57%	63%	69%	70%	82%
Gross non-performing loans and advances/total gross loans and advances	11%	6%	8%	10%	9%
Core capital/total deposit liabilities	16%	17%	19%	19%	19%
Core capital/total risk weighted assets	17%	16%	18%	18%	16%
Total capital/total risk weighted assets	20%	19%	21%	21%	20%

OUR BUSINESS

What We Do

Serving client segments with differentiated expertise:

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

Corporate & Institutional Banking

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

Operating income
KShs 8,381 m

Commercial Banking

Supporting local corporations and medium sized enterprises.

Operating income
KShs 2,269 m

Retail Banking

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

Operating income
KShs 12,177 m

Central & other items

Operating income
KShs 4,948 m

Total operating income

KShs 27,775 m

Functions

Our client-facing businesses are supported by the following support functions, which work together to ensure the Group's day-to-day operations run smoothly and are compliant with banking regulations.

Human Resources
Recruits and builds talent while providing learning and development opportunities to motivate staff.

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

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

CFO
Incorporates the following support functions:
– finance;
– supply chain; and
– property.

IT & Operations
Responsible for the Group's operations, systems and technology infrastructure.

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

BUSINESS MODEL

A business model built on long-term relationships

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

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

Our resources

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

Human capital
Our diverse colleagues are our greatest asset. Being part of the fabric of our market means we understand our clients' needs and aspirations, and how these can be achieved.

1,567 employees

53% female

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

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

Financial strength
With over KShs 280 billion in assets on our balance sheet, we are a strong and trusted partner for our clients.

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

Our purpose makes us different

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

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

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

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

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

BUSINESS MODEL (Continued)

What we deliver

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

The value we create

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

Clients

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

Regulators and Government

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

Investors

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

Colleagues

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

Society

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

Products and services

Wealth Management

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

Transaction Banking

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

Retail products

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

Corporate Finance

- Structured and project financing
- Strategic advice

Financial Markets

- Investments
- Risk management
- Debt capital markets

OUR STRATEGY

Our vision is to PUT CUSTOMERS FIRST and our strategy is aligned along five key priorities, with the customer at the centre of everything we do.

Client Segment Reviews

Corporate & Institutional Banking

Segment Overview

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

"Providing innovative game-changing solutions to our clients enabled us increase client transactions and grow Cash Management non-funded income by 34 per cent year-on-year. Transaction Banking was pivotal to this growth. We also maintained our position as a market leader in Cash Management and Securities (Custody) Services in Kenya in 2018."

As a business, we maintained our strong presence in the China-Africa corridor, supporting key infrastructure projects in Kenya whilst creating new networks for Kenya with businesses in China. We held a strategic road show in October 2018 and are committed to support Kenya in China's 'Belt and Road' initiative.

We collaborate increasingly with other segments: introducing Commercial Banking services to our clients' ecosystems – their networks of buyers, suppliers, customers and service providers – and offering our clients employee banking services through Retail Banking.

We have been recognised as the best Corporate Bank in Kenya over the years. We are not resting on our laurels, but continue building on them to solidify our position in this space. We were recognised as the 'Best Investment Bank in East Africa' at the fourth edition of the *Banker Africa - East African Banking Awards 2018*, held in Nairobi on 10 May 2018. The award is testament to the steps we have taken to remain meaningful partners to our clients.

Paul Skelton, Group Head Global Banking (right) and Admassu Todessee, President Trade and Development Bank, during the deal signing ceremony. The partnership enables African Development Financial Institutions access Asian liquidity pools.

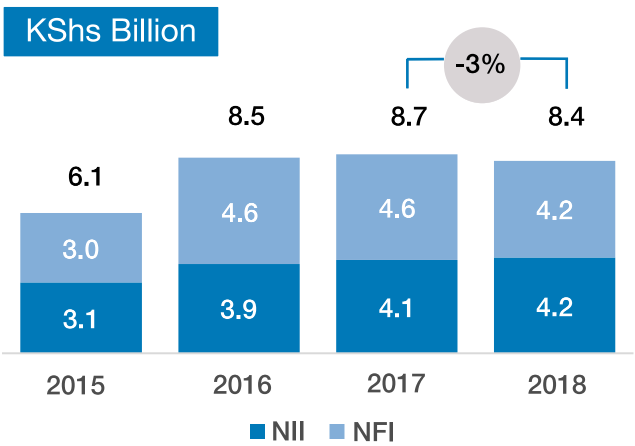
Client Segment Reviews (Continued)

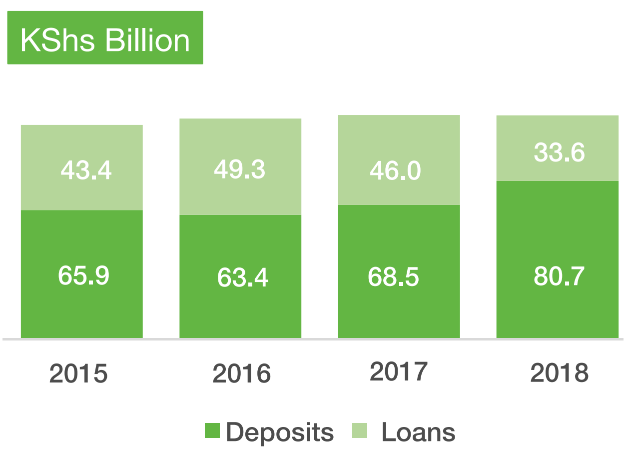
Corporate & Institutional Banking (Continued)

Performance Highlights

Operating income
KShs 8,381 m

Profit before tax
KShs 4,048 m





Strategic Priorities

- Improving client experience through innovation and digitisation;
- Delivering sustainable growth for our clients by connecting them seamlessly with our market-leading solutions; and
- Positioning the business to sustainably grow income and returns while strengthening foundations in risk, control and conduct.

The business remained resilient in 2018, despite a tough operating environment, a spill over from the prolonged electioneering period in 2017 that impacted public sector activity and investment among the multinational corporations. Income remained solid, albeit declining by 3 per cent year-on-year.

Providing innovative game-changing solutions to our clients enabled us increase client transactions and grow Cash Management non-funded income by 34 per cent year-on-year. Transaction Banking was pivotal to this growth. We also maintained our position as a market leader in Cash Management and Securities (Custody) Services in Kenya in 2018.

Profit before tax increased by 179 per cent (2017: KShs 1.5 billion) due to significant improvement in credit impairment on the back of management actions to improve quality credit origination.

Net loans and advances dropped by 27 per cent from KShs 46 billion in 2017 as we remained selective on asset origination. Our strong cash management proposition continued to deliver solid growth in customer deposits.

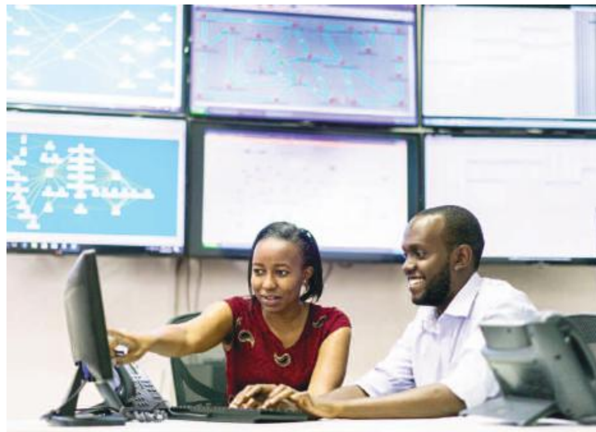
Christopher Kirigua, Head Public Sector and Development Organisations (right), interacts with clients.

Client Segment Reviews (Continued)

Commercial Banking

Segment Overview

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



"More than 80 per cent of our customers are signed up to our digital banking platforms, enabling them to transact conveniently and securely."

In 2018, our focus was to build new client relationships through strategic acquisitions, while remaining close and relevant to our existing clients. Our Transaction Banking offering grew double-digit underscoring our innovative proposition in cash management and trade solutions. Our Financial Markets proposition remained strong and we experienced increased transaction volumes with our clients.

Our Chinese value proposition continued to deliver strong performance. Our Chinese segment achieved significant balance sheet growth, positioning us for market leadership in this niche. We also kept our costs flat year-on-year because of strategic cost save initiatives implemented in the year. We reinvested the cost saves into our people and systems to build a sustainable business model. We however faced headwinds in our lending portfolio as we strived to balance risk and return amidst a tough economic environment. This resulted in a drop in loans and advances, increase in loan impairment provisions and a loss before tax for the year.

Standard Chartered customers network at a client dinner.

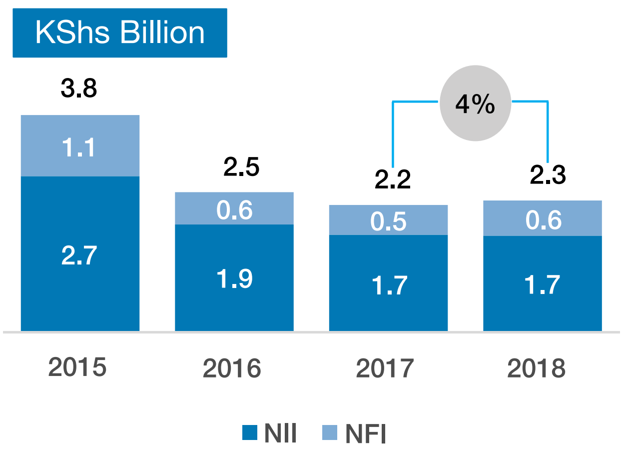
Client Segment Reviews (Continued)

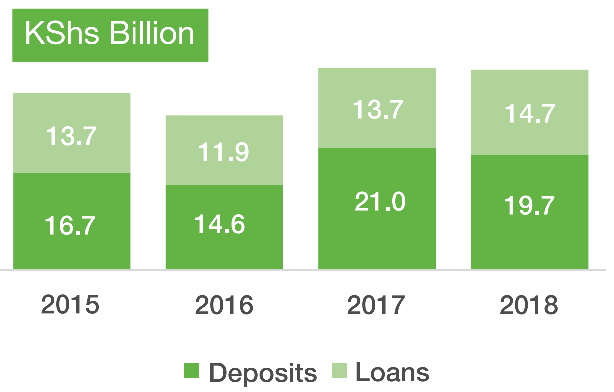
Commercial Banking (Continued)

Performance Highlights

Operating income
KShs 2,269 m

Loss before tax
KShs 9 m





The macro-economic environment was challenging in 2018 but the business remained resilient, to achieve 4 per cent growth in operating income amidst subdued private sector credit growth and increased non - performing loans (NPLs). This hindered growth in net interest income (NII).

Non-funded income grew by 18 pe rcent year-on-year, driven by increased customer transaction volumes in cash management, trade finance and foreign exchange. This is a result of our digitisation initiatives that have made customer transactions simpler, faster and secure. 82 per cent of our clients are signed up on our Straight2Bank (S2B) online banking platform.

The business posted a loss before tax of KShs 9 million in 2018 down from KShs 870 million profit before tax in 2017, attributable mainly to a KShs 544 million growth in credit impairment losses on our legacy NPLs.

Our net loans and advances declined due to increased loan loss provisions and a more selective approach to asset origination.

Strategic Priorities

- Enhancing client experience through digitisation and making internal processes Simpler Faster Better;
- Driving sustainable growth through strategic client acquisitions and deepening relationships with our existing customers; and
- Strengthening our foundations in risk, compliance and control.

Caroline Komuhangi, Head of Private Banking and Anuj Mediratta, Head Commercial Banking at a client event.

Client Segment Reviews (Continued)

Retail Banking

Segment Overview

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

Retail Banking represents 44 per cent of the Group's operating income. It is closely integrated with the Group's other client segments, for example, offering employee banking services to the ecosystems of the Commercial and Corporate Banking clients through our Business Banking proposition. We continue focusing on improving productivity through digitisation and simplifying processes.

"We are digital…with a human touch. We are designing digital banking that is easy, convenient and secure. We launched home, motor and travel insurance on SC Mobile, a first in the market."

Our product offering includes:

- Deposits
- Mobile/Internet banking
- Mobile payments

Personal loans

Credit cards

Mortgages

Standard Chartered recognised for outstanding service in Kenya

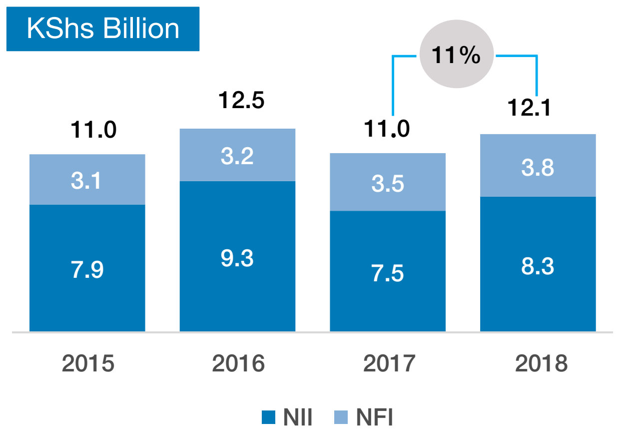
We were recently ranked Best in Customer Service in a Kenya Bankers Association survey, and one of the top three Tier 1 banks based on overall client experience, responsiveness and digitalisation.

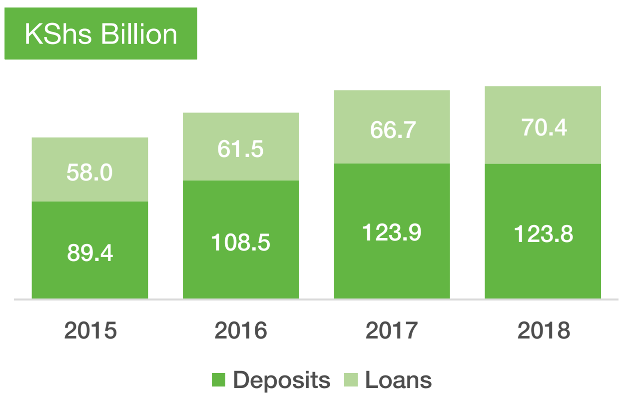
Client Segment Reviews (Continued)

Retail Banking (Continued)

Operating income
KShs 12,177 m

Profit before tax
KShs 3,071 m





Operating income grew by 11 per cent year-on-year in 2018, on the back of increase in net interest income of 12 per cent and non-funded income of 8 per cent.

The increase in net interest income (NII) is attributed to the growth of the loan book. The loan book grew by 5 per cent, even as we continued to remain selective in our loan origination and to improve the quality of the book.

Non-funded income has consistently grown over the last 3 years on account of increased transactions enabled by our digital initiatives and increased efforts to provide our clients with wealth management solutions.

Profit before tax dropped by 8 per cent. Profit remained constrained as we continue to invest in digitisation in our efforts to improve our client experience.

Strategic Priorities

- **Improving client experience through innovation and digitisation;**
- **Delivering sustainable growth for our clients' by connecting them seamlessly with our market-leading solutions; and**
- **Positioning the business to sustainably grow income and returns while strengthening foundations in risk, control and conduct.**

Members of Staff at a strategy meeting.

Product Groups

Transaction Banking

Product Overview

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

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

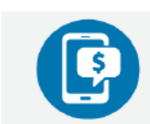
"We are the leading custodial services and cash management bank in Kenya. We offer a full suite of market leading solutions to complement our customers' day-to-day operations and provide greater transactional efficiency."

Trade Services
- Documentary trade
- Guarantees
- Trade loans
- Supply chain finance
- Receivables services

Trade Finance

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

Cash Management
- Account services
- Payments
- Collections
- Liquidity management
- Clearing



Electronic/Mobile Banking
- Internet banking
- Straight2Bank Wallet
- Mobile banking
- Host-to-host

Cash Management and Payments

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

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

Correspondent Banking

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

Product Groups (Continued)

Transaction Banking (Continued)

Security Services

Securities Services
- **Custody**
- **Fund administration**
- **Corporate agency & trust**

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

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

Major Awards Won in 2018

- Overall Best Bank for Cash Management in Kenya, 2018 and 2019.
- Best Sub-Custodian Bank in Kenya 2018.

Global Custodian Agent Banks in Frontier Markets Survey, 2018;
- Market Outperformer – Kenya
- Global Outperformer – Kenya
- Category Outperformer – Kenya

Transaction Banking key initiatives delivered in 2018

Integrated Tax Payment solution

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

Cash Deposit Machines

In 2018, we were the first bank in Kenya to offer a fully integrated Electronic Cash Deposit Machine proposition to our customers who were seeking to minimise the risk of handling large cash volumes. Our real-time credit capabilities on these machines enabled our clients to optimise returns in an efficient manner therefore improving their working capital cycles.

Product Groups (Continued)

Financial Markets

Product Overview

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

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

Strategic Priorities

Our strategy is framed under 5Cs:

Clients

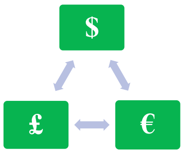
Clients are at the centre of everything we do. FM is a franchise-led business where we provide foreign currency (FX) transaction flow and tailored solutions to our clients. We want to improve the connectivity and product set that we provide to our clients. In addition to our existing offering, we are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

Credit trading

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

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

Product Groups (Continued)



Currency

Our foreign currency (FX) business is core to the client offering. We continue to build on our offering by investing in people and technology. Straight2Bank (S2B), our corporate online banking platform, provides our clients with access to FX offering, Standard Chartered Aggregation and Liquidity Engine (SCALE) offers clients a customised product capable of managing high volumes, whilst Straight2Bank will provide clients with a low latency, sophisticated FX management system (S2BX). Each of our core platforms is continuously improved to enhance the service we offer clients.

Cross-sell

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

Conduct

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

Product Groups (Continued)

Wealth Management

Product Overview

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

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

Standard Chartered Emerging Affluent 2017 study revealed that the emerging affluent could increase their savings by an average of 42 per cent over 10 years by taking advantage of basic wealth management strategies. Kenya was one of the markets included in this research. Saving for their **children's education** was among the top priorities, with almost a quarter (23 per cent) in Kenya choosing it as their number one savings priority. Majority of savers reported that they got their investment advice from friends and family with only a third (34 per cent) seeking a financial adviser.

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

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

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

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

Managed investments

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

Market Products

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

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

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

Product Groups (Continued)

Wealth Management (Continued)

Bancassurance

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

Wealth lending

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

From Left, former Sanlam General Insurance CEO, George Kuria, Head of Wealth Management at Standard Chartered Bank, Paul Njoki, and former Standard Chartered Bank Kenya CEO, Lamin Manjang, during the launch of insurance products within SC mobile app.

Recently, we launched car, home and travel insurance products within **SC mobile app** to increase convenience for our clients. Further, we have made buying or selling foreign exchange simple through online banking and Straight2Bank platforms. We continue to invest in digital capabilities across all the wealth products to make the client experience fast, simple and hassle free.

Product Groups (Continued)

Corporate Finance

Product Overview

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

Project & Export Finance

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

Structured Finance

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

Leveraged & Structured Solutions

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

LSS is organised across two broad activity-based categories:

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

Loan Syndications

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

Risk Management

Enterprise Risk Management Framework

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

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

In 2018, the Board approved a refreshed Enterprise Risk Management Framework, which incorporated the following key changes:

- Refreshing our risk culture and Risk Appetite Statements for our Principal Risk Types;
- Changing our Principal Risk Types including:
  - Elevating Conduct, Compliance, Financial Crime and Information and Cyber Security to Principal Risk Types;
  - Broadening the scope of Country Cross Border Risk to cover Country risk;
  - Pension risk is now a risk sub-type of Market risk;
  - Integrating Strategy risk as part of the overall Framework; and
  - Consolidating Capital and Liquidity risk types into one Principal Risk Type.
- Strengthening risk assessment by introducing a dynamic risk identification process; and
- Further clarity on accountability and responsibility by strengthening of the three lines of defence.

The Enterprise Risk Management Framework took effect from 16 August 2018.

Principal risk types

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

Principal risk types	How these are managed
Credit risk Potential for loss due to the failure of a counterparty to meet its agreed obligations to pay the Group.	The Group manages its credit exposures following the principle of diversification across products, client segments and industry sectors.
Traded risk Potential for loss of economic value due to adverse changes in financial market rates or prices.	The Group controls its trading portfolio and activities to ensure that market risk losses (financial or reputational) do not cause material damage to the Group's franchise.
Capital & Liquidity risk Capital: potential for insufficient level or composition of capital to support our normal activities. Liquidity: potential for failure where we may not have sufficient stable or diverse sources of funding or financial resources to meet our obligations as they fall due.	The Group maintains a strong capital position including the maintenance of management buffers sufficient to support its strategic aims and holds an adequate buffer of high quality liquid assets to survive extreme but plausible liquidity stress scenarios for at least 60 days without recourse to extraordinary central bank support.

Risk Management (Continued)

Principal risk types (Continued)

Principal risk types	How these are managed
Operational risk Potential for loss resulting from inadequate or failed internal processes and systems, human error, or from the impact of external events.	The Group controls operational risks to ensure that operational losses (financial or reputational), including any related to conduct of business matters, do not cause material damage to the franchise.
Reputational risk Potential for loss of earnings or market capitalisation as a result of stakeholders taking a negative view of the organisation or its actions.	The Group protects the franchise from material damage to its reputation by ensuring that any business activity is satisfactorily assessed and managed by the appropriate level of management and governance oversight.
Compliance risk Potential for regulatory sanctions or loss from a failure on our part to comply with laws or regulations.	The Group has no appetite for breaches in laws and regulations, recognising that whilst regulatory breaches or noncompliance are unwanted, they cannot be entirely avoided.
Conduct risk Potential regulatory sanctions or loss from a failure on our part to abide by the Group's Conduct Risk Management Framework.	The Group strives to maintain the standards in our Code of Conduct and outcomes of our Conduct Framework, by continuously demonstrating that we "Do The Right Thing" in the way we do business.
Information and Cyber Security risk Potential for loss from a breach of confidentiality, integrity and availability of the Group's information systems and assets through cyber-attack, insider activity, error or control failure.	The Group seeks to avoid risk and uncertainty for our critical information assets and systems and has a low appetite for material incidents affecting these or the wider operations and reputation of the Group.
Financial Crime risk Potential for legal or regulatory penalties, material financial loss or reputational damage resulting from the failure to comply with applicable laws and regulations relating to International Sanctions, Anti-Money Laundering and Anti-Bribery and Corruption.	The Group has no appetite for breaches in laws and regulations related to Financial Crime, recognising that whilst incidents are unwanted, they cannot be entirely avoided.
Country risk Potential for losses due to political or economic events in a country.	The Group manages the risk exposures by ensuring adherence to limits for the size of cross-border exposure set for each country.

Risk Culture

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

- An enterprise level ability to identify and assess current and future risks, openly discuss these and take prompt actions;
- The highest level of integrity by being transparent and proactive in disclosing and managing all types of risks;

Risk Management (Continued)

Risk Culture (Continued)

- A constructive and collaborative approach in providing oversight and challenge, and taking decisions in a timely manner; and
- Everyone to be accountable for their decisions and feel safe using their judgment to make these considered decisions.

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

Strategic risk management

Our strategy in risk management entails:

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

Roles and responsibilities

Three Lines of Defence model

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

Lines of Defence	Definition	Key responsibilities include:
1st	The businesses and functions engaged in or supporting revenue generating activities that own and manage risks.	– Propose the risks required to undertake the revenue generating activities; – Identify, monitor, and escalate risks and issues to the Second Line and senior management and promote a healthy risk culture and good conduct; – Manage risks within Risk Appetite and ensure laws and regulations are being complied with; and – Ensure systems meet risk data aggregation, risk reporting and data quality requirements set by the Second Line.

Risk Management (Continued)

Three Lines of Defence model (Continued)

Lines of Defence	Definition	Key responsibilities include:
2nd	The control functions independent of the First Line that provide oversight and challenge of risk management to provide confidence to the Head of Risk, the management team and the Board.	– Review First Line risk proposals and make decisions to approve or reject as appropriate; – Oversee and challenge First Line risk taking activities; – Own processes for setting Risk Type Frameworks, Policies and Standards, and monitoring compliance; – Own and manage processes for oversight and challenge; – Propose Risk Appetite to the Board, monitor and report adherence to Risk Appetite; and – Intervene to curtail business if it is not in line with existing or adjusted Risk Appetite.
3rd	The independent assurance provided by the Internal Audit Function, of the effectiveness of controls that support First Line's risk management of business activities, and the processes maintained by the Second Line. Its role is defined and overseen by the Board Audit Committee.	– Independently assess whether management has identified the key risks in the business and whether these are reported and governed in line with the established risk management processes; and – Independently assess the adequacy of the design of controls and their operating effectiveness.

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

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

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

Risk Management (Continued)

Risk Appetite Principles

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

Risk Appetite Statement

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

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

Board and Executive risk oversight

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

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

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

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

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

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

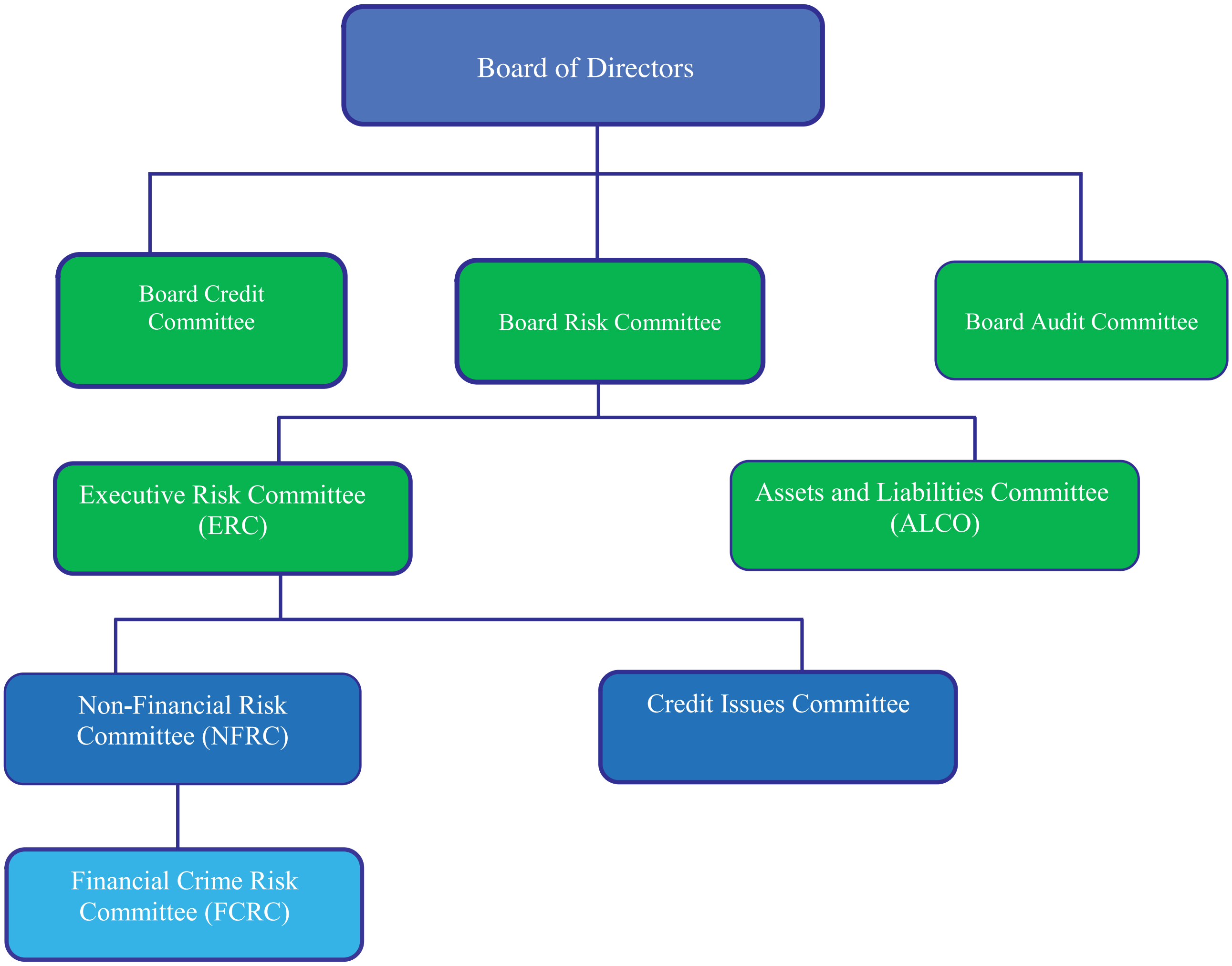
Risk Management (Continued)

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

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

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

Risk governance structure



Sustainability Review

Promoting sustainable economic and social development

Our purpose is to drive commerce and prosperity through our unique diversity.

We are committed to promoting economic and social development in Kenya through our core business of banking.

By focusing on three sustainability pillars – contributing to sustainable economic growth, being a responsible company and investing in communities – we believe we can achieve our purpose, in line with our valued behaviours, and deliver our brand promise to be Here for good.

Contributing to sustainable economic growth

We work with our clients to improve access to financial services, and to promote sustainable finance. By providing finance responsibly and efficiently, we can have a positive impact on sustainable development in our markets, contributing to economic growth in the long term, and enabling people, businesses and communities to prosper.

Our position statements

To help us maintain our environmental and social standards, we use position statements to assess whether to provide financial services to clients operating in sensitive business sectors namely; energy and water, agriculture, transport and communication and manufacturing.

Our position statements outline the standards we encourage and expect from our clients and are based on industry-wide benchmarks. They reflect our aspiration to apply these principles consistently and to conduct our business with the highest standard of ethics and integrity. The position statements also outline prohibited activities that we shall not finance in each sector. All staff are required to adhere to the position statements and endeavour to achieve these goals in line with our Code of Conduct and to live up to our brand promise of Here for good.

Measuring our impact

In 2018, we published the socio-economic impact report assessing how we contribute to sustainable growth.

We support:

- **USD 1.4 billion of value added impact across the country, which is 1.9 percent of Kenya's GDP.**
- **330,000 jobs in Kenya, nearly 1.6 percent of Kenya's total labour force.**

Sustainability Review (Continued)

Promoting sustainable economic and social development (Continued)

Contributing to sustainable economic growth (Continued)

Environmental and social risk management

To achieve long-term sustainable development, we must manage environmental and social risks responsibly. We work with our clients to manage these risks, and engage with governments and non-governmental organisations to mitigate the impact that stems from our financing decisions.

In 2018, we increased our activities around environmental and social risk management (ESRM). We trained 49 staff on ESRM. We also reviewed 70 high impact lending activities against the ESRM framework compared to 16 reviewed in 2017.

Being a responsible Company

We strive to be a more responsible bank. We invest in our people and embed the right values and behaviours in our business practices. We are determined to fight financial crime and minimise our environmental impact from our own operations.

Governance

We believe that exemplary governance is key to the Company's long-term success. All staff have a responsibility to know the rules which govern us and exemplify good judgment and behaviour. We believe that simply complying with written corporate governance standards is not enough.

In 2018, we refreshed our Enterprise Risk Management Framework (ERMF), taking note of worldwide trends in emerging risks to review and assess the requirement for additional principal risk types to include cyber security risk and conduct risk, and set up appropriate oversight and challenge in line with local regulatory requirements.

Tackling Financial Crime

Despite a challenging 2018, the Bank continues to take its role in fighting and disrupting financial crime very seriously. The roll out of our new Enterprise Risk Management Framework saw financial crime upgraded to a principal risk.

The National Youth Services (NYS) financial crime issues, underscored the need to continuously improve our systems and our employees' commitment to fight financial crime. As an outcome, we swiftly enhanced our controls around cash and payments from government and other government related bodies.

Left Rebecca Kaggwa, Head of Compliance, during a financial crime risk training for Development Organisations.

Case Study Financial Crime Compliance

Our efforts to fight financial crime can have unintended consequences for clients that deliver critical humanitarian services to people in need.

Financial crime controls can prevent payment to and from development and non-governmental organisations (NGOs) providing humanitarian programmes in countries where bribery, corruption and money laundering are prevalent.

Through education, we are helping these clients mitigate financial crime risk through education.

In May 2018, we hosted our first Financial Crime Risk Management workshop. The event shared international best practices in financial crime compliance and showed organisations how they could strengthen their fraud, anti-money laundering and counter-terrorist financing controls.

Sustainability Review (Continued)

Promoting sustainable economic and social development (Continued)

Being a responsible Company (Continued)

Tackling Financial Crime (Continued)

We continue to train our employees on their role in combating financial crime by:

- being more diligent to onboard and retain the right customers;
- being curious to know our customers better; and
- being vigilant to be able to identify and escalate suspicious transactions.

During the year, we hosted three outreach programmes on tackling financial crime in partnership with regulators, law enforcement agencies, and customers. In addition, during the UN Anti-Corruption Day in December 2018, we hosted an Anti-Bribery and Corruption event in partnership with Strathmore Business School's school of Public Policy & Governance to engage our stakeholders in dialogue around anti-bribery and corruption.

Standard Chartered PLC has signed up to the United for Wildlife's Financial Taskforce, convened by His Royal Highness, Prince William, The Duke of Cambridge. Alongside representatives of other financial institutions, legal advisors and technical experts, the Standard Chartered Group has committed to implement appropriate measures to improve the identification and reporting of this crime in a bid to disrupt the illegal income generated by the trade in wildlife products such as elephant tusks, rhino horns and pangolin scales. We believe we can play a key role in tackling illegal wildlife trade and help protect Kenya's wildlife heritage.

People

In 2018, we rolled out our new valued behaviours. The roll out was led by the outgoing CEO Mr. Lamin Manjang, Human Resources and Corporate Affairs, Brand and Marketing. Training sessions were led by people managers and team leaders with in-depth discussions on what the behaviours mean to us in our workplace and in our interactions.

Our valued behaviours aim to promote inclusivity by highlighting the conduct and behaviour standards we look for in all our staff across the Bank. They shape our behavior, our interaction, and our focus on client obsession in a high performance driven organisation.

Culture and Diversity

We want to build a culture of inclusion as a critical lever to our business success. This will enable us to be the best place to work, the best place to bank and contribute to creating prosperous communities.

We launched a Diversity & Inclusion Council in 2018 chaired by the Bank's CEO, and comprises of business heads and staff to ensure we have the leadership and insights to build a more inclusive organisation and business.

Our Diversity & Inclusion strategy focuses on: Gender, Nationality & Ethnicity, Disability and Generations.

Gender

This is geared towards engaging each gender in our continued support and progress towards gender equality. We are committed to ensuring gender equity in senior leadership. 45.3 per cent of our senior leaders are women and 54.7 per cent are men.

Standard Chartered Staff dressed in their African attire during the World Day of Culture and Diversity celebrations.

We have partnered with the Federation of Kenya Employers (FKE) for a collaborative programme which equips our women with skills to excel in leadership roles. To date, 41 women have gone through this programme and they continue to excel in their careers.

We have targeted employee-led gender empowerment teams for both women and men to address gender specific perspectives in the work place through various initiatives which include career, mentorship, leadership, health and wellness among others.

Sustainability Review (Continued)

Promoting sustainable economic and social development (Continued)

Being a responsible company (Continued)

Culture and Diversity (Continued)

Gender (Continued)
The 30% Club East Africa Chapter

In October 2018, as the lead and main sponsor, the Bank and other partners, launched the 30% Club East Africa Chapter (The 30% Club). The 30% Club aims to develop a diverse pool of talent for all businesses through the efforts of its chair and CEO members who are committed to improve gender balance at all levels of their organisations. This is in line with our commitment to build a more balanced workforce in senior levels of our organisation. The 30% Club is an international movement, with the East Africa Chapter, being its latest addition.

Nationality and Ethnicity
We want to have a workforce that is representative of our client base and diversity in Kenya. We have 17 nationalities represented in the Bank, and we aim to have all cultures in Kenya represented in our work places.

Disability
We are striving to be a disability-confident organisation with a key focus on removing disability barriers, biases and increasing accessibility for both our staff and clients. We currently employ 10 staff with disability – we realise we need to do more. As such, we have partnered with the National Council for Persons with Disabilities to recruit more staff with various disabilities.

Case Study
Interbanks tournament

Members of the Standard Chartered Interbank committee pose with a trophy won during the 2018 Interbanks Tournament.

The Bank continues to support sporting activities amongst staff, and participates in various events. In 2018, we participated in the Inter-Banks & Financial Institutions Sports Competition, with 32 banks taking part.

The competition connects staff in the industry through friendly sporting events. Our performance improved from 11th place in 2017 to 7th place in 2018. The Bank scooped 8 trophies in 2018 versus one trophy in 2017. The Bank was also awarded the Best Sporting Team trophy.

