Head Office

Standard Chartered Bank Kenya Limited
48 Westlands Road
P.O. Box 30003-00100
Nairobi
Kenya

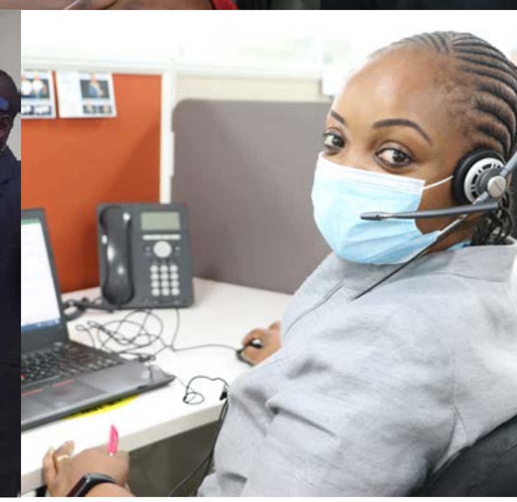
Social media:
Twitter handle: @StanChartKE
Facebook page: Standard Chartered Kenya
Email: Ke.Service@sc.com

Contact Centre Numbers

For Priority customers
+254 20 3293939 / 0703093939 / 0732143939

For Personal Banking
+254 20 3293900 / 0703093900 / 0732143900

Standard Chartered Bank Kenya Limited Annual Report and Accounts 2020



Here for good begins by being here for tomorrow

Annual Report and Accounts 2020

standard chartered

Standard Chartered is a leading international banking group

Our heritage and values are expressed in our brand promise, Here for good. Our operations reflect our purpose, which is to drive commerce and prosperity through our unique diversity.

Contents

About this report

Our Annual Report and Financial Statements for the year ended 31 December 2020 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
We adopt an integrated approach to corporate reporting, embedding non-financial information throughout 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.

For more information please **visit sc.com/ke**

@StanChart
linkedin.com/company/standard-chartered-bank
facebook.com/standardchartered

Responding to COVID-19

In 2020, we responded to the COVID-19 pandemic by aligning our support along the pillars of our staff, our clients and our communities. Find out more about our responses to COVID-19, and how we have supported our clients, colleagues and communities on pages 25-31.

KShs 650 million

Preferential loans to support Kenyan manufacturers and distributors at the forefront of fighting the pandemic.

See more details on page **29**

KShs 145 million

Donation towards COVID-19 pandemic relief.

See more details on page **26**

KShs 964 million

Early payments to our supply partners.

see more details on page **27**

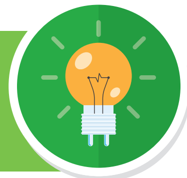
Who we are

Established in 1911, Standard Chartered Bank is one of the oldest banks servicing this market. Our heritage and values are expressed in our brand promise; Here for good. Our operations reflect Our Purpose, which is to drive commerce and prosperity through our unique diversity. We offer banking services that help people and companies prosper, creating wealth and growth across our market. We are committed to promoting economic and social development in Kenya by focusing on three sustainability pillars – contributing to sustainable economic growth, being a responsible company and investing in communities.

Our Valued behaviours

Our valued behaviours ensure that we do things the right way, in order for us to succeed. Only by living our values will we realise our potential and truly be Here for good.

Never settle



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

Better together

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

Do the right thing

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

Delivering our strategy

Our purpose and progress

We have continued to execute our strategic priorities, which we refreshed in August 2019 and we have made good progress in the year. We gauge our annual progress against a set of key performance indicators (KPIs), summarised below. Our KPIs include non-financial measures reflecting our continued commitment to being a responsible company and promoting inclusive communities.

Throughout this report, we use these icons to represent the different stakeholder groups for whom we create value.

Clients

Regulators & governments

Investors

Suppliers

Society

Employees

Financial KPIs

Return on capital employed

11.49%

(2019: 19.06%)

Total capital*

18.47%

(2019: 17.73%)

Tier 1 capital*

15.87%

(2019: 14.70%)

* Tier 1 capital and total capital are computed as a percentage of the Company's risk weighted assets.

Other financial measures

Operating income

KShs 26,689m

(2019: KShs 27,950m)

Profit before tax

KShs 7,396m

(2019: KShs 12,174m)

Earnings per share

KShs 13.95

(2019: KShs 21.36)

Non-financial KPIs

Diversity and inclusion: women in senior roles

43%

Non-branch transactions

90%

Since our last strategy refresh in 2019, we have focused on our leadership standard PA²CE - which centers on People, Accountability, Agility, Clients and Execution as clear building blocks for transforming the Company through building new skills and capabilities required today and into the future of banking.

Group five year summary

Income statement	2020 KShs million	2019 KShs million	2018 KShs million	2017 KShs million	2016 KShs million
Operating income	**26,689**	27,950	27,775	26,626	27,395
Operating expenses	**(15,707)**	(15,542)	(14,579)	(12,785)	(12,229)
Impairment losses on financial instruments	**(3,586)**	(234)	(1,349)	(3,770)	(1,878)
Profit before tax	**7,396**	12,174	11,847	10,071	13,288
Tax	**(1,955)**	(3,937)	(3,748)	(3,157)	(4,239)
Profit after tax	**5,441**	8,237	8,099	6,914	9,049
Information per ordinary share					
Basic earnings per share (KShs) (2019-2016 adjusted)	**13.95**	21.36	20.99	17.85	23.50
Dividend per share on each ordinary share (KShs)	**10.50**	12.50	19.00	17.00	20.00
Statement of financial position					
Loans and advances to customers (gross)	**130,720**	136,534	127,860	134,328	128,290
Impairment losses on loans and advances to customers	**(9,196)**	(7,844)	(9,208)	(8,034)	(5,579)
Government securities	**99,779**	99,611	98,705	110,542	86,489
Other assets	**104,302**	73,837	68,047	48,888	41,282
Total assets	**325,605**	302,138	285,404	285,724	250,482
Deposits from customers	**256,498**	228,434	224,284	213,349	186,598
Other liabilities	**18,216**	25,943	14,480	26,710	19,280
Total liabilities	**274,714**	254,377	238,764	240,059	205,878
Net assets	**50,891**	47,761	46,640	45,665	44,604
Shareholders' funds	**50,891**	47,761	46,640	45,665	44,604
Ratios					
Cost income ratio	**59%**	56%	52%	48%	45%
Return on capital employed	**11%**	19%	19%	16%	23%
Impairment charge/gross loans and advances	**3%**	-	1%	3%	1%
Gross loans and advances to deposits ratio	**51%**	60%	57%	63%	69%
Gross non-performing loans and advances/total gross loans and advances	**15%**	9%	11%	6%	8%
Core capital/total deposit liabilities	**15%**	16%	16%	17%	19%
Core capital/ total risk weighted assets	**16%**	15%	17%	16%	18%
Total capital/total risk weighted assets	**18%**	18%	20%	19%	21%

What we do

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

Serving client segments with differentiated expertise:

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

Corporate & Institutional Banking

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

Operating income

KShs 7,256m

Commercial Banking

Supporting local corporations and medium sized enterprises.

Operating income

KShs 2, 329m

Retail Banking

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

Operating income

KShs 12,060m

Central & other items

Operating income

KShs 5,044m

Total operating income

KShs 26,689m

How we are shaping our future

In January 2021, we streamlined our organisation by integrating our existing business units into two new segments: Corporate, Commercial and Institutional Banking (CCIB) and Consumer, Private and Business Banking (CPBB).

The creation of the CCIB segment, bringing together the Corporate & Institutional Banking and Commercial Banking, simplifies the way we work globally, keeping the distinct local client focus, with less complex organisation on the ground and a single team to partner with our clients and other stakeholders.

Our Retail unit is now CPBB. The change will help our retail business deliver our services more effectively to our clients, having a more global approach while serving our clients locally.

We have made digital banking award-winningly easy

Voted Best Overall Bank, and Best Tier 1 Bank for Digital Experience – Kenya Bankers Association Customer Survey

Thank you to everyone who voted for us, leading to success in these two prestigious awards, and thank you to all the staff that made it happen.