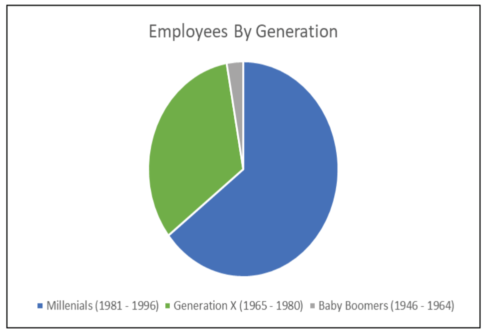
Sustainability Review (Continued)

Promoting sustainable economic and social development (Continued)

Being a responsible company (Continued)

Generations

We leverage generational experiences to increase innovation and deliver products and services for employees and clients at various life stages. Statistically our workforce cuts across three generations.



Learning and development

We encourage our staff to drive their careers. They do this through quality career conversations with their line managers, and leveraging resources available to develop themselves.

Our Learning Academy offers classroom learning, on-the-job experience based learning, leadership development and career coaching. We also have several leadership development programmes that enable staff to expand their capabilities for broader more stretching roles. Some of the programmes include: inclusive leadership, leaders driven performance, management mastery series, new manager programme, accelerator programme, among others.

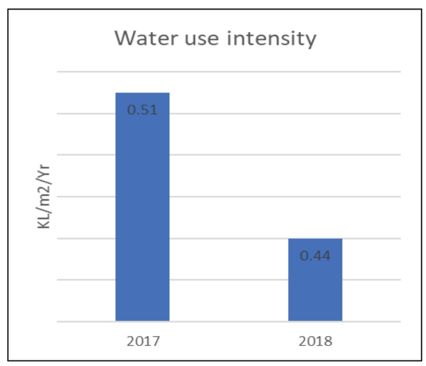
Through digitisation, several learning solutions have been migrated to our web-based e-learning platforms.

Our International Graduate colleagues – our future leaders, are mentored by a member of the executive committee for a period of one year. This enables the graduates to gain first hand insights into leadership thinking and strategy, helping them accelerate their development.

We aim to have high reward productivity and offer a mix of short-term and long-term rewards. These include commissions, bonuses, salary increases and employee share options. We also focus efforts on ensuring constructive and effective management of poor performance.

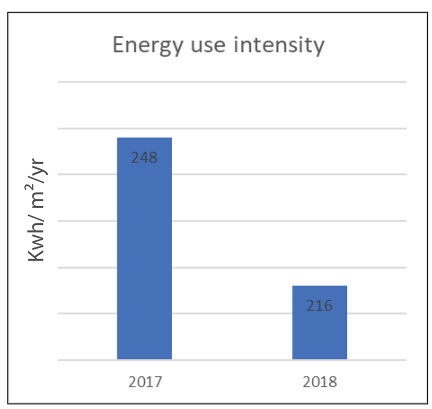
Environment

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



Continuous monitoring of our Global Environment Management Systems (GEMS) buildings namely, Chiromo Head Office, Kenyatta Avenue Branch, Moi Avenue Branch and Treasury Square Branch; help us keep track of our targets and our environmental commitments.

In 2018, the Bank's Energy Use Intensity (EUI) was 216 Kwh/m²/yr, against a target of 230 Kwh/ m²/yr by 2019. Our 2018 EUI decreased by 13 per cent compared to 2017 surpassing the EUI target by 6 per cent. The reduction in EUI was made possible by the implementation of the LED lighting project and installation of grid-tied solar panels commissioned in 2017.



We have also seen reductions in our monthly electricity bills by about KShs 1.25 million. LED lighting installation in our Sameer branch is earmarked for 2019. This adds to our already optimised branches in: Two Rivers Mall, Kericho, Machakos and Eldoret.

Our Water Use Intensity (WUI) was at 0.44 kl/m²/yr against a target of 0.50 kl/ m²/yr by 2019. This drop of 13.7 per cent compared to 2017, has surpassed our 2019 target. The significant reduction in WUI was achieved after some major water leakages were addressed at the head office building in 2017 and implementation of the 'Push Tap' project at the head office which led to significant reductions in water consumption. We also commissioned a waste water treatment plant in November 2018.

Sustainability Review (Continued)

Promoting sustainable economic and social development (Continued)

Investing in communities

In 2018, we promoted community development by investing in programmes that focus on health and education. Employee volunteering plays an important role in our community engagement. Nearly 40 per cent of our employees volunteered in various activities during the year, engaging in more than 1,100 days of community activities.

Nairobi residents taking part in a free eye clinic during the launch of the Diabetic Retinopathy programme courtesy of Seeing is Believing initiative.

Seeing is Believing

For 16 years (2003 – 2018) the Bank has been running the Seeing is Believing (SiB) initiative to help mitigate avoidable blindness and visual impairment. Blindness drastically impacts the economic wellbeing of individuals, families and communities.

Through funding from the Standard Chartered Nairobi marathon participants' registration fees, donations from staff and funding from the Standard Chartered Group SiB initiative, we have delivered a positive impact in tackling avoidable blindness and visual impairment in Kenya.

In 2018, through SiB, we screened over 950,000 people, delivered over 77,000 eye treatments and surgeries, and reached more than 1.5 million people with eye health education. With our partners, Operations Eyesight Universal, we completed and inaugurated the Kerugoya County Referral Hospital Eye Unit and the Kimbimbi Sub-County Hospital Eye Unit.

Since 2003, we have worked closely with eye health community partners and hospitals, our staff, clients and supplier networks to fight avoidable blindness. Since then, some of our key impacts have been:

- reached 19.5 million and screened 13.5 million Kenyans;
- performed over 180,000 sight restoring surgeries and over 470,000 other eye treatments;
- screened more than 160,000 school children using PEEK Acuity. PEEK Acuity was designed to help screen and identify people who need further examination using smartphone technology. Engineered by eye experts, it allows anyone to check visual acuity using only an Android smartphone;
- trained over 6,600 eye health workers;
- upgraded more than 10 eye health facilities; and
- provided screening machines to Kikuyu Eye Hospital and Mbagathi Hospital to allow them, for the first time, to screen for Diabetic Retinopathy.

In September 2018, Standard Chartered PLC announced that the Group had reached its goal set in 2011 to raise USD100 million for the fight against avoidable blindness and visual impairment. This goal was reached two years ahead of the 2020 target date.

With this fundraising goal achieved, SiB will continue to fund eye health projects up until the end of 2020. After this point, Standard Chartered will support the fight against avoidable blindness and visual impairment through the Vision Catalyst Fund (VCF). Led by a group of private sector and philanthropic organisations, the VCF is an ambitious plan to establish a USD 1 billion fund that will provide eye care to all people in the Commonwealth and around the world.

As of 2019, the Bank's community engagement priorities in Kenya will shift to our new strategy 'Futuremakers by Standard Chartered'.

Sustainability Review (Continued)

Promoting sustainable economic and social development (Continued)

Investing in communities (Continued)

Standard Chartered Nairobi Marathon

The 16th edition of the Standard Chartered Nairobi Marathon was held on 28 October 2018. A key athletic event in Kenya, the marathon was well attended and:

- KShs 35,918,465 was raised towards SiB;
- 18,266 registered participants;
- 248 corporate teams took part; and
- 874 staff volunteered.

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

Elite runners compete at the 2018 Standard Chartered Nairobi Marathon. The Marathon hosted over 18,000 participants.

The Bank has extended sponsorship of the marathon event to 2022. All proceeds raised from the participation fees, are used to fund the Bank's community engagement initiatives.

We would like to sincerely thank our 2018 marathon partners for their invaluable support to the marathon. Our partners are: Nairobi County Government, Athletics Kenya, Internet Solutions, Alpine Coolers, Kenafric Diaries, All Terrain Services, Subaru Kenya, AUA Industria, Fairmont, Kibo Africa Ltd, Techno Mobile Ltd and Kenyatta International Convention Centre.

We take pride in the platform the Standard Chartered Nairobi Marathon continues to provide in identifying fresh and upcoming sporting talent while amplifying Nairobi's tourism status.

Goal

We recognise that gender equality is critical to economic growth. Kenya ranks 76th out of 144 countries on the *Global Gender Gap Report 2017* by the World Economic Forum. Significant gender inequalities facing Kenyan females are in the areas of: educational attainment, health outcomes, economic participation & opportunity and political representation.

Our Goal programme seeks to empower girls and young women through education and sports. We have now expanded the programme to incorporate employability and entrepreneurship opportunities to drive economic empowerment among our Goal participants.

In 2018, working with our partner, Vijana Amani Pamoja, an NGO operating in the eastern part of Nairobi, over 3,200 young women participated in one of our Goal programmes; with over 250 receiving employability and entrepreneurship opportunities. More than 100 employees volunteered to support our Goal programme.

Sustainability Review (Continued)

Promoting sustainable economic and social development (Continued)

Investing in communities (Continued)

Goal (Continued)

Goal Case Study

Santina Lyavoga is 20 years old and the first born of six siblings. She lives in a low-income, informal settlement with her mother and siblings. In January 2018, Santina joined the Goal programme focused on employability and entrepreneurship skills training.

With a passion for baking, Satina took a pastry and baking course, and other work readiness courses provided by the programme. On her mother's birthday, Santina baked a cake and her friend's mother, who really enjoyed the cake, referred her to a restaurant in Nairobi. Today, Santina works in the restaurant's pastry department. Santina would like to own a business in the future. "I have always wanted to start my own bakery. I will work hard and save money to make my dream come true" Santina.

Women in Technology

The launch of the Women in Technology Kenya programme followed the success of the New York Incubator programme sponsored by Standard Chartered Bank in partnership with the Zahn Innovation Centre from the City College of New York.

The objective of the Kenya programme is to help women-led entrepreneurial teams who want to leverage technology to grow their businesses but lack the necessary support to do so. The programme is a collaborative partnership between iBizAfrica of Strathmore University and Standard Chartered Bank Kenya Limited.

From over 180 team applications received via an open call, 40 proposals were selected based on specific application criteria scoring. The 40 teams then participated in competitive pitch day sessions from which a panel of judges further shortlisted 11 finalist teams.

The 11 finalist teams then joined the incubation programme which ran for 12 weeks and focused on three core areas:

- Formal classroom sessions following a set curriculum;
- Mentoring sessions with leading entrepreneurs; and
- Coaching sessions with experts providing tailored insights/ knowledge for the teams.

Women in Tech Cohort 1 graduates together with former Standard Chartered Bank CEO, Lamin Manjang (third right), and senior leaders from Strathmore University during the 2018 graduation and awards ceremony.

Sustainability Review (Continued)

Promoting sustainable economic and social development (Continued)

Investing in communities (Continued)

Women in Technology (Continued)

Standard Chartered Bank volunteer staff also lent their expertise through mentoring sessions for the entrepreneurs focused on various topics such as managing risk, marketing and branding, customer acquisition and retention, ethical business practice, and public relations.

After the 12-week incubation programme, the finalists presented business proposals to an esteemed panel of judges in a final pitch and demonstration day. This day culminated in the selection of 5 winning teams. The winning teams each received a USD 10,000 monetary award as seed money to support their respective business ventures. Following the initial success of the first cohort of Women in Technology Kenya programme, the second cohort launched in September 2018.

Financial education

Financial Education Team conducting a financial literacy session at St. Mary's Lwak Girls High School.

Lack of financial education is a key barrier to financial inclusion especially amongst vulnerable populations such as youth, women, and micro and small businesses. We define financial education as building awareness of financial products and teaching responsible behaviours (such as saving and budgeting).

Financial education is aligned with the Bank's core business of banking. We are committed to building financial capability among youth to engrain financial responsibility and positive behaviour change earlier in life. We do this through our Financial Education for Youth (FE4Y) programme. We also have a community oriented financial education programme to build financial capability of micro and small businesses, our Education for Entrepreneurs (E4E). Both these programmes are delivered through employee volunteers.

In 2018, 100 volunteers reached 9,000 youth across Kenya equipping them with financial education capability. In 2019, we will enhance our efforts to deliver financial education to micro and small businesses.

futuremakers
by Standard Chartered

The futuremakers by Standard Chartered initiative
At Standard Chartered, we believe everyone deserves the opportunity to learn, earn and grow. Globally, more than 200 million young people often disproportionately impacted by the challenges of inequality, are out of work or live in low-income poverty, and that's just not good enough.

In 2019, we shall launch a new global campaign – the futuremakers by Standard Chartered, aimed at helping the next generation learn, earn and grow.

With our Futuremakers by Standard Chartered initiative, we will be inviting disadvantaged young people; especially girls and the visually impaired to gain new skills and expertise to improve their chances of employment or starting their own business.

With Futuremakers by Standard Chartered, we will use our expertise as a bank and work through staff volunteering and local partners to support young people access jobs and economic opportunities.

By enabling young people to realise their full potential, we're aiming to promote economic inclusion and drive commerce and prosperity in the communities where we do business.

Futuremakers by Standard Chartered builds on the success of our global SiB.

Chair to the Board's Statement
For the year ended 31 December 2018

"We are realistic concerning the key issues and risks, but despite this, the opportunities in our market remain substantial and the work that we have done in recent years in enhancing our capabilities and strengthening our resilience puts us now in a better place to capture them"

2018 has been a great year for the Bank. We have made tremendous steps towards attaining our set objectives to our clients, staff and esteemed shareholders.

My key focus for 2018 was: Putting our clients first, supporting our staff and management to unlock their true potential; improving our business resilience to external and internal shocks; and ensuring excellent governance and the highest ethical standards. These four priorities are critical in our endeavour to achieving sustainable, long-term growth and improving long-term value.

Driving a culture of resilience
We have experienced a decade of lower economic growth, subdued world trade, low interest rates, stricter regulation and increasing competition; including from the technology sector. The economy was recovering from a prolonged general election which further complicated the situation.

Having recorded a resilient performance in 2017 despite the challenging economic environment, we entered 2018 with a lot of optimism. Following the implementation of our renewed strategy aimed at being a leaner and a more efficient Bank, a simpler client-focused organisation and a digitally driven Bank with a human touch, we were able to turn the business around.

The business has recorded a good response and remained resilient despite the external constraints. The Corporate & Institutional Banking segment continued focus on cash management, financial markets and trade solutions while leveraging our geographic diversity is gaining momentum. The Retail business is realising the benefits of continued investment in digital capabilities to drive client experience. Commercial Banking, after an intensive period devoted to reorganisation, is now on a growth trajectory.

The business recorded an 18 per cent increase in profitability, year-on-year. The results for the year reflect our focus on delivering superior client experience, strengthening our balance sheet quality and improving profitability. During the year we saw the gross non-performing

Chair to the Board's Statement (Continued)

loans portfolio increase by 23 per cent year-on-year to KShs 21.7 billion. The non-performing loans ratio in 2018 has similarly increased to 16.0 per cent from 12.5 per cent in 2017 due to the growth in gross non-performing loans and decline in gross loans. The industry average ratio at 31 December 2018 was 12 per cent. This increase is related to the downgrade of a small number of Corporate & Institutional Banking clients. The loans portfolio has been extensively reviewed and we continue to critically assess the quality of our loan book.

The strong performance is a true testament of the resilience of our people and the steps taken by the management team towards becoming a truly performance-driven organisation, our 'never settle' spirit and continued focus on improving the way we do things, while also increasing our revenues.

Operating environment

The global economy grew at 3.8 per cent in 2018 compared to 3.2 per cent the previous year. Locally the real GDP grew an estimated 5.9 per cent in 2018, from 4.9 per cent in 2017, supported by good weather, eased political uncertainties, improved business confidence, and strong private consumption. The macroeconomic environment remained stable, with low and stable interest rates and a competitive exchange rate to support exports. Annual inflation remained within the government's targeted single-digit levels owing to a decline in food and energy prices. Kenya's foreign exchange market remained relatively stable in 2018 mainly supported by higher foreign exchange receipts from agriculture exports and tourism, resilient inflows from remittances; and an adequate reserve buffer. Relative to internationally traded currencies, the Kenya Shilling strengthened against the US Dollar and the Japanese Yen but weakened against the Sterling Pound and the Euro. On the regional front, the Shilling strengthened against the Ugandan and Tanzanian currencies.

Private-sector credit growth however remained subdued at 4.3 per cent due to limited to access to credit as effects of the interest rate cap law continued to be felt in the industry, as well as headwinds from fiscal consolidation. This was despite the fact that the Central Bank of Kenya (CBK) adjusted the Central Bank Rate (CBR) to 9 per cent in quarter three of 2018.

Business performance

Our financial performance in 2018 has improved but I strongly believe it still does not reflect the earnings capability we believe we possess. Having worked hard to maintain a sound balance sheet and capital position, we remain focused on realising this earnings potential. We will do this by fully engaging with our clients, improving productivity and investing in our people and culture.

We know as an organisation, as leaders and teams, that people are our greatest asset. We know that our diversity drives our business success. We want to build a culture of inclusion that is a critical lever to our business success and will enable us to be the best place to work, the best place to bank and contribute to creating prosperous communities. In June 2018, we launched the Kenya Diversity and Inclusion (D&I) Council. The Council consists of Executive Committee (ExCo) members and employees to ensure we have the leadership and insights to build a more inclusive organisation and business.

Our Group D&I agenda has 3 key objectives:
– to attract, engage, develop and retain diverse talent to maximise performance;
– to deliver banking products and services that meet the needs of our diverse client base; and
– to support a diverse and responsible supply chain and investment in our communities.

Additionally, Kariuki Ngari the Chief Executive Officer, and the Management Team continue to implement our renewed strategy with the focus being:

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

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

Dividend

The Board is recommending the payment of a final dividend for the year of KShs 14.00 for every ordinary share of KShs 5.00. This, in addition to the interim dividend paid in October 2018 of KShs 5.00 for every ordinary share of KShs 5.00, brings the total dividend to KShs 19.00 for every ordinary share of KShs 5.00. This compares to a total dividend of KShs 17.00 per ordinary share paid in 2017.The Board recognises the importance of dividends to shareholders, and believes in balancing returns with investment to

Chair to the Board's Statement (Continued)

support future growth, whilst at the same time preserving strong capital ratios.

Ensuring excellence in corporate governance
Standard Chartered Bank Kenya Limited recognises that exemplary governance is key to the Company's long-term success. Our culture and values are deeply embedded within the organisation and serve as the expected behaviour of all employees. All employees of the Bank have a responsibility to know the rules which govern us and exemplify good judgment and behaviour. We believe that simply complying with written corporate governance standards is not enough. To this end, we have re-set expectations for every employee of the Bank, based on three new valued behaviours: ***Do the right thing, Never settle,*** and ***Better together.*** Taken together these behaviours will help us to continuously challenge the way we do things, make better decisions, and hold each other accountable for delivery.

The Bank takes its role of fighting and disrupting financial crime very seriously. Cybercrime has been on the rise and as a Bank we are cognisant of the risks associated with it. In 2018, we refreshed our Enterprise Risk Management Framework, taking note of worldwide trends in emerging risks to review and assess the requirement for additional Principal Risk Types to include Cybercrime Risk and Conduct Risk, and to set up appropriate oversight and challenge in line with local requirements. Additionally, we are fully compliant with the CBK issued guidelines to all Payment Service Providers in order to maintain a sound, secure and efficient National Payment System. The Guidance Note published in 2017, directs institutions licensed under the Banking Act (Cap. 488) to develop and implement a programme to mitigate cyber security risk. The Guidance Note has established minimum requirements that institutions should adopt in order to develop effective cyber security policies and procedures. It provides regulatory guidance for Governance, independent assessments, tests, outsourcing and training.

We continued to train our employees on their role in combating financial crime through being more diligent to onboard and retain the right customers; being curious to know our customers better; and being vigilant to be able to identify and escalate suspicious transactions. We extended this to our clients and stakeholders by hosting three outreach programmes demonstrating the aspiration to lead the way in the fight against financial crime through partnerships with our regulators, law enforcement agencies, our customers and business partners.

During the year, we had a change in the composition of our Board with the appointment of Mr. Imtiaz Khan as an Independent Non-Executive Director of the Company. Mr. Imtiaz Khan was appointed following the retirement of Mr. Kaushik Shah who had served on the Board since 19 February 2004. Mr. Khan is currently the Director and founding partner of a private investment company, Cassia Capital Partners, and brings over 25 years experience in the areas of private equity, financial markets investment, advisory and audit in emerging and developed markets in Africa, Asia, Europe and USA. I would like to thank Mr. Shah for his invaluable service which has greatly contributed to the success of the Company and welcome Mr. Khan to the Board.

Embedding a high-performance culture
This year we have made positive steps on our journey to improve our financial strength, culture and conduct agenda, and ensure these remain on a sustainable footing for the future. This work is ongoing as the external trends impacting the banking sector continue to evolve. The Board has maintained oversight on the execution of the Bank's strategy throughout the year and we remain confident that it will deliver sustainable shareholder value and a stronger organisation for our clients, colleagues, regulators and the communities in which we operate.

As part of those discussions, the Group's purpose and values were considered and further shaped, which led to our new purpose statement, 'Driving commerce and prosperity through our unique diversity' and a refreshed set of valued behaviours. I believe this typifies the essence of what we stand for and who we are. I remain convinced that Standard Chartered is a force for good in the communities in which we operate and it is therefore incumbent on the Board to ensure that the Group's unique culture and values are further strengthened.

Commitment to sustainability
Our purpose as a Bank is to drive commerce and prosperity through our unique diversity. Sustainability is integral to our business and it remains one of our key strategies towards ensuring that we are Here for good. To do this we must take a long-term view engaging with issues and our stakeholders to ensure we are a responsible and sustainable business.

Our sustainability priorities, contributing to sustainable economic growth, being a responsible company and investing in communities, provide the framework for how we respond to social and environmental concerns and seek opportunities for sustainable growth. Our key social and environmental impacts come from the businesses we finance. Our Environmental and Social Risk Management procedures are a key business tool to help mitigate negative impacts of our investments and our clients' operations.

Globally, we took stronger positions on tackling financial crime in the illegal wildlife trade. Standard Chartered, and other stakeholders committed to implement appropriate measures to improve the identification and reporting of this crime in a bid to disrupt the illegal income generated by the trade in wildlife products such as elephant tusks, rhino horn and pangolin scales. For many years, illegal wildlife trafficking has been seen solely as a conservation issue.

Chair to the Board's Statement (Continued)

In reality, it's a transnational organised crime issue. By following the money, financial institutions can help map the criminal networks and provide law enforcement agencies with vital intelligence to support their investigations and prosecutions.

We also made further commitments to the Paris Agreement on Climate Change. Following detailed stakeholder consultation, save where there is an existing commitment, we have ceased providing financing for new coal-fired power plants anywhere in the world. Climate Change is one of the single biggest challenges we all face globally. Financing for coal-fired plants has been added to our Bank's prohibited activities list, which includes restrictions involving child and forced labour, trade in endangered wildlife, Arctic and tar-sands exploration, and production and conversion or degradation of high-value forests and peatlands, among other activities.

This year, we celebrated the 16th anniversary of Seeing is Believing; our programme that tackles avoidable blindness and visual impairment. We also celebrated our first cohort of Women in Technology, a partnership initiative with iBizAfrica of Strathmore University, to help women-led entrepreneurial teams who want to leverage technology to grow their businesses but lack the necessary support to do so.

Our Goal programme continued to empower girls and young women. Through education in life skills, employability and entrepreneurship training, and sports we reached more than 3,300 girls from low-income households. Building on education, our talented pool of employee volunteers provided financial education capability to 9,000 youth across the country.

We will continue to build our engagement and impact over the coming year as we roll out our new community engagement strategy internally with employees and externally with our stakeholders.

Our commitment to innovation and governance is evident, our efforts were recognised locally and internationally by winning the following awards:

- Best Cash Management Bank in Kenya – Global Finance Awards;
- Best Investment Bank in East Africa- Banker East Africa Awards;
- Best Consumer Digital Bank Kenya – Global Finance Awards;
- Best Sub Custodian Africa – Global Finance Awards; and
- Best Private Banking Africa – Euro Money Awards;

Summary

The global economy is projected to ease modestly to 3.6 per cent in 2019. The recovery in Sub-Saharan Africa continues, with growth in the region estimated at 2.7 per cent in 2018, to be significantly slower than expected but forecast to rise to 3.4 per cent in 2019, driven by reduced policy uncertainty and improved investment in large economies together with continued robust growth in non-resource intensive countries.

The CBK projects the country's economy to grow at 5.8 per cent in 2019 and 6.0 per cent in 2020. Inflation is expected to fall further coupled with optimism pegged on reduced political tension, increased investments and improved weather conditions.

However, we do see some challenges arising in 2019:

- slowing external demand, rising borrowing costs, and persistent policy uncertainties are expected to weigh on the outlook for emerging market and developing economies;
- continued adverse effects of the interest rate cap law; and
- tightening of global financial conditions and escalating trade tensions involving major economies.

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

I would like to thank our Clients, Board of Directors, Management and Staff for their dedicated contribution in driving the Bank's agenda in 2018. I look forward to your support in making 2019 even better.

Lastly, I would like to officially announce the appointment of Mr. Kariuki Ngari as Chief Executive Officer and Managing Director of the Company and departure of Mr. Lamin Manjang as Chief Executive Officer for Standard Chartered Bank Kenya Limited. Lamin has been assigned to head SCB Nigeria and West Africa after serving Kenya and East Africa for 5 years.

Please join me in thanking Lamin for his steadfast leadership and in welcoming Kariuki.

Anne Mutahi
Chair to the Board

Date: 20 March 2019

Chief Executive Officer's Statement

"We have continued to plant the seeds that will deliver better performance over time. During 2018, we worked to make the Bank a better organisation, capable of growing faster by strengthening our performance culture, becoming increasingly client-centric, focusing on the long term, innovating across many fronts and becoming simpler, faster and better"

The Group performed steadily in 2018 with encouraging progress on several fronts. Income continues to grow strongly, we are investing in exciting new digital and other transformative initiatives and our strengthened risk discipline is paying off. Our return on equity improved year-on-year as a result.

Focusing on the client experience
We have a unique proposition which we know our clients value. We are focusing our energy and our investments on the areas where we can provide exceptional solutions to our clients' needs. But we know that technical solutions are only part of the story. That is why our strategy is, first and foremost, centred around delivering the highest-quality client experience and this is reflected in our vision statement – "Put Customers First" – and the clear set of priorities around our People, Risk, Innovation, Digital and Execution (PRIDE). This is further underpinned by the Standard Chartered Valued Behaviours that will help us deliver that – Do the right thing, Never settle and Better together.

On the corporate side we are reinforcing our position as the leading bank in the China-Africa corridor, supporting key infrastructure projects and creating new networks with businesses in China. On the Retail Banking side, our strategy to become a trusted adviser to the affluent and emerging affluent, has resulted in our Priority and Premium Banking client segments growing strongly. A customer service survey by the Kenya Bankers Association ranked Standard Chartered Bank among the best in customer service among tier 1 banks in the country according to customer experience, the institution's responsiveness and best digital experience.

Improving business performance
Income year-on-year grew by 4 per cent driven by strong performance from our differentiated products including Wealth Management and Transaction Banking. We are committed to pursuing sustainable growth for the long-term.

Chief Executive Officer's Statement (Continued)

Performance summary

The profit before tax of KShs 11.8 billion was 18 per cent up driven by the following:

- interest income increased by 4 per cent to KShs 26.9 billion driven by income from investments in government securities which was up 7 per cent to reach KShs 11.8 billion. Interest income on customer loans and advances however decreased by 4 per cent to KShs 12.7 billion due to lower average balances coupled with re-pricing in line with the Central Bank Rate.
- interest expense at KShs 7.8 billion decreased by 3 per cent following proactive management of the balance sheet.
- non-interest income was up 0.5 per cent from sustained momentum in investments and foreign exchange.
- operating expenses of KShs 14.6 billion were up 14 per cent as we accelerated investment to improve the business driven by investments in technology.
- credit impairment of KShs 1.3 billion on an IFRS 9 basis was 64 per cent lower and reflects management actions to improve asset quality. This was driven by a significant reduction in Corporate & Institutional Banking reflecting past actions to improve the risk profile of this business and the continued focus on high quality origination. This was partially offset by an increase in Commercial Banking.

Balance sheet and liquidity

The Group's balance sheet is strong and highly liquid.

- net loans and advances to customers declined 6 per cent to KShs 119 billion. We remain selective in asset origination as we work to grow our balance sheet in a safe and sustainable manner.
- customer deposits were up 5 per cent to reach KShs 224 billion from deepening existing client relationships and new mandates.
- the advances-to-deposits ratio reduced to 53 per cent from 59 per cent at the end of 2017 with the liquidity ratio increasing to 67 per cent.

We remain a customer deposit funded bank with Current Account and Savings Account (CASA) balances at 83 per cent (2017: 79 per cent) of total customer deposits.

Capital base and ratios

The Bank's capital position remains strong with all metrics above regulatory thresholds. The total capital ratio of 19.47 per cent was 95 basis points higher than in the prior year driven by higher profits and lower risk weighted assets.

Investing intelligently

Accelerating our pace of digitisation is, and will remain, a key strategic priority. We continue to improve the digital connections that link our clients to our world-class lending, wealth management and transaction banking. Where we do not have the capabilities ourselves, or where we are less differentiated, we connect to third parties who can best address our clients' needs – an open-architecture approach that has served us, our partners and our clients well over the years in our wealth management business.

Fighting financial crime in the digital era

While technological advances make doing business simpler, faster and better, the diffusion of cyber capabilities in the criminal underworld also make the fight against financial crime more difficult. No matter how challenging it may seem, however, we are determined to play a leading role in fighting financial crime and to mitigate its heart-breaking impact on the communities that we are dedicated to serve. We are developing new cyber capabilities in the fight against financial crime.

Continuing our cultural transformation

We are strengthening our performance culture to match our ambition to be a driving force for commerce and prosperity in the community. The needs of our clients and the Kenya market are constantly changing. We need to get ahead of the change by continuously innovating and improving. We need to harness the collective intelligence of our people – their diverse thinking, experiences and backgrounds.

I am constantly inspired by the enthusiasm of my colleagues across the Group, but also dismayed at the degree to which it can be ground down through unnecessarily complicated processes and bureaucracy.

Chief Executive Officer's Statement (Continued)

This slows us down on our path to sustainably higher returns and we are determined to root out and eliminate these inefficiencies.

While the work is far from complete, we are progressing with our cultural transformation to make Standard Chartered a great place to work, as well as a great bank with which to do business.

Outlook and conclusion

The macroeconomic environment continues to be supported by solid growth fundamentals but, concurrently, challenged by increasing uncertainty resulting from escalating trade frictions and geopolitical risks. We therefore remain cautiously optimistic on global economic growth.

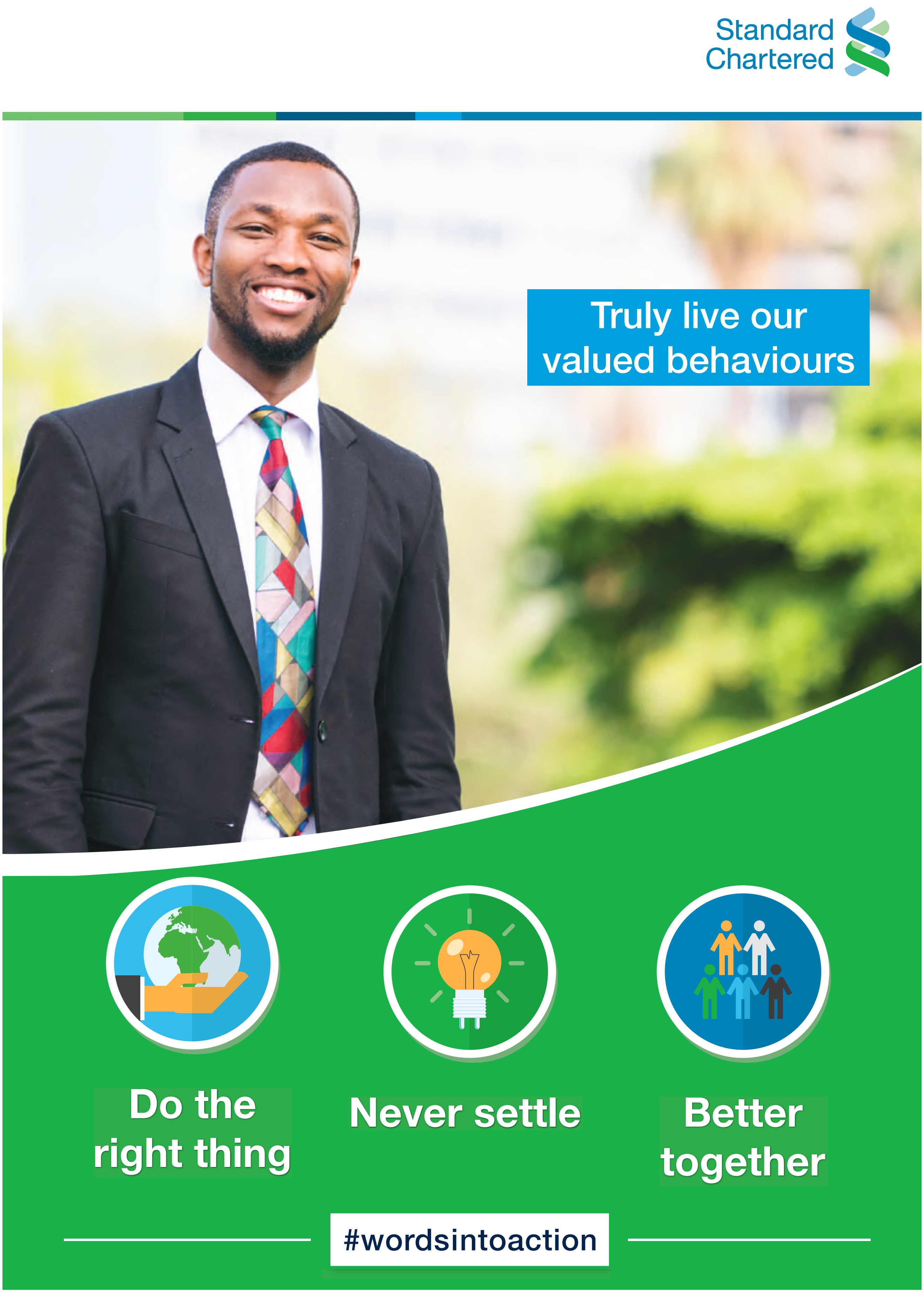
We have committed to delivering a differentiated proposition for all our stakeholders, and to generating the sustainably higher returns of which we know this franchise is capable.

I would like to thank our customers for their loyalty and the opportunity to partner with us to meet their evolving needs. To the Board, management and staff, thank you for your passion and commitment to transform the Bank.

Finally, I would particularly like to thank the immediate former CEO, Mr. Lamin Manjang, for his great leadership in steering the organisation in the last five years. This is an exciting time to have returned to Kenya and I am looking forward to the challenge of leading this organisation to unlock its true potential.

Kariuki Ngari
Chief Executive Officer

Date: 20 March 2019


Standard Chartered
Truly live our valued behaviours
Do the right thing
Never settle
Better together
#wordsintoaction

Board of Directors

Anne Mutahi
Chair to the Board

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

Experience
Anne has a wealth of experience in the financial services sector having held senior positions at Middle East Bank, ABN AMRO Bank, Citibank, and Jitegemee Trust Limited; a wholesale microfinance institution, where she served as the CEO. Anne has also served as Chairperson of the Association of Micro Finance Institutions (AMFI), Governor and Board Member of Kenya Private Sector Alliance (KEPSA) and Board member of the Kenya Institute of Public Policy Research and Analysis (KIPPRA). Age: 58

Kariuki Ngari
Managing Director & Chief Executive Officer

Appointment
Kariuki was appointed to the Board on 4 March 2019.

Experience
Kariuki has over 23 years of retail banking experience. He was instrumental in transforming the consumer banking divisions of Standard Chartered Bank Kenya and Africa Region. Prior to his current role, he was the Global Head, Retail Distribution for Standard Chartered Bank in Singapore. There he was influential in formulating global strategies in building the future of Retail Branch and Voice & Virtual landscapes through digitisation of the physical channels. Prior to his Global role, Kariuki was the Regional Head of Retail Clients, Africa between 2013 and 2015, and the Executive Director Kenya from 2009 to 2013. He has also held senior positions at Barclays Bank of Kenya Limited. Age: 53

Chemutai Murgor
Executive Director, Finance

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

Experience
Chemutai has been with the Bank for 18 years and has wide experience in finance having worked previously as the Head of Finance as well as Head of Business Finance. Chemutai has also held various senior positions at Deloitte & Touche both in Kenya and the United Kingdom. Age: 49

Ian Bryden
Non-Executive Director

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

Experience
Ian is the Standard Chartered Bank Chief Risk Officer for Africa and Middle East region.
Ian has worked in similar positions in South Asia, Hong Kong and Japan. He has vast experience in areas of Credit, Wholesale Banking, structured export finance and investment banking. Ian has previously worked at Bear Stearns and Chase Bank. Age: 63

Imtiaz Khan
Non-Executive Director

Appointment
Imtiaz was appointed to the Board on 22 August 2018.

Experience
He has over 25 years' experience in private equity, financial markets investment, corporate finance advisory and audit in emerging and developed markets in Africa, Asia, Europe and the USA. He previously worked with the IFC (the World Bank Group) in the area of financial markets investment. Prior to that, he worked with PricewaterhouseCoopers (PwC) in corporate finance advisory and in audit. He is currently a director of a regional private equity investment company and serves on the boards of a number of its investee companies. He also teaches on the Stanford SEED program run by Stanford University. Age: 49

Les Baillie
Non-Executive Director

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

Experience
Les is a professional financial manager with over 20 years experience at Director level with a broad range of companies within the mobile industry in the UK and Kenya. Previous senior appointments include Chief Financial Officer of Safaricom Limited and Chief Investor Relations Officer at Safaricom Limited. Prior to joining Safaricom, Les held various financial director positions within the Vodafone Group in the UK, having joined Vodafone in 1986. Age: 64

Board of Directors (Continued)

Patrick Obath
Non-Executive Director

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

Experience
Patrick has vast experience in change management, strategy, financial management and controls, turnarounds, governance and business risk. He is well versed in health, safety and environment management systems and processes. He served as the Chairman of the Kenya Private Sector Alliance (KEPSA) and a director at East African Business Council, Africa Alliance Capital and Kenya Power. Patrick is a Managing Consultant at Eduardo and Associates. Previous appointments include Managing Director at Shell East Africa. Age: 64

Richard Etemesi
Non-Executive Director

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

Experience
Richard is a past Managing Director and Chief Executive Officer of Standard Chartered Bank Kenya Limited a position he held until March 2014. Richard then moved on to become Chief Executive Officer for South Africa & Southern Africa. He is currently the Vice Chair of Standard Chartered Bank, Africa. Richard has over 20 years experience in Banking, Finance and Compliance. Age: 57

Dr. Catherine Adeya-Weya
Non-Executive Director

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

Experience
Catherine is an Information Scientist with over 20 years experience in the area of Information and Communication Technologies (ICTs) for development. These include the social, political and economic impacts of ICTs particularly in Africa, but in the developing world in general. She has extensive knowledge and is widely published in the ICT sector. Catherine has worked on numerous projects including at the United Nations University/Institute for New Technologies in the Netherlands; and the prestigious Konza City project. Age: 50

Tejinder Singh
Executive Director

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

Experience
Tejinder heads Global Banking with responsibility for the Corporate & Institutional business in Kenya. With over 20 years of experience, Tejinder has previously headed the Corporate & Institutional business for Standard Chartered Bank - West Africa and also held several other responsibilities within Standard Chartered including as Head of Public Sector & Financial Institutions in Malaysia & Head of Correspondent business in India, Sri Lanka and Nepal. Age: 47

David Idoru
Executive Director

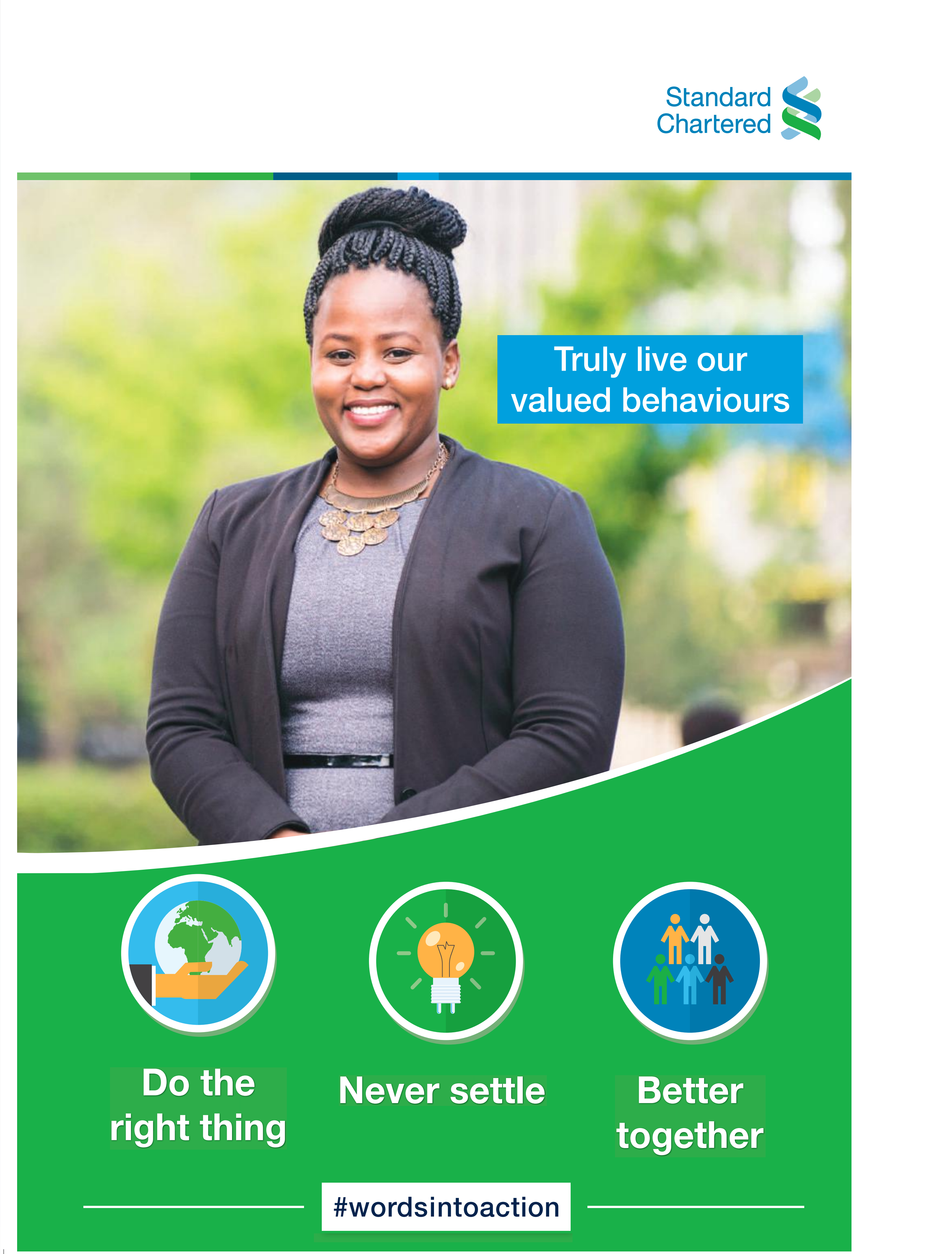
Appointment
David was appointed to the Board on 26 May 2016.

Experience
David was appointed Head of Retail Banking for Kenya in 2015. Previously he was the Group Programme Director, SCB Way based in Singapore. He also served as the General Manager, Integrated Distribution, during which he was responsible for Branch Banking, mobile, online banking & contact centers. He has also worked in Uganda and the United Kingdom. Age: 47

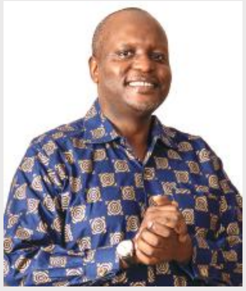
Nancy Oginde
Board Secretary

Appointment
Nancy was appointed Board Secretary in 1999.

Experience
Nancy is an Advocate of the High Court of Kenya and a Certified Company Secretary.
Nancy has wide experience in Legal and Compliance and was previously Head of Legal and Compliance. Nancy is currently the Head of Legal and Company Secretary Kenya. Age: 58


Standard Chartered
Truly live our valued behaviours
Do the right thing
Never settle
Better together
#wordsintoaction

Executive Committee



Kariuki Ngari
Chief Executive Officer

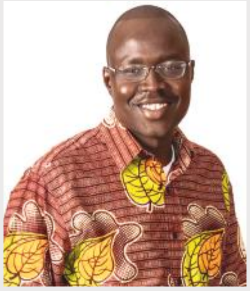
Kariuki has over 23 years of retail banking experience. He was instrumental in transforming the consumer banking divisions of Standard Chartered Bank Kenya and Africa Region. Prior to his current role, he was the Global Head, Retail Distribution for Standard Chartered Bank in Singapore. There he was influential in formulating global strategies in building the future of Retail Branch and Voice & Virtual landscapes through digitisation of the physical channels. Prior to his Global role, Kariuki was the Regional Head of Retail Clients, Africa between 2013 and 2015, and the Executive Director Kenya from 2009 to 2013. He has also held senior positions at Barclays Bank of Kenya Limited.

Chemutai Murgor
Chief Financial Officer

Chemutai joined the Bank 18 years ago. She has wide experience in finance having worked previously as the Head of Finance as well as Head of Business Finance. She has previously held senior positions at Deloitte in Kenya and the United Kingdom.

Tejinder Singh
Head of Global Banking

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



David Idoru
Head of Retail Banking

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

Evans Munyori
Head of Human Resources

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

Executive Committee (Continued)

David Mwindi
Head of Audit

David joined the Bank in 2011 having previously worked for Barclays Bank, KPMG Kenya, PwC and Strathmore University. He has over 16 years experience in the finance sector. He is a Certified Public Accountant of Kenya and a Certified Internal Auditor. He is also a member of the Professional Standards Committee of the Institute of Certified Public Accountants of Kenya (ICPAK).

Jared Obongo
Head of Risk

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

Kennedy Mubita
Head of Transaction Banking

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

Helen Nangonzi
Head of Corporate Affairs and Brand & Marketing

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

David Luusa
Head of Financial Markets

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

Executive Committee (Continued)

Nancy Oginde
Head of Legal & Company Secretary

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

Peter Gitau
Chief Information Officer

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

Rebecca Kaggwa
Head of Compliance

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

Paul Njoki
Head of Wealth Management

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

Anuj Mediratta
Head of Commercial Banking

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

The Board and Statutory Information

Directors

A. Mutahi	Chair to the Board
K. Ngari	Chief Executive Officer (Appointed 4 March 2019)
L. Manjang*	Chief Executive Officer (Resigned 4 March 2019)
K. Shah**	(Retired 31 May 2018)
C. Murgor	
L. Baillie**	
P. Obath	
C. Adeya-Weya	
I. Khan	(Appointed 9 August 2018)
I. Bryden**	
R. Etemesi	
T. Singh***	
D. Idoru****	

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

Secretary

N.N. Oginde
(CPS No. 1139)
StandardChartered@Chiromo
48 Westlands Road
PO Box 30003
00100 Nairobi GPO

Auditors

KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
ABC Place, Waiyaki Way
PO Box 40612
00100 Nairobi GPO

Registered Office

StandardChartered@Chiromo
48 Westlands Road
PO Box 30003
00100 Nairobi GPO

Registrars and Transfer Office

Image Registrars Limited
5th Floor Barclays Plaza
Loita Street
P.O. Box 9287
00100 Nairobi GPO

Board Committees

Board Audit Committee Members

L. Baillie	Chairman
K. Shah	(Retired 31 May 2018)
P. Obath	
I. Khan	(Appointed 9 August 2018)
N. Oginde	Secretary
C. Murgor*	Finance Director
D. Mwindi*	Head of Internal Audit
R. Kaggwa*	Head of Compliance
KPMG Kenya*	

*By invitation

Board Risk Committee Members

P. Obath	Chairman
K. Shah	(Retired 31 May 2018)
I. Khan	(Appointed 9 August 2018)
C. Adeya-Weya	
J. Obongo*	Head, Risk
L. Manjang*	
N. Oginde*	Secretary
C. Murgor*	
D. Idoru*	
T. Singh*	

* By invitation

Board Committees (Continued)

Board Credit Committee Members

P. Obath	Chairman
K. Shah	(Retired 31 May 2018)
I. Khan	(Appointed 9 August 2018)
C. Adeya-Weya	
L. Manjang*	
G. Akello*	
N. Oginde	Secretary
C. Murgor*	
D. Idoru*	
T. Singh*	

* By invitation

Board Nomination, Evaluation and Remuneration Committee Members

A. Mutahi	Chairperson
L. Baillie	
L. Manjang*	
E. Munyori*	
N. Oginde	Secretary

* By invitation

BOARD IT STEERING COMMITTEE

Members

C. Adeya-Weya	Chairperson
L. Baillie	
L. Manjang	
G. Akello*	
P. Gitau*	
N. Oginde	Secretary
C. Murgor*	
D. Idoru*	
T. Singh*	

*By invitation

Asset and Liability Committee (ALCO) Members

L. Manjang	Chairman
C. Murgor	
G. Akello	

Executive Committee Members

L. Manjang	Chairman
D. Idoru	
T. Singh	
C. Murgor	
D. Luusa	
E. Munyori	
P. Gitau	
D. Mwindi	
N. Oginde	
R. Kaggwa	
K. Mubita	
J. Obongo	
H. Nangonzi	
P. Njoki	
A. Mediratta	

Report of the Directors

For the year ended 31 December 2018

The directors are pleased to submit their report together with the audited financial statements for the year ended 31 December 2018 in accordance with Section 22 of the Banking Act and the Kenyan Companies Act, 2015 which governs disclosure of the state of affairs of the Company and its subsidiaries (together referred to as the Group).

1. Activities

The Group is engaged in the business of banking and provision of related services. It is licensed under the Banking Act and is regulated by the Central Bank of Kenya (CBK).

2. Results

The results for the year are set out in the attached financial statements on pages 75 to 209.

3. Dividends

The Board has resolved to recommend to the shareholders at the forthcoming Annual General Meeting, the payment of a final dividend of KShs 14.00 for every ordinary share of KShs 5.00. One interim dividend of KShs 5.00 was declared on 22 August 2018 and paid on 29 October 2018.

This will bring the total dividend for the year to KShs 19.00 per ordinary share (2017 – KShs 17.00).

The Board has also resolved to recommend to the shareholders at the forthcoming Annual General Meeting the payment of a final dividend of KShs 84,690,411 on the non-redeemable non-cumulative, non-voting, non-participating and non-convertible preference shares. An interim dividend of KShs 83,309,589, was declared on 22 August 2018 and paid on 29 October 2018. This will bring the total dividend for the year to KShs 168,000,000 (2017 – KShs 168,000,000).

Dividends on the preference shares are paid at the rate of 6% per annum on the issue price of KShs 5.00 per share.

The dividends will be payable to shareholders registered on the Company's Register at the close of business on 26 April 2019 and will be paid on or after 23 May 2019. The Register will remain closed on 29 April 2019 for the preparation of dividend warrants.

4. Directors

The directors who served during the year up to and including the date of this report are set out on page 52.

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

- Mr. Patrick Obath retires from office by rotation and will offer himself for re-election at the forthcoming Annual General Meeting in accordance with Section 96(a) of the Memorandum and Articles of Association.

Mrs. Anne Mutahi retires from office and does not offer herself for re-election.

5. Property

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

6. Business Review

Performance and position

Details of the Group's performance, financial and capital position are included in the Chief Executive Officer's statement on pages 42 to 44.

Principal risks and uncertainties

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

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

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

Future outlook

The directors are confident that the Company is well positioned to take advantage of opportunities across the Kenyan economy. The Company's foundations remain solid underpinned by strong relationships with our clients and a highly liquid and well capitalised balance sheet that provides a platform for sustainable growth in the long term.

Report of the Directors

For the year ended 31 December 2018 (Continued)

Environmental matters and Employees Corporate Social Investment (CSI) Contracts

In line with our brand promise Here for good, we seek to ensure that the financing we provide supports sustainable economic and social development in the communities where we operate. Community engagement is a key way in which we take forward this commitment. In 2018, we continued to engage the community by financing programmes in the health and education sectors with a special focus on the youth. This was achieved through our community flagship initiative Seeing is Believing, Goal and Financial Education programmes.

We seek to minimise the environmental impact of our operations by observing practices that encourage efficient use of energy, water and paper consumption. In 2018, we have continued to make tremendous progress in reducing Energy Use Intensity (EUI) after the installation of energy saving lights across our property portfolio while investing in green energy concurrently. We also remain on course to meet our Water Use Intensity (WUI) targets.

7. Donations

Donations of KShs 143 million (2017: KShs 123 million) were made to various Corporate Social Responsibility initiatives during the year.

8. Directors' interests

No director holds shareholding in the Company as at 31 December 2018.

9. Governance Audit

The Board commissioned a Governance Audit for the year ended 31 December 2018. The audit will form the basis of an ongoing governance compliance programme in order to ensure that the Board's objectives, structure and operations are consistent with the latest developments in Corporate Governance.

10. Relevant audit information

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

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

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

11. Auditors

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

12. Approval of financial statements

The financial statements were approved and authorised for issue by the board of directors on 20 March 2019.

BY ORDER OF THE BOARD

Kariuki Ngari
Director

20 March 2019

Statement on Corporate Governance

For the year ended 31 December 2018

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

The Company has an integrated approach to governance which ensures that the Company is effectively managed and controlled, in line with the strategy, and with regard to the requirements of the key stakeholders. The Company's culture and values are deeply embedded within the organisation, and are regularly reinforced through induction of new staff and form part of the annual performance management. The Code of Conduct review and recommitment by staff is an annual requirement to ensure that the key principles underpin the conduct of all employees in their dealings with one another, customers, suppliers and other stakeholders.

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

Highlights for 2018

- Director training on corporate governance, in particular, strategic planning and performance monitoring;
- director training on IFRS 16;
- director training on financial crime compliance, anti-money laundering, anti-bribery and corruption, enterprise risk management, culture, gender, diversity & inclusion, governance disruption in the financial industry, cyber security and incident simulation.
- changes in directors and senior management to strengthen the business;
- continued enhancement of the Financial Crime Control (FCC) function of the Company;
- continued engagement with the Emerging Leaders and High Performers (HIPOs) pool as identified from the business in 2017; and
- maintained balance in pursuing growth opportunities in tandem with appropriate governance systems, controls, processes and information flows.

The Board

The Board is responsible for providing leadership and oversight by setting the strategic direction of the Company and monitoring the management for effectiveness. It is the primary decision-making body for all matters considered as material to the Company. The Board has the appropriate mix of skills, knowledge and experience to perform its role effectively. The areas of expertise of the directors are as follows:

Name	Areas of expertise
A. Mutahi	Financial Services
K. Shah (Retired 31 May 2018)	Manufacturing and Financial Management
L. Baillie	Telecommunications and Financial Management
P. Obath	Oil industry, Private Sector and Financial Management
C. Adeya-Weya	Information Technology
I. Khan (Appointed 9 Aug. 2018)	Financial Management and Investments
I. Bryden	Banking
K. Ngari* (Appointed 4 March 2019)	Banking
R. Etemesi	Banking and Financial Management
L. Manjang* (Resigned 4 March 2019)	Banking and Financial Management
C. Murgor*	Banking and Financial Management
T. Singh*	Banking
D. Idoru*	Banking and Financial Management

*Executive Directors

There exists a cordial working relationship between the non-executive and executive directors, characterised by a healthy level of challenge and debate. The executive team ensures that the non-executive directors receive comprehensive reports on the business as well as on the economic and competitive landscape.

The non-executive directors have access to information and management staff at all levels.

The Board continues to review the matters reserved for the Board, key among them being the review and tracking of the Company's strategy, financial performance, approving any changes to capital, ensuring there is a sound system of internal controls and risk management, delegation and monitoring of authorities for expenditure, lending, people management and compensation, material outsourcing and any other significant commitments.

The Standard Chartered Bank Kenya Board

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

The Board has a good mix of skills and experience to drive the business forward whilst maintaining a tight control on risk

Statement on Corporate Governance (Continued)
For the year ended 31 December 2018

management and good corporate governance. The Board has the primary responsibility for ensuring adherence to the code of corporate governance. The Board has a board charter publicly available to investors. The Board members are required to disclose any potential area of conflict that may compromise or undermine their position or service as directors. Mr. Kaushik Shah retired from the Board on 31 May 2018 having served the mandatory period required in law and Mr. Imtiaz Khan was appointed on 9 August 2018 to join the Board as a independent non-executive director.

Induction and ongoing development

The Company has a very comprehensive and tailored induction process for new directors covering its business operations and in particular the risk and compliance functions, as well as the legal, regulatory and other personal obligations of a director of a listed company. The continuous development programme is needs-based and is designed for individual directors or for the Board. Following from the annual evaluation exercise, the directors identify areas that require further consideration by the Board and these are addressed through training and board presentations. The Board Committees also receive specialist presentations on key issues where required. The Board and Committees received training in 2018 on corporate governance, strategic planning and monitoring, International Financial Reporting Standard 16 (IFRS 16): leases, board evaluation, market risk, regulatory changes, information technology, macroeconomic changes in the business environment and the general banking environment among others.

The induction process entails:

Constitution and governance structure

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

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

Directors' duties

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

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

About the business

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

- history of the Group;
- a brief about the business;
- company organisation chart;
- directors' induction and continuous education programme; and
- key meetings to be attended.

Other areas

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

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

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

The directors are advised of the legal, regulatory and other obligations of a director of a listed company on an ongoing basis. The directors also receive both internal and external training on corporate governance. The directors have access to independent professional advice to enable them to discharge their duties.

Whistle Blowing Policy

All employees are encouraged to report alleged irregularities of a general, operational and financial nature in the Company to the directors or designated official through the "Speak Up" portal. All "Speak-Up" cases are investigated and the required action taken to ensure feedback is provided as appropriate.

Roles of the Board Chair and Chief Executive Officer

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

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

Independent non-executive directors

The majority of the non-executive directors are independent and free of any business relationship or other circumstances that could materially interfere with the exercise of objective or independent judgment. In determining their independence, the directors are required to declare any interests that may give rise to a potential or perceived conflict of interest on an ongoing basis.

Non-executive directors are appointed for an initial term of two years with an option for renewal.

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

Succession planning

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

The Board activities in 2018

The key activities undertaken by the Board during 2018 are as set out below:

Policy and oversight

- setting of strategic plans, policies, monitoring the operational performance, and processes that ensure integrity of the Company's risk management and internal controls;
- establishing a sound system of internal control for the Company and overseeing the corporate governance framework;
- establishing clear roles and responsibilities in discharging its fiduciary and leadership functions to ensure that management actively cultivate a culture of ethical conduct and set the values which the Company will adhere to;
- setting strategies that promote the sustainability of the Company and establish policies and procedures for the effective operation of the Company;
- ensuring that management adheres to all applicable laws, regulations, governance codes, guidelines and established systems to effectively monitor and control compliance across the Company;
- overseeing the Company's financial reporting process;
- monitored and assessed the Company's capital and liquidity positions;
- approved the Company's 2018 budget and monitored it against the agreed risk appetite thresholds; and
- monitored progress against the strategic priorities and reviewed and approved the corporate plan.

External environment

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

- received internal and external briefings and input across a range of topics, including geopolitical risks, developments in the regulatory environment, the macro economic landscape, cyber security and brand and culture;
- the new directors who joined the Company in the year were inducted by the Company Secretary;
- reviewed the potential impact of the new accounting standards;
- closely monitored the potential impact of the proposed changes on the interest rate law on the Company; and
- attended the Seeing is Believing (SIB), Nairobi marathon event, and other Corporate Social Responsibility (CSR) projects funded by the Company.

Shareholder and stakeholder relationship

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

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

Risk and governance

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

- received regular reports from the Risk officer;
- evaluated and approved proposed changes in risk appetite;
- discussed specific conduct matters and potential outcomes and impacts; and
- assessed the outcome of the 2018 Board effectiveness review and approved the 2018 action plan.

People, culture and values

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

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

Statement on Corporate Governance (Continued)

For the year ended 31 December 2018

The Effective Board

The Board Charter and structure is designed to encourage open, transparent and constructive dialogue amongst the members. In addition to this, the Board has a carefully structured Board agenda. The Board held special strategy sessions in December 2018 to review, discuss and agree the Company's strategy. There was sufficient time to examine the emerging risks and opportunities in detail.

The non-executive directors are fully supported by the Company Secretary who provides legal advice and guidance to the directors. Further, the Board is entitled to seek independent professional advice at the Company's expense.

Board effectiveness evaluation

The annual Board evaluation was conducted in February 2018 in a process led by the Chairperson and supported by the Company Secretary. The evaluation entailed a self-evaluation for each director, and of the overall Board interactions, conduct of business meetings and scope of control exercised by the directors as well as evaluation of the functioning of the Board Committees. Following the evaluation exercise, the directors identified areas that required further consideration by the Board and these issues have been actioned. Some have been incorporated in the rolling agenda while others have been addressed through training and board presentations.

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

Board meetings and attendance

The Board meets regularly, with at least four formal meetings a year and two strategy sessions. A formal schedule of matters reserved for discussion is maintained. The directors receive appropriate and timely reports to enable them to exercise full and effective control over strategic, financial, operational, risk, compliance and governance issues.

A careful balance of formal and informal meetings throughout the year exists and there is an atmosphere of cordial relations. This creates an environment that encourages challenge, consultation, information sharing, innovative thinking and openness in communication. The Board also has opportunities to interact with the staff.

The directors have full access to corporate information and sufficient detail to enable a productive and open discussion. There is diversity in the Board which ensures that the level of debate is both detailed and of a high technical standard.

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

	Scheduled 7	Ad Hoc 5
A. Mutahi (Chair)	6/7	4/5
L. Manjang (Resigned 4 March 2019)	7/7	3/5
K. Shah (Resigned 31 May 2018)	3/3	2/2
L. Baillie	6/7	5/5
P. Obath	6/7	4/5
C. Adeya-Weya	7/7	5/5
I. Khan (Appointed 9 August 2018)	4/4	3/3
I. Bryden	6/7	3/5
R. Etemesi	7/7	2/5
C. Murgor	7/7	5/5
T. Singh	7/7	5/5
D. Idoru	7/7	3/5

Statement on Corporate Governance (Continued)

For the year ended 31 December 2018

BOARD COMMITTEES

The Board has five primary Committees and two Management Committees with specific delegated authorities. These are the Board Audit Committee, the Board Risk Committee, the Board Credit Committee, the Board Nomination, Evaluation and Remuneration Committee and the IT Steering Board Committee all chaired by independent directors. The respective Chairpersons present their reports to the Board at each scheduled meeting. The Asset and Liability Committee (ALCO), and the Executive Committee (EC) are chaired by the CEO and report quarterly to the Board.

Standard Chartered Bank Kenya Limited

Board Committees

Board Audit Committee	Board Risk Committee	Board Credit Committee	Board Nomination, Evaluation and Remuneration Committee	IT Steering Board Committee	Asset and Liability Committee	Executive Committee
Oversight and review of financial, audit and internal control compliance issues.	Oversight and review of risks including credit, market, capital and liquidity	Oversight of the Company's Credit Policy and all lending undertaken by the Company in line with the established risk appetite.	Oversight of the staff remuneration policies and review of Board remuneration as well as Board composition and balance of skills.	Oversight of financial management and technology support for new and existing systems and reviewing turnaround time of all processes for our customers.	Oversight over the Company balance sheet to ensure it is managed in line with regulatory requirements and Company policies.	Assist the CEO in the oversight and day-to-day management as well as implement the Board strategy.

Current membership of the primary Board Committees

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

Chair (green) Member (blue)

Statement on Corporate Governance (Continued)

For the year ended 31 December 2018

Details of these committees and membership are shown below:

Board Audit Committee

Members	
L. Baillie	Chairman
K. Shah (Retired 31 May 2018)	
I. Khan (Appointed 9 August 2018)	
P. Obath	
N. Oginde	Secretary
C. Murgor*	Finance Director
D. Mwindi*	Head of Internal Audit
R. Kaggwa*	Head of Compliance
KPMG Kenya*	

* By Invitation

Highlights for 2018

In 2018, the Committee discharged its mandate as set out in its Terms of Reference as follows:

- closely monitored audit findings and the actions thereon from the external and internal auditors;
- continued to robustly monitor the controls in place for management of capital and liquidity positions, especially in line with the regulatory requirements;
- assessed and monitored the impact of changes in accounting policies particularly IFRS 15 Revenue from Contracts with Customers, IFRS 9, Financial instruments and IFRS 16 Leases;
- reviewed and approved the financial statements of the Company for each quarter; and
- ensured action and follow up on all compliance monitoring reports.

Role and function

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

Financial reporting

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

Oversight of internal controls

The Committee regularly reviews and reports to the Board on the effectiveness of the Company's system of internal control. The Committee discusses the root causes of the issues reported by the Head of Internal Audit, and reviews management's responses and remedial actions.

Internal and external audit reports

The Committee receives reports on the findings of the internal and external audits and tracks the actions on audit findings. The Committee also reviews the proposed work plans for the Internal Audit and Compliance functions at the beginning of each year and guides on the areas of focus.

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

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

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

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

Attendance

Number of meetings scheduled in 2018	4
L. Baillie (Chairman)	4/4
K. Shah (Retired 31 May 2018)	2/2
I. Khan (Appointed 9 August 2018)	2/2
P. Obath	4/4

Board Risk Committee

Members	
P. Obath	Chairman
K. Shah (Retired 31 May 2018)	
I. Khan (Appointed 9 August 2018)	
C. Adeya-Weya	
J. Obongo*	Head, Risk
L. Manjang*	
N. Oginde*	Secretary
C. Murgor*	
D. Idoru*	
T. Singh*	

* By invitation

Highlights for 2018

- enhanced focus on emerging risks including capital, liquidity and market risk;
- comprehensive review of the Company's risk appetite;
- reviewed its membership and revised its rolling agenda to ensure all risks are reviewed by the Committee and;
- monitored the Company's capital adequacy and liquidity positions.

Statement on Corporate Governance (Continued)
For the year ended 31 December 2018

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

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

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

Capital and liquidity
The Committee maintained a clear focus on capital and liquidity in 2018. The Finance Director presents a report at every scheduled meeting and the members have an opportunity to consider the Company's capital and liquidity positions, and the regulatory environment and expectations.

Attendance	Scheduled
Number of meetings scheduled in 2018	4
P. Obath (Chairman)	4/4
K. Shah (Retired 31 May 2018)	2/2
I. Khan (Appointed 9 August 2018)	2/2
C. Adeya-Weya	4/4

Board Credit Committee

Members	
P. Obath	Chairman
K. Shah (Retired 31 May 2018)	
I. Khan (Appointed 9 August 2018)	
C. Adeya-Weya	
L. Manjang*	
G. Akello*	
N. Oginde	Secretary
C. Murgor*	
D. Idoru*	
T. Singh*	

* By invitation

Highlights for 2018
- reviewed the overall lending policy of the Company;
- reviewed the key changes in the Commercial Banking business underwriting portfolio standards; and
- reviewed the quality of the Company's loan portfolio to ensure compliance with requirements of the Prudential Guidelines.

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

Attendance	Scheduled
Number of meetings scheduled in 2018	4
P. Obath (Chairman)	4/4
K. Shah (Retired 31 May 2018)	2/2
I. Khan (Appointed 9 August 2018)	2/2
C. Adeya-Weya	4/4

Board Nomination, Evaluation and Remuneration Committee

Members
A. Mutahi (Chairperson)
L. Baillie
L. Manjang*
E. Munyori*
N. Oginde (Secretary)

* By invitation

Highlights for 2018
- reviewed the salary survey details and the general policy and banding for the entire Company;
- adopted an enhanced board evaluation process;
- interviewed senior personnel;
- reviewed and recommended the Board succession plan for approval by the Board.

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

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

The Committee provided oversight on the Board evaluation process and implementation of the actions agreed by the Board. The online process helps to synthesise the reports more succinctly for action taking.

Attendance	Scheduled
Number of meetings scheduled in 2018	4
A. Mutahi (Chairperson)	4/4
L. Baillie	4/4
L. Manjang	4/4

Statement on Corporate Governance (Continued)

For the year ended 31 December 2018

Board Steering Committee

Members

C. Adeya-Weya (Chairperson)
L. Baillie
L. Manjang
G. Akello*
P. Gitau*
N. Oginde (Secretary)
C. Murgor*
D. Idoru*
T. Singh*

*By invitation

Highlights for 2018

- the committee was set up in the third quarter of 2018;
- reviewed the financial costs performance against budget/forecast and identified actions plans to meet the Information Technology (IT) cost targets;
- contributed to the development of the franchise by working cohesively to achieve the Group customer priorities;
- monitored cybersecurity incidences affecting the Company;
- resolved common problems related to service quality to enhance customer satisfaction; and
- identified ways of escalating issues that have a negative impact on the Company's services.

Role and function

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

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

Attendance	Scheduled
Number of meetings scheduled in 2018	2
C. Adeya-Weya (Chairperson)	2/2
L. Baillie	2/2
L. Manjang	2/2

Asset and Liability Committee (ALCO)

Members

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

Role and function

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

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

Executive Committee

Members

L. Manjang (Chairman)
D. Idoru
T. Singh
C. Murgor
D. Luusa
E. Munyori
P. Gitau
D. Mwindi
N. Oginde
R. Kaggwa
K. Mubita
J. Obongo
H. Nangonzi
P. Njoki
A. Mediratta

Role and function

The Executive Committee is the link between the Board and management. The Committee assists the Chief Executive Officer in the day-to-day management of the Company. The Committee is responsible for general oversight and the implementation of operational plans and the annual budgets. It is also responsible for the periodic review of operations, strategic plans, ALCO strategies, credit proposals, identification and management of key risks and opportunities. The Committee also reviews and approves guidelines for employees' remuneration.

The Committee meets at least twice a month. A report on the Executive Committee's activities is presented to the Board by the Chief Executive Officer at each scheduled meeting.

Conflicts of interest

All directors are under a duty to avoid conflicts of interest. This entails not engaging, directly or indirectly in any business that competes or conflicts with the Company's business.

The Company has established a robust process requiring directors to disclose outside business interests before they are entered into. Any potential or actual conflicts of interest are reported to the Company Secretary.

The provisions on conflict of interest as outlined in the Prudential Guidelines are embodied in the directors' letters of appointment. A copy of the Central Bank of Kenya's Code of Conduct is also provided to the directors. The Company has a comprehensive policy on Conflicts of Interest and staff as well directors are required to comply with it.

Internal controls

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

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

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

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

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

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

Code of conduct

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

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

There was enhanced focus on conduct in 2018 with training for all staff and directors in line with the Company's Anti-Bribery and Corruption policy. There was also a review of all suppliers and inclusion of an anti-bribery clause in the vendor contracts.

Insider trading

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

Going concern

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

Relations with shareholders

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

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

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

Directors' Remuneration Report

The Company presents the Directors' remuneration report for the year ended 31 December 2018. This report is in compliance with the Company's reward policy, banking regulations, the Capital Markets Authority (CMA) Code of Corporate Governance guidelines on Directors' remuneration, and the Kenyan Companies Act, 2015. A key provision of the Company's principles is that reward will directly support the business strategy with a clear and measurable linkage to business performance.

Directors' remuneration

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

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

The Committee has the responsibility to review the annual remuneration of the executive and non-executive directors and the structure of their compensation package for approval by the Board. The Board received shareholders' authorisation to fix the directors' remuneration by a resolution passed at the Annual General Meeting held on 25 May 2018. The Committee monitors the competitiveness of directors' remuneration to ensure the Company is able to motivate and retain individuals of the appropriate calibre as directors. The remuneration of the executive directors is as per negotiated employment contracts.

In determining remuneration for non-executive directors, regular surveys on the market rates for non-executive directors and the levels of remuneration are carried out for consideration by the Committee. All the remuneration and privileges accorded to the directors and enumerated under the policy are competitive and reviewed according to the prevailing market trends for companies of a similar size and complexity as the Company. Compensation is set to attract independent non-executive directors (iNEDs) who together with the Board as a whole have a broad range of skills and experience to determine the Company's strategy and oversee its implementation.

The non-executive directors are paid an annual fee and sitting allowance for meetings attended. Fees for additional Board duties such as chairpersonship and membership of a committee are payable.

The non-executive directors are also reimbursed for expenses, such as travel and subsistence, incurred in the performance of their duties.