We have made the experience of banking through our SC Mobile app and online banking quick and easy with an intuitive interface, so that any task is stress-free.

standard chartered

Business model

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

Our functions

Human Resources

Enables business performance through recruiting, developing and engaging colleagues.

Legal

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

Technology and Innovation

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

Risk

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

CFO

Incorporates the following support functions:

- Finance;
- Supply Chain; and
- Property.

Corporate Affairs and Brand and Marketing

Manages the Group's communications and engagement with stakeholders to protect and promote the Group's reputation, brand and services.

Operations

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

Internal Audit

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

Conduct, Financial Crime and Compliance

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

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.

How we generate returns

We earn net interest on the margin for loan & deposit products with clients. We also earn fees on our services & products. We earn trading income from providing risk management in financial markets.

Income

- Net interest income
- Fee income
- Trading income

Profits

- Income gained from providing our products & services minus expenses & impairments

Return on tangible equity

- Profit generated relative to tangible equity invested

What makes us different

Our purpose is what sets us apart: We drive commerce and prosperity through our unique diversity - this is underpinned by our brand promise, Here for good

Client focus

Our clients are our business. We build long-term relationships through trusted advice, expertise and best in class capabilities.

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 allow us to offer a truly tailored proposition to our clients, combining global expertise and local knowledge.

Sustainable & responsible 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

The inputs we rely on

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

Human capital

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

Employees	Female
1, 280	53%

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, individuals and in some of the world's fastest-growing and most dynamic regions.

Expertise

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

Financial strength

With over KShs 320 billion in assets on our balance sheet, we are a strong and trusted partner for our clients.

Technology

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

We are creating a work environment that supports resilience and creativity with continued investment in physical, social, financial and mental wellbeing.

We are providing digital solutions to meet clients' needs in real time, partnering to create innovative solutions and developing ventures to address emerging banking trends.

We are automating our infrastructure based on cloud computing, building a scalable, high performing and secure platform for retail and wholesale customers.

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 way:

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.

Suppliers

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

Employees

We believe great employee experience drives great client experience. We want all our people to pursue their ambitions, deliver with purpose and have a rewarding career enabled by great people leaders.

Regulators and governments

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

Society

We strive to operate as a sustainable and responsible company, driving prosperity through our core business and collaborating with partners to promote social and economic development.

Investors

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

Products and services

Financial markets	Corporate Finance	Transaction Banking	Wealth management	Retail Products
• Investments	• Structured and project financing	• Cash management	• Investments	• Deposits
• Risk management	• Strategic advice	• Payments and transactions	• Portfolio management	• Savings
• Debt capital markets		• Trade finance products	• Insurance and advice	• Mortgages
• Securities services			• Planning services	• Credit cards
				• Personal loans

Our strategy

We remain focused on delivering our strategy. Building on our purpose of driving commerce and prosperity through our unique diversity, we are continuing to transform our bank by improving the experience for clients and employees, while focusing on high-quality business.

Our strategic priorities

We remain resilient despite economic and global health challenges.

In 2020, we were operating in the face of the COVID-19 pandemic - a paradigm shifting global event. Our initiatives during the year ensured we remained profitable with strong capital and liquidity.

Purpose and people

Understand our responsibilities
We continue to drive up standards of governance, ensure fair outcomes for clients and fight financial crime.

Lead sustainable financing
We are maintaining our focus on supporting sustainable economic growth. We partnered with Davis & Shirtliff to launch the first ever Sustainable Financing Solution for our Retail clients.

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

Maximise return from our investment in people
We are building a future-ready workforce – changing how we work and developing the new skills we need. An inclusive culture helps us harness our diversity to innovate for our clients and communities.

Transform & disrupt with digital

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

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

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

Optimise low-returning segments

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

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

Deliver our network

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

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

Improve productivity

Continue investing in productivity
Our investment in digitisation will make us more productive and give clients a better experience. For example, we refreshed our client digital platform with unified trade and Foreign exchange (FX) capabilities in Corporate & Institutional Banking. In Retail Banking, we refreshed wealth and FX platforms with full mobile access and launched the retail digital bank.

Transforming our ways of working
We are embracing agile work and improving client journeys to be more productive across operations processing, risk management and change delivery.

Grow our affluent business

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

Enhance client experience with data & technology
We are investing more in data and analytics to better understand our clients and their needs, improve our offerings, deliver a more personalised service and increase client engagement.

Future workplace

Banking from home

When COVID-19 struck, we had to move at pace to ensure we could successfully implement remote working. Thanks to the provision of hundreds of laptops, Virtual Private Network , secure video, audio - conferencing facilities and data bundles , 70% of our staff were working from home and continue to do so today .

The digital banking that Kenya deserves

Voted Best Digital Bank Kenya 2020
Global Banking & Finance Review

Log into our SC Mobile app and online digital banking, and all the things you need to do are done in a few clicks. So that you can get on with all the other things in your busy life.

We would like to thank all the staff that helped us win this respected award.

standard chartered

Corporate & Institutional Banking

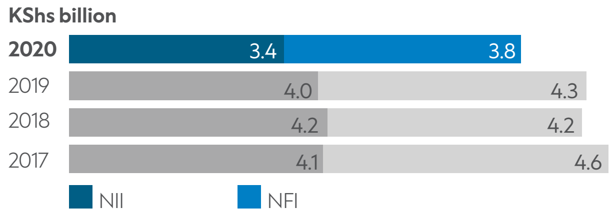
KPIs

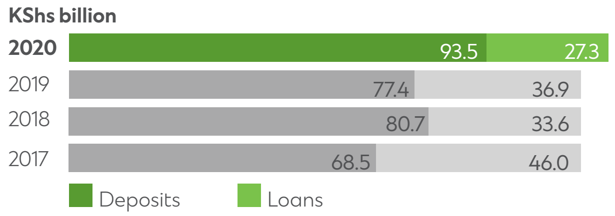
Operating income

KShs 7,256m

Profit before taxation

KShs 2,516m





Corporate & Institutional Banking

Strategic Priorities

- deliver sustainable growth for clients by understanding their agendas, providing trusted advice and data-driven analytical insights, and strengthening our leadership in flow business;
- generate high-quality returns by driving balance sheet growth and improving funding quality;
- partner with clients and strategically selected third parties to expand capabilities and to address emerging client needs while driving innovation and efficiency;
- support the government on key initiatives; and
- be a leader in offering sustainable finance to all our clients.

Segment overview

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

Our strong and deep local presence across these markets enables us to connect our clients multi-laterally to investors, suppliers, buyers and sellers and enable them to move capital, manage risk, invest to create wealth, and provide them with bespoke financing solutions. We support our clients with their transaction banking, corporate finance, financial markets and borrowing needs across more than 60 markets globally.

We are committed to sustainable finance, delivering on our ambitions to increase support and funding for financial products and services that have a positive impact on our communities and environment.

With the outbreak of COVID-19 pandemic earlier in the year, the Global business set up a $1 billion fund to support clients across the footprint who were leading the way in the fight against the pandemic. In Kenya CIB helped a hospital enhance its preparedness to combat COVID-19 pandemic by setting up a KShs 210 million facility.

Digital remains at the heart of our value proposition. During the year, we rolled out **Straight2Bank NextGen** our online Corporate banking platform and more than doubled the live Cash Deposit Machines (CDMs) to 97 from 47 in 2019. This has enabled more than 90 per cent of our clients use our digital channels for collections, payments, tax, payroll, mobile wallet, trade finance, custody and foreign exchange (FX) services with convenience and safety. 87 per cent of our Corporate client foreign exchange transactions are done online. Today we are the leading tax payment bank with about 23 per cent of the Kenya Revenue Authority's total tax collections done through us.

CIB contributes 27 per cent of total revenue. Subdued economic activity arising from the effects of COVID-19 pandemic coupled with lower rates saw operating income drop by 13 per cent.

Net Interest Income (NII) decreased by KShs 0.6 billion /15 per cent on account of slow balance sheet momentum and reduced government borrowing.

Non-Funded Income (NFI) reduced by 12 per cent largely driven by transactional volumes .

Credit impairment increased by KShs 0.7 billion due to the negative impact of the COVID-19 pandemic. Included in this is an additional judgmental management overlay on the expected credit loss (ECL) of KShs 110 million to cover pandemic uncertainties not captured by the ECL model.