Board effectiveness

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

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

- Five INEDs: Mrs. Anne Mutahi, Mr. Patrick Obath, Mr. Les Baillie, Dr. Catherine Adeya-Weya, Mr. Kaushik Shah (retired 31 May 2018) and Mr. Imtiaz Khan (appointed 9 August 2018).
- Four Executive Directors: Mr. Lamin Manjang, Mr. Tejinder Singh, Mr. David Idoru and Ms. Chemutai Murgor.
- Two Non-Executive Directors appointed by Standard Chartered Bank PLC, the ultimate holding company of Standard Chartered Bank Kenya Limited: Mr. Ian Bryden and Mr. Richard Etemesi.

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

A. Mutahi	(appointed 24 February 2009)
L. Baillie*	(appointed 1 August 2010)
P. Obath	(appointed 24 January 2012)
C. Adeya-Weya	(appointed 1 January 2016)
I. Bryden*	(appointed 12 July 2016)
R. Etemesi	(appointed 30 June 2017)
I Khan	(appointed 9 August 2018)
K. Shah*	(appointed 20 May 2014) (retired 31 May 2018)

* British

Directors' Remuneration Report (Continued)

Non-executive directors' remuneration and policy

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

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

Service contracts for non-executive directors

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

Executive directors' remuneration policy

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

- a competitive remuneration opportunity that enables the Company to attract, motivate and retain the executive directors;
- a clearly defined performance management framework that ensures executive directors have clear objectives and receive ongoing feedback;
- remuneration outcomes that relate to the performance of the executive director and the Company. The Company aims to ensure the executive director is aligned to deliver long-term sustainable growth of the Company in the interest of stakeholders;
- variable remuneration and deferred options that recognises the achievement, conduct, behaviours and values of each executive director, ensuring reward is aligned to the Company's performance. The Company takes into account both what is achieved and how it is achieved;
- an appropriate mix of fixed and variable remuneration, with the level of fixed remuneration based on each executive director's role;
- remuneration that is fair and transparent. An equal pay review is undertaken as part of the pay review process; and
- a core level of benefits that protects the executive directors and reflects the Company's commitment to employee wellbeing.

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

Service contracts for executive directors

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

The executive directors were appointed as indicated below:

	Appointed	Contract end date
L. Manjang*	1 March 2014	4 March 2019
T. Singh**	1 January 2016	24 November 2019
D. Idoru***	26 May 2016	31 March 2020
C. Murgor	1 March 2007	Permanent terms

*Gambian **Indian ***Ugandan

Directors' Remuneration Report (Continued)

Directors' emoluments

The following table shows the directors' remuneration for services rendered for the financial year ended 31 December 2018 together with the comparative figures for 2017. The aggregate directors' emoluments are shown in Note 12.

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

Year ended 31 December 2018

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

** I Khan was appointed to the Board on 22 August 2018.*

Year ended 31 December 2017

Executive Directors	Basic pay	Bonus	Deferred cash awards	Share based awards	Non-cash benefits	Pension	Fees retainer	Sitting allowance	Total
L. Manjang	37,039	10,836	7,224	18,735	28,707	1,476	–	–	**104,017**
T. Singh	39,738	22,127	3,929	1,449	20,820	2,544	–	–	**90,607**
D. Idoru	23,493	10,730	–	606	21,808	5,932	–	–	**62,569**
C. Murgor	21,800	9,479	–	130	1,343	3,052	–	–	**35,804**
	122,070	**53,172**	**11,153**	**20,920**	**72,678**	**13,004**	**–**	**–**	**292,997**
Non-executive directors									
A. Mutahi	–	–	–	–	–	–	2,640	1,618	**4,258**
P. Obath	–	–	–	–			1,100	1,786	**2,886**
C. Adeya-Weya	–	–	–	–	–	–	1,100	1,433	**2,533**
K. Shah	–	–	–	–	–	–	1,100	1,265	**2,365**
L. Baillie	–	–	–	–	–	–	1,100	1,042	**2,142**
I. Bryden	–	–	–	–	–	–	–	–	**–**
R. Etemesi	–	–	–	–	–	–	–	–	**–**
I. Khan*	–	–	–	–	–	–	–	–	**–**
	–	**–**	**–**	**–**	**–**	**–**	**7,040**	**7,144**	**14,184**
	122,070	**53,172**	**11,153**	**20,920**	**72,678**	**13,004**	**7,040**	**7,144**	**307,181**

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

Directors' Remuneration Report (Continued)

Share awards

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

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

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

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

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

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

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. Further details are provided in Note 11.

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

	As at 1 January 2018	Awarded	Exercised	Lapsed	As at 31 December 2018	Vesting date
L. Manjang						
2011 Deferred Restricted Share Award	9,004	7,831	3,775	–	13,060	33.33%11 March 2020 33.33%11 March 2021 33.33%11 March 2022
Management Long Term Incentive Plan	41,341	667	–	–	42,008	
T. Singh						
2011 Deferred Restricted Share Award	15,458	3,945	3,253	–	16,150	33.33%11 March 2020 33.33%11 March 2021 33.33%11 March 2022
C. Murgor						
2011 Deferred Restricted Share Award	309	–	309	–	–	
2013 Share Save Plan	1,698	–	–	–	1,698	
D. Idoru						
2011 Deferred Restricted Share Award	910	12	305	–	617	33.33%11 March 2020 33.33%11 March 2021 33.33%11 March 2022

Approval of the directors' remuneration report

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

BY ORDER OF THE BOARD

A. Mutahi
Director
20 March 2019

Statement of Directors' Responsibilities

The directors are responsible for the preparation and presentation of the financial statements of Standard Chartered Bank Kenya Limited set out on pages 75 to 209 These comprise the Consolidated and Company statements of financial position as at 31 December 2018, the Consolidated and Company income statements and statements of other comprehensive income as well as statements of changes in equity and the Consolidated and Company statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

The directors' responsibilities include: determining that the basis of accounting described in the notes to the financial statements is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, 2015, the directors are required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Group and the Company as at the end of the financial year and of the profit or loss of the Group for that year. The Act also requires the directors to ensure the Group keeps proper accounting records which disclose with reasonable accuracy the financial position of the Group and the Company.

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

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

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

Approval of the financial statements

The financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on 20 March 2019.

Director: A. Mutahi

Director: K. Ngari

Director: C. Murgor

20 March 2019

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

Report on the audit of the financial statements
Opinion

We have audited the consolidated and separate financial statements of Standard Chartered Bank Kenya Limited set out on pages 75 to 209 which comprise the Consolidated and Company statements of financial position as at 31 December 2018, the Consolidated and Company income statements and statements of other comprehensive income, the Consolidated and Company statements of changes in equity and the Consolidated and Company statements of cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the consolidated and separate financial position of Standard Chartered Bank Kenya Limited as at 31 December 2018, and of its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Kenyan Companies Act, 2015.

Basis for opinion

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

Key audit matters

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

Impairment of loans and advances to customers - Group and Company
See accounting policy Note 3 – Financial assets and liabilities and disclosure in Note 20 – Loans and advances to customers

The key audit matter	How the matter was addressed
IFRS 9 *Financial Instruments* was implemented by the Group and Company on 1 January 2018. This new standard requires recognition of expected credit losses (ECL) on financial instruments which involves making significant judgments and estimates. The carrying value of financial instruments within the scope of IFRS 9 ECL may be materially misstated if judgments or estimates made are inappropriate. Management has disclosed information regarding the transitional effect of this new and complex standard in Note 42 and accounting policy Note 3(a). The most significant areas where we identified greater levels of management judgment and therefore increased levels of audit focus in the implementation of IFRS 9 are:	Our audit procedures in this area included, among others: – Testing the key controls over the credit grading and monitoring process, to assess if the credit grades allocated to counterparties were appropriate and credit facilities were appropriately identified, on a timely basis, as impaired; – Performing credit assessment on various categories of loans to ascertain the reasonableness of the forecast of recoverable cash flows, realisation of collateral, and other sources of repayment for defaulted loans. We compared key assumptions to progress against business plans and our own understanding of the relevant industries and business environments; – Performing control assessments on the key management controls over the accuracy of critical data elements input in the system used for credit grading and approval of credit facilities; – Involving our economic specialists to assist in assessing the appropriateness of the methodology for determining the economic scenarios and challenging the base case forecast against market consensus information; – Involving our financial risk management modelling specialists to assess the reasonableness of the ECL model and independent model validation including challenging the assumptions based on externally available industry economic and financial data;

To the Members of Standard Chartered Bank Kenya Limited

Report on the Audit of the Financial Statements (Continued)

Key audit matters (Continued)

Impairment of loans and advances to customers - Group and Company (Continued)

See accounting policy Note 3 – Financial assets and liabilities and disclosure in Note 20 – Loans and advances to customers

The key audit matter	How the matter was addressed
Significant Increase in Credit Risk (SICR) The criteria selected to identify a SICR are highly judgmental and can materially impact the ECL recognised for certain portfolios as these criteria determine whether a 12-month or lifetime expected credit loss is assessed. *Economic scenarios* IFRS 9 requires ECL to be measured on a forward-looking basis incorporating future macro-economic variables reflecting a range of future conditions. Significant management judgment is applied in determining the economic scenarios used and the associated impact on ECL. The economic base case is the key driver of the range of future conditions. *Complex ECL models* Inherently judgmental modelling techniques are used to determine the type of model to use and to estimate ECLs which involves determining Probabilities of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD). The PD model used in the CIB portfolio is the key driver of the overall ECL. *Disclosure quality* The disclosures regarding the Group and Company's application of IFRS 9 are key to understanding the change from IAS 39 as well as explaining the key judgments and material inputs to the IFRS 9 ECL results.	– Evaluating the appropriateness of the SICR criteria used; and – Assessing whether the disclosures appropriately reflect key judgments and assumptions used in determining the expected credit losses.

Assessment of the impairment of goodwill – Group and Company

See accounting policy and disclosure on Note 27 – Goodwill and intangible assets

The key audit matter	How the matter was addressed
The goodwill recognised in the financial statements represents the excess of the costs of acquisition of the custody business over the fair value of the identifiable assets and contingent liabilities in the acquired business. The goodwill is assessed by the directors at each reporting date for impairment. Impairment of goodwill is considered a key audit matter because significant level of judgment is made by management in considering the assessment of impairment.	Our audit procedures in this area included, among others: – Assessing management's determination of the Cash Generating Unit (CGU) based on our understanding of the nature of the business. We also analysed the internal reporting process to assess how results are monitored and reported; – Comparing the cash flow forecasts to those approved by the Board. We also evaluated the forecasting process undertaken by assessing the precision of prior year forecast cash flows by comparing actual outcomes; and

To the Members of Standard Chartered Bank Kenya Limited

Report on the Audit of the Financial Statements (Continued)

Key audit matters (Continued)

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

The key audit matter	How the matter was addressed
The main assumptions made by management is on the cash flow projections from the cash generating unit against which the goodwill is assigned, discount rates applied and forecast growth rates.	– Involving our own valuation specialists to assist us in challenging the valuation methodologies, discount rates and growth rates. This included comparing the inputs to external data such as economic growth projections and interest rates and crosschecking the valuation results against multiples inherent in the valuation of other similar entities.

Valuation of financial instruments
See Note 3 Financial assets and liabilities

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

Provisions and contingent liabilities in respect of claims and litigations – Group and Company
See disclosure Note 33 (b) – Legal and regulatory matters

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

To the Members of Standard Chartered Bank Kenya Limited

Report on the Audit of the Financial Statements (Continued)

Key audit matters (Continued)

Information Technology (IT) systems and controls – Group and Company

The key audit matter	How the matter was addressed
The Group's and Company's financial accounting and reporting processes are highly dependent on the automated controls over the information systems such that there exists a risk that gaps in the IT control environment could result in the financial accounting and reporting records being materially misstated. For example interfaces between the operating systems and financial reporting systems, or automated controls that prevent or detect inaccurate or incomplete transfers of financial information. If these systems or controls fail, a significant risk of error in reported financial information can arise from the failure to transfer data appropriately between systems or inappropriate changes being made to financial data or systems. Our audit effort focused on key systems used by the Group and Company. This is an area requiring particular audit attention in our audit due to the complexity of the IT infrastructure.	Our audit procedures in this area included, among others: – Testing the governance and other General IT controls operating over the information technology environment including user access, system change management and segregation of duties; – As part of system access controls, considering the appropriateness of the access rights granted to applications relevant to financial accounting and reporting systems and the operating effectiveness of controls over granting, removal and appropriateness of access rights, including privileged access rights; and – Testing the design and operating effectiveness of automated controls critical to financial reporting (application controls). For any identified deficiencies, we tested the design and effectiveness of compensating controls and, where necessary, extended the scope of our substantive audit procedures.

Other information

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

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

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

Directors' responsibilities on the financial statements

As stated on page 68, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Directors' responsibilities on the financial statements (Continued)

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and Company's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- Conclude on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- Obtain sufficient appropriate evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

To the Members of Standard Chartered Bank Kenya Limited

Report on the Audit of the Financial Statements (Continued)

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

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

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

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

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

Report on other legal and regulatory requirements

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

(i) the information given in the report of the directors on pages 53 to 54 is consistent with the financial statements;
(ii) the auditable part of the directors' remuneration report on pages 64 to 67 has been properly prepared in accordance with the Kenyan Companies Act, 2015; and
(iii) our opinion is unqualified.

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

KPMG Kenya

Certified Public Accountants
P.O Box 40612
00100 Nairobi

20 March 2019

Income Statement

For the year ended 31 December 2018

	Note	2018 Group KShs Million	2018 Company KShs Million	2017 Group KShs Million	2017 Company KShs Million
Interest income	6	26,871	26,789	25,961	25,910
Interest expense	6	(7,807)	(7,830)	(8,005)	(8,034)
Net interest income	6	19,064	18,959	17,956	17,876
Fee and commission income	7	5,938	4,941	5,108	4,368
Fee and commission expense	7	(534)	(534)	(593)	(593)
Net fee and commission income	7	5,404	4,407	4,515	3,775
Net trading income	8	3,301	3,301	4,012	4,012
Dividend income	9	–	208	–	–
Other operating income	10	6	6	143	143
OPERATING INCOME		27,775	26,881	26,626	25,806
Staff costs	11	(7,647)	(7,467)	(7,018)	(6,843)
Premises and equipment costs	11	(990)	(977)	(935)	(910)
General administrative expenses		(5,103)	(4,817)	(3,950)	(3,891)
Depreciation and amortisation	11	(839)	(839)	(882)	(882)
OPERATING EXPENSES		(14,579)	(14,100)	(12,785)	(12,526)
OPERATING PROFIT BEFORE IMPAIRMENT LOSSES AND TAXATION		13,196	12,781	13,841	13,280
Impairment losses on financial instruments	20 (d)	(1,349)	(1,348)	(3,770)	(3,770)
PROFIT BEFORE TAXATION	12	11,847	11,433	10,071	9,510
INCOME TAX EXPENSE	13	(3,748)	(3,558)	(3,157)	(2,987)
NET PROFIT FOR THE YEAR		8,099	7,875	6,914	6,523
BASIC AND DILUTED EARNINGS PER SHARE – (KShs)	14	23.09	22.44	19.64	18.50

The notes set out on pages 83 to 209 form an integral part of these financial statements.

Statement of Other Comprehensive Income

For the year ended 31 December 2018

	Note	2018 Group KShs Million	2018 Company KShs Million	2017 Group KShs Million	2017 Company KShs Million
Net profit for the year		**8,099**	**7,875**	6,914	6,523
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Re-measurement of retirement benefit obligations	35	(26)	(26)	(64)	(64)
Deferred tax on re-measurement of retirement benefit obligations	29	8	8	19	19
Revaluation surplus		–	–	489	489
Deferred tax on revaluation surplus		–	–	(156)	(156)
		(18)	**(18)**	288	288
Items that may subsequently be reclassified to profit or loss:					
Change in fair value of available-for-sale investments	21	–	–	518	531
Deferred tax on change in fair value of available-for-sale investments	29	–	–	(155)	(159)
Change in fair value of FVOCI debt instruments	21	669	672	–	–
Deferred tax on change in fair value of FVOCI debt instruments	29	(201)	(202)	–	–
Accumulated impairment on FVOCI debt instruments	20 (d)	(73)	(74)	–	–
Deferred tax on accumulated impairment on FVOCI debt instruments	29	22	22	–	–
		417	**418**	363	372
Total other comprehensive income for the year		**399**	**400**	651	660
Total comprehensive income for the year		**8,498**	**8,275**	7,565	7,183

The notes set out on pages 83 to 209 form an integral part of these financial statements.

Statement of Financial Position
At 31 December 2018

ASSETS	Note	2018 Group KShs Million	2018 Company KShs Million	2017 Group KShs Million	2017 Company KShs Million
Cash and balances with Central Bank of Kenya	16	**20,283**	**20,283**	13,341	13,341
Government and other securities held at FVTPL	17	**3,937**	**3,937**	7,047	7,047
Derivative financial instruments	18	**394**	**394**	597	597
Loans and advances to banks	19	**6,016**	**6,016**	5,326	5,326
Loans and advances to customers	20	**118,652**	**118,652**	126,294	126,294
Investment securities	21	**94,768**	**93,764**	103,495	102,847
Tax recoverable	13	**399**	**351**	1,390	1,350
Other assets	22	**3,204**	**3,192**	5,419	5,403
Amounts due from group companies	23	**31,468**	**31,739**	16,121	16,090
Investment in subsidiaries	24	**–**	**141**	–	141
Property and equipment	26	**3,071**	**3,071**	3,351	3,351
Goodwill and intangible assets	27	**1,830**	**1,830**	2,221	2,221
Prepaid operating lease rentals	28	**238**	**238**	241	241
Deferred tax asset	29	**1,144**	**1,083**	881	876
TOTAL ASSETS		**285,404**	**284,691**	285,724	285,125
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities					
Deposits from banks	30	**156**	**156**	12,701	12,701
Deposits from customers	31	**224,284**	**224,284**	213,349	213,349
Derivative financial instruments	18	**226**	**226**	492	492
Tax payable	13	**70**	**–**	26	–
Other liabilities	32	**5,266**	**5,253**	4,878	4,857
Amounts due to group companies	23	**8,547**	**8,547**	8,449	8,449
Amount due to subsidiaries	23	**–**	**674**	–	529
Retirement benefit obligations	35	**215**	**215**	164	164
Total liabilities		**238,764**	**239,355**	240,059	240,541
Shareholders' equity (Pages 78 - 81)					
Share capital	36a	**1,998**	**1,998**	1,998	1,998
Share premium	36b	**7,792**	**7,792**	7,792	7,792
Capital contribution reserve	36c	**1,932**	**1,932**	1,889	1,889
Revaluation reserve	36d	**742**	**742**	751	751
Fair value reserve	36e	**1,305**	**1,315**	636	647
Statutory credit risk reserve	36f	**–**	**–**	216	216
Retained earnings		**27,977**	**26,663**	28,004	26,912
Proposed dividends	15	**4,894**	**4,894**	4,379	4,379
Total shareholders' equity		**46,640**	**45,336**	45,665	44,584
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**285,404**	**284,691**	285,724	285,125

The financial statements set out on pages 75 to 209 were approved and authorised for issue by the Board of Directors on 20 March 2019.

Director A. Mutahi

Director C. Murgor

Director K. Ngari

The notes set out on pages 83 to 209 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

2018 KShs Million	Note	Share capital	Share premium	Capital contribution reserve	Revaluation reserve	Fair value reserve	Statutory credit risk reserve	Retained earnings	Proposed dividends	Total
At 31 December 2017		1,998	7,792	1,889	751	636	216	28,004	4,379	45,665
Adjustment on initial application of IFRS 9	42(c)	–	–	–	–	360	(216)	(2,124)	–	(1,980)
Related tax	42(c)	–	–	–	–	(108)	–	702	–	594
Restated balance at 1 January 2018		**1,998**	**7,792**	**1,889**	**751**	**888**	**–**	**26,582**	**4,379**	**44,279**
Net profit for the year		–	–	–	–	–	–	8,099	–	8,099
Other comprehensive inome										
Re-measurement of retirement benefit obligations	35	–	–	–	–	–	–	(26)	–	(26)
Deferred tax on re-measurement of retirement benefit obligations	29	–	–	–	–	–	–	8	–	8
Change in fair value of FVOCI investments	21	–	–	–	–	669	–	–	–	669
Deferred tax on change in fair value of FVOCI investments	29	–	–	–	–	(201)	–	–	–	(201)
Excess depreciation transfer		–	–	–	(13)	–	–	13	–	–
Deferred tax on excess depreciation transfer		–	–	–	4	–	–	(4)	–	–
Accumulated impairment on FVOCI investments	20(d)	–	–	–	–	(73)	–	–	–	(73)
Deferred tax on accumulated impairment on FVOCI investments	29	–	–	–	–	22	–	–	–	22
Total other comprehensive income		**–**	**–**	**–**	**(9)**	**417**	**–**	**(9)**	**–**	**399**
Total comprehensive income for the year		**–**	**–**	**–**	**(9)**	**417**	**–**	**8,090**	**–**	**8,498**
Transactions with owners, recorded directly in equity										
Share-based payments:										
– 2017 paid		–	–	(65)	–	–	–	–	–	(65)
– 2018 accrual		–	–	108	–	–	–	–	–	108
Dividends paid:										
– Ordinary shares – Final 2017		–	–	–	–	–	–	–	(4,294)	(4,294)
– Preference shares – Final 2017		–	–	–	–	–	–	–	(85)	(85)
– Ordinary shares – Interim 2018		–	–	–	–	–	–	(1,718)	–	(1,718)
– Preference shares – Interim 2018		–	–	–	–	–	–	(83)	–	(83)
Proposed dividends:										
– Ordinary shares	15	–	–	–	–	–	–	(4,809)	4,809	–
– Preference shares	15	–	–	–	–	–	–	(85)	85	–
Total contributions by and distributions to owners		**–**	**–**	**43**	**–**	**–**	**–**	**(6,695)**	**515**	**(6,137)**
At 31 December 2018		**1,998**	**7,792**	**1,932**	**742**	**1,305**	**–**	**27,977**	**4,894**	**46,640**

The notes set out on pages 83 to 209 form an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

2017 KShs Million	Note	Share capital	Share premium	Capital contribution reserve	Revaluation reserve	Fair value reserve	Statutory credit risk reserve	Retained earnings	Proposed dividends	Total
At 1 January 2017		1,998	7,792	1,870	457	273	569	26,751	4,893	44,603
Net profit for the year		–	–	–	–	–	–	6,914	–	6,914
Other comprehensive inome										
Re-measurement of retirement benefit obligations	35	–	–	–	–	–	–	(64)	–	(64)
Deferred tax on re-measurement of retirement benefit obligations	29	–	–	–	–	–	–	19	–	19
Change in fair value of available-for-sale investments	21	–	–	–	–	518	–	–	–	518
Deferred tax on change in fair value of available-for-sale investments	29	–	–	–	–	(155)	–	–	–	(155)
Realised revaluation reserves on sale of property		–	–	–	(47)	–	–	47	–	–
Deferred tax on realised revaluation reserves on sale of property		–	–	–	14	–	–	(14)	–	–
Revaluation surplus		–	–	–	489	–	–	–	–	489
Deferred tax on revaluation surplus	29	–	–	–	(156)	–	–	–	–	(156)
Excess depreciation transfer		–	–	–	(9)	–	–	9	–	–
Deferred tax on excess depreciation transfer		–	–	–	3	–	–	(3)	–	–
Transfer from statutory credit risk reserve		–	–	–	–	–	(353)	353	–	–
Total other comprehensive income	**–**	**–**	**–**	**294**	**363**	**(353)**	**347**	**–**	**651**	
Total comprehensive income for the year		**–**	**–**	**–**	**294**	**363**	**(353)**	**7,261**	**–**	**7,565**
Transactions with owners, recorded directly in equity										
Share-based payments:										
– 2016 paid		–	–	(46)	–	–	–	–	–	(46)
– 2017 accrual		–	–	65	–	–	–	–	–	65
Dividends paid:										
– Ordinary shares – Final 2016		–	–	–	–	–	–	–	(4,809)	(4,809)
– Preference shares – Final 2016		–	–	–	–	–	–	–	(84)	(84)
– Ordinary shares – Interim 2017		–	–	–	–	–	–	(1,546)	–	(1,546)
– Preference shares – Interim 2017	–	–	–	–	–	–	(83)	–	(83)	
Proposed dividends:										
– Ordinary shares	15	–	–	–	–	–	–	(4,294)	4,294	–
– Preference shares	15	–	–	–	–	–	–	(85)	85	–
Total contributions by and distributions to owners		**–**	**–**	**19**	**–**	**–**	**–**	**(6,008)**	**(514)**	**(6,503)**
At 31 December 2017		**1,998**	**7,792**	**1,889**	**751**	**636**	**216**	**28,004**	**4,379**	**45,665**

The notes set out on pages 83 to 209 form an integral part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2018

2018 KShs Million	Note	Share capital	Share premium	Capital contribution reserve	Revaluation reserve	Fair value reserve	Statutory credit risk reserve	Retained earnings	Proposed dividends	Total
At 31 December 2017		1,998	7,792	1,889	751	647	216	26,912	4,379	44,584
Adjustment on initial application of IFRS 9	42(c)	–	–	–	–	357	(216)	(2,121)	–	(1,980)
Related tax	42(c)	–	–	–	–	(107)	–	701	–	594
Restated balance at 1 January 2018		**1,998**	**7,792**	**1,889**	**751**	**897**	**–**	**25,492**	**4,379**	**43,198**
Net profit for the year		–	–	–	–	–	–	7,875	–	7,875
Other comprehensive inome										
Re-measurement of retirement benefit obligations	35	–	–	–	–	–	–	(26)	–	(26)
Deferred tax on re-measurement of retirement benefit obligations	29	–	–	–	–	–	–	8	–	8
Change in fair value of FVOCI investments	21	–	–	–	–	672	–	–	–	672
Deferred tax on change in fair value of FVOCI investments	29	–	–	–	–	(202)	–	–	–	(202)
Excess depreciation transfer		–	–	–	(13)	–	–	13	–	–
Deferred tax on excess depreciation transfer		–	–	–	4	–	–	(4)	–	–
Accumulated impairment on FVOCI investments	20(d)	–	–	–	–	(74)	–	–	–	(74)
Deferred tax on accumulated impairment on FVOCI investments	29	–	–	–	–	22	–	–	–	22
Total other comprehensive income	**–**	**–**	**–**	**(9)**	**418**	**–**	**(9)**	**–**	**400**	
Total comprehensive income for the year		**–**	**–**	**–**	**(9)**	**418**	**–**	**7,866**	**–**	**8,275**
Transactions with owners, recorded directly in equity										
Share based payments:										
– 2017 paid		–	–	(65)	–	–	–	–	–	(65)
– 2018 accrual		–	–	108	–	–	–	–	–	108
Dividends paid:										
– Ordinary shares – Final 2017		–	–	–	–	–	–	–	(4,294)	(4,294)
– Preference shares – Final 2017		–	–	–	–	–	–	–	(85)	(85)
– Ordinary shares – Interim 2018		–	–	–	–	–	–	(1,718)	–	(1,718)
– Preference shares – Interim 2018	–	–	–	–	–	–	(83)	–	(83)	
Proposed dividends:										
– Ordinary shares	15	–	–	–	–	–	–	(4,809)	4,809	–
– Preference shares	15	–	–	–	–	–	–	(85)	85	–
Total contributions by and distributions to owners		**–**	**–**	**43**	**–**	**–**	**–**	**(6,695)**	**515**	**(6,137)**
At 31 December 2018		**1,998**	**7,792**	**1,932**	**742**	**1,315**	**–**	**26,663**	**4,894**	**45,336**

The notes set out on pages 83 to 209 form an integral part of these financial statements.

Company Statement of Changes in Equity

For the year ended 31 December 2018

2017 KShs Million	Note	Share capital	Share premium	Capital contribution reserve	Revaluation reserve	Fair value reserve	Statutory credit risk reserve	Retained earnings	Proposed dividends	Total
At 1 January 2017		1,998	7,792	1,870	457	275	569	26,050	4,893	43,904
Net profit for the year		–	–	–	–	–	–	6,523	–	6,523
Other comprehensive inome										
Re-measurement of retirement benefit obligations	35	–	–	–	–	–	–	(64)	–	(64)
Deferred tax on re-measurement of retirement benefit obligations	29	–	–	–	–	–	–	19	–	19
Change in fair value of available-for-sale investments		–	–	–	–	531	–	–	–	531
Deferred tax on change in fair value of available-for-sale investments	29	–	–	–	–	(159)	–	–	–	(159)
Realised revaluation reserves on sale of property		–	–	–	(47)	–	–	47	–	–
Deferred tax on realised revaluation reserves on sale of property		–	–	–	14	–	–	(14)	–	–
Revaluation surplus		–	–	–	489	–	–	–	–	489
Deferred tax on revaluation surplus	29	–	–	–	(156)	–	–	–	–	(156)
Excess depreciation transfer		–	–	–	(9)	–	–	9	–	–
Deferred tax on excess depreciation transfer		–	–	–	3	–	–	(3)	–	–
Transfer from statutory credit risk reserve	–	–	–	–	–	(353)	353	–	–	
Total other comprehensive income		**–**	**–**	**–**	**294**	**372**	**(353)**	**347**	**–**	**660**
Total comprehensive income for the year		**–**	**–**	**–**	**294**	**372**	**(353)**	**6,870**	**–**	**7,183**
Transactions with owners, recorded directly in equity										
Share based payments:										
– 2016 paid		–	–	(46)	–	–	–	–	–	(46)
– 2017 accrual		–	–	65	–	–	–	–	–	65
Dividends paid:										
– Ordinary shares – Final 2016		–	–	–	–	–	–	–	(4,809)	(4,809)
– Preference shares – Final 2016		–	–	–	–	–	–	–	(84)	(84)
– Ordinary shares – Interim 2017		–	–	–	–	–	–	(1,546)	–	(1,546)
– Preference shares – Interim 2017		–	–	–	–	–	–	(83)	–	(83)
Proposed dividends:										
– Ordinary shares	15	–	–	–	–	–	–	(4,294)	4,294	–
– Preference shares	15	–	–	–	–	–	–	(85)	85	–
Total contributions by and distributions to owners		**–**	**–**	**19**	**–**	**–**	**–**	**(6,008)**	**(514)**	**(6,503)**
At 31 December 2017		**1,998**	**7,792**	**1,889**	**751**	**647**	**216**	**26,912**	**4,379**	**44,584**

The notes set out on pages 83 to 209 form an integral part of these financial statements.

Statement of Cash Flows
For the year ended 31 December 2018

	Note	2018 Group KShs Million	2018 Company KShs Million	2017 Group KShs Million	2017 Company KShs Million
Net cash from/(used in) operating activities	37(a)	**37,029**	**37,331**	**(2,253)**	**(2,144)**
Cash flows from investing activities					
Purchase of property and equipment	26	(203)	(203)	(380)	(380)
Proceeds from sale of non-current asset held for sale		–	–	232	232
Proceeds from sale of property and equipment		2	2	–	–
Purchase of intangible assets	27	(3)	(3)	(222)	(222)
Net cash used in investing activities		**(204)**	**(204)**	**(370)**	**(370)**
Cash flows from financing activities					
Share based payments:					
– 2017/2016 settled		(65)	(65)	(47)	(47)
– 2018/2017 allocated during the year		108	108	65	65
Dividends paid on ordinary shares:					
– Final 2017/2016	15	(4,294)	(4,294)	(4,809)	(4,809)
– Interim 2018/2017	15	(1,718)	(1,718)	(1,546)	(1,546)
Dividends paid on preference shares:					
– Final 2017/2016	15	(85)	(85)	(84)	(84)
– Interim 2018/2017	15	(83)	(83)	(83)	(83)
Net cash used in financing activities		**(6,137)**	**(6,137)**	**(6,504)**	**(6,504)**
Increase/(decrease) in cash and cash equivalents		30,688	30,990	(9,127)	(9,018)
Cash and cash equivalents at 1 January		7,515	7,484	16,642	16,502
Cash and cash equivalents at 31 December	37(b)	**38,203**	**38,474**	**7,515**	**7,484**

The notes set out on pages 83 to 209 form an integral part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2018

CONTENTS

Notes to the Financial Statements

For the year ended 31 December 2018

1. REPORTING ENTITY

Standard Chartered Bank Kenya Limited is incorporated as a limited company in Kenya under the Kenyan Companies Act, 2015, and is domiciled in Kenya. The Company is regulated by the Central Bank of Kenya. The address of its registered office is as follows:

StandardChartered@Chiromo
48 Westlands Road
PO Box 30003
00100 Nairobi GPO.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies used by the Group are detailed in the relevant note to the financial statements, except those set out below. Except as explained in Note 2(f)(i) below, all accounting policies have been applied consistently across the Group and to all the years presented in these financial statements.

(a) Statement of compliance

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

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards (IFRSs) and in the manner required by the Kenyan Companies Act, 2015. For Kenyan Companies Act, 2015 reporting purposes in these financial statements, the balance sheet is represented by the statement of financial position, and the profit and loss account is presented in the income statement.

(b) Basis of measurement

The Group and Company financial statements set out on pages 75 to 209 have been prepared under the historical cost convention, as modified by the revaluation of the following items:

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

(c) Significant accounting estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

The estimates and assumptions are based on the Directors' best knowledge of current events, actions, historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

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

2. ACCOUNTING POLICIES (Continued)

(c) Significant accounting estimates and judgments (Continued)

(d) Functional and presentation currency

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

(e) Transactions and balances in foreign currencies

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

(f) New standards, amendments and interpretations

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

The Group has adopted the following new standards and amendments during the year ended 31 December 2018, including consequential amendments to other standards with the date of initial application by the Group being 1 January 2018. The nature and effects of the changes are as explained here in.

IFRS 9 Financial Instruments

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Group did not early adopt the standard in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. The Group has also elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

The consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year.

The new IFRS 9 accounting policies are stated in Note 3 Financial Assets and Liabilities. Information on the transition from IAS 39 to IFRS 9 is stated in Note 42.

The Group's initial estimate of credit impairment provisions on adoption IFRS 9 was KShs 2,538 million before tax. Upon refinement of the ECL model the estimate has been revised down by KShs 198 million to KShs 2,340 million. The relevant IFRS 9 disclosures are detailed in; Note 3 Financial Assets and Liabilities, Note 4 Financial Risk Management and Capital Review and Note 42 Transition to IFRS 9 Financial Instruments.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Various other standards

Standard	Amendments
IFRS 15 Revenue from Contracts with Customers	This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being: Identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.
Amendments to IFRS 2: Classification and Measurement of Share-based Payment Transactions	The amendments to IFRS 2 clarify the accounting for certain types of arrangements. It modifies the measurement of cash-settled awards to same approach as equity settled awards. It also gives guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payments.

The amendments apply prospectively for annual periods beginning on or after 1 January 2018 and early adoption was permitted. The adoption of these changes did not have an impact on the Group's financial statements.

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2018

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2018, and have not been applied in preparing these financial statements. The Group does not plan to adopt these standards early.

New or amended standards	Summary of requirements	Possible impact on consolidated financial statements
IFRS 16 Leases	IFRS 16 introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.	The Group will have a balance sheet increase in lease liabilities and right-of-use assets on adoption of IFRS 16 of KShs 1 billion.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2018 (Continued)

New or amended standards	Summary of requirements	Possible impact on consolidated financial statements
IFRS 16 Leases (Continued)	IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17 Leases. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. IFRS 16 is effective for annual periods beginning on or after 1 January 2019 and early adoption is permitted.	
Amendments to IFRS 19 Employee benefits	The amendments clarify that: – on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and – the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI). The amendments are effective for annual period starting on or after 1 January 2019.	The Group is yet to assess IFRS 19's full impact on financial statements.
Amendments to IFRIC 23	"IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed. The new amendments are effective for annual periods beginning on or after 1 January 2019.	The Group is yet to assess IFRIC 23's full impact on financial statements.

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

3. FINANCIAL ASSETS AND LIABILITIES

Accounting policy applicable from 1 January 2018

Classification and measurement

The Group classifies its financial assets into the following measurement categories:
- amortised cost;
- fair value through other comprehensive income; and
- fair value through profit or loss.

Financial liabilities are classified as either
- held at amortised cost, or
- held at fair value through profit or loss.

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

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

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

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

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

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

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

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

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting policy applicable from 1 January 2018 (Continued)

Classification and measurement (Continued)

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

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

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

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

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

Mandatorily classified at FVTPL

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

Trading, including:

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

Non-trading mandatorily at fair value through profit or loss, including:

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting policy applicable from 1 January 2018 (Continued)

Classification and measurement (Continued)

Designated at FVTPL

Financial assets and liabilities may be designated at FVTPL when the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis (accounting mismatch).

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

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

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

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

Financial liabilities held at amortised cost

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

Financial guarantee contracts and loan commitments

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

Fair value of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market for the asset or liability, or in the absence of a principal market, the most advantageous market to which the Group has access at the date. The fair value of a liability includes the risk that the bank will not be able to honour its obligations.

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting policy applicable from 1 January 2018 (Continued)

Fair value of financial assets and liabilities (Continued)

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

The fair values of quoted financial assets and liabilities in active markets are based on current prices. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If the market for a financial instrument, and for unlisted securities, is not active, the Group establishes fair value by using valuation techniques.

Initial recognition

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

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

In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market data. In those cases where the initially recognised fair value is based on a valuation model that uses unobservable inputs, the difference between the transaction price and the valuation model is not recognised immediately in the income statement but is amortised or released to the income statement as the inputs become observable, or the transaction matures or is terminated.

Subsequent measurement

Financial assets and financial liabilities held at amortised cost

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

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

Financial assets held at FVOCI

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting policy applicable from 1 January 2018 (Continued)

Subsequent measurement (Continued)

Financial assets and liabilities held at FVTPL

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

Financial liabilities designated at FVTPL

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

Modified financial instruments

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

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

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

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

Derecognition of financial instruments

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

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

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting policy applicable from 1 January 2018 (Continued)

Derecognition of financial instruments (Continued)

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

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

Reclassifications

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

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

Reclassified from amortised cost

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

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

Reclassified from FVOCI

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting policy applicable from 1 January 2018 (Continued)

Reclassifications (Continued)

Reclassified from FVTPL

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

Offsetting of financial assets and financial liabilities

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

(i) Significant accounting estimates and judgments

Credit impairment

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

- the Group's criteria for assessing if there has been a significant increase in credit risk; and
- development of expected credit loss models, including the choice of inputs relating to macroeconomic variables.

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

Expected credit losses

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

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

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

Measurement

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

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting policy applicable from 1 January 2018 (Continued)

(i) Significant accounting estimates and judgments (Continued)

Measurement (Continued)

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

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

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

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

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

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

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

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

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting policy applicable from 1 January 2018 (Continued)

(i) Significant accounting estimates and judgments (Continued)

Measurement (Continued)

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

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

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

Recognition

12 months expected credit losses (Stage 1)

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

Significant increase in credit risk (Stage 2)

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

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting policy applicable from 1 January 2018 (Continued)

(i) Significant accounting estimates and judgments (Continued)

Recognition (Continued)

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

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

Credit impaired (or defaulted) exposures (Stage 3)

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

Evidence that a financial asset is credit impaired includes observable data about the following events:

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

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

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

Expert credit judgment

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

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting policy applicable from 1 January 2018 (Continued)

(i) Significant accounting estimates and judgments (Continued)

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

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

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

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

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

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

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

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

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

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting policy applicable from 1 January 2018 (Continued)

(i) Significant accounting estimates and judgments (Continued)

Modified financial instruments (Continued)

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

Forborne loans

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

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

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

Write-offs of credit impaired instruments and reversal of impairment

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

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

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

Improvement in credit risk/curing

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

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting policy applicable from 1 January 2018 (Continued)

(i) Significant accounting estimates and judgments (Continued)

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

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

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

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

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

In order for a forborne loan to become performing, the following criteria have to be satisfied:
- at least a year has passed with no default based upon the forborne contract terms;
- the customer is likely to repay its obligations in full without realising security; and
- the customer has no accumulated impairment against amount outstanding.

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

Accounting policy applicable before 1 January 2018

(i) Classification and measurement
The Group classifies its financial assets into the following measurement categories:

- financial assets held at fair value through profit or loss;
- loans and receivables;
- held-to-maturity; or
- available-for-sale.

Financial liabilities are classified as either held at:

- fair value through profit or loss; or
- amortised cost.

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting policy applicable before 1 January 2018 (Continued)

(i) Classification and measurement (Continued)

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

In these financial statements, investment securities, trading assets and liabilities and loans and receivables are classified as detailed below:

Financial assets and liabilities at fair value through profit or loss

This category has two sub-categories: financial assets and liabilities held for trading, and those designated at fair value through profit or loss. A financial asset or liability is classified as trading if acquired principally for the purpose of selling in the short term.

Financial assets and liabilities may be designated at fair value through profit or loss when:

- the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities on a different basis;
- a group of financial assets and/or liabilities is managed and its performance evaluated on a fair value basis; and
- the assets or liabilities include embedded derivatives and such derivatives are required to be recognised separately.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and it is expected that substantially all of the initial investment will be recovered, other than because of credit deterioration.

Held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the intention and ability to hold to maturity.

Available-for-sale

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

Financial liabilities held at amortised cost

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting policy applicable before 1 January 2018 (Continued)

(ii) Initial recognition of financial instruments

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

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

(iii) Subsequent measurement

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

Available-for-sale financial assets are subsequently carried at fair value, with gains and losses arising from changes in fair value taken to the available-for-sale reserve within equity until the asset is sold, or is impaired, when the cumulative gain or loss is transferred to the income statement.

Loans and receivables and held-to-maturity financial assets are subsequently measured at amortised cost using the effective interest method.

Financial liabilities are subsequently measured at amortised cost, with any difference between proceeds net of directly attributable transaction costs and the redemption value recognised in the income statement over the period of the borrowings using the effective interest method.

(iv) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

The determination of fair values of financial assets and financial liabilities is based on transactions that take place in the principal market. In the absence of a principal market, it is assumed that the transaction occurs in the most advantageous market. For financial instruments traded in active markets, quoted market prices for identical financial assets or financial liabilities that the entity has access to are used. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

For all other financial instruments which do not have an observable price in an active market, fair value is measured using valuation techniques. Valuation techniques maximise the use of observable inputs and minimise the use of unobservable inputs. Valuation techniques include net present value techniques, the discounted cash flow method, comparison to similar instruments for which market observable prices exist, and valuation models. The Group uses widely recognised valuation models for determining the fair value of common and simpler financial instruments like options, interest rate and currency swaps. For these financial instruments, inputs into models are market observable.

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting policy applicable before 1 January 2018 (Continued)

(iv) Fair value of financial instruments (Continued)

For more complex instruments, the Group uses proprietary models, which are usually developed from recognised valuation models. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions.

When entering into a transaction, the financial instrument is recognised initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price.

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

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

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

(v) Amortised cost measurement

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

(vi) Identification and measurement of impairment of financial assets

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

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting policy applicable before 1 January 2018 (Continued)

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

Assets carried at amortised cost

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

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

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in the income statement and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

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

Available-for-sale assets

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

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

(vii) Reclassifications of financial assets and financial liabilities

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

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting policy applicable before 1 January 2018 (Continued)

(vii) Reclassifications of financial assets and financial liabilities (Continued)

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

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

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

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

(viii) Offsetting of financial assets and financial liabilities

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

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

(ix) Derecognition

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

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

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

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting policy applicable before 1 January 2018 (Continued)

(vii) Derecognition (Continued)

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

Significant accounting estimates and judgments

(i) Loan loss provisioning

— *Retail Banking segment*

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

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

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

— *Corporate & Institutional Banking and Commercial Banking segments*

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

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

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.

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

Accounting policy applicable before 1 January 2018 (Continued)

Significant accounting estimates and judgments (Continued)

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

(ii) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

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

Subsequent to initial recognition, some of the financial instruments are carried at fair value, with changes in fair value either reported within the income statement or within other comprehensive income until the instrument is sold or becomes impaired.

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

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

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

(a) Accounting classification

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

Group IFRS 9 31 December 2018	Note	Financial instruments at fair value: Mandatorily held at fair value through profit or loss KShs Million	Financial instruments at fair value: Fair value through other comprehensive income KShs Million	Financial instruments at fair value: Total KShs Million	Financial instruments at amortised cost KShs Million	Total KShs Million
Cash and balances with Central Bank of Kenya	16	–	–	–	20,283	**20,283**
Government and other securities held at FVTPL	17	3,937	–	**3,937**	–	**3,937**
Derivative financial instruments	18	394	–	**394**	–	**394**
Loans and advances to banks	19	–	–	–	6,016	**6,016**
Loans and advances to customers	20	–	–	–	118,652	**118,652**
Investment securities	21	19	94,749	**94,768**	–	**94,768**
Other assets – uncleared effects	22	–	–	–	1,146	**1,146**
Amounts due from group companies	23	–	–	–	31,468	**31,468**
Total assets		**4,350**	**94,749**	**99,099**	**177,565**	**276,664**
Liabilities						
Deposits from banks	30	–	–	–	156	**156**
Deposits from customers	31	–	–	–	224,284	**224,284**
Derivative financial instruments	18	226	–	**226**	–	**226**
Other liabilities	32	–	–	–	866	**866**
Amounts due to group companies	23	–	–	–	8,547	**8,547**
Total liabilities		**226**	**–**	**226**	**233,853**	**234,079**

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

(a) Accounting classification (Continued)

The table below sets out the carrying amounts of each class of financial assets and financial liabilities of the Group as at 1 January 2018 on IFRS 9 implementation:

	Financial instruments at fair value				
Group IFRS 9 1 January 2018	**Mandatorily held at fair value through profit or loss KShs Million**	**Fair value through other comprehensive income KShs Million**	**Total KShs Million**	**Financial instruments at amortised cost KShs Million**	**Total KShs Million**
Cash and balances with Central Bank of Kenya	–	–	**–**	13,341	**13,341**
Government and other securities held at FVTPL	7,047	–	**7,047**	–	**7,047**
Derivative financial instruments	597	–	**597**	–	**597**
Loans and advances to banks	–	–	**–**	5,324	**5,324**
Loans and advances to customers	–	–	**–**	124,495	**124,495**
Investment securities	9	103,486	**103,495**	–	**103,495**
Other assets – uncleared effects	–	–	**–**	680	**680**
Amounts due from group companies	–	–	**–**	16,116	**16,116**
Total assets	**7,653**	**103,486**	**111,139**	**159,956**	**271,095**
Liabilities					
Deposits from banks	–	–	**–**	12,701	**12,701**
Deposits from customers	–	–	**–**	213,349	**213,349**
Derivative financial instruments	492	–	**492**	–	**492**
Other liabilities	–	–	**–**	1,024	**1,024**
Amounts due to group companies	–	–	**–**	8,449	**8,449**
Total liabilities	**492**	**–**	**492**	**235,523**	**236,015**

Further details on the carrying amounts are disclosed in Note 42.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

(a) Accounting classification (Continued)

The table below sets out the carrying amounts of each class of financial assets and financial liabilities of the Group under IAS 39:

Group IAS 39 31 December 2017	Note	Fair value through profit or loss KShs Million	Loans and receivables KShs Million	Available -for-sale KShs Million	Financial liabilities at amortised cost KShs Million	Total carrying amount KShs Million
Assets						
Cash and balances with Central Bank of Kenya	16	–	13,341	–	–	**13,341**
Government and other securities held at FVTPL	17	7,047	–	–	–	**7,047**
Derivative financial instruments	18	597	–	–	–	**597**
Loans and advances to banks	19	–	5,326	–	–	**5,326**
Loans and advances to customers	20	–	126,294	–	–	**126,294**
Investment securities	21	–	–	103,495	–	**103,495**
Other assets – uncleared effects	22	–	680	–	–	**680**
Amounts due from group companies	23	–	16,121	–	–	**16,121**
Total assets		**7,644**	**161,762**	**103,495**	**–**	**272,901**
Liabilities						
Deposits from banks	30	–	–	–	12,701	**12,701**
Deposits from customers	31	–	–	–	213,349	**213,349**
Derivative financial instruments	18	492	–	–	–	**492**
Other liabilities	32	–	–	–	850	**850**
Amounts due to group companies	23	–	–	–	8,449	**8,449**
Total liabilities		**492**	**–**	**–**	**235,349**	**235,841**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

(a) Accounting classification (Continued)

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

Company IFRS 9 31 December 2018	Note	Financial instruments at fair value: Mandatorily held at fair value through profit or loss KShs Million	Financial instruments at fair value: Fair value through other comprehensive income KShs Million	Financial instruments at fair value: Total KShs Million	Financial instruments at amortised cost KShs Million	Total KShs Million
Cash and balances with Central Bank of Kenya	16	–	–	–	20,283	**20,283**
Government and other securities held at FVTPL	17	3,937	–	**3,937**	–	**3,937**
Derivative financial instruments	18	394	–	**394**	–	**394**
Loans and advances to banks	19	–	–	–	6,016	**6,016**
Loans and advances to customers	20	–	–	–	118,652	**118,652**
Investment securities	21	19	93,745	**93,764**	–	**93,764**
Other assets – uncleared effects	22	–	–	–	1,146	**1,146**
Amounts due from group companies	23	–	–	–	31,739	**31,739**
Total assets		**4,350**	**93,745**	**98,095**	**177,836**	**275,931**
Liabilities						
Deposits from banks	30	–	–	–	156	**156**
Deposits from customers	31	–	–	–	224,284	**224,284**
Derivative financial instruments	18	226	–	**226**	–	**226**
Other liabilities	32	–	–	–	866	**866**
Amounts due to group companies	23	–	–	–	8,547	**8,547**
Amounts due to subsidiaries	23	–	–	–	674	**674**
Total liabilities		**226**	**–**	**226**	**234,527**	**234,753**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

(a) Accounting classification (Continued)

The table below sets out the carrying amounts of each class of financial assets and financial liabilities of the Company as at 1 January 2018 on IFRS 9 implementation:

Company IFRS 9 1 January 2018	Financial instruments at fair value Mandatorily held at fair value through profit or loss KShs Million	Financial instruments at fair value Fair value through other comprehensive income KShs Million	Financial instruments at fair value Total KShs Million	Financial instruments at amortised cost KShs Million	Total KShs Million
Cash and balances with Central Bank of Kenya	–	–	**–**	13,341	**13,341**
Government and other securities held at FVTPL	7,047	–	**7,047**	–	**7,047**
Derivative financial instruments	597	–	**597**	–	**597**
Loans and advances to banks	–	–	**–**	5,324	**5,324**
Loans and advances to customers	–	–	**–**	124,495	**124,495**
Investment securities	9	102,838	**102,847**	–	**102,847**
Other assets – uncleared effects	–	–	**–**	680	**680**
Amounts due from group companies	–	–	**–**	16,085	**16,085**
Total assets	**7,653**	**102,838**	**110,491**	**159,925**	**270,416**
Liabilities					
Deposits from banks	–	–	**–**	12,701	**12,701**
Deposits from customers	–	–	**–**	213,349	**213,349**
Derivative financial instruments	492	–	**492**	–	**492**
Other liabilities	–	–	**–**	1,024	**1,024**
Amounts due to group companies	–	–	**–**	8,449	**8,449**
Amounts due to subsidiaries	–	–	**–**	529	**529**
Total liabilities	**492**	**–**	**492**	**236,052**	**236,544**

Further details on the carrying amounts are disclosed in Note 42.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

(a) Accounting classification (Continued)

The table below sets out the carrying amounts of each class of financial assets and financial liabilities of the Company under IAS 39:

Company IAS 39 31 December 2017	Note	Fair value through profit or loss KShs Million	Loans and receivables KShs Million	Available -for-sale KShs Million	Financial liabilities at amortised cost KShs Million	Total carrying amount KShs Million
Cash and balances with Central Bank of Kenya	16	–	13,341	–	–	**13,341**
Government and other securities held at FVTPL	17	7,047	–	–	–	**7,047**
Derivative financial instruments	18	597	–	–	–	**597**
Loans and advances to banks	19	–	5,326	–	–	**5,326**
Loans and advances to customers	20	–	126,294	–	–	**126,294**
Investment securities	21	–	–	102,847	–	**102,847**
Other assets – uncleared effects	22	–	680	–	–	**680**
Amounts due from group companies	23	–	16,090	–	–	**16,090**
Total assets		**7,644**	**161,731**	**102,847**	**–**	**272,222**
Liabilities						
Deposits from banks	30	–	–	–	12,701	**12,701**
Deposits from customers	31	–	–	–	213,349	**213,349**
Derivative financial instruments	18	492	–	–	–	**492**
Other liabilities	32	–	–	–	850	**850**
Amounts due to group companies	23	–	–	–	8,449	**8,449**
Total liabilities		**492**	**–**	**–**	**235,349**	**235,841**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

(b) Valuation techniques

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

Derivative financial instruments and government securities held at FVTPL

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

Cash and balances with Central Bank of Kenya

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

Loans and advances to banks

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

Loans and advances to customers

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

Investment securities

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

Deposits from banks and customers

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

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

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

(c) Valuation hierarchy – financial instruments at fair value

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

- Level 1: Fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2: Fair value measurements are those with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable
- Level 3: Fair value measurements are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

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

The tables below show the classification of financial instruments held at fair value into the valuation hierarchy set out above as at 31 December 2018 and 2017:

IFRS 9 31 December 2018	Note	Group Level 1 KShs Million	Group Level 2 KShs Million	Group Level 3 KShs Million	Group Total KShs Million	Company Level 1 KShs Million	Company Level 2 KShs Million	Company Level 3 KShs Million	Company Total KShs Million
Assets									
Government and other securities held at FVTPL	17	–	3,937	–	**3,937**	–	3,937	–	**3,937**
Derivative financial instruments	18	–	394	–	**394**	–	394	–	**394**
Investment securities	21	–	94,749	19	**94,768**	–	93,745	19	**93,764**
Total assets		**–**	**99,080**	**19**	**99,099**	**–**	**98,076**	**19**	**98,095**
Derivative financial instruments	18	–	226	–	**226**	–	226	–	**226**
Total liabilities		**–**	**226**	**–**	**226**	**–**	**226**	**–**	**226**

The table below shows the valuation hierarchy of financial instruments measured at fair value on initial application of IFRS 9. Further details on the fair values are disclosed in Note 42.

1 January 2018:	Note	Group Level 1 KShs Million	Group Level 2 KShs Million	Group Level 3 KShs Million	Group Total KShs Million	Company Level 1 KShs Million	Company Level 2 KShs Million	Company Level 3 KShs Million	Company Total KShs Million
Assets									
Government and other securities held at FVTPL	17	–	7,047	–	**7,047**	–	7,047	–	**7,047**
Derivative financial instruments	18	–	597	–	**597**	–	597	–	**597**
Investment securities	21	–	103,486	9	**103,495**	–	102,838	9	**102,847**
Total assets		**–**	**111,130**	**9**	**111,139**	**–**	**110,482**	**9**	**110,491**
Derivative financial instruments	18	–	492	–	**492**	–	492	–	**492**
Total liabilities		**–**	**492**	**–**	**492**	**–**	**492**	**–**	**492**

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

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

IAS 39 31 December 2017	Note	Group Level 1 KShs Million	Group Level 2 KShs Million	Group Level 3 KShs Million	Group Total KShs Million	Company Level 1 KShs Million	Company Level 2 KShs Million	Company Level 3 KShs Million	Company Total KShs Million
Assets									
Government and other securities held at FVTPL	17	–	7,047	–	**7,047**	–	7,047	–	**7,047**
Derivative financial instruments	18	–	597	–	**597**	–	597	–	**597**
Investment securities	21	–	103,486	9	**103,495**	–	102,838	9	**102,847**
Total assets		**–**	**111,130**	**9**	**111,139**	**–**	**110,482**	**9**	**110,491**
Derivative financial instruments	18	–	492	–	**492**	–	492	–	**492**
Total liabilities		**–**	**492**	**–**	**492**	**–**	**492**	**–**	**492**

There has been no significant change in valuation or lending approaches in 2018. There were no transfers of financial assets and liabilities measured at fair value between the levels during the year. During the current year, there were no intra level transfers and there was sufficient information available to measure the fair value of financial instruments based on observable market inputs.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

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

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

		Group					Company				
IFRS 9 31 December 2018	Note	Total carrying amount KShs Million	Level 1 KShs Million	Level 2 KShs Million	Level 3 KShs Million	Total fair values KShs Million	Total carrying amount KShs Million	Level 1 KShs Million	Level 2 KShs Million	Level 3 KShs Million	Total fair values KShs Million
Assets											
Cash and balances with Central Bank of Kenya	16	**20,283**	–	20,283	–	**20,283**	**20,283**	–	20,283	–	**20,283**
Loans and advances to banks	19	**6,016**	–	6,016	–	**6,016**	**6,016**	–	6,016	–	**6,016**
Loans and advances to customers	20(a)	**118,652**	–	–	118,652	**118,652**	**118,652**	–	–	118,652	**118,652**
Other assets – uncleared Effects	22	**1,146**	–	–	1,146	**1,146**	**1,146**	–	–	1,146	**1,146**
Amounts due from Group companies	23	**31,468**	–	–	31,468	**31,468**	**31,739**	–	–	31,739	**31,739**
Total assets		177,565	–	26,299	151,266	177,565	177,836	–	26,299	151,537	177,836
Deposits from banks	30	**156**	–	156	–	**156**	**156**	–	156	–	**156**
Deposits from customers	31	**224,284**	–	37,540	186,744	**224,284**	**224,284**	–	37,540	186,744	**224,284**
Other liabilities	32	**866**	–	–	866	**866**	**866**	–	–	866	**866**
Amounts due to group companies	23	**8,547**	–	6,132	2,415	**8,547**	**8,547**	–	6,132	2,415	**8,547**
Amounts due to subsidiaries	23	**–**	–	–	–	**–**	**529**	–	529	–	**529**
Total liabilities		233,853	–	43,828	190,025	233,853	234,382	–	44,357	190,025	234,382

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

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

The table below shows the valuation hierarchy of financial instruments measured at amortised cost on initial application of IFRS 9.

	Group					Company				
IFRS 9 1 January 2018	Total carrying amount KShs Million	Level 1 KShs Million	Level 2 KShs Million	Level 3 KShs Million	Total fair values KShs Million	Total carrying amount KShs Million	Level 1 KShs Million	Level 2 KShs Million	Level 3 KShs Million	Total fair values KShs Million
Assets										
Cash and balances with Central Bank of Kenya	**13,341**	–	13,341	–	**13,341**	**13,341**	–	13,341	–	**13,341**
Loans and advances to banks	**5,324**	–	5,324	–	**5,324**	**5,324**	–	5,324	–	**5,324**
Loans and advances to customers	**124,495**	–	–	124,495	**124,495**	**124,495**	–	–	124,495	**124,495**
Other assets – uncleared Effects	**680**	–	–	680	**680**	**680**	–	–	680	**680**
Amounts due from Group companies	**16,116**	–	–	16,116	**16,116**	**16,085**	–	–	16,085	**16,085**
Total assets	**159,956**	**–**	**18,665**	**141,291**	**159,956**	**159,925**	**–**	**18,665**	**141,260**	**159,925**
Deposits from banks	**12,701**	–	12,701	–	**12,701**	**12,701**	–	12,701	–	**12,701**
Deposits from customers	**213,349**	–	43,388	169,961	**213,349**	**213,349**	–	43,388	169,961	**213,349**
Other liabilities	**850**	–	–	850	**850**	**850**	–	–	850	**850**
Amounts due to group companies	**8,449**	–	6,210	2,239	**8,449**	**8,449**	–	6,210	2,239	**8,449**
Total liabilities	**235,349**	**–**	**62,299**	**173,050**	**235,349**	**235,349**	**–**	**62,299**	**173,050**	**235,349**

Further details on the carrying amounts are disclosed in Note 42.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

3. FINANCIAL ASSETS AND LIABILITIES (Continued)

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

		Group					Company				
IAS 39 31 December 2017	Note	Total carrying amount KShs Million	Level 1 KShs Million	Level 2 KShs Million	Level 3 KShs Million	Total fair values KShs Million	Total carrying amount KShs Million	Level 1 KShs Million	Level 2 KShs Million	Level 3 KShs Million	Total fair values KShs Million
Assets											
Cash and balances with Central Bank of Kenya	16	**13,341**	–	13,341	–	**13,341**	**13,341**	–	13,341	–	**13,341**
Loans and advances to banks	19	**5,326**	–	5,326	–	**5,326**	**5,326**	–	5,326	–	**5,326**
Loans and advances to customers	20(a)	**126,294**	–	–	126,294	**126,294**	**126,294**	–	–	126,294	**126,294**
Other assets – uncleared Effects	22	**680**	–	–	680	**680**	**680**	–	–	680	**680**
Amounts due from Group companies	23	**16,121**	–	–	16,121	**16,121**	**16,090**	–	–	16,090	**16,090**
Total assets		161,762	–	18,667	143,095	161,762	161,731	–	18,667	143,064	161,731
Deposits from banks	30	**12,701**	–	12,701	–	**12,701**	**12,701**	–	12,701	–	**12,701**
Deposits from customers	31	**213,349**	–	43,388	169,961	**213,349**	**213,349**	–	43,388	169,961	**213,349**
Other liabilities	32	**850**	–	–	850	**850**	**850**	–	–	850	**850**
Amounts due to group companies	23	**8,449**	–	6,198	2,251	**8,449**	**8,449**	–	6,198	2,251	**8,449**
Total liabilities		235,349	–	62,287	173,062	235,349	235,349	–	62,287	173,062	235,349

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW

This section provides details of the Group's and Company's exposure to risk and describes the methods used by management to control risk in respect of financial instruments. The most significant types of financial risks to which the Group and Company are exposed to are credit risk, liquidity risk, market risk and operational risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's enterprise risk management framework.

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

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

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

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

Stress testing

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

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

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

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

(a) Credit risk

(i) Credit risk overview

Credit risk is the potential for loss due to the failure of a counterparty to meet its obligation to pay the Group and Company. This arises principally from the Group's and Company's loans and advances to customers and other banks and investment securities.

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

The Group and Company structure the levels of credit risk they undertake by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments.

New impairment model

IFRS 9 introduces a new impairment model that requires the recognition of expected credit losses (ECL) rather than incurred losses under IAS 39. This applies to all financial debt instruments held at amortised cost, fair value through other comprehensive income (FVOCI), undrawn loan commitments and financial guarantees.

Staging of financial instruments

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

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

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

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

The Group and Company have not restated comparative information. Accordingly, amounts prior to 1 January 2018 are prepared and disclosed on an IAS 39 basis. This primarily impacts the credit risk disclosures, where loan loss provisioning is determined on an expected credit loss basis under IFRS 9 compared with an incurred credit loss basis under IAS 39.

Where relevant, the 1 January 2018 balance sheet has been used for comparative purposes. The Group's initial estimate of credit impairment provisions on adoption IFRS 9 was KShs 2,538 million before tax. Upon refinement of the ECL model the estimate has been revised down by KShs 198 million to KShs 2,340 million. The relevant IFRS 9 disclosures are detailed in; Note 3 *Financial Assets and Liabilities,* Note 4 *Financial Risk Management and Capital Review* and Note 42 *International Financial Reporting Standard 9 (IFRS 9) Financial Instruments.*

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(ii) Credit quality analysis

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

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

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(ii) Credit quality analysis (Continued)

Analysis of financial instruments by stage

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

Group KShs Million	IFRS 9 31 December 2018				IFRS 9 1 January 2018				IAS 39 31 December 2017
On balance sheet:	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Total
Loans and advances to banks	6,018	–	–	6,018	5,326	–	–	5,326	5,326
Less allowance	(2)	–	–	(2)	(2)	–	–	(2)	–
Carrying amount	**6,016**	**–**	**–**	**6,016**	**5,324**	**–**	**–**	**5,324**	**5,326**
Loans and advances to customers									
Grades1-11 (normal)	109,244	–	–	109,244	112,447	–	–	112,447	110,956
Grade 12 (watch)	–	4,745	–	4,745	–	10,564	–	10,564	12,054
Grade 13 (substandard)	–	–	5,491	5,491	–	–	2,469	2,469	1,197
Grade 14 (doubtful/loss)	–	–	8,380	8,380	–	–	8,848	8,848	10,121
Total	**109,244**	**4,745**	**13,871**	**127,860**	**112,447**	**10,564**	**11,317**	**134,328**	**134,328**
Less allowance	(1,000)	(1,078)	(7,130)	(9,208)	(1,564)	(1,419)	(6,850)	(9,833)	(8,034)
Carrying amount	**108,244**	**3,667**	**6,741**	**118,652**	**110,883**	**9,145**	**4,467**	**124,495**	**126,294**
Amounts due from group companies	31,473	–	–	31,473	16,121	–	–	16,121	16,121
Less allowance	(5)	–	–	(5)	(5)	–	–	(5)	–
Carrying amount	**31,468**	**–**	**–**	**31,468**	**16,116**	**–**	**–**	**16,116**	**16,121**
Investment securities	**94,768**	**–**	**–**	**94,768**	**103,495**	**–**	**–**	**103,495**	**103,495**
Loss allowance[1]	**(287)**	**–**	**–**	**(287)**	**(360)**	**–**	**–**	**(360)**	**–**

[1]The above loss allowance is recognised in reserves. The carrying amount of the investment securities at FVOCI is their fair value.

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(ii) Credit quality analysis (Continued)

Analysis of financial instruments by stage (Continued)

Group KShs Million	IFRS 9 31 December 2018				IFRS 9 1 January 2018				IAS 39 31 December 2017
Off balance sheet:	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Guarantees and standby letters of credit	33,533	4,472	84	38,089	28,444	4,331	170	32,945	32,945
Letters of credit acceptances and other documentary credits	7,352	514	45	7,911	6,994	1,121	57	8,172	8,172
Total trade contingents[2]	**40,885**	**4,986**	**129**	**46,000**	**35,438**	**5,452**	**227**	**41,117**	**41,117**
Loss allowance	**(66)**	**(86)**	**(1)**	**(153)**	**(73)**	**(101)**	**–**	**(174)**	**–**

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(ii) Credit quality analysis (Continued)

Analysis of financial instruments by stage (Continued)

Company KShs Million	IFRS 9 31 December 2018				IFRS 9 1 January 2018				IAS 39 31 December 2017
On balance sheet:	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Total
Loans and advances to banks	6,018	–	–	6,018	5,326	–	–	5,326	5,326
Less allowance	(2)	–	–	(2)	(2)	–	–	(2)	–
Carrying amount	**6,016**	**–**	**–**	**6,016**	**5,324**	**–**	**–**	**5,324**	**5,326**
Loans and advances to customers									
Grades 1-11 (normal)	109,244	–	–	109,244	112,447	–	–	112,447	110,956
Grade 12 (watch)	–	4,745	–	4,745	–	10,564	–	10,564	12,054
Grade 13 (substandard)	–	–	5,491	5,491	–	–	2,469	2,469	1,197
Grade 14 (doubtful/loss)	–	–	8,380	8,380	–	–	8,848	8,848	10,121
Total	**109,244**	**4,745**	**13,871**	**127,860**	**112,447**	**10,564**	**11,317**	**134,328**	**134,328**
Less allowance	(1,000)	(1,078)	(7,130)	(9,208)	(1,564)	(1,419)	(6,850)	(9,833)	(8,034)
Carrying amount	**108,244**	**3,667**	**6,741**	**118,652**	**110,883**	**9,145**	**4,467**	**124,495**	**126,294**
Amounts due from group companies	31,744	–	–	31,744	16,090	–	–	16,090	16,090
Less allowance	(5)	–	–	(5)	(5)	–	–	(5)	–
Carrying amount	**31,739**	**–**	**–**	**31,739**	**16,085**	**–**	**–**	**16,085**	**16,090**
Investment securities	**93,764**	**–**	**–**	**93,764**	**102,847**	**–**	**–**	**102,847**	**102,847**
Loss allowance[3]	**(283)**	**–**	**–**	**(283)**	**(357)**	**–**	**–**	**(357)**	**–**

[3]The above loss allowance is recognised in reserves. The carrying amount of the investment securities at FVOCI is their fair value.

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(ii) Credit quality analysis (Continued)

Analysis of financial instruments by stage (Continued)

Company KShs Million	IFRS 9 31 December 2018				IFRS 9 1 January 2018				IAS 39 31 December 2017
Off balance sheet:	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Guarantees and standby letters of credit	33,533	4,472	84	38,089	28,444	4,331	170	32,945	32,945
Letters of credit acceptances and other documentary credits	7,352	514	45	7,911	6,994	1,121	57	8,172	8,172
Total trade contingents[4]	**40,885**	**4,986**	**129**	**46,000**	**35,438**	**5,452**	**227**	**41,117**	**41,117**
Loss allowance	**(66)**	**(86)**	**(1)**	**(153)**	**(73)**	**(101)**	**–**	**(174)**	**–**

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(iii) Credit quality analysis (Continued)

Analysis of loans and advances concentration by sector

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

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

Group and Company KShs Million	IFRS 9 31 December 2018				IFRS 9 1 January 2018				IAS 39 31 December 2017
On balance sheet:	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Total**
Business services	1,482	–	33	**1,515**	1,670	–	148	**1,818**	**1,818**
Manufacturing	14,809	195	5,654	**20,658**	7,168	4,568	3,014	**14,750**	**14,750**
Wholesale and retail	14,361	2,241	2,969	**19,571**	16,347	1,111	3,018	**20,476**	**20,476**
Transport and communication	6,423	50	281	**6,754**	15,850	63	206	**16,119**	**16,119**
Real Estate	994	108	228	**1,330**	1,715	106	248	**2,069**	**2,069**
Agriculture	3,276	65	188	**3,529**	2,856	1,262	244	**4,362**	**4,362**
Energy and water	4,978	255	2,109	**7,342**	8,180	1,314	2,164	**11,658**	**11,658**
Others	62,921	1,831	2,409	**67,161**	58,661	2,140	2,275	**63,076**	**63,076**
Total	**109,244**	**4,745**	**13,871**	**127,860**	**112,447**	**10,564**	**11,317**	**134,328**	**134,328**
Less allowance	(1,000)	(1,078)	(7,130)	**(9,208)**	(1,564)	(1,419)	(6,850)	**(9,833)**	**(8,034)**
Carrying amount	**108,244**	**3,667**	**6,741**	**118,652**	**110,883**	**9,145**	**4,467**	**124,495**	**126,294**

Analysis of loans and advances concentration by client segment

Group and Company KShs Million	IFRS 9 31 December 2018				IFRS 9 1 January 2018				IAS 39 31 December 2017
On balance sheet:	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	
Corporate & Institutional Banking	29,433	2,244	4,735	**36,412**	38,202	6,538	3,912	**48,652**	**48,978**
Commercial Banking	11,446	283	7,163	**18,892**	10,457	1,787	5,557	**17,801**	**17,479**
Retail Banking	68,365	2,218	1,973	**72,556**	63,788	2,239	1,848	**67,875**	**67,871**
	109,244	**4,745**	**13,871**	**127,860**	**112,447**	**10,564**	**11,317**	**134,328**	**134,328**

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(iii) Collateral held and other credit enhancements

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

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

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

Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse purchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held as at 31 December 2018 and 2017.

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

Fair value of collateral held

Group and Company 2018	Total KShs Million	Stage 2 KShs Million	Stage 3 KShs Million
Amount outstanding	127,860	4,745	13,871
Collateral held	75,542	2,237	5,316
Net exposure	**52,318**	**2,508**	**8,555**

The table below shows the collateral in 2017 prepared under IAS 39:

	2017 KShs Million
Against impaired loans	**5,123**
Against past due but not impaired loans	**6,343**

(iv) Problem credit management

Accounts or portfolios are placed on an early alert report and regularly reviewed by the Credit Issues Committee when they display signs of weakness or financial deterioration, for example where there is a rapid decline in the client's position within the industry, a breach of covenants, non-performance of an obligation, or there are issues relating to ownership or management.

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(v) Expected credit loss measurement

IFRS 9 introduced a new impairment model that requires the recognition of expected credit losses (ECL) rather than incurred losses under IAS 39. This applies to all financial debt instruments held at amortised cost, fair value through other comprehensive income (FVOCI), undrawn loan commitments and financial guarantees.

Staging of financial instruments

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

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

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

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

Transfers between stages

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

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

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

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

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

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(v) Expected credit loss measurement (Continued)

Approach to determining ECL - inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit impaired. ECL is the discounted product of the Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD) defined as follows;

- PD is the probability at a point in time that a counterparty will default, calibrated over up to 12 months from the reporting date (stage 1) or over the lifetime of the asset (stage 2) and incorporating the impact of forward-looking economic assumptions that have an effect on credit risk, such as interest rates, unemployment rates and GDP forecasts. PD is estimated at a point in time, that means it will fluctuate in line with the economic cycle.
- LGD refers to the loss that is expected to arise on default, incorporating the impact of forward-looking economic assumptions where relevant, which represents the difference between the contractual cash flows due and those that the Bank expects to receive. The Group and Company estimate LGD based on the history of recovery rates and consider the recovery of any collateral that is integral to the financial asset, taking into account forward-looking economic assumptions where relevant.
- EAD refers to the expected balance sheet exposure at the time of default, taking into account the expected change in exposure over the lifetime of the exposure. This incorporates the impact of drawdowns of committed facilities, repayments of principal and interest, amortisation and prepayments, together with the impact of forward-looking economic assumptions where relevant.