Loans and advances decreased by 26 per cent to close at KShs 27.3 billion. This was attributable to repayment of facilities and low volumes due to subdued economic activities from the COVID-19 pandemic impacting, Transaction Banking and Corporate Finance. Increased provisions also led to a reduction in net loans.

Deepening client relationships and emphasis on growing the wallet saw customer deposits grow by KShs 16.1 billion.

Commercial Banking

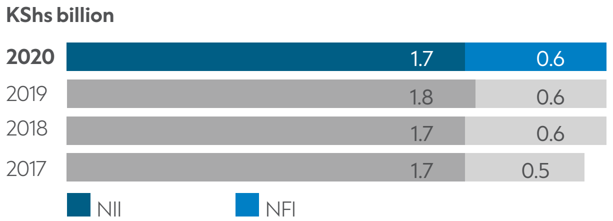
KPIs

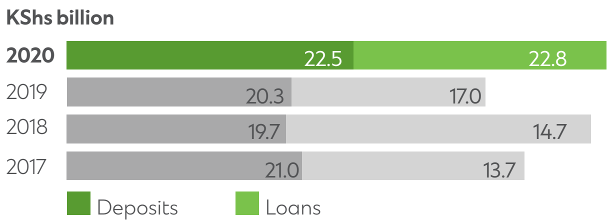
Operating income

KShs 2,329m

Profit before taxation

KShs 226m





Commercial Banking

Strategic Priorities

- drive quality sustainable growth by deepening relationships with existing clients and onboarding new clients, focusing on rapidly and growing and internationalising companies;
- improve balance sheet and income mix, accelerating utilisation of growth in cash and foreign currency products;
- continue to enhance capital allocation discipline and credit risk management; and
- improve client experience, using technology and investing in frontline training, tools and analytics.

Segment overview

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

In the wake of the COVID-19 pandemic, we focused on building and deepening our relationships with our existing clients. We enhanced our focus on digital and continued to provide solutions to our clients. This saw growth not just in our deposits but also a growth in our loan book.

Our focus on digital continued to bear fruit with 94 per cent of our clients using our digital channels. This has resulted in a reduction in manual in-branch transactions with a corresponding reduction in associated processing costs.

With the reduced economic activity, on the back of the COVID-19 pandemic, we have maintained a close watch on the quality of our loan portfolio. We continue to strive for the right balance between risk and return as we support our clients' financing needs and grow our business sustainably.

With the use of analytics, we were able to achieve improved utilisation and productivity with our teams which saw an increase in revenue per headcount while keeping costs low.

Our initiatives in 2020 have enabled us to maintain a resilient balance sheet despite the economic slow-down and more importantly we were profitable.

Operating income decreased by 3 per cent as a direct result of lower rates and low transactional volumes arising from subdued economic activity.

Loan impairment increased by KShs 128 million/78 per cent a reflection of the uncertainty caused by the COVID-19 pandemic.

As a result, profit before tax, at KShs 226 million was 57% lower than 2019. This was as a result of the reduction of income and increased expected credit loss on loans and advances.

The balance sheet remained resilient despite the subdued economic activity, the net loans and advances grew by 34% on the back of deepening of client relationships and initiatives taken by the business to support existing clients during the COVID-19 pandemic.

"Our initiatives in 2020 have enabled us maintain a resilient balance sheet despite the economic slow-down and more importantly we were profitable."

Retail Banking

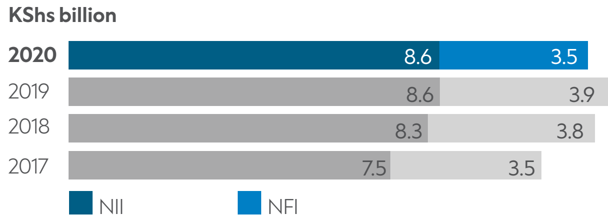
KPIs

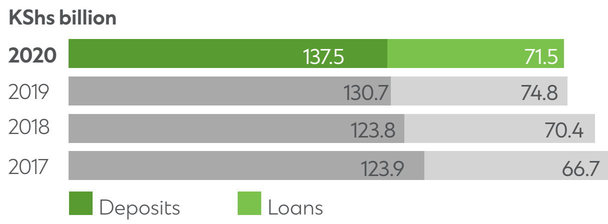
Operating income

KShs 12,060m

Profit before taxation

KShs 96m





Retail Banking

Strategic Priorities

- invest in our affluent and emerging affluent clients with a particular focus on wealth management to capture the rise of the middle class;
- improve our clients' experience through an enhanced end-to-end digital offering, with intuitive platforms, best-in-class products and service responding to the change in digital habits of clients; and
- build on client ecosystem initiatives.

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. 90 per cent of digital transactions are conducted in non-branch channels and over 67 per cent of our clients are active on the digital channels. As a result, we have seen a 47 per cent decline in the branch network footfall.

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

Our product offering includes:

- Deposits
- Mobile/Internet banking
- Mobile payments
- Mortgages
- Credit cards
- Personal loans

Operating income, at KShs 12.1 billion, is 3 per cent down year-on-year. The decline in income is attributable to compressed margins from lower rates coupled with low volumes largely from economic slowdown and COVID-19 pandemic relief measures.

The Non-Funded Income (NFI) was largely impacted by lower transactional volumes from impact of the COVID-19 pandemic as it hampered client spending as well as waiver of mobile charges, a pandemic relief measure .

The loan book decreased by KShs 3.3 billion largely due to the loan provisions made in the year on account of uncertainties brought about by the COVID-19 pandemic. To support our clients during the pandemic, we restructured 6,431 facilities totalling KShs 19.3 billion. This saw ECL rise by 214 per cent during the year.

Targeted initiatives to grow the wallet share amongst existing clients and new mandates as well as a strong online banking proposition amidst the COVID-19 pandemic saw customer deposits grow by 5 per cent.

We continue to cement our leadership in wealth management which saw a 90 per cent year-on-year growth in assets under management.

"Since launching the Retail Digital Bank in March 2019, over 70 service requests are available on the SC Mobile App. 62% of all service requests previously done at the branches are fulfilled on the SC Mobile App."

Product groups

Transaction Banking

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 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.

Trade Finance

The COVID-19 pandemic has disrupted both local and international trade. Trade finance continues to be a critical element for local and cross-border trade. As businesses recover in 2021, they will be looking to us to provide this critical support through trade finance. We remain Here for good supporting our clients to manage their liquidity, balance sheet, mitigate risk and build sustainable and scalable supply chains through our customisable trade finance solutions.

Trade services:

- Documentary trade
- Guarantees
- Trade loans
- Supply chains
- Receivable services

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. Our role is to provide our corporate clients with secure and advanced digital treasury management systems and solutions that bring in cost efficiencies, automated reconciliation processes, data analytics to drive cash forecasting requirements and better liquidity management.

In March 2020, due to the COVID-19 pandemic impact, we immediately implemented the Central Bank of Kenya relief measures, to support businesses cope with the effects of the pandemic, which included waiving of certain transaction fees.

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.

Cash management services:

- Account services
- Payments
- Collections
- Liquid management
- Clearing

Electronic/mobile banking

- Internet banking
- Straight2Bank wallet
- Mobile banking
- Host-to-Host

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.

Transaction Banking key initiatives delivered in 2020

We continued to invest significantly in technology development and enhancement of our digital platforms culminating in the roll out of Straight2Bank NextGen, our corporate online banking platform. Our efforts were geared towards improving the intuitive use of our platforms and increase digital adoption of electronic and online banking services to meet our clients' changing transactional requirements. During the year, Straight2Bank (cash management) penetration went up to 93 percent from 86 percent in 2019, while utilisation levels increased from 82 per cent in the prior year to 86 per cent. These developments have enabled us to become the leading tax payment bank and cement our leadership position in the market.

Financial Markets

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.

Securities Services

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

Securities Services:

- Custody
- Fund administration
- Corporate agency & trust

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

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

Currency

Our foreign currency (FX) business is core to the client offering. We continue to build on our offering by investing in people and technology. Straight2Bank (S2B), our corporate online banking platform, provides our clients with access to FX offering through the Stand Alone Request for Quote (SARFQ). Standard Chartered Aggregation and Liquidity Engine (SCALE) offers clients a customised product capable of managing high volumes, whilst Straight2Bank provides 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.