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

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

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(v) Expected credit loss measurement (Continued)

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

The lifetime of drawn and undrawn committed revolving facilities in the Corporate & Institutional and Commercial Banking segments, is set at the residual tenor of the respective facilities. With the exception of overdraft facilities, uncommitted facilities in these client segments do not give rise to credit risk and hence ECL because the Group and Company have a legal right to revoke the facilities at short notice and has a practice of doing so in response to a SICR.

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

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

Incorporation of forward looking information

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

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

The Multiple Scenario solution consists of three integrated components:

i. A set of point forecasts, generated by the Scenario Design Team ("SDT"), that sets the Bank's internal view of the future macroeconomic environment;
ii. A set of simulation models, calibrated on historical data, to generate "un-weighted" alternative scenarios; and
iii. A procedure to ensure that the simulations (component ii above) are plausible given the Bank's internal view (component i above). The procedure yields probability weights that are attached to the alternative scenarios.

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

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

The review and challenge of the macroeconomic forecasts is primarily driven through the activities of the IFRS 9 Expert Panel and the IFRS 9 Impairment Committee, which are detailed further below under "Governance".

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(v) Expected credit loss measurement (Continued)

Incorporation of forward looking information (Continued)

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

	31 December 2018			1 January 2018		
		Base			Base	
	Forecast	Low	High	Forecast	Low	High
GDP Growth (YoY%)	5.97	5.37	6.56	4.89	4.40	5.37
FX rate (KShs)	103	93	113	103	93	113
Government spending (KShs Billions)	2,322	2,089	2,554	2,160	1,944	2,376
Household income (KShs Billions)	1,334	1,201	1,468	1,482	1,334	1,630
Imports (KShs Billions)	511	460	562	453	407	498
Interest rate - 91 day treasury bill rate (%)	7.80	7.02	8.58	8.50	7.65	9.35
Consumer price index	183	164	201	172	155	189
Equity index	85	76	93	75	68	83

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

Significant increase in credit risk

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

Corporate & Institutional Banking and Commercial Banking segments

- *Quantitative criteria:* exposures are assessed based on both the absolute and the relative movement in the PD from origination to the reporting date. The relative threshold is a 100 per cent increase in PD and the absolute change in PD is between 50 – 100 basis points.
- *Qualitative criteria:* all accounts that have been placed on Early Alert (for non-purely precautionary reasons) are deemed to have experienced a significant increase in credit risk. An account is placed on Early Alert on a non-purely precautionary basis if it exhibits risk or potential weaknesses of a material nature requiring closer monitoring, supervision or attention by management. Weaknesses in such a borrower's account, if left uncorrected, could result in deterioration of repayment prospects and the likelihood of being downgraded. Indicators could include a rapid erosion of position within the industry, concerns over management's ability to manage operations, weak/deteriorating operating results, liquidity strain and overdue balances among other factors.

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(v) Expected credit loss measurement (Continued)

Significant increase in credit risk (Continued)

Retail Banking

- *Quantitative criteria:* exposures are also assessed based on both the absolute and the relative movement in the PD from origination to the reporting date. The relative threshold is a 100 per cent increase in PD and the absolute change in PD is between 50 – 100 basis points. For Retail Banking clients, the relative threshold is a 100 per cent increase in PD and the absolute change in PD is between 100 – 350 basis points depending on the product.
- *Qualitative criteria:* accounts that are 30 DPD that have not been captured by the quantitative criteria are considered to have experienced a significant increase in credit risk. For less material portfolios, which are modelled based on a roll-rate or loss-rate approach, significant increase in credit risk is primarily assessed through the 30 DPD trigger.

Backstop
Across all portfolios, accounts that are 30 or more DPD on contractual payments of principal and/or interest that have not been captured by the criteria above are considered to have experienced a significant increase in credit risk.

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

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

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

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

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

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(v) Expected credit loss measurement (Continued)

Grouping of instruments for losses measured on a collective basis

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

Retail Banking clients

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

Recovery of unsecured debt post credit-impairment is recognised based on actual cash collected, either directly from clients or through the sale of defaulted loans to third-party institutions. Release of credit-impairment provisions for secured loans is recognised if the loan outstanding is paid in full (release of full provision), or the provision is higher than the loan outstanding (release of the excess provision).

If the loan is paid to current and remains in current for more than 180 days (1 year for forborne loans) the account will be transferred to stage 2.

Grouping of instruments for losses measured on a collective basis

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

Write-offs

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

Modified financial assets

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

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

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(v) Expected credit loss measurement (Continued)

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

Amounts arising from ECL

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

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

The tables below show the reconciliation from the opening and closing balance of the credit impairment by class of assets of financial instrument. Comparative amounts for 2017 represent the credit losses and reflect the measurement basis under IAS 39.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(v) Expected credit loss measurement (Continued)

Amounts arising from ECL (Continued)
Loans and advances to banks

Group and Company

	IFRS 9				IAS 39
	2018				2017
	Stage 1 KShs Million	Stage 2 KShs Million	Stage 3 KShs Million	Total KShs Million	Total KShs Million
At 1 January	2	–	–	2	–
New financial assets originated	1	–	–	1	–
Change in model risk parameters	(1)	–	–	(1)	–
At 31 December	**2**	–	–	**2**	**–**

Loans and advances to customers

Group and Company	IFRS 9				IAS 39
	2018				2017
	Stage 1 KShs Million	Stage 2 KShs Million	Stage 3 KShs Million	Total KShs Million	Total KShs Million
At 1 January	1,564	1,419	6,850	**9,833**	**5,579**
Translation	(1)	(13)	(3)	**(17)**	**–**
Transfers to stage 1	560	(473)	(87)	**–**	**–**
Transfers to stage 2	(166)	187	(21)	**–**	**–**
Transfers to stage 3	(43)	(12)	55	**–**	**–**
New financial assets originated	797	61	77	**935**	**–**
Net re-measurement of loss allowance	(1,711)	(91)	2,797	**995**	**4,492**
Recoveries	–	–	(489)	**(489)**	**(571)**
Amounts written off	–	–	(1,624)	**(1,624)**	**(1,091)**
Discount unwind	–	–	(425)	**(425)**	**(375)**
At 31 December	**1,000**	**1,078**	**7,130**	**9,208**	**8,034**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(v) Expected credit loss measurement (Continued)

Amounts arising from ECL (Continued)
Undrawn commitments

Group and Company

	IFRS 9 2018				IAS 39 2017
	Stage 1 KShs Million	Stage 2 KShs Million	Stage 3 KShs Million	Total KShs Million	Total KShs Million
At 1 January	73	101	–	174	–
Translation	–	(1)	–	(1)	–
Transfers to stage 1	37	(37)	–	–	–
Transfers to stage 2	(19)	19	–	–	–
Transfers to stage 3	–	(1)	1	–	–
New financial assets originated	28	–	–	28	–
Net re-measurement of loss allowance	(56)	9	–	(47)	–
Write-offs	3	(4)	–	(1)	–
At 31 December	**66**	**86**	**1**	**153**	**–**

Investments securities[5]

Group

	IFRS 9 2018				IAS 39 2017
	Stage 1 KShs Million	Stage 2 KShs Million	Stage 3 KShs Million	Total KShs Million	Total KShs Million
Balance at 1 January	360	–	–	360	–
Net re-measurement of loss allowance	(73)	–	–	(73)	–
At 31 December	**287**	**–**	**–**	**287**	**–**

Company

	IFRS 9 2018				IAS 39 2017
	Stage 1 KShs Million	Stage 2 KShs Million	Stage 3 KShs Million	Total KShs Million	Total KShs Million
Balance at 1 January	357	–	–	357	–
Net re-measurement of loss allowance	(74)	–	–	(74)	–
At 31 December	**283**	**–**	**–**	**283**	**–**

[5]The loss allowance on investment securities at FVOCI is recognised in reserves. The carrying amount of the investment securities at FVOCI is their fair value.

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(v) Expected credit loss measurement (Continued)

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

Group and Company	IFRS 9 2018				IAS 39 2017
	Stage 1 KShs Million	Stage 2 KShs Million	Stage 3 KShs Million	Total KShs Million	Total KShs Million
Balance at 1 January and 31 December 2018	5	–	–	5	–

The following table provides a reconciliation between:

- amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument; and
- the impairment losses of financial instruments' line item in the statement of profit or loss and other comprehensive income.

Group	Loans and advances to banks KShs Million	Loans and advances to customers KShs Million	Investment securities at FVOCI KShs Million	Amounts due from group companies KShs Million	Financial guarantees and loan commitments KShs Million	Total KShs Million
At 31 December 2017	–	8,034	–	–	–	8,034
Net re-measurement of loss allowance (Note 42 (d))	2	1,799	360	5	174	2,340
At 1 January 2018	2	9,833	360	5	174	10,374
Net charge to income statement	–	1,441	(73)	–	(19)	1,349
Translation	–	(17)	–	–	(1)	(18)
Write -offs	–	(1,624)	–	–	(1)	(1,625)
Discount unwind	–	(425)	–	–	–	(425)
At 31 December 2018	2	9,208	287	5	153	9,655

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(v) Expected credit loss measurement (Continued)

Amounts arising from ECL (Continued)

Company	Loans and advances to banks KShs Million	Loans and advances to customers KShs Million	Investment securities at FVOCI KShs Million	Amounts due from group companies KShs Million	Financial guarantees and loan commitments KShs Million	Total KShs Million
At 31 December 2017	–	8,034	–	–	–	**8,034**
Net re-measurement of loss allowance (Note 42(d))	2	1,799	357	5	174	**2,337**
At 1 January 2018	**2**	**9,833**	**357**	**5**	**174**	**10,371**
Net charge to income statement	–	1,441	(74)	–	(19)	**1,348**
Translation	–	(17)	–	–	(1)	**(18)**
Write -offs	–	(1,624)	–	–	(1)	**(1,625)**
Discount unwind	–	(425)	–	–	–	**(425)**
At 31 December 2018	**2**	**9,208**	**283**	**5**	**153**	**9,651**

(vi) Other financial assets

Group and Company	31 December 2018 KShs Million	1 January 2018 KShs Million	31 December 2017 KShs Million
Cash and Balances with Central Bank of Kenya	20,283	13,342	13,342
Government and other securities held at FVTPL	3,937	7,047	7,047
Derivative financial instruments	394	597	597

Expected Credit Loss on other financial assets

Certain financial assets do not share the same characteristics as typical loan portfolios, hence specific ECL model's considerations apply to the following;

Cash & Other assets

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

Debt Securities

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

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(a) Credit risk (Continued)

(vi) Other financial assets (Continued)

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

(b) Settlement risk

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

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

Derivatives

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

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

(c) Liquidity risk

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

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

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

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(c) Liquid risk (Continued)

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

- the mismatch in local and foreign currency behavioural cash flows;
- the level of wholesale borrowing to ensure that the size of this funding is proportional to the local market and the Group's operations;
- commitments, both on and off the statement of financial position, to ensure there are sufficient funds available in the event of drawdown on these commitments;
- the advances to deposits ratio to ensure that commercial advances are funded by stable sources;
- the amount of medium term funding to support the asset portfolio; and
- the amount of local currency funding sourced from foreign currency sources.

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

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

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

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

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

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

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

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

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

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(c) Liquid risk (Continued)

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

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

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

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

Company	**2018** **%**	**2017** **%**
At 31 December	67	59
Average for the year	68	65
Highest for the year	71	70
Lowest for the year	62	59

The Group and Company also monitor on a regular basis the advances to deposits ratio. This is defined as the ratio of total loans and advances to customers relative to total customer deposits. A low advances to deposit ratio (less than 1) demonstrates that customer deposits exceed customer loans resulting from the emphasis placed on generating a high level of stable funding from customers.

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

Group and Company

	2018 **KShs Million**	2017 KShs Million
Loans and advances to customers	**118,652**	126,294
Deposits from customers	**224,284**	213,349
	%	%
Advances to deposits ratio	**53**	59

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(c) Liquid risk (Continued)

Group and Company

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

All figures are in Kenya Shillings million (KShs million)

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

2017	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
LIABILITIES						
Deposits from banks	12,701	–	–	–	–	**12,701**
Deposits from customers	172,191	15,265	23,493	4,756	–	**215,705**
Derivative financial instruments	492	–	–	–	–	**492**
Other liabilities	850	–	–	–	–	**850**
Amounts due to group companies	2,220	30	–	–	8,009	**10,259**
At 31 December 2017	**188,454**	**15,295**	**23,493**	**4,756**	**8,009**	**240,007**

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

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

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

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

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(d) Market risk

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

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

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

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

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

TRM co-ordinates the limit review process: typically, the main limit review is concluded in the first two months of the year, and an additional, light touch review is performed at mid year, ordinarily to accommodate business changes that have occurred in the first half.

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

Sensitivity analysis

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

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

The applies two VaR methodologies:

– Historical simulation: involves the revaluation of all existing positions to reflect the effect of historically observed changes in market risk factors on the valuation of the current portfolio. This approach is applied for general market risk factors and the majority of specific (credit spread) risk VaR.
– Monte Carlo simulation: this methodology is similar to historical simulation but with considerably more input risk factor observations. These are generated by random sampling techniques, but the results retain the essential variability and correlations of historically observed risk factor changes. This approach is applied for some of the specific (credit spread) risk VaR in relation to idiosyncratic exposures in credit markets.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(d) Market risk (Continued)

Sensitivity analysis (Continued)

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

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

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

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

Losses beyond the 97.5 per cent confidence interval are not captured by a VaR calculation, which therefore gives no indication of the size of unexpected losses in these situations. To manage the risk arising from such events, which the VaR methodology does not fully capture, Traded Risk (TR) complements the VaR measurement by weekly stress testing of market risk exposures to highlight the potential risk that may arise from extreme market events that are rare but plausible.

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

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

Group and Company

All figures are in millions of Kenya Shillings million (KShs million)

2018	At 31 December	Average	High	Low
Daily value at risk:				
Foreign exchange risk	7	7	22	1
Interest rate risk	39	46	78	33
Rates trading	5	10	20	2
Total	**51**	**63**	**120**	**36**
2017				
Daily value at risk:				
Foreign exchange risk	9	10	34	5
Interest rate risk	59	89	115	54
Rates trading	12	14	30	5
	80	**113**	**179**	**64**

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(d) Market risk (Continued)

(i) Interest rate risk

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

Group

All figures are in Kenya Shillings million (KShs Million)

31 December 2018

	Weighted average effective interest rate %	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
ASSETS								
Cash and balances with Central Bank of Kenya	–	–	–	–	–	–	20,283	**20,283**
Government and other securities held at FVTPL	6.81	–	58	1,727	2,208	–	(56)	**3,937**
Derivative financial instruments	–	394	–	–	–	–	–	**394**
Loans and advances to banks	4.54	4,729	–	–	1,287	–	–	**6,016**
Loans and advances to customers	9.46	15,140	4,415	7,683	49,631	37,120	4,663	**118,652**
Investment securities	11.34	5,502	16,000	46,755	24,847	1,100	564	**94,768**
Other assets – uncleared effects	–	–	–	–	–	–	1,146	**1,146**
Amounts due from group companies	2.24	23,503	–	5,095	–	–	2,870	**31,468**
		49,268	**20,473**	**61,260**	**77,973**	**38,220**	**29,470**	**276,664**
LIABILITIES								
Deposits from banks	0.50	156	–	–	–	–	–	**156**
Deposits from customers	2.32	72,409	21,413	7,141	2,851	–	120,470	**224,284**
Derivative financial instruments	–	226	–	–	–	–	–	**226**
Other liabilities	–	–	–	–	–	–	713	**713**
Amounts due to group companies	5.54	185	–	–	2,038	4,076	2,248	**8,547**
		72,976	**21,413**	**7,141**	**4,889**	**4,076**	**123,431**	**233,926**
Interest rate sensitivity gap		**(23,708)**	**(940)**	**54,119**	**73,084**	**34,144**	**(93,961)**	**42,738**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(d) Market risk (Continued)

(i) Interest rate risk (Continued)

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

31 December 2018

	Weighted average effective interest rate %	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
ASSETS								
Cash and balances with Central Bank of Kenya	–	–	–	–	–	–	20,283	**20,283**
Government and other securities held at FVTPL	6.81	–	58	1,727	2,208	–	(56)	**3,937**
Derivative financial instruments	–	394	–	–	–	–	–	**394**
Loans and advances to banks	4.54	4,729	–	–	1,287	–	–	**6,016**
Loans and advances to customers	9.46	15,140	4,415	7,683	49,631	37,120	4,663	**118,652**
Investment securities	11.34	5,502	16,000	46,302	24,423	1,000	537	**93,764**
Other assets – uncleared effects	–	–	–	–	–	–	1,146	**1,146**
Amounts due from group companies	2.24	23,503	–	5,095	–	–	3,141	**31,739**
		49,268	**20,473**	**60,807**	**77,549**	**38,120**	**29,714**	**275,931**
LIABILITIES								
Deposits from banks	0.50	156	–	–	–	–	–	**156**
Deposits from customers	2.32	72,409	21,413	7,141	2,851	–	120,470	**224,284**
Derivative financial instruments	–	226	–	–	–	–	–	**226**
Other liabilities	–	–	–	–	–	–	713	**713**
Amounts due to group companies	5.54	185	–	–	2,038	4,076	2,248	**8,547**
		72,976	**21,413**	**7,141**	**4,889**	**4,076**	**123,431**	**233,926**
Interest rate sensitivity gap		**(23,708)**	**(940)**	**53,666**	**72,660**	**34,044**	**(93,717)**	**42,005**

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(d) Market risk (Continued)

(i) Interest rate risk (Continued)

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

31 December 2017

	Weighted average effective interest rate %	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
ASSETS								
Cash and balances with Central Bank of Kenya	–	–	–	–	–	–	13,341	**13,341**
Government and other securities held at FVTPL	11.74	4	1,113	1,028	71	4,800	31	**7,047**
Derivative financial instruments	–	597	–	–	–	–	–	**597**
Loans and advances to banks	1,94	5,103	–	–	–	–	223	**5,326**
Loans and advances to customers	10.37	15,935	78,498	4,276	16,387	7,914	3,284	**126,294**
Investment securities	11.60	8,253	16,000	47,199	27,715	4,500	(172)	**103,495**
Other assets – uncleared effects	–	–	–	–	–	–	680	**680**
Amounts due from group companies	1.34	9,184	–	3,616	–	–	3,321	**16,121**
		39,076	**95,611**	**56,119**	**44,173**	**17,214**	**20,708**	**272,901**
LIABILITIES								
Deposits from banks	4.24	12,701	–	–	–	–	–	**12,701**
Deposits from customers	3.01	36,129	15,101	22,416	3,572	–	136,131	**213,349**
Derivative financial instruments	–	492	–	–	–	–	–	**492**
Other liabilities	–	–	–	–	–	–	850	**850**
Amounts due to group companies	3.58	661	30	–	–	6,198	1,560	**8,449**
		49,983	**15,131**	**22,416**	**3,572**	**6,198**	**138,541**	**235,841**
Interest rate sensitivity gap		**(10,907)**	**80,480**	**33,703**	**40,601**	**11,016**	**(117,833)**	**37,060**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(d) Market risk (Continued)

(i) Interest rate risk (Continued)

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

31 December 2017

	Weighted average effective interest rate %	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
ASSETS								
Cash and balances with Central Bank of Kenya	–	–	–	–	–	–	13,341	**13,341**
Government and other securities held at FVTPL	11.74	4	1,113	1,028	71	4,800	31	**7,047**
Derivative financial instruments	–	597	–	–	–	–	–	**597**
Loans and advances to banks	1,94	5,103	–	–	–	–	223	**5,326**
Loans and advances to customers	10.37	15,935	78,498	4,276	16,387	7,914	3,284	**126,294**
Investment securities	11.60	8,253	16,000	46,535	27,715	4,500	(156)	**102,847**
Other assets – uncleared effects	–	–	–	–	–	–	680	**680**
Amounts due from group companies	1.34	9,184	–	3,615	–	–	3,291	**16,090**
		39,076	**95,611**	**55,454**	**44,173**	**17,214**	**20,694**	**272,222**
LIABILITIES								
Deposits from banks	4.24	12,701	–	–	–	–	–	**12,701**
Deposits from customers	3.01	36,129	15,101	22,416	3,572	–	136,131	**213,349**
Derivative financial instruments	–	492	–	–	–	–	–	**492**
Other liabilities	–	–	–	–	–	–	850	**850**
Amounts due to group companies	3.58	661	30	–	–	6,198	1,560	**8,449**
		49,983	**15,131**	**22,416**	**3,572**	**6,198**	**138,541**	**235,841**
Interest rate sensitivity gap		**(10,907)**	**80,480**	**33,038**	**40,601**	**11,016**	**(117,847)**	**36,381**

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(d) Market risk (Continued)

(ii) Currency rate risk

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

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

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

31 December 2018

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

31 December 2017

ASSETS	USD	Euro	GBP	Other	Total
Cash, deposits and advances to banks	6,062	102	95	104	**6,363**
Loans and advances to customers	38,073	1,804	434	737	**41,048**
Other assets	181	977	163	29	**1,350**
Amounts due from group companies	12,071	482	2,317	129	**14,999**
	56,387	**3,365**	**3,009**	**999**	**63,760**
LIABILITIES					
Deposits from banks	2,828	11	–	3	**2,842**
Deposits from customers	52,556	3,118	2,972	82	**58,728**
Other liabilities	1,551	328	37	163	**2,079**
Amounts due to group companies	6,270	–	–	754	**7,024**
	63,205	**3,457**	**3,009**	**1,002**	**70,673**
Net statement of financial position exposure	**(6,818)**	**(92)**	**–**	**(3)**	**(6,913)**

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(e) Operational risk

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

Operational risk profile

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

The significant losses recorded during the year were:

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

The Group's and Company's profile of operational loss events in 2018 and 2017 is summarised in the table below. It shows, the percentage distribution of gross operational losses by Basel business lines.

	% Loss	
Distribution of operational losses by Basel business line	**2018**	**2017**
Agency services	14.9	0.0
Commercial Banking	24.9	7.8
Corporate Finance	0.0	0.0
Corporate items	5.2	24.2
Payment and settlements	5.3	4.0
Retail Banking	38.5	62.5
Retail brokerage	0.0	0.0
Trading and sales	11.2	1.5
	100.0	**100.0**

The Group's and Company's profile of operational loss events in 2018 and 2017 is also summarised in the table below. It shows the percentage distribution of gross operational losses by Basel event type.

	% Loss	
Distribution of operational losses by Basel event type	**2018**	**2017**
Business disruption and system failure	0.1	0.0
Clients' products and business practices	0.0	0.0
Employment practices and workplace safety	0.0	0.0
Execution, delivery and process management	61.6	68.8
External fraud	38.3	25.4
Internal fraud	0.0	5.8
	100.0	**100.0**

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(d) Operational risk (Continued)

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

Operational risk management principles

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

Operational risk governance

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

Internal organisation - Three Lines of Defence

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

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

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

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

Non-Principal Risk Types (non-PRT) Management guiding principles

- The Group and Company will identify and assess all operational risks arising as a consequence of their business activities;
- The Group and Company will systematically and consistently monitor the design and operating effectiveness of the system of controls for all PRT and non-PRT, using Control Assessment Standards. Evidence based control monitoring data forms the direct basis of the assessment;
- The Group and Company will systematically identify existing or emerging operational risks which exceed appetite to define appropriate mitigating actions which may include business restrictions; and
- The Group and Company will not miss any opportunity to learn lessons from significant internal or external events and will implement relevant mitigation actions.

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(e) Operational risk (Continued)

Non-Principal Risk Types (non-PRT) classification

The ORTF defines the risk classification of non-PRTs and assigns Subject Matter Experts as the owners for the non-PRTs. The levels of inherent and residual risk are assessed for each non-PRT. Residual risk is the level of risk remaining after mitigation is applied. Mitigation can include a combination of controls, insurance and/or business volume reduction. Changes in the level of inherent risk are continuously monitored, which can result in adjustments to the mitigation including potentially a recalibration of the system of controls. Operational risk sub-types are listed in the table below.

Risk Sub-type		*Definition*
Executive Capability	Transaction processing	Potential for loss due to failures in the design or execution of client facing transactions.
	Product management	Potential for loss due to the failure to design and/or meet product management standards and product-related regulatory requirements.
	People management	Potential for loss due to the failure to meet standards for people management including relevant regulations (e.g. employment, remuneration and benefits).
Operational Resilience	Client service resilience	Potential for loss or adverse impact due to failures to maintain or manage processes supporting client service.
	System availability	Potential for loss or adverse impact due to failures to maintain systems (including the design and setup of software and architecture).
	Data quality	Potential for loss due to the failure to define and/or meet data quality standards including resilience requirements.
	Vendor service	Potential for loss or adverse impact due to failures to maintain vendor service (including resilience requirements).
	Change management	Potential for loss or adverse impact due to failures to manage project related change.
Fraud	Internal fraud	Potential for loss due to action by staff which is intended to defraud, or to circumvent the law or company policy (including Rogue Trading).
	External fraud	Potential for loss due to criminal acts by external parties such as the misappropriation or theft of financial assets.

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(e) Operational risk (Continued)

Non-Principal Risk Types (non-PRT) classification (Continued)

Definition		*Risk Sub-type*
Corporate Governance	Corporate governance and authorities	Potential for loss due to non-compliance with relevant laws, regulations, ordinances or market guidance (which a Group entity would customarily comply with) relating to an entity's board, directors, members and shareholders.
	Exchange listing rules	Potential for loss due to non-compliance with laws or stock exchange rules for a listed Group entity.
Reporting and Obligations	Financial books and records	Potential for loss or adverse impact due to failure to comply with laws and regulations for financial books and records.
	Tax Obligations	Potential for loss or adverse impact due to failure to comply with laws and regulations for tax.
Model		Potential for loss or adverse impact due to incorrect design or use of models.
Safety and security		Potential for loss or damage due to failure to create a safe, secure, and healthy environment for staff and clients. This risk considers both the protection of property and physical assets, health and safety standards, and resilience requirements.
Legal enforceability		The potential for loss due to difficulty in enforcing the Group's and Company's contractual rights.

Operational risk management approach

The Group and Company define and maintain a complete process universe for all client segments, products and functions processes.

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

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

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

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

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(e) Operational risk (Continued)

Other principal risks

Losses arising from our other principal risks (compliance, conduct, reputational, information and cyber security and financial crime) would be captured under operational losses.

(f) Capital review

The capital review provides an analysis of the Company's capital position and requirements.

Capital summary

The Company's capital position is managed within the Board-approved risk appetite. The Company is well capitalised.

Regulatory capital

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

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

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

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

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

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

In addition, a bank must maintain a minimum core capital of KShs 1,000 million.

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

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

Supplementary capital includes 25% of revaluation reserves of property and equipment and the statutory credit risk reserve.

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

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(f) Capital review (Continued)

Regulatory capital

Company	2018 KShs Million	2017 KShs Million
Core (Tier 1) capital instruments and reserves		
Share capital	1,998	1,998
Share premium	7,792	7,792
Retained earnings	26,663	26,912
Capital contributions reserve	1,824	1,824
	38,277	**38,526**
Tier 1 regulatory adjustments		
Goodwill on acquired intangible (Note 27)	(1,112)	(1,112)
Acquired intangible (Note 27)	(623)	(910)
Deferred tax asset	(1,083)	(876)
Core (Tier 1) capital	**35,459**	**35,628**
Supplementary (Tier 2) capital instruments and reserves		
Revaluation reserves (25%)	186	188
Statutory credit risk reserve	–	216
Subordinated debt (Note 22)	6,132	6,210
Supplementary (Tier 2) capital	**6,318**	**6,614**
Total capital	**41,777**	**42,242**
Risk weighted assets		
Credit risk	137,593	146,668
Market risk	19,745	28,070
Operational risk	57,244	53,374
Total risk weighted assets	**214,582**	**228,112**
Deposits from customers	**224,284**	**213,349**

Capital ratios	CBK minimum	2018	2017
	%	%	%
Tier 1 capital	10.50	16.52	15.62
Total capital	14.50	19.47	18.52
Tier 1 to total deposits	8.00	15.81	16.70

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW (Continued)

(f) Capital management (Continued)

The adoption of the IFRS 9 accounting standard did not have a material impact on the capital ratios. Under transitional rules the impact on the capital ratios was negligible.

Capital allocation

The Company's capital position is managed within the Board approved risk appetite. This 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 Company to support the strategy. This is integrated with the Group's and Company's annual planning process that takes into consideration business growth assumptions across products and the related impact on capital resources.

The capital plan takes the following into account:

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

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

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

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

5. SEGMENTAL INFORMATION

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

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

The analysis reflects how the client segments are managed internally. This is described as the Management view.

The segment results were as follows:

Group income statement for the year ended 31 December 2018	Corporate & Institutional Banking KShs Million	Commercial Banking KShs Million	Retail Banking KShs Million	Central & other items KShs Million	Total KShs Million
Net interest income	4,169	1,659	8,331	4,905	**19,064**
Non funded income	4,212	610	3,846	43	**8,711**
Operating income	**8,381**	**2,269**	**12,177**	**4,948**	**27,775**
Operating expenses	(4,428)	(1,669)	(8,197)	(285)	**(14,579)**
Impairment on financial instruments (IFRS 9)	95	(609)	(909)	74	**(1,349)**
Profit before taxation	**4,048**	**(9)**	**3,071**	**4,737**	**11,847**

Group income statement for the year ended 31 December 2017	Corporate & Institutional Banking KShs Million	Commercial Banking KShs Million	Retail Banking KShs Million	Central & other items KShs Million	Total KShs Million
Net interest income	4,069	1,676	7,463	4,748	**17,956**
Non funded income	4,595	515	3,540	20	**8,670**
Operating income	**8,664**	**2,191**	**11,003**	**4,768**	**26,626**
Operating expenses	(4,637)	(1,257)	(6,530)	(361)	**(12,785)**
Net impairment losses on loans and advances (IAS 39)	(2,575)	(64)	(1,131)	–	**(3,770)**
Profit before taxation	**1,452**	**870**	**3,342**	**4,407**	**10,071**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

5. SEGMENTAL INFORMATION (Continued)

Company income statement for the year ended 31 December 2018	Corporate & Institutional Banking KShs Million	Commercial Banking KShs Million	Retail Banking KShs Million	Central & other items KShs Million	Total KShs Million
Net interest income	4,169	1,659	8,332	4,799	**18,959**
Non funded income	4,212	610	2,850	250	**7,922**
Operating income	**8,381**	**2,269**	**11,182**	**5,049**	**26,881**
Operating expenses	(4,428)	(1,669)	(7,721)	(282)	**(14,100)**
Impairment losses on financial instruments (IFRS 9)	95	(609)	(909)	75	**(1,348)**
Profit before taxation	**4,048**	**(9)**	**2,552**	**4,842**	**11,433**

Company income statement for the year ended 31 December 2017	Corporate & Institutional Banking KShs Million	Commercial Banking KShs Million	Retail Banking KShs Million	Central & other items KShs Million	Total KShs Million
Net interest income	4,069	1,676	7,463	4,668	**17,876**
Non funded income	4,595	515	2,800	20	**7,930**
Operating income	**8,664**	**2,191**	**10,263**	**4,688**	**25,806**
Operating expenses	(4,637)	(1,247)	(6,286)	(356)	**(12,526)**
Net impairment losses on loans and advances (IAS 39)	(2,575)	(64)	(1,131)	–	**(3,770)**
Profit before taxation	**1,452**	**880**	**2,846**	**4,332**	**9,510**

Group statement of financial position as at 31 December 2018	Corporate & Institutional Banking KShs Million	Commercial Banking KShs Million	Retail Banking KShs Million	Central & other items KShs Million	Total KShs Million
Total assets employed	**38,533**	**10,842**	**74,218**	**161,811**	**285,404**
Of which: loans and advances to customers	33,628	14,660	70,364	–	**118,652**
Total liabilities employed	**81,879**	**19,812**	**124,808**	**12,265**	**238,764**
Of which: customer deposits	80,737	19,714	123,833	–	**224,284**
Other segment items:					
Depreciation and amortisation	310	95	349	44	**798**
Capital expenditure	–	2	164	34	**200**

5. SEGMENTAL INFORMATION (Continued)

Group statement of financial position as at 31 December 2017	Corporate & Institutional Banking KShs Million	Commercial Banking KShs Million	Retail Banking KShs Million	Central & other items KShs Million	Total KShs Million
Total assets employed	**77,865**	**13,660**	**66,974**	**127,225**	**285,724**
Of which: loans and advances to customers	45,971	13,659	66,664	–	**126,294**
Total liabilities employed	**83,118**	**21,016**	**124,393**	**11,532**	**240,059**
Of which: customer deposits	68,457	20,966	123,926	–	**213,349**
Other segment items:					
Depreciation and amortisation	398	31	399	52	**880**
Capital expenditure	–	–	463	76	**539**

Company statement of financial position as at 31 December 2018	Corporate & Institutional Banking KShs Million	Commercial Banking KShs Million	Retail Banking KShs Million	Central & other items KShs Million	Total KShs Million
Total assets employed	**38,533**	**10,842**	**74,206**	**161,110**	**284,691**
Of which: loans and advances to customers	33,628	14,660	70,364	–	**118,652**
Total liabilities employed	**81,879**	**19,812**	**124,809**	**12,855**	**239,355**
Of which: customer deposits	80,737	19,714	123,833	–	**224,284**
Other segment items:					
Depreciation and amortisation	310	95	349	44	**798**
Capital expenditure	–	2	164	34	**200**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

5. SEGMENTAL INFORMATION (Continued)

Company statement of financial position as at 31 December 2017	Corporate & Institutional Banking KShs Million	Commercial Banking KShs Million	Retail Banking KShs Million	Central & other items KShs Million	Total KShs Million
Total assets employed	**77,865**	**13,660**	**66,974**	**126,626**	**285,125**
Of which: loans and advances to customers	45,971	13,659	66,664	–	**126,294**
Total liabilities employed	**83,118**	**21,016**	**124,393**	**12,014**	**240,541**
Of which: customer deposits	68,457	20,966	123,926	–	**213,349**
Other segment items:					
Depreciation and amortisation	398	31	399	52	**880**
Capital expenditure	–	–	463	76	**539**

6. NET INTEREST INCOME

Accounting policy from 1 January 2018

Interest income for financial assets held at either FVOCI or amortised cost, and interest expense on all financial liabilities held at amortised cost is recognised in the income statement using the effective interest method.

Interest income and expense on financial instruments held at FVTPL is recognised within net interest income.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the expected life of the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of a financial asset or the amortised cost of a financial liability. When calculating the effective interest rate for financial instruments other than credit impaired assets, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but does not consider the expected credit losses. The calculation of effective interest rate includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, expected credit losses (for stage 3 instruments) and all other premiums or discounts.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Accounting policy before 1 January 2018

Interest income and expense on available-for-sale assets and financial assets or financial liabilities held at amortised cost is recognised in the income statement using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts or payments through the expected life of the financial instrument or, when appropriate, a shorter period, to the carrying amount of the financial asset or financial liability.

6. NET INTEREST INCOME (Continued)

Accounting policy before 1 January 2018 (Continued)

The effective interest rate is established on initial recognition of the financial asset and financial liability and is not revised subsequently. When calculating the effective interest rate, the Group estimates the cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between the parties to the contract that are an integral part of the effective interest rate, transaction costs and all other discounts and premiums. Where the estimates of cash flows have been revised, the carrying amount of the financial asset or liability is adjusted to reflect actual and revised cash flows, discounted at the instrument's original effective interest rate. The adjustment is recognised as interest income or expense in the period in which the revision was made.