Corporate Finance

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

Project and 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 and Structured Solutions

The Leveraged and Structured Solutions (LSS) is involved in all specialised financing transactions other than Project and Export Finance and Structured Finance (aircraft and shipping) as well as select complex and/ or 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 or /and 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.

Wealth Management

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

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

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

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

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.

Product groups continued

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

Market Products

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

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

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

Bancassurance

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

Wealth lending

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

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

Edith Chumba, Head of Retail Banking (right) and Paul Njoki, Head of Wealth Management during the launch of T-Bonds and T-Bills trading on SC Mobile.

So easy to invest, a fingertip could do it

Our bonds and T-bills trading on the SC Mobile app earned a Global Award 2020 for Outstanding Customer Experience for Financial Inclusion by The Digital Banker.

We are grateful for this award and would like to say a big thank you to all the staff that made it happen.

By making investing in bonds, T-bills and many other options easy and simple through our SC Mobile app and online banking, we help clients seize opportunities whenever, wherever.

standard chartered

Risk management

Enterprise Risk Management Framework

Risk management is essential to consistent and sustainable performance for all 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 and in compliance with applicable regulatory requirements.

Principal risk types

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

Principal risk types	How these are managed
Credit risk Potential for loss due to the failure of a counterparty to meet its agreed obligations to pay the Group.	The Group manages credit exposures following the principle of diversification across products, client segments and industry sectors.
Traded risk Potential for loss resulting from activities undertaken by the Group in financial markets.	The Group controls trading portfolio and activities to ensure that market risk losses (financial or reputational) do not cause material damage to the Standard Chartered PLC franchise ("the franchise").
Capital and Liquidity risk Capital: potential for insufficient level, composition or distribution 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 strong capital positions including the maintenance of management buffers sufficient to support strategic aims and hold 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 of Kenya support.
Operational and Technology risk Potential for loss from inadequate or failed internal processes, technology events, human error, or from the impact of external events including legal risks.	The Group controls operational risks to ensure that operational losses (financial or reputational), including any related to conduct of business matters, do not cause material damage to the franchise.
Reputational and Sustainability risk Potential for damage to the franchise, resulting in loss of earnings or adverse impact on market capitalisation because of stakeholders taking a negative view of the organisation, its actions or inactions including a failure to uphold responsible business conduct or lapses in our commitment to do no significant environmental and social harm through our client, third party relationships, or our own operations – leading its stakeholders to change their behaviour.	The Group protects the franchise from material damage to its reputation by ensuring that any business activity is satisfactorily assessed and managed by the appropriate level of management and governance oversight.

Principal risk types continued

Principal risk types	How these are managed
Compliance risk Potential for penalties or loss to the organisation or for an adverse impact to our clients, stakeholders or to the integrity of the markets we operate in through a failure on our part to comply with laws, or regulations.	The Group has no appetite for breaches in laws and regulations. Whilst recognising that regulatory non-compliance cannot be entirely avoided, the organisation strives to reduce this to an absolute minimum.
Conduct risk Risk of detriment to the Company's clients, investors, shareholders, market integrity, competition and counterparties, or risk of detriment from the inappropriate supply of financial services, including instances of wilful or negligent misconduct.	The Group has no appetite for negative Conduct Risk outcomes arising from negligent or wilful actions by the organisation or individuals recognising that whilst incidents are unwanted, they cannot be entirely avoided.
Information and Cyber Security risk Risk to the Company's assets, operations and individuals due to the potential for unauthorised access, use, disclosure, disruption, modification, or destruction of information assets and/or information systems.	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.
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 and Fraud.	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.

The Group recognises Climate Risk as a cross-cutting risk which is material and can manifest itself in each relevant Principal Risk Type. Climate Risk is defined as the potential for financial loss and non-financial detriments arising from climate change and society's response to it.

Risk Culture

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

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

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

Risk management
continued

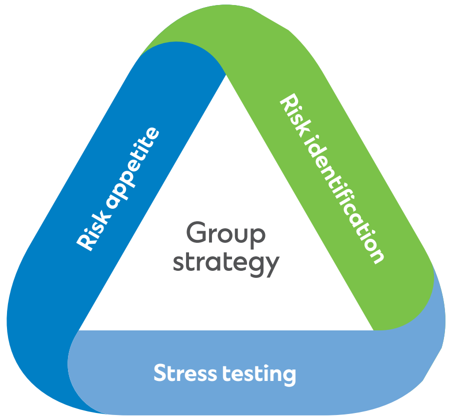
Strategic risk management

Our strategy in risk management entails:

Risk identification: Performance of an impact analysis of risks which arise from growth plans, strategic initiatives and business model vulnerabilities; this analysis should identify whether existing or new risks have changed in terms of relative importance. The outcomes of this process are used by the Risk Function to challenge the Corporate Plan.

Risk appetite: Performance of an impact analysis to confirm that the growth plans and strategic initiatives are within the Board Approved Risk Appetite; the analysis should highlight areas where additional Risk Appetite should be considered.

Stress testing: The outcomes of the risk identification process are used to develop the scenarios for stress tests; the results of the stress tests are used to recommend strategic actions.



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

Risk Appetite and Profile

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

- Risk Capacity is the maximum level of risk the organisation 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 Appetite Principles

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

Risk Appetite Statement

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

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

Board and Executive risk oversight

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

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

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

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

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

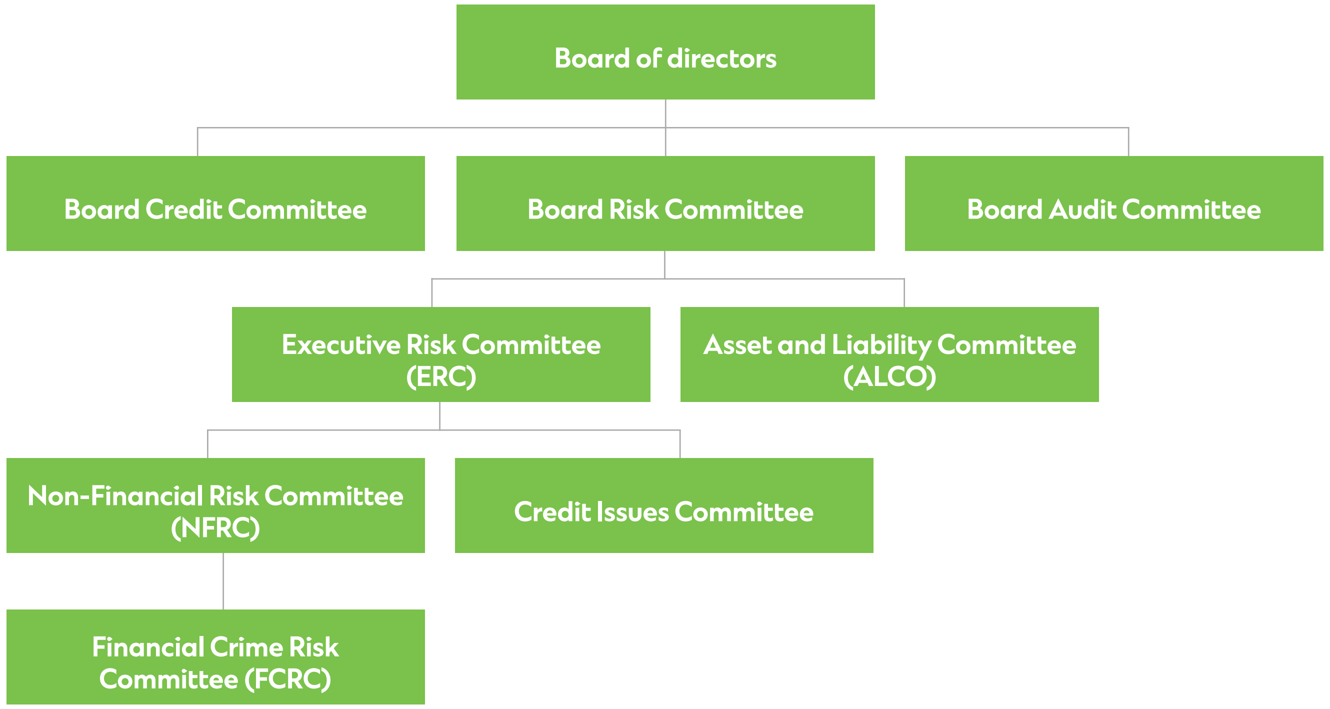
The Executive Risk Committee is responsible for monitoring management information to evidence that the Group's risk profile is within the approved Risk Appetite. It is responsible for providing assurance to the Board that the overall framework is complying with the approved Risk Appetite statements. The Committee also ensures effective management of inherent non-financial principal risks. The non-financial principal risk types in scope 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 management continued

Risk governance structure



The world has undergone significant upheaval in the past year and we have demonstrated resilience and adapted to the new and distinct challenges that we have faced. We recognise that risks will remain heightened during the coming period amid what is likely to be a difficult economic recovery. We remain vigilant with focus on achieving the right outcomes for our clients.

Stakeholders and responsibilities

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

Our stakeholders

- Clients
- Regulators & government
- Investors
- Suppliers
- Employees
- Society

In 2020, the world faced unprecedented change. Alongside key topics including sustainable finance and climate change, COVID-19 dominated our work with stakeholder groups, as we sought to understand and adapt to the impact of the pandemic so we continue driving commerce and prosperity.

Clients

How we create value

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

How we serve and engage

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

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

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

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

In Commercial and Corporate & Institutional Banking segments, colleagues must be open and honest in identifying and managing conflicts of interest with clients and carry out all client orders in a way that treats all clients fairly.

In 2020, the COVID-19 pandemic led to a shift in client needs, priorities and the pace of support they needed. We rapidly implemented innovative initiatives to minimise disruption. Digital transformation of our business meant we were able to help clients bank from home.

For more information about our clients, read the client segments reviews on pages 13 to 15.

Standard Chartered and Davis & Shirtliff partnership signing

Stakeholders and responsibilities continued

Regulators and government

How we create value

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

How we serve and engage

Standard Chartered Bank Kenya Limited has endeavoured to maintain a good working relationship with all the regulators and government bodies. In 2020, we managed to implement key emergency measures due to COVID-19 pandemic, scaling up our use of technology to maintain a close relationship with our clients and enable our staff adapt to new ways of working, with 70 per cent of staff working from home. In response to the Central Bank of Kenya's review of Cash Reserve Ratio requirements, the Bank availed over KShs 2 billion to clients who needed the money for COVID-19 pandemic related assistance and restructured loans of over KShs 26 billion during the period. In addition, The Bank donated KShs 145 million towards fighting COVID-19 pandemic in Kenya. The funds went directly to our emergency relief partners Red Cross, for the provision of urgent medical support and UNICEF Kenya, for the immediate protection and education of vulnerable children impacted by the COVID-19 pandemic.

Standard Chartered Bank Kenya Limited maintains a Government and Regulatory Relations Plan which evidences the Company's efforts to proactively maintain transparent relations in its engagements with regulators and government agencies.

We actively engage with relevant government bodies, regulators and policymakers to share insights and technical expertise on key financial services issues. In 2020, we engaged to exchange information on topics such as formulation of the Fiduciary and Fund Services product offering, implementation of the Banking Sector Charter specifically on risk-based pricing, supporting credit growth in the small and medium size enterprises (SME) sector, fintech, cloud strategy, cyber security, fighting financial crime and sustainable finance, in addition to participating in industry working groups. The Bank has also taken the lead in ensuring a free and stable market by signalling the right prices for foreign exchange, Money markets and government security trading. This engagement supports financial markets stability and the development of best practices.

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

In 2021, we expect to focus engagement activities on emerging technologies and innovations in the banking sector. We will also continue to update our systems and ensure they remain resilient and continue to satisfy the dynamic client needs. The Bank will continue to support regulatory efforts to maintain a robust and resilient financial market and lead in proactive cyber risk management aimed at protecting client data and funds.

Investors

How we create value

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

How we serve and engage

Our commitment to sustainable and responsible banking, uniquely connects investors in established capital markets with opportunities in emerging markets. In this context we believe that an integrated approach to Environmental Social and Governance (ESG) issues and a strong risk and compliance culture provide a competitive advantage.

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

During 2020, we engaged with investors and market analysts through the Annual General Meeting which was held virtually on 24 July 2020 owing to the prevailing circumstances arising from the COVID-19 pandemic. At the meeting, we apprised investors of the financial results, material organisational decisions, and the Company's strategic focus. The virtual AGM was a monumental shift from the traditional in person meetings of shareholders held in the past. It was a resounding success as we were able to engage with more shareholders, while protecting their health and that of our employees, directors and other participants.

We also engaged with shareholders through briefing events to guide them through our performance and business strategy, engaged with sustainability analysts, and participated in sustainability indices that have provided independent benchmarking of our performance. In 2021, while external conditions are likely to remain challenging with the uncertainty relating to COVID-19 pandemic, we remain excited by the opportunities that lie ahead for continued engagement on how we will sustainably improve our returns to create value over the long term. For more information about Board engagement with shareholders in 2020, please see page 59 in the corporate governance section of the Annual Report.

Suppliers

How we create value

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

How we serve and engage

Our work is guided by our Supplier Charter, which sets out our expectations on issues such as ethics, anti-bribery and corruption, human rights, diversity and inclusion (D&I) and environmental performance. Our suppliers must recommit to the charter annually, and performance monitoring is built into our procurement practices and standards.

We work globally and locally to create supply chain value for our business and our suppliers.

We have made real progress against our supply chain sustainability agenda. As well as incorporating modern slavery into our risk framework, we introduced a new central framework to strengthen the governance and management of modern slavery risk within our supply chain.

We continue to support our suppliers through the COVID-19 pandemic by paying invoices from small and medium-sized suppliers immediately upon receipt. Our payment processes for all suppliers were also streamlined, with 95 per cent of invoices paid on time in December 2020, up from 82 per cent in 2019. Further, in response to the COVID-19 pandemic:

- we reduced credit terms at the onset of the pandemic and to date we have made KShs 964 million in early payments; and
- focused on migration to e-invoicing to protect our staff and supply partners which has seen a 97 per cent adoption rate by our supply partners.

In 2021, supply chain sustainability will continue to be a primary focus as we roll out initiatives to scale up our supplier D&I practices and reduce carbon emissions within our own operations and supply chain.

Our Supplier Charter can be viewed at sc.com/ supplier-charter.

Read More about our supplier diversity standards at sc.com/supplier-diversity-and-inclusion/

CEO Kariuki Ngari (second right) presents a dummy cheque of KShs 122 million to COVID-19 Emergency Fund Secretariat Chairperson Jane Karuku. Looking on is the secretary Kennedy Kihara (left) and Standard Chartered COO Peter Gitau

Stakeholders and responsibilities continued

Employees

How we create value

We recognise that our workforce is a significant source of value that helps our performance and productivity. Given the advances in technology and the changing needs of our clients, we are using long-term workforce planning to build the skills and culture necessary for a future ready-workforce.

How we serve and engage

The Bank has responded to the changing demands of our clients, changing world and landscape of work, by sharpening our people priorities, more so in 2020 and with response to the COVID-19 pandemic disruption.

We continued to embed our cultural transformation, through building of an inclusive culture, driving the standards of our people leaders and providing a platform for growth and development opportunities for all our colleagues necessary to build a future ready workforce.

By engaging employees and fostering a positive experience for them, we can better serve our clients and deliver on our purpose. An inclusive culture enables us to unlock innovation, make better decisions, deliver our business strategy, live our valued behaviours, and embody our brand promise Here for good.

Creating an inclusive culture

An inclusive culture is central to enabling our diversity, prompting innovation and driving performance. We have defined our long-term approach to diversity and inclusion (D&I) for our colleagues, clients and communities, setting out key objectives and focus areas to build a culture of inclusion, respect and equality. Our D&I Standard sets out our intent to ensure a respectful workplace, with fair and equal treatment and the provision of opportunities for colleagues to participate fully and reach their full potential in an appropriate working environment.