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

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

	IFRS 9 2018		IAS 39 2017	
	Group KShs Million	Company KShs Million	Group KShs Million	Company KShs Million
Loans and advances to customers	12,702	12,702	13,183	13,183
Loans and advances to banks	1,285	1,285	1,350	1,350
Investment securities at FVOCI	11,847	11,765	–	–
Financial instruments as FVTPL	612	612	–	–
Investment securities (available-for-sale)	–	–	11,053	11,002
Accrued on impaired assets (Discount unwind)	425	425	375	375
Interest income	**26,871**	**26,789**	**25,961**	**25,910**
Deposits from customers	6,768	6,791	6,705	6,733
Deposits from banks	1,039	1,039	1,300	1,301
Interest expense	**7,807**	**7,830**	**8,005**	**8,034**
Net interest income	**19,064**	**18,959**	**17,956**	**17,876**

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

7. NET FEE AND COMMISSION INCOME

Accounting policy

Fees and commissions charged for services provided or received by the Group are recognised on an accrual basis as the service is performed.

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

Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself, or retained a part at the same effective interest rate for the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts as the related services are performed.

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

	2018		2017	
	Group KShs Million	Company KShs Million	Group KShs Million	Company KShs Million
Commissions	4,475	3,478	3,951	3,211
Service fees	1,463	1,463	1,157	1,157
	5,938	**4,941**	**5,108**	**4,368**
Fee and commission expense				
Inter-bank transaction fees and other fees	534	534	593	593
Net fee and commission income	**5,404**	**4,407**	**4,515**	**3,775**

8. NET TRADING INCOME

Accounting policy from 1 January 2018

Gains and losses arising from changes in the fair value of financial instruments held at FVTPL are included in the income statement in the period in which they arise.

Income is recognised from the sale and purchase of trading positions, margins on market making and customer business and fair value changes.

Foreign exchange gains and losses on monetary items are recognised in net trading income.

Accounting policy before 1 January 2018

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

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

Group and Company	2018 IFRS 9 KShs Million	2017 IAS 39 KShs Million
Gains less losses on foreign currency transactions	2,844	2,661
Other trading profits	457	1,038
Interest income on held-for-trading securities	–	313
	3,301	**4,012**

9. DIVIDEND INCOME

Accounting policy

Dividend income is recognised when the right to receive a dividend is established. Dividends on equity instruments are recognised when the right to receive payment is established. This is usually the ex-dividend date for equity securities.

Company	2018 KShs Million	2017 KShs Million
Standard Chartered Investment Services Limited	183	–
Standard Chartered Insurance Agency Limited	25	–
	208	**–**

10. OTHER OPERATING INCOME

Accounting policy from 1 January 2018

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

On disposal of FVOCI debt financial instruments, the cumulative gain or loss recognised in other comprehensive income is recycled to the income statement in other operating income.

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

Accounting policy before 1 January 2018

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

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

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

	2018		2017	
	Group KShs Million	Company KShs Million	Group KShs Million	Company KShs Million
Losses on disposal of available-for-sale securities:				
Government treasury bonds and bills	–	–	(16)	(16)
Gains on disposal of FVOCI securities:				
Government treasury bonds and bills	27	27	–	–
Rental income from operating leases	19	19	8	8
Profit on sale of non-current asset held for sale	–	–	184	184
Loss on sale of property and equipment	(39)	(39)	(32)	(32)
Other	(1)	(1)	(1)	(1)
	6	**6**	**143**	**143**

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

11. OPERATING EXPENSES

Accounting policy

Short-term employee benefits: Salaries are recognised over the period in which the employees provide the service. A liability is recognised for the amount expected to be paid if the group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably. Variable compensation is included within share-based payments costs and wages and salaries.

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

Share-based compensation: The Group's employees participate in equity-settled and cash-settled share-based payment compensation plans operated by Standard Chartered PLC, the ultimate holding company of Standard Chartered Bank Kenya Limited and its subsidiaries. Participating employees are awarded ordinary shares in Standard Chartered PLC in accordance with the terms and conditions of the relevant scheme. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. For deferred share awards granted as part of an annual performance award, the expense is recognised over the period from the start of the performance period to the vesting date.

For example, the expense for awards granted in 2017 in respect of 2016 performance, which vest in 2018-2020, is recognised as an expense over the period from 1 January 2016 to the vesting dates in 2018-2020. For all other awards, the expense is recognised over the period from the date of grant to the vesting date.

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

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

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

11. OPERATING EXPENSES (Continued)

Accounting policy (Continued)

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

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

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

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

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

Significant accounting estimates and judgments

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

Staff costs

	2018		2017	
	Group KShs Million	Company KShs Million	Group KShs Million	Company KShs Million
Salaries and wages	5,696	5,540	5,409	5,256
Contributions to defined contribution plan	612	596	581	569
Increase in retirement benefit obligations (Note 35)	55	55	46	46
Redundancy charge	611	608	173	172
Employee share-based payments expenses	45	45	38	38
Deferred cash awards	6	6	16	16
Other staff costs	622	617	755	746
	7,647	**7,467**	**7,018**	**6,843**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

11. OPERATING EXPENSES (Continued)

The number of employees at the year-end was:	2018 No.	2017 No.
Group and Company		
Management	1,238	1,240
Unionisable	247	213
Other	82	134
	1,567	**1,587**

Premises and equipment costs

	2018		2017	
	Group KShs Million	Company KShs Million	Group KShs Million	Company KShs Million
Rental of premises	459	458	416	414
Rental of computers and equipment	105	105	117	116
Electricity	89	89	98	98
Other premises and equipment costs	337	325	304	282
	990	**977**	**935**	**910**

Group and Company Depreciation and amortisation	2018 KShs Million	2017 KShs Million
Buildings and leasehold land	22	17
Fixtures, fittings and equipment	420	399
Motor vehicles	–	4
Depreciation on property and equipment (Note 26)	442	420
Amortisation of intangible assets (Note 27)	394	459
Amortisation of prepaid operating lease rentals (Note 28)	3	3
	839	**882**

12. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2018		2017	
	Group KShs Million	Company KShs Million	Group KShs Million	Company KShs Million
Depreciation on property and equipment (Note 26)	442	442	420	420
Amortisation of intangible assets (Note 27)	394	394	459	459
Amortisation of prepaid operating` lease rentals (Note 28)	3	3	3	3
Directors' emoluments – Fees	16	16	14	14
– Other	283	283	293	293
Loss on sale of property and equipment	39	39	32	32
Auditors' remuneration	20	19	18	17
And after crediting:				
Profit on sale of non-current asset held for sale	–	–	184	184

13. TAXATION

Accounting Policy

Income tax expense comprises current and change in deferred tax.

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

Deferred tax is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group financial statements. Deferred tax is not recognised on the initial recognition of goodwill as well as differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted at the balance sheet date, and that are expected to apply when the related deferred tax asset is realised or the deferred income tax liability is settled. Deferred tax assets are recognised where it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

Significant accounting estimates and judgments

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

	2018		2017	
	Group KShs Million	Company KShs Million	Group KShs Million	Company KShs Million
Current year's tax at 30%	3,574	3,329	3,516	3,345
Prior year corporation tax under- provision	14	14	750	750
	3,588	3,343	4,266	4,095
Deferred tax charge/(credit) (Note 29)	160	215	(1,109)	(1,108)
Income tax expense	**3,748**	**3,558**	**3,157**	**2,987**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

13. TAXATION (Continued)

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

	2018		2017	
	Group KShs Million	Company KShs Million	Group KShs Million	Company KShs Million
Accounting profit before taxation	**11,847**	**11,433**	**10,071**	**9,510**
Computed tax using the applicable corporation tax rate at 30%	3,554	3,430	3,021	2,853
Tax exempt income	(116)	(180)	(93)	(93)
Non-deductible expenses	212	210	243	241
Prior year deferred tax asset over/(under) – provision (Note 29)	84	84	(764)	(764)
Prior year corporation tax under - provision	14	14	750	750
Income tax expense	**3,748**	**3,558**	**3,157**	**2,987**
Tax recoverable/(payable)				
At 1 January	1,364	1,350	(1,121)	(1,046)
Current year tax expense	(3,574)	(3,329)	(3,516)	(3,345)
Prior year under - provision	(14)	(14)	(750)	(751)
Income taxes paid	2,553	2,344	6,751	6,492
At 31 December	**329**	**351**	**1,364**	**1,350**

The current tax liabilities and assets are shown below:

	2018		2017	
	Group KShs Million	Company KShs Million	Group KShs Million	Company KShs Million
Tax recoverable	399	351	1,390	1,350
Tax payable	(70)	–	(26)	–
	329	**351**	**1,364**	**1,350**

14. EARNINGS PER ORDINARY SHARE

Accounting policy

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

The calculation of Group basic earnings per share at 31 December 2018 and 2017 is based on the profit attributable to ordinary shareholders of KShs 7,931 million (2017 – KShs 6,746 million) and a weighted average number of ordinary shares outstanding during the year of 343,510,572 (2017 – 343,510,572).

The calculation of Company basic earnings per share at 31 December 2018 and 2017 is based on the profit attributable to ordinary shareholders of KShs 7,707 million (2017 – KShs 6,355 million) and a weighted average number of ordinary shares outstanding during the year of 343,510,572 (2017 – 343,510,572).

	2018		2017	
	Group KShs Million	Company KShs Million	Group KShs Million	Company KShs Million
Profit attributable to ordinary shareholders:				
Net profit for the year	8,099	7,875	6,914	6,523
Dividend on non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares	(168)	(168)	(168)	(168)
	7,931	**7,707**	**6,746**	**6,355**
Basic earnings per share (KShs)	**23.09**	**22.44**	**19.64**	**18.50**

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 2018 and 2017.

15. DIVIDENDS

Accounting policy

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

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

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

Group and Company	2018 KShs Million	2017 KShs Million
Dividends – Ordinary shares	4,809	4,294
Dividends – Preference shares	85	85
	4,894	**4,379**

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

15. DIVIDENDS (Continued)

At the Annual General Meeting to be held on 23 May 2019, a final dividend in respect of the year ended 31 December 2018 of KShs 14.00 (2017 – KShs 12.50) for every ordinary share of KShs 5.00 is to be proposed. One interim dividend of KShs 5.00 (2017 – KShs 4.50) for every ordinary share of KShs 5.00 was declared on 22 August 2018 and paid on 29 October 2018. This will bring the total dividend for the year to KShs 19.00 (2017 – KShs 17.00) per ordinary share of KShs 5.00.

At the Annual General Meeting to be held on 23 May 2019, a final dividend in respect of the year ended 31 December 2018 of KShs 84,690,411 (2017 – KShs 84,690,411) for the preference shares is to be proposed. An interim dividend of KShs 83,309,589 (2017 – KShs 83,309,589) was declared on 26 August 2018 and paid on 29 October 2018. This will bring the total dividend for the year to KShs 168,000,000 (2017 – KShs 168,000,000).

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

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

16. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

Accounting policy

Cash and cash equivalents comprise cash on demand and unrestricted balances with the Central Bank of Kenya and balances with less than three months' maturity from the date of acquisition, including treasury bills and other eligible bills and loans and advances to banks.

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

Group and Company	2018 KShs Million	2017 KShs Million
Cash on hand	3,579	3,723
Balances with Central Bank of Kenya:		
– Restricted balances (Cash Reserve Ratio)	12,100	7,187
– Unrestricted balances	4,604	2,431
	20,283	**13,341**

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 2018, the Cash Reserve Ratio requirement was 5.25% (2017 – 5.25%) of all deposits. These funds are available for use by the Company in its day-to-day operations in a limited way provided that on any given day this balance does not fall below the 3.00% requirement and provided that the overall average in the month is at least 5.25%.

17. GOVERNMENT AND OTHER SECURITIES HELD AT FVTPL

Accounting policy

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

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

Group and Company	2018 At FVTPL			2017 Held for trading		
	Treasury bonds KShs Million	Treasury bills KShs Million	Total KShs Million	Treasury bonds KShs Million	Treasury bills KShs Million	Total KShs Million
At 1 January	5,111	1,936	**7,047**	923	3,858	**4,781**
Additions	17,374	4,305	**21,679**	15,209	14,824	**30,033**
Disposals and maturities	(20,043)	(4,629)	**(24,672)**	(11,232)	(16,750)	**(27,982)**
Changes in fair value	(119)	2	**(117)**	211	4	**215**
At 31 December	**2,323**	**1,614**	**3,937**	**5,111**	**1,936**	**7,047**

18. DERIVATIVE FINANCIAL INSTRUMENTS

Accounting policy

Changes in fair value of any derivative instruments not qualifying for hedge accounting are recognised immediately in the income statement. Derivative financial instruments are initially recognised at fair value. Subsequent to initial recognition, derivative financial instruments are measured at fair value. For derivative financial instruments traded in active markets, quoted market prices for identical financial assets or financial liabilities that the entity has access to are used. For all other financial instruments which do not have an observable price in an active market, fair value is measured using valuation techniques. Valuation techniques maximise the use of observable inputs and minimise the use of unobservable inputs. The gain or loss on re-measurement to fair value is recognised immediately in the income statement.

The Group uses the following derivative instruments:

Currency forwards

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

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

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

18. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Accounting policy (Continued)

Currency and interest rate swaps

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

Foreign currency and interest rate options

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

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognised on the statement of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks.

The derivative instruments become favourable (assets) or unfavourable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favourable or unfavourable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

The types of derivatives used by the Group are set out below.

These tables analyse the notional principal amounts and the positive (assets) and negative (liabilities) fair values of the Group's derivative financial instruments. Notional principal amounts are the amount of principal underlying the contract at the reporting date.

Group and Company	2018			2017		
	Notional principal amounts KShs Million	Assets KShs Million	Liabilities KShs Million	Notional principal amounts KShs Million	Assets KShs Million	Liabilities KShs Million
Interest rate and cross currency derivative contracts	1,773	394	226	4,024	597	**492**
Forward exchange contracts	67,028	–	–	83,994	–	–
	68,801	**394**	**226**	**88,018**	**597**	**492**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

19. LOANS AND ADVANCES TO BANKS

Accounting policy

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

Group and Company	2018 KShs Million	2017 KShs Million
Loans and advances to local banks	5,869	5,230
Loans and advances to foreign banks	149	96
	6,018	**5,326**
Less credit loss allowance (Note 4 (a) (v))	(2)	–
	6,016	**5,326**

The weighted average effective interest rate on loans and advances to banks at 31 December 2018 was 4.54% (2017 – 1.94%).

20. LOANS AND ADVANCES TO CUSTOMERS

Accounting policy

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

Group and Company	2018	2017
(a) **Product classification**	**KShs Million**	**KShs Million**
Overdrafts	24,644	17,927
Loans	102,658	115,513
Bills discounted	558	888
Gross loans and advances	127,860	134,328
Less loss allowance (Note 4(a) (v)), (Note 20(b))	(9,208)	(8,034)
Net loans and advances	**118,652**	**126,294**
(b) **Maturity term classification**		
Repayable on demand	27,031	24,128
Less than 3 months	7,683	18,644
3 months to 1 year	7,434	6,560
1 to 5 years	49,264	48,402
5 to 10 years	14,837	15,012
Over 10 years	21,611	21,582
Gross loans and advances	**127,860**	**134,328**

The weighted average effective interest rate on loans and advances to customers at 31 December 2018 was 9.46% (2017 – 10.37%).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

20. LOANS AND ADVANCES TO CUSTOMERS (Continued)

(c) Impairment losses on loans and advances

Group and Company

IFRS 9 2018	Stage 1 KShs Million	Stage 2 KShs Million	Stage 3 KShs Million	Total KShs Million
At 1 January	1,564	1,419	6,850	9,833
Translation	(1)	(13)	(3)	(17)
Transfers	351	(298)	(53)	–
Net (credit)/charge to income statement	(914)	(30)	2,874	1,930
Recoveries	–	–	(489)	(489)
Amounts written off	–	–	(1,624)	(1,624)
Discount unwind (Note 6)	–	–	(425)	(425)
At 31 December	**1,000**	**1,078**	**7,130**	**9,208**

IAS 39 2017	Specific impairment losses KShs Million	Portfolio impairment provision KShs Million	Total KShs Million
At 1 January	4,631	948	5,579
Provisions recognised during the year	4,106	386	4,492
Amounts written off during the year	(941)	(150)	(1,091)
Recoveries	(571)	–	(571)
Amounts released to interest income (Note 6)	(375)	–	(375)
At 31 December	**6,850**	**1,184**	**8,034**
Provisions recognised during the year	4,106	386	4,492
Amounts recovered during the year	(571)	(151)	(722)
Net charge to the income statement	**3,535**	**235**	**3,770**

(d) Net impairment charge on financial instruments

The table below summarises the net charge to the income statement against the financial instruments subject to impairment.

	2018		2017	
	Group KShs Million	Company KShs Million	Group KShs Million	Company KShs Million
Loans and advances to customers	1,441	1,441	3,770	3,770
Investment securities at FVOCI	(73)	(74)	–	–
Financial guarantees and letters of acceptance	(19)	(19)	–	–
	1,349	**1,348**	**3,770**	**3,770**

Business Review
Corporate Governance
FINANCIAL STATEMENTS
Others

21. INVESTMENT SECURITIES

Accounting policy

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

	2018		2017	
	Group KShs Million	Company KShs Million	Group KShs Million	Company KShs Million
Treasury bonds	43,852	42,848	51,190	50,542
Treasury bills	50,897	50,897	52,296	52,296
	94,749	93,745	103,486	102,838
Equity shares	19	19	9	9
Total investment securities	**94,768**	**93,764**	**103,495**	**102,847**

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

Group 2018	Treasury bonds and bills KShs Million	Equity shares KShs Million	Total KShs Million
At 1 January	103,486	9	103,495
Additions	78,771	11	78,782
Disposals and maturities	(93,773)	–	(93,773)
Changes in fair value	669	–	669
Movement in accrued interest	(151)	–	(151)
Translation differences	–	(1)	(1)
Amortisation of discounts and premiums	5,747	–	5,747
At 31 December	**94,749**	**19**	**94,768**

2017	Treasury bonds and bills KShs Million	Money market bonds KShs Million	Equity shares KShs Million	Total KShs Million
At 1 January	81,708	502	8	82,218
Additions	121,998	–	–	121,998
Disposals and maturities	(107,209)	(500)	–	(107,709)
Changes in fair value	509	9	–	518
Movement in accrued interest	315	(11)	–	304
Translation differences	–	–	1	1
Amortisation of discounts and premiums	6,165	–	–	6,165
At 31 December	**103,486**	**–**	**9**	**103,495**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

21. INVESTMENT SECURITIES (Continued)

Company 2018	Treasury bonds and bills KShs Million	Equity shares KShs Million	Total KShs Million
At 1 January	102,838	9	102,847
Additions	77,985	11	77,996
Disposals and maturities	(93,335)	–	(93,335)
Changes in fair value	672	–	672
Movement in accrued interest	(149)	–	(149)
Translation differences	–	(1)	(1)
Amortisation of discounts and premiums	5,734	–	5,734
At 31 December	**93,745**	**19**	**93,764**

2017	Treasury bonds and bills KShs Million	Money market bonds KShs Million	Equity shares KShs Million	Total KShs Million
At 1 January	81,565	502	8	82,075
Additions	121,499	–	–	121,499
Disposals and maturities	(107,209)	(500)	–	(107,709)
Changes in fair value	523	8	–	531
Movement in accrued interest	301	(10)	–	291
Translation differences	–	–	1	1
Amortisation of discounts and premiums	6,159	–	–	6,159
At 31 December	**102,838**	**–**	**9**	**102,847**

The weighted average effective interest rate on treasury bonds at 31 December 2018 was 12.57% (2017 – 12.52%) and on treasury bills was 10.39% (2017 – 10.78%).

There were no treasury bills under repurchase agreements outstanding at 31 December 2018 and 2017.

There were no money market bonds as at 31 December 2018 (2017: nil).

At 31 December 2018, unamortised premiums on investment securities amounted to KShs 93 million (2017 – KShs 79 million) and unamortised discounts amounted to KShs 269 million (2017 – KShs 2,624 million).

22. OTHER ASSERS

Accounting policy

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

	2018		2017	
	Group KShs Million	Company KShs Million	Group KShs Million	Company KShs Million
Un-cleared effects	1,146	1,146	680	680
Prepayments	211	211	207	207
Other receivables	1,847	1,835	4,532	4,516
	3,204	**3,192**	**5,419**	**5,403**

23. GROUP COMPANY BALANCES

Accounting policy

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

	2018		2017	
	Group KShs Million	Company KShs Million	Group KShs Million	Company KShs Million
Amounts due from group companies	31,473	31,744	16,121	16,090
Less loss allowance (Note 4(a)(v))	(5)	(5)	–	–
	31,468	**31,739**	**16,121**	**16,090**
Amounts due to group companies	**8,547**	**8,547**	**8,449**	**8,449**
Amounts due to subsidiaries	**–**	**674**	**–**	**529**

Included in amounts due to group companies is an amount of US$ 60 million (KShs 6,132 million) (2017 – US$ 60 million (KShs 6,210 million)) relating to subordinated debt made up of three amounts of US$ 20 million each advanced on 30 December 2013, 22 December 2014 and 19 August 2016, respectively. The subordinated debts are unsecured 10-year loan capital issued by Standard Chartered PLC to enhance the Company's capital base (Tier 2 capital) but can be recalled after five years and 1 day at the option of both parties. The subordinated debts are unguaranteed and subordinated to the claims of other creditors including without limitation, customer deposits and deposits by banks. The Group has the right to settle the subordinated debts in certain circumstances as set out in the contractual agreement. The interest on the subordinated debts are referenced to the LIBOR. The weighted average effective interest rate at 31 December 2018 on the subordinated debts was 5.54% (2017 – 4.31%).

The weighted average effective interest rate at 31 December 2018 on amounts due from group companies was 2.24% (2017 – 1.34%) and on amounts due to group companies was 5.54% (2017 – 3.58%).

Amounts due to subsidiaries relate to cash held in current and term deposit accounts on behalf of the Company's subsidiaries. The weighted average effective interest rate on the term deposits was 8.00% (2017 – 9.20%).

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

24. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

Accounting policy

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

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

The following subsidiaries are wholly owned by the Company:

Company	Status	2018 KShs Million	2017 KShs Million
Standard Chartered Investment Services Limited	Active	20	20
Standard Chartered Insurance Agency Limited	Active	1	1
Standard Chartered Financial Services Limited	Non-trading	120	120
Standard Chartered Kenya Nominees Limited	Non-trading	–	–
		141	**141**

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

25. BUSINESS COMBINATION

Accounting policy

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

Transaction costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in the income statement.

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

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

25. BUSINESS COMBINATION (Continued)

Accounting policy (Continued)

In addition to the purchase price paid by SCBKL, Standard Chartered PLC paid GBP £14,133,404 (KShs 1,824 million) in respect of the value that BBKL's custody clients provide across the Pan-African network covered by the Barclays Bank PLC's Africa custody business as a whole. This represents the value deemed to arise as a result of revenue streams from regional and global customer relationships acquired. In effect, the purchase price paid for by Standard Chartered PLC is deemed to be a capital contribution.

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

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

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

- cash flows were projected based on past experience, actual operating results, and budgets and forecasts approved by management up to 2014. Management forecasts projected revenue growth rates greater than long-term GDP growth rates but which are in line with past performance as adjusted to reflect current economic climate and any known business cycles. Cash flow projections were extrapolated forward up to 2021 using steady long-term estimated GDP growth rates; and
- the cash flows were discounted using a pre-tax discount rate of 17.50% which reflected the prevailing market rates appropriate for this business at the date of the transaction.

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

The intangible asset arising from the acquisition is as follows:

Group and Company

Purchase consideration:	**KShs Million**
Cash paid by SCBKL	1,883
Cash paid by Standard Chartered PLC (Capital contribution)	1,824
Total purchase consideration	**3,707**
Less: Fair value of identifiable assets acquired	–
Intangible assets acquired: Customer relationships	3,707
Deferred tax liability recognised on business combination	(1,112)
Total identifiable net assets	**2,595**
Goodwill on acquisition (Note 27)	**1,112**

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

25. BUSINESS COMBINATION (Continued)
Contribution from the acquisition:

	2018 KShs Million	2017 KShs Million
Operating income	1,859	1,790
Profit before taxation	1,480	1,366

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

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

26. PROPERTY AND EQUIPMENT
Accounting policy

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

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

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

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

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

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

Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:
- buildings on freehold land – up to 50 years;
- buildings on leasehold land – life of lease up to 50 years;
- fixtures, fittings and equipment – 3-10 years;
- automated teller machines (ATMs) – 7 years;
- computers – 5 years; and
- motor vehicles – 4 years.

26. PROPERTY AND EQUIPMENT (Continued)

Accounting policy (Continued)

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

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

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

Revaluation surpluses are not distributable.

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

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

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

Significant accounting estimates and judgments

- critical estimates are made by management in determining the useful life for property and equipment; and
- certain items of property and equipment are measured at revalued amounts. The fair value is determined based on the market and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

26. PROPERTY AND EQUIPMENT (Continued)

Group and Company

2018	Freehold land and buildings KShs Million	Buildings on leasehold land KShs Million	Fixtures fittings and equipment KShs Million	Motor vehicles KShs Million	Capital work in progress KShs Million	Total KShs Million
Cost or valuation						
At 1 January 2018	250	1,465	5,370	20	175	7,280
Additions	–	–	95	–	108	203
Transfers	–	–	65	–	(65)	–
Disposals/write-offs	–	–	(139)	–	–	(139)
At 31 December 2018	250	1,465	5,391	20	218	7,344
Depreciation						
At 1 January 2018	1	5	3,903	20	–	3,929
Charge for the year	3	19	420	–	–	442
Disposals/write-offs	–	1	(99)	–	–	(98)
At 31 December 2018	4	25	4,224	20	–	4,273
Carrying amount:						
At 31 December 2018	**246**	**1,440**	**1,167**	**–**	**218**	**3,071**

2017	Freehold land and buildings KShs Million	Buildings on leasehold land KShs Million	Fixtures fittings and equipment KShs Million	Motor vehicles KShs Million	Capital work in progress KShs Million	Total KShs Million
Cost or valuation:						
At 1 January 2017	245	1,033	5,488	20	112	6,898
Additions	–	–	235	–	145	380
Transfers	–	–	82	–	(82)	–
Disposals/write-offs	–	(1)	(435)	–	–	(436)
Revaluation surplus	5	433	–	–	–	438
At 31 December 2017	250	1,465	5,370	20	175	7,280
Depreciation						
At 1 January 2017	6	30	3,907	16	–	3,959
Charge for the year	2	15	399	4	–	420
Depreciation written back on revaluation	(7)	(39)	–	–	–	(46)
Disposals/write-offs	–	(1)	(403)	–	–	(404)
At 31 December 2017	1	5	3,903	20	–	3,929
Carrying amount:						
At 31 December 2017	**249**	**1,460**	**1,467**	**–**	**175**	**3,351**

26. PROPERTY AND EQUIPMENT (Continued)

Included in property and equipment at 31 December 2018 are assets with a gross value of KShs 2,432 million (2017 – KShs 2,102 million) which are fully depreciated but still in use. The notional depreciation charge on these assets for the year would have been KShs 857 million (2017 – KShs 555 million).

There were no idle assets as at 31 December 2018 and 2017.

Capital work in progress relates to the branch optimisation that was ongoing during the year.

Freehold land and buildings were revalued on an open market basis by professional valuers, Damon Appraisers Limited, Ark Consultants Limited and Kiragu & Mwangi Limited as at 30 September 2017. The book values of the properties were adjusted to the revaluations, and the resulting surplus, net of deferred tax, was credited to the revaluation reserve.

Freehold land and buildings are revalued every 3 years.

In the opinion of the directors, the fair value of the freehold land and buildings has not changed significantly since the revaluation at 30 September 2017.

There were no capitalised borrowing costs related to the acquisition of property and equipment during the year ended 31 December 2018 (2017 – Nil).

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

	2018 KShs Million	2017 KShs Million
Cost	647	647
Accumulated depreciation	(133)	(116)
Carrying amount	**514**	**531**

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

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

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

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

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

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

27. GOODWILL AND INTANGIBLE ASSETS

Accounting policy

Goodwill

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

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

Significant accounting estimates and judgments

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

Acquired intangibles

At the date of acquisition of a business, intangible assets which are deemed separable and that arise from contractual or other legal rights are capitalised and included within the net identifiable assets acquired (as set out in Note 25). These intangible assets are initially measured at fair value, which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the entity, and are amortised on the basis of their expected useful lives. At each balance sheet date, these assets are assessed for indicators of impairment. In the event that an asset's carrying amount is determined to be greater than its recoverable amount, the asset is written down immediately.

Significant accounting estimates and judgments

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

Computer software

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

27. GOODWILL AND INTANGIBLE ASSETS (Continued)

Group and Company

	2018				2017			
	Acquired intangible asset KShs Million	Goodwill KShs Million	Capitalised software KShs Million	Total KShs Million	Acquired intangible asset KShs Million	Goodwill KShs Million	Capitalised software KShs Million	Total KShs Million
Cost								
At 1 January	3,707	1,112	781	5,600	3,707	1,112	559	5,378
Additions	–	–	3	3	–	–	222	222
At 31 December	3,707	1,112	784	5,603	3,707	1,112	781	5,600
Amortisation								
At 1 January	2,797	–	582	3,379	2,476	–	444	2,920
Charge for the year	287	–	107	394	321	–	138	459
At 31 December	3,084	–	689	3,773	2,797	–	582	3,379
Carrying amount								
At 31 December	**623**	**1,112**	**95**	**1,830**	**910**	**1,112**	**199**	**2,221**

As at 31 December 2018, assets with a gross value of KShs 546 million (2017 – KShs 354,million) are fully amortised but still in use. The notional amortisation charge for the year on these assets would have been KShs 182 million (2017 – KShs 118 million).

There were no idle assets as at 31 December 2018 and 2017.

The goodwill is wholly attributable to the Securities Services department of the Company. The directors having assessed the goodwill are of the opinion that the goodwill was not impaired at the reporting date (2017 - Nil).

The recoverable amounts were calculated based on their value in use. Value in use was determined by discounting the future cash flows expected to be generated from the continuing use of the unit. Unless indicated otherwise, value in use in 2018 was determined similarly as in 2017. The calculation of the value in use was based on the following key assumptions:

- cash flows were projected based on past experience, actual operating results and budgets and forecasts approved by management up to 2018. Management forecasts projected revenue growth rates greater than long-term Gross Domestic Product (GDP) growth rates but which are in line with past performance as adjusted to reflect current economic climate and any known business cycles. Cash flow projections were extrapolated forward up to 2021 using steady long-term estimated GDP growth rates; and
- the cash flows were discounted using a pre-tax discount rate of 17.50% which reflected the prevailing market rates appropriate for this business on the date of the transaction.

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

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

28. PREPAID OPERATING LEASE RENTALS

Accounting policy

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

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

Group and Company	2018 KShs Million	2017 KShs Million
Cost		
At 1 January and 31 December	278	278
Amortisation		
At 1 January	37	34
Charge for the year	3	3
At 31 December	40	37
Carrying amount at 31 December	**238**	**241**

29. DEFERRED TAX

Accounting policy

Refer to Note 12 Taxation for the accounting policy.

The net deferred tax assets at 31 December 2018 and 2017 are attributable to the following:

Group 2018	At 1 January 2018 KShs Million	Recognised in the income statement current year KShs Million	Recognised in other Comprehensive income KShs Million	At 31 December 2018 KShs Million
Property and equipment				
– current year	(37)	129	–	92
– prior year over–provision	–	(62)	–	(62)
Acquired intangible asset	(273)	86	–	(187)
ECL on stage 1 and 2 financial Instruments (IFRS 9)	949	(178)	22	793
ECL on stage 3 financial instruments (IFRS 9)				
– current year	985	(297)	–	688
– prior year over–provision	–	(27)	–	(27)
Revaluation surplus	(280)	4	–	(276)
Fair value reserve	(273)	–	(201)	(474)
Accrued interest	224	(32)	–	192
Other provisions				
– current year	130	205	–	335
– prior year under–provision	–	5	–	5
Retirement benefit obligations	50	7	8	65
	1,475	**(160)**	**(171)**	**1,144**

29. DEFERRED TAX (Continued)

Company 2018	At 1 January 2018 KShs Million	Recognised in the income statement current year KShs Million	Recognised in other Comprehensive income KShs Million	At 31 December 2018 KShs Million
Property and equipment				
– current year	(37)	74	–	37
– prior year over–provision	–	(62)	–	(62)
Acquired intangible asset	(273)	86	–	(187)
ECL on stage 1 and 2 financial Instruments (IFRS 9)	949	(178)	22	793
ECL on stage 3 financial instruments (IFRS 9)				
– current year	985	(297)	–	688
– prior year over–provision	–	(27)	–	(27)
Revaluation surplus	(280)	4	–	(276)
Fair value reserve	(278)	–	(202)	(480)
Accrued interest	224	(32)	–	192
Other provisions				
– current year	130	205	–	335
– prior year under–provision	–	5	–	5
Retirement benefit obligations	50	7	8	65
	1,470	**(215)**	**(172)**	**1,083**

Group 2017	At 1 January 2017 KShs Million	Recognised in the income statement KShs Million	Recognised in other comprehensive income KShs Million	IAS 39 At 31 December 2017 KShs Million	IFRS 9 transition KShs Million	IFRS 9 At 1 January 2018 KShs Million
Property and equipment						
– Current year	(74)	45	–	(29)	–	(29)
– Prior year over-provision	–	(8)	–	(8)	–	(8)
Acquired intangible asset	(369)	96	–	(273)	–	(273)
Portfolio impairment provision	284	71	–	355	594	949
Specific impairment provision						
– Current year	–	213	–	213	–	213
– Prior year under-provision	–	772	–	772	–	772
Revaluation surplus	(141)	17	(156)	(280)	–	(280)
Fair value reserve	(118)	–	(155)	(273)	–	(273)
Accrued interest	238	(14)	–	224	–	224
Other provisions	218	(88)	–	130	–	130
Retirement benefit obligations	26	5	19	50	–	50
	64	**1,109**	**(292)**	**881**	**594**	**1,475**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

29. DEFERRED TAX (Continued)

Company	At 1 January 2017 KShs Million	Recognised in the income statement KShs Million	Recognised in other comprehensive income KShs Million	IAS 39 At 31 December 2017 KShs Million	IFRS 9 transition KShs Million	IFRS 9 At 1 January 2018 KShs Million
Property and equipment						
– Current year	(74)	45	–	(29)	–	(29)
– Prior year over–provision	–	(8)	–	(8)	–	(8)
Acquired intangible asset	(369)	96	–	(273)	–	(273)
Portfolio impairment provision	284	71	–	355	594	949
Specific impairment provision						
– Current year	–	213	–	213	–	213
– Prior year under–provision	–	772	–	772	–	772
Revaluation surplus	(141)	17	(156)	(280)	–	(280)
Fair value reserve	(118)	(1)	(159)	(278)	–	(278)
Accrued interest	238	(14)	–	224	–	224
Other provisions	218	(88)	–	130	–	130
Retirement benefit obligations	26	5	19	50	–	50
	64	**1,108**	**(296)**	**876**	**594**	**1,470**

30. DEPOSITS FROM BANKS

Accounting policy

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

Group and Company	2018 KShs Million	2017 KShs Million
Balances from local banks	13	11,140
Balances from foreign banks	143	1,561
	156	**12,701**

The weighted average effective interest rate on deposits from banks at 31 December 2018 was 0.50% (2017 – 4.24%).

31. DEPOSITS FROM CUSTOMERS

Accounting policy

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

Group and Company

(a) Maturity profile	2018 KShs Million	2017 KShs Million
Payable on demand	188,406	172,001
Payable within 3 months or less	11,541	15,063
Payable after 3 months	24,337	26,285
	224,284	**213,349**

31. DEPOSITS FROM CUSTOMERS (Continued)

(b) Product classification	2018 KShs Million	2017 KShs Million
Current and demand accounts	149,853	132,775
Savings deposits	34,156	34,588
Time deposits	37,540	43,388
Other	2,735	2,598
	224,284	**213,349**

The weighted average effective interest rate on interest bearing deposits from customers at 31 December 2018 was 2.24% (2017 – 3.01%).

32. OTHER LIABILITIES

Accounting policy

Refer to Note 3 Financial instruments for the accounting policy.

	2018 IFRS 9		2017 IAS 39	
	Group KShs Million	Company KShs Million	Group KShs Million	Company KShs Million
Financial liabilities at amortised cost				
Bills payable	713	713	850	850
ECL on undrawn commitments	153	153	–	–
	866	**866**	**850**	**850**
Non – financial liabilities				
Dividends payable	604	604	585	585
Other trade payables	3,796	3,783	3,443	3,422
	4,400	**4,387**	**4,028**	**4,007**
	5,266	**5,253**	**4,878**	**4,857**

33. CONTINGENT LIABILITIES AND COMMITMENTS

Accounting policy

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

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

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

33. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

(a) Trade contingents

Group and Company

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

	2018 KShs Million	2017 KShs Million
Guarantees and standby letters of credit	38,089	32,945
Letters of credit acceptances and other documentary credits	7,911	8,172
	46,000	**41,117**

Nature of contingent liabilities

Guarantees are generally written by a bank to support performance by a customer to third parties. The Company will only be required to meet these obligations in the event of the customer's default.

Letters of credit commit the Company to make payment to third parties, on production of documents, which are subsequently reimbursed by customers.

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Company expects most acceptances to be presented and reimbursement by the customer is almost immediate.

(b) Legal and regulatory matters

Accounting policy

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

Four of the significant claims are described below:

– In the ordinary course of business, the Company and its subsidiaries are defendants in various litigations and claims. Although there can be no assurances, the directors believe, based on the information currently available and legal advice, that the claims can be successfully defended and therefore no provision has been made in the financial statements. One of the Company's subsidiaries, Standard Chartered Financial Services Limited, is a litigant in a case in which a former customer was awarded damages amounting to KShs 251 million by the Court of Appeal of the Republic of Kenya.

  The directors, having considered the award and obtained appropriate legal advice, challenged the ruling of the Court of Appeal of the Republic of Kenya.

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

33. CONTINGENT LIABILITIES AND COMMITMENTS (Continued)

(b) Legal and regulatory matters (Continued)

- A pension matter where the Company was sued by over 629 ex-employees. The claimants filed a lawsuit against the trustees of the pension fund and the Company for a claim of KShs14.6 billion on grounds that the lump sum benefits paid to them, close to 20 years ago following their retrenchment, were miscalculated. The claimants are yet to provide the particulars of the claim. The pension payments were computed based on professional advice.
- A claim by a former customer and is made up of two cases. The customer had defaulted on his borrowings and the Company attempted to realise the securities held for the borrowings. The customer sued the Company in this matter alleging that the Company did not account for some KShs 55 million deposited in the customer's account. The effect of this case was to stop the Company from realising the securities. The customer reported the matter to the Anti-Banking Fraud Unit and recently applied to the High Court in a Constitutional Petition to compel the Director of Public Prosecutions to prosecute the Company. The application was declined but the customer has filed Notice of Appeal.
- A claim where the plaintiff has sued the Company and Standard Chartered Estates Management (SCEM) Limited, a former wholly owned subsidiary of the Company, seeking compensation for losses incurred after the plaintiff engaged SCEM Limited to manage their flower farm in 1996.

In addition, the Company has some on-going matters with the Kenya Revenue Authority. As at 31 December 2018, the directors have not made provisions for tax demand letters as they are of the view, based on advice received, that these amounts are not payable.

34. FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

Accounting policy

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

Group and Company

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

	2018		2017	
	Premises KShs Million	Equipment KShs Million	Premises KShs Million	Equipment KShs Million
Within 1 year	464	124	320	99
After 1 year but less than 5 years	1,049	110	551	27
After 5 years	102	–	9	–
	1,615	**234**	**880**	**126**

The Group leases a number of premises and equipment under operating leases. Premises leases typically run for a period of 6 years, with an option to renew the lease after the lease expiry date. Lease payments are typically increased every year to reflect market rentals.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

35. RETIREMENT BENEFIT OBLIGATIONS

Standard Chartered Bank Kenya Limited operates a defined contribution scheme for all full time permanent employees and a defined benefit scheme for pensioners and deferred pensioners who existed as at 31 December 1998.

The benefits provided by the defined benefit scheme are based on a formula taking into account years of service and remuneration levels, whilst the benefits provided by the defined contribution scheme are determined by accumulated contributions and returns on investments.

Both schemes are governed by the *Retirement Benefits Act, 1997.* This requires that an actuarial valuation be carried out at least every 3 years for the defined benefit scheme. The most recent actuarial valuation of the defined benefit scheme was carried out as at 31 December 2015 by an independent qualified actuary. However, the Company's actuary did a review for the year ended 31 December 2018. The review was consistent with previous valuations performed using the projected unit credit method.

Accounting policy

For the defined benefit plan, the liability recognised in the balance sheet is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using an interest rate equal to the yield on government securities that have a term to maturity approximating to the term of the related pension liability.

Actuarial gains and losses that arise are recognised in shareholders' equity and presented in the statement of other comprehensive income in the period they arise. The Group determines the net interest expense on the net defined liability for the year by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability, taking into account any changes in the net defined benefit liability during the year as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plan are recognised in the income statement.

When the defined benefit calculation results in a benefit to the Group, the recognised asset is limited to the total of any unrecognised past service costs and the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the plan. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities. When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognised in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

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

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

35. RETIREMENT BENEFIT OBLIGATIONS (Continued)

Significant accounting estimates and judgments

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

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

Group and Company	2018 KShs Million	2017 KShs Million
Fair value of plan assets	604	655
Present value of funded obligations	(819)	(819)
Retirement benefit obligations as at 31 December	**(215)**	**(164)**
Plan assets consist of the following:		
Government bonds and bills	434	241
Corporate bonds	40	75
Other	130	339
	604	**655**
Movement in plan assets		
Fair value of plan assets at 1 January	655	670
Expected return on plan assets	84	92
Benefits paid by the plan	(135)	(129)
Employer contributions	30	31
Recognised actuarial losses	(25)	(3)
Administrative expenses paid	(5)	(6)
Fair value of plan assets at 31 December	**604**	**655**
Movement in retirement benefit obligations		
Retirement benefit obligations at 1 January	819	755
Interest cost	104	102
Past service cost	30	30
Benefits paid by the plan	(135)	(129)
Recognised actuarial losses	1	61
Retirement benefit obligations at 31 December	**819**	**819**
The net charge recognised in the income statement is as follows:		
Interest cost	(104)	(102)
Expected return on plan assets	84	92
Past service cost	(30)	(30)
Administration expense paid	(5)	(6)
Total charge included in staff costs (Note 11)	**(55)**	**(46)**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

35. RETIREMENT BENEFIT OBLIGATIONS (Continued)

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

	2018 KShs Million	2017 KShs Million
At 1 January	(164)	(85)
Employer contributions	30	31
Charge to the income statement	(55)	(46)
Recognised in other comprehensive income	(26)	(64)
At 31 December	**(215)**	**(164)**

Historical information	2018 KShs Million	2017 KShs Million	2016 KShs Million	2015 KShs Million	2014 KShs Million
Fair value of plan assets	604	655	670	730	831
Present value of funded obligations	(819)	(819)	(755)	(742)	(790)
Retirement benefit obligations before asset ceiling	(215)	(164)	(85)	(12)	41
Irrecoverable surplus	–	–	–	–	(41)
Additional liability for minimum funding requirements	–	–	–	–	(5)
Retirement benefit obligations	**(215)**	**(164)**	**(85)**	**(12)**	**(5)**

Key assumptions

The principal actuarial assumptions used at the reporting date were:

	2018 % pa	2017 % pa
Discount rate	13.00	13.80
Expected return on plan assets	13.00	13.80
Future pension increases	–	–

The overall expected long term rate of return on the assets is 13.00% (2017 – 13.80%) based on the portfolio as a whole and not on the sum of returns on the individual assets.

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

	2018		2017	
	Increase KShs Million	Decrease KShs Million	Increase KShs Million	Decrease KShs Million
Discount rate (-1% movement)	38	–	38	–
Discount rate (+1% movement)	–	36	-	36
Future mortality (longevity of member aged 60 increasing by 1year)	46	–	41	–

35. RETIREMENT BENEFIT OBLIGATIONS (Continued)

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

36. SHARE CAPITAL AND RESERVES

Accounting policy

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

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

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

Group an Company

(a) Share capital

Authorised

The authorised share capital of the Company at 31 December 2018 was KShs 1,998 million (2017 – KShs 1,998 million) made up of 343,510,572 (2017 – 343,510,572) ordinary shares of KShs 5.00 each and 56 million (2017 – 56 million) non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares of KShs 5.00 each.

All shares rank equally with regard to the Company's residual assets, except that preference shareholders have priority over ordinary shareholders but participate only to the extent of the face value of the shares plus any accrued dividends.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company, subject to any rights or restrictions for the time being attached to any class or classes of shares. Holders of preference shares receive non-cumulative discretionary dividends on the preference shares at the rate of 6% per annum on the issue price of KShs 50.00 per share. Preference shares do not carry the right to vote.

Authorised 2018	Number of ordinary shares Million	Number of preference shares Million	Authorised share capital KShs Million
At 1 January 2018 and 31 December 2018	344	56	1,998
2017:			
At 1 January 2017 and 31 December 2017	344	56	1,998

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

36. SHARE CAPITAL AND RESERVES (Continued)

(a) Share capital (Continued)

Issued and fully paid 2018	Number of ordinary shares Million	Number of preference shares Million	Issued share capital KShs Million
At 1 January 2018 and 31 December 2018	344	56	1,998
2017:			
At 1 January 2017 and 31 December 2017	344	56	1,998

The shareholders at 31 December 2018 that had large holdings were as follows:

Name	Number of shares (Million)	%
1. Standard Chartered Holdings (Africa) BV	254	73.89
2. Standard Chartered Kenya Nominees –A/C KE002382	4	1.11
3. Kabarak Limited	4	1.03
4. Stanbic Nominees Limited A/C NR5551514	2	0.57
5. Standard Chartered Nominees – RESD A/C KE11450	2	0.50
6. Standard Chartered Nominees – A/C 9230	2	0.44
7. Kenya Commercial Bank Nominees Limited – A/C 915B	1	0.43
8. Standard Chartered Africa Limited	1	0.42
9. Old Mutual Life Assurance Company Limited	1	0.39
10. Standard Chartered Nominees – RESD A/C KE11401	1	0.34
11. Others	72	20.88
	344	100.00

The distribution of shareholders as at 31 December 2018 and 2017 was as follows:

	2018			2017		
Share range	Number of shareholders	Shares held (Million)	%	Number of shareholders	Shares held (Million)	%
Less than 500	9,768	2	0.51	9,665	2	0.51
501 to 5,000	19,695	27	7.77	19,972	27	7.88
5,001 to 10,000	395	3	0.79	396	3	0.79
10,001 to 100,000	499	15	4.44	522	16	4.65
100,001 to 1,000,000	113	25	7.33	114	25	7.31
Above 1,000,000	10	272	79.16	11	271	78.86
Total	**30,480**	**344**	**100.00**	**30,680**	**344**	**100.00**

36. SHARE CAPITAL AND RESERVES (Continued)

(b) Share premium

These reserves arose when the shares of the company were issued at a price higher than the nominal (par) value. These will be applied towards capital in future.

	2018 KShs Million	2017 KShs Million
At 1 January and 31 December	7,792	7,792

(c) Capital contribution reserve

Capital contribution reserve comprises capital contributions provided to the Group by shareholders that are not intended by either party to be repaid and includes capital contribution on the acquisition of the custody business and increases in equity arising from share-based payment awards granted to the Group's employees.

(d) Revaluation reserve

Revaluation reserve is from the periodic revaluation of freehold land and buildings. The carrying amounts of these assets are adjusted to the revaluations. Revaluation surpluses are not distributable.

(e) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of investment securities at FVOCI (2017 available-for-sale investments), excluding impairment losses, until the investment is derecognised.

(f) Statutory credit risk reserve

Where impairment losses required by legislation or regulations exceed those calculated under International Financial Reporting Standards (IFRSs), the excess is recognised as a statutory credit risk reserve and accounted for as an appropriation of retained profits. These reserves are not distributable.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

37. STATEMENT OF CASH FLOWS

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

		2018		2017	
		Group	Company	Group	Company
	Note	KShs Million	KShs Million	KShs Million	KShs Million
Profit before taxation		11,847	11,433	10,071	9,510
Depreciation	26	442	442	420	420
Amortisation of intangible assets	27	394	394	459	459
Profit on sale of non-current asset held for sale		–	–	(185)	(185)
Loss on sale of property and equipment		39	39	32	32
Amortisation of prepaid operating lease rentals	28	3	3	3	3
Retirement benefit obligations	35	55	55	46	46
Reversal of revaluation deficit from prior years		–	–	5	5
Expected credit loss on FVOCI		(73)	(74)	–	–
(Increase)/decrease in operating assets					
Balances with Central Bank of Kenya – Cash Reserve Ratio		(4,913)	(4,913)	4,087	4,087
Government and other securities held at FVTPL		3,110	3,110	(2,266)	(2,266)
Derivative financial instruments		203	203	(43)	(43)
Loans and advances to banks		(1,280)	(1,280)	250	250
Loans and advances to customers		5,668	5,668	(3,583)	(3,583)
Investment securities		10,889	11,248	(23,741)	(23,221)
Amounts due from group companies		70	71	(5,165)	(5,165)
Other assets		2,215	2,211	(2,190)	(2,232)
Increase/(decrease) in operating liabilities					
Deposits from customers		10,935	10,935	26,751	26,751
Derivative financial instruments		(266)	(266)	239	239
Amounts due to group subsidiaries		–	145	–	(56)
Amounts due to group companies		(115)	(115)	(947)	(947)
Defined benefit obligations	35	(30)	(30)	(31)	(31)
Other liabilities		389	396	286	275
Cash generated from operating activities		**39,582**	**39,675**	**4,498**	**4,348**
Income taxes paid	13	(2,553)	(2,344)	(6,751)	(6,492)
Net cash from/(used in) operating activities		**37,029**	**37,331**	**(2,253)**	**(2,144)**

37. STATEMENT OF CASH FLOWS (Continued)

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

	2018		2017	
	Group	Company	Group	Company
	KShs Million	KShs Million	KShs Million	KShs Million
Cash on hand	3,579	3,579	3,723	3,723
Unrestricted cash balances with Central Bank of Kenya	4,604	4,604	2,431	2,431
Treasury bills	1,493	1,493	–	–
Loans and advances to banks	4,742	4,742	5,326	5,326
Deposits from banks	(156)	(156)	(12,701)	(12,701)
Amounts due from group Companies	26,374	26,645	10,956	10,925
Amounts due to group companies	(2,433)	(2,433)	(2,220)	(2,220)
	38,203	**38,474**	**7,515**	**7,484**

38. ASSETS PLEDGED AS SECURITY

As at 31 December 2018, there were no assets pledged by the Group to secure liabilities and there were no secured Group liabilities.

39. FIDUCIARY ACTIVITIES

Accounting policy

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

The Group holds asset security documents on behalf of customers. Most of these securities are held by the Security Services department of the Company. The assets held comprise of deposits, government securities, debentures, title deeds, quoted and unquoted shares.

	2018		2017	
	Group	Company	Group	Company
	KShs Million	KShs Million	KShs Million	KShs Million
Value of asset security documents held on behalf of customers	**816,024**	**387,078**	**859,620**	**339,974**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

40. RELATED PARTY TRANSACTIONS

In the ordinary course of business, transactions are entered into with Standard Chartered PLC, the ultimate holding company and other companies related to Standard Chartered Bank Kenya Limited through common shareholding or common directorships.

2018	Group				Company			
	Interest income KShs Million	Interest expense KShs Million	Net fee and commission income KShs Million	Recharges KShs Million	Interest income KShs Million	Interest expense KShs Million	Net fee and commission income KShs Million	Recharges KShs Million
Standard Chartered PLC	311	336	673	1,327	311	336	673	1,327
Other group companies	4	-	49	1,142	4	27	49	810
	315	**336**	**722**	**2,469**	**315**	**363**	**722**	**2,137**
2017								
Standard Chartered PLC	205	306	498	747	205	306	498	747
Other group companies	38	1	(49)	964	38	30	(49)	862
	243	**307**	**449**	**1,711**	**243**	**336**	**449**	**1,609**

Group companies provide support services for which they recharge the costs incurred at the country of origin. The value of the services provided has been included in the total expenditure of the Group or Company.

The transactions are at arm's length.

The related party balances at 31 December 2018 and 2017 are shown in Note 23.

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

40. RELATED PARTY TRANSACTIONS (Continued)
Directors and officers

Details of directors' remuneration is disclosed in the Directors' remuneration report on pages 64 to 67.

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

Group and Company	2018 KShs Million	2017 KShs Million
Salaries and other employee benefits	553	655

Transactions with directors and others

During the year, the number of key management staff was 16 (2017: 14).

At 31 December 2018, balances relating to deposits from directors, employees and associates amounted to KShs 705 million (2017 – KShs 893 million).

The interest expense paid during the year on deposits from directors, employees and associates amounted to KShs 21 million (2017 – KShs 24 million).

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

Group and Company

Loans and advances to directors, employees and their associates	2018 KShs Million	2017 KShs Million
At start of the year	6,379	6,248
Amounts advanced during the year	4,408	3,565
Amounts repaid during the year	(4,158)	(3,434)
At end of the year	**6,629**	**6,379**
Loans and advances to directors or companies controlled by directors or their families	46	50
Loans and advances to employees	6,583	6,329
	6,629	**6,379**

The interest income earned during the year on loans and advances to directors, employees and associates amounted to KShs 419 million (2017 – KShs 502 million).

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

None of the loans and advances above are impaired at 31 December 2018 (2017 – Nil).

The Company has also entered into transactions at arm's length with Standard Chartered Kenya Pension Fund (SCKPF) and Standard Chartered Staff Retirement Benefits Scheme 2006 (SCKSRBS 2006). At 31 December 2018, deposits from SCKPF and SCKSRBS 2006 amounted to KShs 56 million (2017 – KShs 124 million).

Notes to the Financial Statements (Continued)
For the year ended 31 December 2018

41. HOLDING COMPANY

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

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

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

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

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

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

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Group. Further details on specific IFRS 9 accounting policies applied in the current period as well as IAS 39 are set out on Note 3 Financial Assets and Liabilities.

The basis of the new classification requirements under IFRS 9 are detailed in Note 3 Financial assets and liabilities.

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

(a) Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with the IAS 39 and the new measurement categories under IFRS 9 for the Group's financial instruments as at 1 January 2018.

				Group		Company	
1 January 2018	**Note**	**Original classification under IAS 39**	**New classification category under IFRS 9**	**Carrying amount IAS 39 KShs Million**	**Carrying amount IFRS 9 KShs Million**	**Carrying amount IAS 39 KShs Million**	**Carrying amount IFRS 9 KShs Million**
Cash and balances with Central Bank of Kenya	16	Loans and receivables	Amortised cost	13,341	13,341	13,341	13,341
Government and other securities	17	FVTPL	FVTPL (mandatorily)	7,047	7,047	7,047	7,047
Derivative financial instruments	18	FVTPL	FVTPL (mandatorily)	597	597	597	597
Loans and advances to banks	19	Loans and receivables	Amortised cost	5,326	5,324	5,326	5,324
Loans and advances to customers	20	Loans and receivables	Amortised cost	126,294	124,495	126,294	124,495
Investment securities-government securities	21	AFS	FVOCI	103,486	103,486	102,838	102,838
Investment securities - equity shares	21	AFS	FVTPL	9	9	9	9
Other assets – uncleared effects	22	Loans and receivables	Amortised cost	680	680	680	680
Amounts due from group companies	23	Loans and receivables	Amortised cost	16,121	16,116	16,090	16,085
Total financial assets				**272,901**	**271,095**	**272,222**	**270,416**
Liabilities							
Deposits from banks	30	Amortised cost	Amortised cost	12,701	12,701	12,701	12,701
Deposits from customers	31	Amortised cost	Amortised cost	213,349	213,349	213,349	213,349
Derivative financial instruments	18	FVTPL	FVTPL (mandatorily)	492	492	492	492
Other liabilities	32	Amortised cost	Amortised cost	850	1,024	850	1,024
Amounts due to subsidiaries	23	Amortised cost	Amortised cost	–	–	529	529
Amounts due to group companies	23	Amortised cost	Amortised cost	8,449	8,449	8,449	8,449
Total financial liabilities				**235,841**	**236,015**	**236,370**	**236,544**

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

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

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The table below reconciles the statement of financial position under IAS 39 and under IFRS 9 on transition to IFRS 9 on 1 January 2018.

Group	IAS 39 31 December 2017 KShs Million	Re-measurement impact of expected credit loss KShs Million	IFRS 9 1 January 2018 KShs Million
ASSETS			
Cash and balances with Central Bank of Kenya	13,341	–	13,341
Government and other securities	7,047	–	7,047
Derivative financial instruments	597	–	597
Loans and advances to banks	5,326	(2)	5,324
Loans and advances to customers	126,294	(1,799)	124,495
Investment securities at FVOCI[6]	103,495	–	103,495
Tax recoverable	1,390	–	1,390
Other assets	5,419	–	5,419
Amounts due from group companies	16,121	(5)	16,116
Property and equipment	3,351	–	3,351
Intangible assets	2,221	–	2,221
Prepaid operating lease rentals	241	–	241
Deferred tax asset	881	594	1,475
TOTAL ASSETS	**285,724**	**(1,212)**	**284,512**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	12,701	–	12,701
Deposits from customers	213,349	–	213,349
Derivative financial instruments	492	–	492
Tax payable	26	–	26
Other liabilities	4,878	174	5,052
Amounts due to group companies	8,449	–	8,449
Retirement benefit obligations	164	–	164
Total liabilities	**240,059**	**174**	**240,233**
Share capital	1,998	–	1,998
Share premium	7,792	–	7,792
Capital contribution reserve	1,889	–	1,889
Revaluation reserve	751	–	751
Fair value reserve	636	252	888
Statutory credit risk reserve	216	(216)	–
Retained earnings	28,004	(1,422)	26,582
Dividends	4,379	–	4,379
Total shareholders' equity	**45,665**	**(1,386)**	**44,279**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**285,724**	**(1,212)**	**284,512**

[6]The loss allowance is recognised in reserves.

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

(b) Reconciliation of statement of financial position balances from IAS 39 to IFRS 9 (Continued)

Company	IAS 39 31 December 2017 KShs Million	Re-measurement impact of expected credit loss KShs Million	IFRS 9 1 January 2018 KShs Million
ASSETS			
Cash and balances with Central Bank of Kenya	13,341	–	13,341
Government and other securities	7,047	–	7,047
Derivative financial instruments	597		597
Loans and advances to banks	5,326	(2)	5,324
Loans and advances to customers	126,294	(1,799)	124,495
Investment securities at FVOCI[7]	102,847	–	102,847
Tax recoverable	1,350	–	1,350
Other assets	5,403	–	5,403
Amounts due from group companies	16,090	(5)	16,085
Investment in subsidiaries	141	–	141
Property and equipment	3,351	–	3,351
Intangible assets	2,221	–	2,221
Prepaid operating lease rentals	241	–	241
Deferred tax asset	876	594	1,470
TOTAL ASSETS	**285,125**	**(1,212)**	**283,913**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banks	12,701	–	12,701
Deposits from customers	213,349	–	213,349
Derivative financial instruments	492	–	492
Other liabilities	4,857	174	5,031
Amounts due to group companies	8,449	–	8,449
Amount due to subsidiaries	529	–	529
Retirement benefit obligations	164	–	164
Total liabilities	**240,541**	**174**	**240,715**
Share capital	1,998	–	1,998
Share premium	7,792	–	7,792
Capital contribution reserve	1,889	–	1,889
Revaluation reserve	751	–	751
Fair value reserve	647	250	897
Statutory credit risk reserve	216	(216)	–
Retained earnings	26,912	(1,420)	25,492
Dividends	4,379	–	4,379
Total shareholders' equity	**44,584**	**(1,386)**	**43,198**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**285,125**	**(1,212)**	**283,913**

[7]The loss allowance is recognised in reserves.

Notes to the Financial Statements (Continued)

For the year ended 31 December 2018

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

(c) Reconciliation of opening reserves

The table below summarises the impact of transition to IFRS 9 on the opening balance of the fair value reserve, statutory credit risk reserve and retained earnings. There is no impact on other components of equity.

Group	Fair value reserve KShs Million	Statutory credit risk reserve KShs Million	Retained earnings KShs Million	Total KShs Million
At 31 December 2017 (IAS 39)	636	216	28,004	28,856
Change in difference between CBK and IFRS 9 initial application adjustment	–	(216)	216	–
Adjustment on initial application of IFRS 9	360	–	(2,340)	(1,980)
Tax impact	(108)	–	702	594
IFRS 9 transition adjustments (net impact)	252	(216)	(1,422)	(1,386)
Opening balance at 1 January 2018 under IFRS 9	**888**	**–**	**26,582**	**27,470**
Company				
At 31 December 2017 (IAS 39)	647	216	26,912	27,775
Change in difference between CBK and IFRS 9 initial application adjustment	–	(216)	216	–
Adjustment on initial application of IFRS 9	357	–	(2,337)	(1,980)
Tax impact	(107)	–	701	594
IFRS 9 transition adjustments (net impact)	250	(216)	(1,420)	(1,386)
Opening balance at 1 January 2018 under IFRS 9	**897**	**–**	**25,492**	**26,389**

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

(d) Movement in loss provisioning

The table below reconciles the closing impairment allowance under IAS 39 to the opening ECL allowance determined under IFRS 9 as at 1 January 2018.

Group	Loans to banks KShs Million	Loans to customers KShs Million	Investment securities at FVOCI KShs Million	Amounts due to group KShs Million	Undrawn commitments and guarantees KShs Million	Total KShs Million
Total IAS 39 loss provisions						
31 December 2017	–	8,034	–	–	–	8,034
Adjustment on initial application of IFRS 9	2	1,799	360	5	174	2,340
Total IFRS 9 ECL allowance 1 January 2018	**2**	**9,833**	**360**	**5**	**174**	**10,374**
Company						
Total IAS 39 loss provisions	–	8,034	–	–	–	8,034
Adjustment on initial application of IFRS 9	2	1,799	357	5	174	2,337
Total IFRS 9 ECL allowance 1 January 2018	**2**	**9,833**	**357**	**5**	**174**	**10,371**

Notice and agenda of the Annual General Meeting

To the Shareholders of Standard Chartered Bank Kenya Limited

Notice is hereby given that the thirty third Annual General Meeting of the Shareholders of Standard Chartered Bank Kenya Limited (the "Company") will be held at the Safari Park Hotel, Thika Road, Nairobi on Thursday, 23 May 2019 at 11:30 a.m. to conduct the following business of the Company:

ORDINARY BUSINESS

1. To receive, consider and if thought fit, adopt the Report of the Directors and Statement of Accounts and the Statement of the Financial Position of the Company for the year ended 31 December 2018 with the Auditors' Reports thereon.
2. To confirm the payment of one interim dividend of KShs. 5.00 paid on 29 October 2018 and to approve the payment of a final dividend of KShs.14.00 for each ordinary share of KShs. 5.00 on the issued share capital of the Company in respect of the year ended 31 December 2018. This brings the total dividend payout for the year to KShs. 19.00 per ordinary share.

   To approve the payment of a final dividend of KShs. 84,690,411 on the non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares. An interim dividend of KShs. 83,309,589 was declared on 22 August 2018 and paid on 29 October 2018.

   The dividends are payable to shareholders registered on the Company's Register at the close of business on 26 April 2019 and will be paid on or after 23 May 2019. The Register will remain closed on 27 April 2019 for the preparation of dividend warrants.
3. To elect the following Directors:

   Director retiring by rotation:
   i. Mr. Patrick Obath, a director retiring by rotation who being eligible offers himself for re-election in accordance with Article 96 (a) of the Company's Memorandum and Articles of Association.

   Appointment of Directors:
   i. Mr. Kariuki Ngari, a casual director, offers himself for election in accordance with Article 98 (a) of the Company's Memorandum and Articles of Association; and
   ii. Mr. Imtiaz Khan, a casual director, offers himself for election in accordance with Article 98 (a) of the Company's Memorandum and Articles of Association.

   Retirement of Director:
   i. Mrs. Anne Mutahi, a director retiring by rotation, who being eligible does not offer herself for re-election.

   Board Audit Committee:
   In accordance with the provisions of Section 769 of the Companies Act, 2015 ("Companies Act"), the following directors, being members of the Board Audit Committee be elected to continue to serve as members of the said Committee:
   (i) Mr. Les Baillie;
   (ii) Mr. Patrick Obath; and
   (iii) Mr. Imtiaz Khan.
4. To approve the Directors' Report and the remuneration paid to the Directors for the year ended 31 December 2018 and to authorise the Board to fix the Directors' remuneration for the year 2019.
5. To appoint KPMG Kenya as the Auditors of the Company until the end of the next Annual General Meeting by virtue of Section 721(4) of the Companies Act, subject to the Central Bank of Kenya approval in accordance with section 24(1) of the Banking Act (Cap. 488) ("Banking Act"), and authorise the Directors to fix their remuneration.

SPECIAL BUSINESS

6. THAT in order to synchronise the Articles of Association of the Company with the Companies Act, 2015, and to update the Articles of Association in line with legal and licensing developments, to consider and, if deemed fit, pass a **SPECIAL RESOLUTION** to adopt the new Articles of Association of the Company available on the Company's website at *www.sc.com/ke/investor-relations* in place of and to the exclusion of the existing Articles of Association of the Company.
7. To transact any other business of the Annual General Meeting for which notice has been given.

BY ORDER OF THE BOARD

N.N. Oginde
Company Secretary
Standard Chartered Bank Kenya Limited
P.O. Box 30003 - 00100 Nairobi GPO
23 April 2019

Note:

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

Every member of the Company is entitled to attend and vote at the above Meeting or in the alternative to appoint a proxy to attend and vote on his behalf. A proxy need not be a member. A form of proxy can be downloaded from the Company's website, *www.sc.com/ke/investor-relations* and should be delivered or sent to the Share Registrar, Image Registrars Limited, 5^{th} Floor Barclays Plaza, Loita Street, P.O. Box 9287 – 00100 GPO, Nairobi, so as to be received not later than 21 May 2019 at 3:00 p.m.

Notes

Form of Proxy

I/we: ____

____

being a member/members of Standard Chartered Bank Kenya Limited hereby appoint:

____

____

of (address): ____

or failing him/her: ____

of (address): ____

and failing him/her the Chairman of the meeting to be my/our proxy, to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Thursday 23, May 2019 at the Safari Park Hotel, Thika Road, Nairobi at 11.30 a.m. or an adjournment thereof.

As my witness my/our hands this day of____2019

Signed: ____

Note:

1. **The completed Form of Proxy by members must be lodged at the Share Registrar, Image Registrars Limited (IMAGE), 5th Floor, Barclays Plaza, Loita Street, Nairobi, or to be posted so as to reach Image Registrars Limited, P.O. Box 9287 – 00100 GPO Nairobi, not later than 3.00 p.m. on Tuesday 21 May 2019, failing which it shall be invalid.**

2. **In case of a Corporation, the proxy must be under its common seal.**

Mimi/sisi:____

____

kama mwanahisa/wanahisa wa Standard Chartered Bank Kenya Limited nateua/nawateua

____

____

wa (anwani): ____

na akikosa yeye:____

wa (anwani): ____

na akikosa yeye Mwenyekiti wa Mkutano kama Mwakilishi wangu/wetu wa kunipigia kura kwa niaba yangu/yetu kwenye mkutano wa kila mwaka wa kampuni utakaofanywa Alhamisi saa tano na nusu za asubuhi Mei 23 2019, Safari Park Hotel, Thika Road, Nairobi na wakati wa ahirisho lolote litakalotokea baadaye.

Kama shahidi siku hii: ____2019

Sahihi:____

Muhimu:

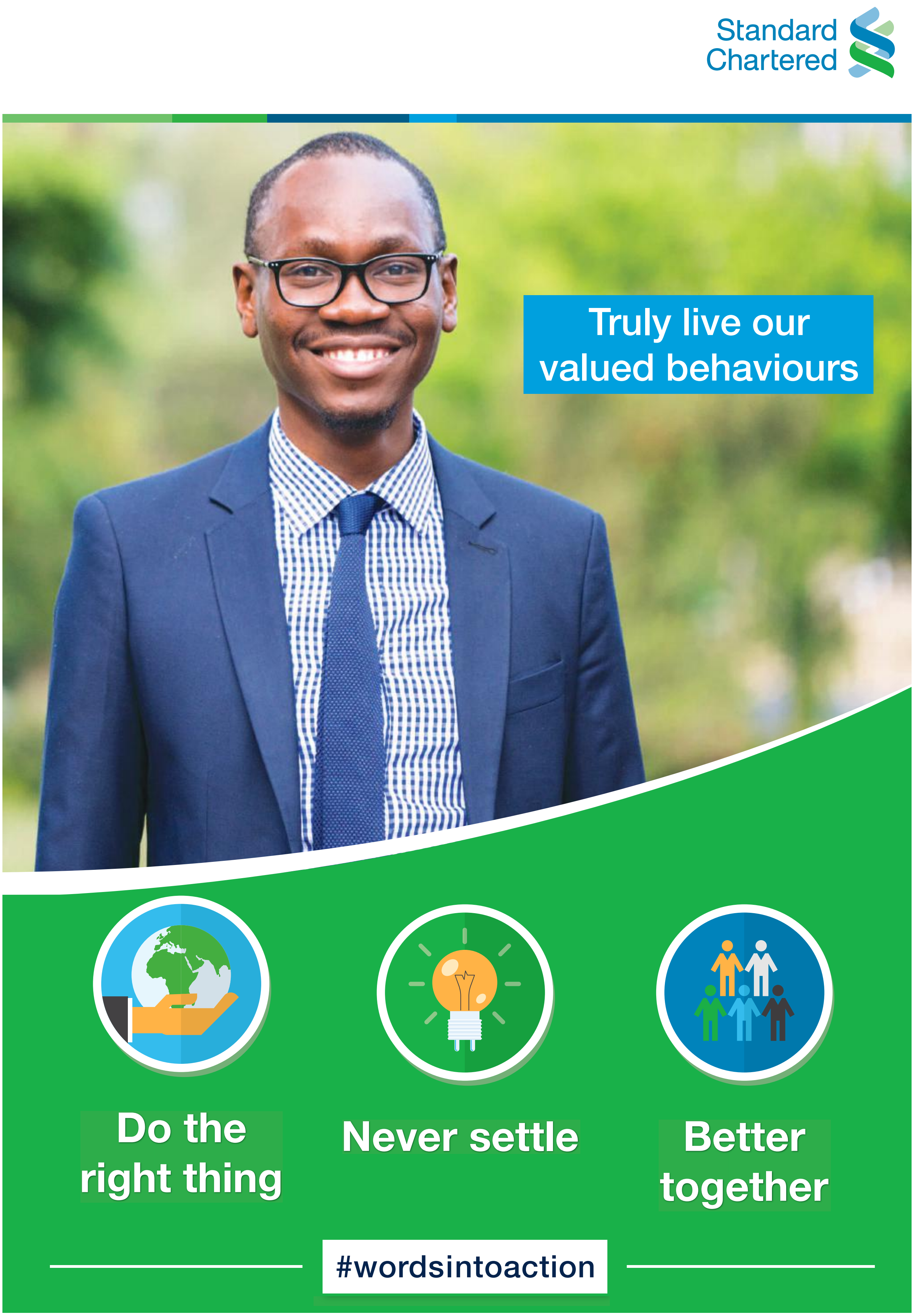
1. **Hii fomu ya uwakilishi lazima irudishwe kwa afisi ya Image Registrars Services (IMAGE), orofa la tano, Barclays Plaza, Barabara ya Loita, ama itumwe kwa njia ya posta kwa kutumia anwani ya Image Registrars Services (IMAGE), SLP 9287 – 00100, Nairobi kufika kabla ya Jumanne saa tisa alasiri Mei 21 2019. Mwanahisa/wanahisa watakaowasilisha fomu hii baada ya saa tisa, hataruhusiwa/hawataruhusiwa kushiriki katika uchaguzi wowote.**

2. **Ikiwa mteuzi ni Shirika, fomu hii ya uwakilishi lazima ifungwe kwa lakiri.**

Notes

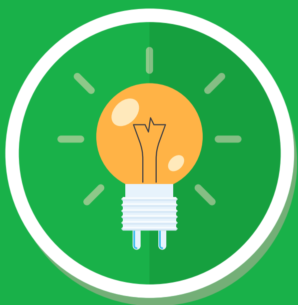
Notes

Notes


Standard Chartered
Truly live our valued behaviours
Do the right thing
Never settle
Better together
#wordsintoaction

Standard Chartered

Do the right thing



Never settle

Better together

#wordsintoaction

Head Office

Standard Chartered Bank Kenya Limited
48 Westlands Road
P.O Box 30003-00100
Nairobi
Kenya

Contact Information

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

Contact Centre Numbers

For Priority customers:
+254 20 3293939 / 0703093939 / 0732143939

For Personal Banking:
+254 20 3293900 / 0703093900 / 0732143900

Standard Chartered