There is no doubt that 2020 was a challenging year, and the need to lead inclusively was a central theme for our people leaders. Our commitment to Diversity and Inclusion was supported by our employee resource groups (ERGs), BOOTS (Men Forum), SKIRTS (Ladies forum) and people with disability forum, and that help create a culture of inclusion and provide learning, development and networking opportunities. The ERGs align to our focus areas of gender, ethnicity and nationality, generations, and disability and wellbeing.

Our work force is now representative of the different generations, and 53 per cent of the population is made up female colleagues. There is a 43 per cent representation of women in senior leadership positions, and a 45 per cent on the Board. Our aspiration is to get a gender split of 50 per cent at senior level by 2025. This aspiration is supported by programmes that develop our talent in preparation for future roles.

In line with our Sustainability Aspirations, the Bank completed the internal Disability Confident Assessment to help us focus on removing barriers and increasing accessibility. This assessment complemented our commitment to position our colleagues with disabilities to fully unlock their full potential within the organisation.

Our Learning Journey; Learn anywhere, anytime

In May 2020, we launched our new digital learning platform, diSCover, to make learning accessible to all. This is in line with the Company's agenda to actively prepare staff to be ready to take on the emerging roles (Future Ready), and through digitally enabled learning, help them to grow and thrive. This platform utilises Artificial Intelligence (AI) to create and curate personalised content.

Our approach to talent development is to enable the reskilling and upskilling of our existing workforce, rather than rely exclusively on hiring new talent, so we can harness trends in technology and data and ringfence the talent that we have. We are developing 10 critical future skills through our future skills academies to ensure we continue to be a successful and high-performance organisation. This system usage and adoption rate of diSCover stood at 66 per cent by the close of 2020.

We augmented the self-learning journey with several expert sessions, that bridged learning to the reality of emerging roles and helped the organisation deal with ambiguity.

Wellbeing

Our wellbeing journey centred on proactively taking care of health and wellness through various activities such as Zumba, Yoga, circuit trainings, 'drop a kilo challenge', running club activities, physical and mental health talks. In partnership with service providers, we continued with our agreed approach in accessing medical care, introduced lifestyle management programmes and pharmaceutical services, and effectively changed our approach from curative to preventive well-being, enabling us to improve our medical claims experience, reap the benefits of reduced sick off days, improved health status and effectively lowered our health care costs.

As the COVID-19 pandemic continued to spread across the country, our key priority remained safeguarding and protecting our staff. The Bank supported the flexible work model to most of the staff, that were able to work from home or from alternate workstations. We recognise the sacrifices and agility made by staff, to accommodate the continued operation of the Bank during the year.

Watching out for wellbeing

In order to protect the health of our employees during COVID-19, we partnered with wellness provider Switch+ to roll out a wellbeing platform. The platform, which hosted fitness sessions including yoga, meditation and Zumba, was available to all staff.

Society

How we create value

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

How we serve and engage

Our purpose is to drive commerce and prosperity through our unique diversity. Our sustainability vision is to become the most sustainable and responsible bank, and the leading private sector catalyser of finance for the Sustainable Development Goal (SDGs). As a Bank, we're committed to sustainable social and economic development through our business, operations and communities. We strive to operate as a sustainable and responsible business, collaborating with local partners to promote social and economic development.

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

It is underpinned by our Sustainability Aspirations, which provide tangible targets for sustainable business outcomes aligned to the SDGs.

Sustainable finance

Sustainable finance is integral to ensuring economic development and business resilience in the wake of COVID-19 pandemic. Recognising that our most significant environmental and social impact comes from the businesses we finance, we have set out how we balance economic, environmental and social needs in our decision making through our Sustainability Philosophy. Our purpose and valued behaviours are the foundation for our Sustainability Philosophy.

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

Our recent survey of more than 1,000 investors, with a specific focus on affluent and high net worth investors, highlights the resilience of investor interest in socially responsible investments amidst market disruptions due to COVID-19 pandemic. It is imperative that our services finance key sectors and create solutions that drive economic growth while managing environmental and social risks with our financing.

In 2020, we partnered with Davis and Shirtliff to launch the first ever Sustainable Financing Solution for our Retail Clients. Our clients can now purchase solar water heaters, on grid photovoltaic power generators and water treatment solutions at a discount and preferential rates using the Company's credit and debit cards. We also availed KShs 650 million in preferential loans to support the fight against the COVID-19 pandemic. Kenyan manufacturers and distributors in the pharmaceutical industry and healthcare providers, as well as non-medical companies that have volunteered to add this capability to their manufacturing output – goods in scope include ventilators, face masks, protective equipment, sanitisers and other consumables to support the fight against the COVID-19 pandemic. We continue to support Kenya Tea Development Agency (KTDA) with financing which impacts over 650,000 tea farmers who account for 60 per cent of the country's total tea production and exports.

Managing environmental and social risks

Our Environmental Risk Management Framework is a critical tool we use to assess the risks of our lending activities. We apply the framework to our Corporate clients and embed our framework directly into our credit approvals process. It is the role of our relationship managers to carry out an Environmental and Social Risk Assessment (Client ESRA). This allows us to evaluate client performance against our Environmental and Social (ESG) criteria. Where large transactions are involved, in the case of project finance for instance, we will also carry out a separate Transaction ESRA. In 2020, we reviewed our high impact lending activities against our Environmental and Social Risk Management (ESRM) framework. All transactions with a development project component are categorised and assessed against the Equator Principles.

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

Stakeholders and responsibilities continued

Society continued

SUSTAINABILITY PILLARS

SUSTAINABILITY ASPIRATIONS	Sustainable Finance	Responsible Company	Inclusive Communities
	Infrastructure	People	Futuremakers; • Education • Employability • Entrepreneurship
	Climate	Conduct	
	Entrepreneurs	Financial Crime Compliance	
	Digital	Environment	
	Commerce/Trade		
	Impact and sustainable finance		

Responsible company

Promoting good conduct

We strive to act in a responsible and sustainable way as a company by investing in our people, promoting the right values, behaviour and conduct, supporting the fight against financial crime and managing our environmental footprint. Our Code of Conduct is the central tool that defines our conduct expectations. Our goal is to create the right environment to support ethical behaviour, so all employees know, understand and play their part. Leaders are encouraged to recruit and recognise colleagues based on good conduct, while performance objectives and reward mechanisms are directly linked to our valued behaviours.

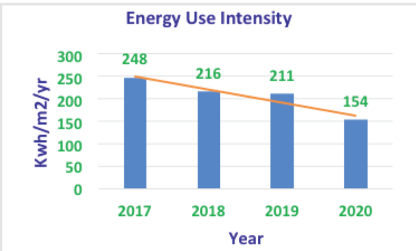
Fighting financial crime

We kept appraised on the emerging COVID-19 pandemic financial crime risks through engaging all staff in training and internal communication. More than 1,000 Bank staff attended the virtual sessions on emerging risks. We believe that partnering to lead in the fight against financial crime is the best way to protect our business, clients and communities. That's because we recognise that no single company, law enforcement or government acting alone can eradicate financial crime. The Bank continued to engage its correspondent banking customers through virtual financial crime academies and publishing articles on emerging risks which enriched the outreach programme. We remained active participants in the East Africa Illegal Wildlife Task Force and a few members of the Financial Crime Compliance Team (FCC) attended a 4-day workshop on The Role of Financial Institutions in detecting, identifying and disrupting of illicit financial flows from trafficking of human beings and smuggling of migrants. To further enhance the Bank staff awareness of bribery and corruption an internal virtual conference was held to celebrate the UN anti-corruption day with more than 300 staff attending the event. In the year, 100 per cent of our staff completed Anti-Bribery and Corruption, Anti-Money Laundering and sanctions training.

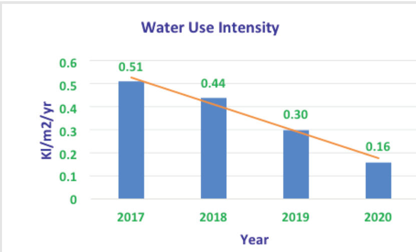
Managing our environmental footprint

We aim to reduce the direct environmental impact of our operations in our branches and offices through sustainable initiatives that allows us to reduce our energy, water and paper usage including waste.

In 2020, we surpassed our Energy Use Intensity (EUI) target of 176 Kwh/m²/yr by achieving 154 Kwh/m²/yr. This was possible through the installation of LED lighting and improving our power factor for Kenya Power and Lighting Company supply and grid-tied solar panel installations. This year we are looking to harness power from renewable energy sources and will be installing solar panels for Kenyatta Branch and some identified offsite Automated Teller Machines (ATMs.)



Our Water Use Intensity (WUI) was 0.16 kl/m²/yr against a target of 0.50 kl/ m²/yr by end of 2020. This represents a 22 per cent reduction compared to 2019. This significant reduction was achieved through the elimination of Bottled Water Containers (BWC) dispensers and installation of Point of Use (POU) water dispensers at the Chiromo Head Office and branch network. The restoration of the Bank's waste water treatment plant in 2020 also contributed to the reduction in water usage.



Additionally, the Bank embarked on a journey in 2019 to eliminate single use plastic items from our Head Office building and branches. The Head Office was certified as a single use plastic free building in September 2020. This was achieved through the collaborative effort by all stakeholders. Our goal is to have all branches certified as plastic free by 2022.

Inclusive communities

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

Futuremakers By Standard Chartered

Standard Chartered PLC has chosen the Gates Foundation as the lead partner in delivering Futuremakers by Standard Chartered, a global initiative to tackle inequality and promote greater economic inclusion. We believe everyone deserves the opportunity to realise their potential. Yet globally, more than 200 million young people are out of work or live in low-income poverty, and that's just not good enough. The economic impact of the global COVID-19 pandemic has made this worse.

Launched in 2019, Futuremakers aims to raise US$75 million between 2019 and 2023 to tackle inequality and promote greater economic inclusion in our market by empowering the next generation to learn, earn and grow. We are doing this by supporting disadvantaged young people from low-income households, particularly girls and people with visual disability to take part in programmes focused on education, employability and entrepreneurship.

In 2020, in response to COVID-19 pandemic, we globally committed a further US$25 million to Futuremakers to support economic recovery for young people impacted by the pandemic.

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

Education

We know that investing in girls can result in increased prosperity and diversity. Giving girls the tools to shape their own future has an incredible multiplier effect on communities and societies. Through our Goal programme, we continue to equip adolescent girls (12 – 19 years old) with the confidence, knowledge and skills they need to be economic leaders in their families and communities. Through sport and activity-based learning, Goal delivers modules on financial education; communication skills; health and hygiene; and self-confidence.

As part of Futuremakers, we are expanding Goal as our global education programme. In 2020, we reached over 6,000 girls through our programme with approximately 300 staff members volunteering their time and expertise. Since 2015 our Goal programme has supported over 22,000 girls and young women with life skills training with over 1,400 staff members taking part as mentors and trainers.

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

Employability

The Employability pillar focuses on work readiness and vocational training schemes for youth - aged between 16 to 30 years and encourages prioritising women and people with visual impairments and/or disability. Youth to Work is our programme that is building opportunities to support young people to become job-ready. According to the 2019 Census report, youth account for 29 per cent of Kenya's overall population. Out of this, about 8.4 million are employed, 1.6 million are seeking work while 3.5 million were not in the labour force. The inactive labour force included full time students who are likely to seek full time employment upon completion of their training.

In partnering with Light For The World, we have launched EmployABLE, a programme to reach 3,700 youth focused on building employability capacity among youth with or without disabilities. Working with 5 universities (Kenyatta University, Zetech University, Jomo Kenyatta University of Agriculture and Technology, United States International University and Multi-Media University), we are delivering work readiness training covering topics such as trends in the employment space, financial literacy and money management, relationship and people management, just to name a few. In addition, we will engage 30 medium and large companies. We have also expanded our Goal programme to include employability and entrepreneurship capability building for our Goal beneficiaries. Since 2015, more than 500 young women have received vocational training and entrepreneurship skills training to support their future pathways.

Entrepreneurship

Our Women in Technology Incubator Kenya programme seeks to help women-led entrepreneurial teams leverage business acumen and technology to grow their businesses. The programme is run in partnership with @ iBizAfrica Strathmore University. Following an open call for applications and a rigorous selection process, 10 entrepreneurs are selected to participate in a 12-week incubation programme. A final 5 are selected and each receives a KShs 1,000,000 monetary award as seed money to support their respective businesses.

- Since 2017, 30 companies have participated in our incubation programme, with 15 companies awarded KShs 1 million each in seed funding (KShs 15,000,000 in total).
- In 2020, we developed a tailored lending product to provide our Women in Technology alumni with access to capital; and we will provide them with business mentoring support.

We have also developed a community oriented financial education programme to build financial capacity of micro and small businesses. This programme is delivered through employee volunteers.

- Since 2017, 300 Micro, Small and Medium Enterprises (MSME) have participated in our financial education workshops for MSMEs.

Young athletes in Kenya rely on international races to grow their careers and improve their livelihoods. COVID-19 pandemic significantly impacted these youth. Through the Standard Chartered Nairobi Marathon, we provide a platform for young athletes to launch their international racing careers. However, in 2020 the marathon did not take place due to the COVID-19 pandemic. In partnership with Kip Keino Foundation, we are training young athletes with entrepreneurship skills to build livelihood resilience post COVID-19 pandemic.

Chairman's statement

Patrick Obath
Chairman

"2020 was one of the most challenging years for businesses across the globe. "

Here for good

Helping make the world more sustainable

Standard Chartered has over 100 years of history in facilitating international trade and investment, directing the flow of capital to where it is needed most to drive commerce and prosperity. We recognise that we can do this in a more sustainable manner, doing great business, transforming our franchise and taking our promise of being Here for good to a whole new level.

Dear Shareholders

The COVID-19 pandemic caused unprecedented adverse effects on both the global and local economy; and affected our lives in different ways. Sadly, we have lost colleagues and some of us have lost friends and loved ones. I would like to extend my deepest sympathy to everyone who has been negatively impacted by this pandemic.

In line with our Brand Promise – Here for good – our focus has and will always be to protect the interests of shareholders, whilst ensuring the wellbeing of colleagues, supporting our clients, and showing solidarity with our communities. Throughout this tumultuous period, our 1,280 staff members under the leadership of our Chief Executive Officer Kariuki Ngari and his Management Team ensured we were able to keep this promise. As a Bank, we were quick to adopt health policy measures as directed by the Ministry of Health and in adherence to the Bank's Health and Safety guidelines. We also strongly believe that we have a critical role to play in supporting the economy as we deal with the effects of this pandemic. We implemented several initiatives to protect and support our staff, clients, service providers and the community in general as follows:

- We invested over KShs 150 million to support flexible working arrangements and ensure the safety of our workforce. Currently over 70 per cent of our staff members can now work safely from home.
- We donated over KShs 145 million to UNICEF, Red Cross and KCDF to support communities deal with the COVID-19 pandemic.
- We offered repayment holidays, fee waivers and loan extensions to our clients to help them deal with the effects of the pandemic. To date we have restructured loan facilities totalling KShs 26.1 billion to support them through the pandemic.
- We provided KShs 650 million of credit facilities at cost to companies at the fore front of fighting the COVID-19 pandemic
- We reduced the credit period for our suppliers, resulting in KShs 964 million being paid on average within seven days of invoicing

All of this were done exceptionally well while preserving our operational and financial strength. It also demonstrated our commitment to do the right thing by our staff, clients and the larger community, and I am very proud of these achievements.

Improving our potential

As you will see in the CEO's statement, our financial performance was impacted by the effects of the pandemic. But those results also show evidence of great resilience; a testament that our business strategy anchored on our investment on digital capabilities is sustainable.

The Board's collective responsibility is ensuring that the Bank operates within a framework of effective controls to continue unlocking the organisation's potential in pursuit of Our Purpose – **Driving commerce and prosperity through our unique diversity.** The Board considers the impact of the decisions it makes, and its responsibilities to all our stakeholders, including colleagues, shareholders, regulators, clients and suppliers, as well as to the environment and the communities where we operate. This is anchored on our valued behaviours - **Do the Right Thing, Never Settle, Better Together.** Our decision to conserve capital in the wake of the pandemic has ensured we have a strong capital base to provide support to individuals, businesses and communities, strengthen our capital ratios and invest to transform the business for the long term.

As a Board, we have also been paying attention to how management develops attractive value propositions for clients, advancing our own digital revolution and becoming more disruptive in our market. This is important as competition in this space continues to grow, not just from banks, but also from FinTechs. We continue to invest and cement our leadership position in adoption of digital innovation as a key driver of business efficiency, reducing operational costs and improving customer experience for both our retail and corporate business. As the only global bank with a presence in Africa, Asia and Middle East for over 100 years, we continue to exploit and grow our network corridor business as a unique proposition to help clients do business in these regions. To help our individual clients prosper, our wealth business has enhanced our offering for affluent and emerging affluent clients.

Awards and recognitions

The benefits of this disciplined execution are evident in the Bank's robust performance despite the vulnerability of the economy caused by the COVID-19 pandemic. We are humbled to have received numerous recognitions including the best tier 1 bank for digital experience and the best bank overall in the Kenya Bankers Association customer satisfaction survey; Best Digital Consumer Bank in 2020 Global Finance Awards; The Most Helpful Bank during COVID-19 in Kenya in the BankQuality Consumer Survey and Outstanding Customer Experience for financial inclusion award from The Digital Banker Magazine.

Finally, join me in congratulating our Chief Executive Officer, Kariuki Ngari, who was also recognised as the "Most Influential Leader in Consumer Banking and Finance in Kenya" in the Corporate Excellence Awards 2021. This is indeed a proud moment for the Bank.

Strengthening our defences

Financial and cyber-crime remains one of the highest risks in the financial services sector and we remain committed to the fight against financial and cyber-crime. We recognise that no single company, industry, law enforcement or sovereign acting alone can eradicate this. For this reason, we see our partnership with regulators and key stakeholders as the best way to protect our business, clients and communities. The Bank continued to engage its correspondent banking customers through virtual financial crime academies and publishing articles on emerging risks to enrich the outreach programme.

We remained active participants in the East Africa Illegal Wildlife Task Force and a few members of our Financial Crime Compliance Team (FCC) attended a 4-day workshop on The Role of Financial Institutions in detecting, identifying and disrupting illicit financial flows from trafficking of human beings and smuggling of migrants. We are working closely with the regulators, the Kenya Bankers Association and other industry players to create awareness on cyber-crime so at to protect our clients and the financial system.

Helping make the world more sustainable

Standard Chartered has over 100 years of history in facilitating international trade and investment, directing the flow of capital to where it is needed most to drive commerce and prosperity. We recognise that we can do this in a more sustainable manner, doing great business, transforming our franchise and taking our promise of being Here for good to a whole new level.

The COVID-19 pandemic has also brought into question the sustainability of the global economy and businesses. As a Bank, we are committed to sustainable social and economic development through our business, operations and communities.

In today's complex, fast-moving and unstable world, markets, trade and capital flows are failing to address adequately some of the key socio-economic and environmental challenges of our time. Additionally, over one third of global capital has some type of environmental, social, and corporate governance (ESG) mandate.

We believe commerce and prosperity can be driven without people being left behind, without the planet being negatively impacted, and without creating divisions that diminish our sense of community. Now more than ever, finance and commerce are key to fuelling positive change where it matters most – and especially in the world's emerging economic powerhouses.

Supporting sustainable and responsible growth, including delivering the UN Sustainable Development Goals ('SDGs'), represents a significant opportunity for us. We believe finance plays a key role in enabling individuals build a positive future for themselves and their families, businesses to thrive and grow, and governments to deliver economic prosperity for the wider society. In pursuing this opportunity, we have made great strides in driving sustainable banking – we are committed to supporting the Government in delivering on the SDGs and helping our clients' transition to more efficient ways of working such as the adoption of clean technology. For example, we partnered with Davis and Shirtliff - a leading water company- to finance our clients switch to clean energy and access clean water and launched Kenya's first sustainable financing instrument to support a green, low-carbon and resilient future. We are leveraging our global capabilities and dedicated teams to drive sustainable finance and investment across our markets. We have the financial expertise, governance frameworks, technology and geographical reach to unlock capital for sustainable development.

We have continued to impact disadvantaged members of the community by leveraging our community engagement programme, FutureMakers by Standard Chartered, to empower them through Education, Employability and Entrepreneurship programmes:

- To drive our Education pillar, we continue to roll out the "GOAL" programme that targets adolescent girls. In 2020, we reached over 6,000 young girls equipping them with knowledge and skills they need to be economic leaders in their families, communities and societies.
- Employability is another key pillar of our community programme. In 2020, we launched a youth to work programme "EmployABLE" in partnership with Light for The World that focuses on building employability capacity among youth with disabilities as well as those without. The programme targets over 3,700 youths across five tertiary institutions.
- We are proud to have rolled out cohort 4 of the Women in Technology (WiT) incubator, which is aligned to the Entrepreneurship pillar. The programme, in partnership with Strathmore Business School, has so far seen over 30 women-led businesses take part in the business incubation programme, and 15 outstanding start-ups receive KShs 1 million each to grow their businesses. These businesses have been able to expand, attract additional financing and created much needed jobs in the economy.
- Due to the pandemic, the Bank had to make the difficult

Chairman's statement continued

decision to cancel the 18th edition of the Standard Chartered Nairobi Marathon. To commemorate this edition, we launched a partnership with KipKeino Foundation to support over 500 athletes, across seven counties, deal with the impact of the pandemic and build resilience. Through the programme, we are providing the athletes with food packages, special diets for sports training and financial literacy and entrepreneurship training.

Finally, the success of these programmes would not be possible without the support of our employee volunteers. We believe that volunteering is good for our communities, employees and our business. Let me take this opportunity to thank all the employees who volunteer their time and expertise to support the communities we serve.

Outlook

The global economy is expected to grow by 5.5 per cent in 2021 heavily supported by the ongoing global rollout of COVID-19 vaccination programmes. The Treasury expects Kenya's economic growth to rebound 6.4 per cent in 2021 from a coronavirus-induced slump estimated at 0.6 per cent in 2020. However, the outlook remains highly uncertain, due to the increase in COVID-19 infections globally, emergence of new variants, the fact that we will be coping with the health and economic impact of COVID-19 for some time, the reintroduction of containment measures in some economies and the effectiveness of ongoing policy support through the Government's economic recovery plan.

The banking sector remains stable and resilient, with strong liquidity and capital adequacy ratios. The sector's ratio of gross non-performing loans (NPLs) to gross loans stood at 14.1 per cent as at December 2020. This can be attributed to the challenging business environment as banks continue to make provisions for the NPLs. Private sector credit growth stood at 8.4 per cent in the 12 months to December 2020. This recovery was as a result of improved economic activity in the manufacturing, transport and communications, agriculture, real estate and consumer durables sectors. The operationalisation of the Credit Guarantee Scheme for the vulnerable Micro Small and Medium sized Enterprises (MSMEs), will help de-risk lending by commercial banks, and is critical to increasing credit to this sector.

To deal with the COVID-19 pandemic, the sector has played a key role in supporting the Kenyan economy. In line with the emergency measures announced by Central Bank of Kenya (CBK) in March 2020, the industry restructured loans amounting to KShs 1.63 trillion to support businesses through the pandemic. This represents 54.2 per cent of the total banking sector loan book which stands at KShs 3.0 trillion by the end of December 2020. This was very commendable.

On 14 August 2020, CBK issued the Banking Circular No.11 of 2020 requiring banks to update the annual Internal Capital Adequacy Assessment (ICAAP) document that is prepared by 30 April to reflect the impact of COVID-19 pandemic. The updated ICAAP document was submitted as required by 31 October 2020. The CBK will be gauging the soundness of the banking sector using the results of this process.

Given the extreme economic pressures relating to the persistence of the pandemic, partially addressed by the efficacy of Government support measures, it is not possible to reliably predict how long the effects of the COVID-19 pandemic will last, nor quantify the resulting impact on the future financial performance of the banking sector.

At Standard Chartered we are encouraged at how we have handled this crisis. As instability and rapid change become the new normal, adaptation is a key skill we see becoming core to the DNA of the Bank. Our staff have gone the extra mile in ensuring exceptional continuity of service to our clients in often difficult circumstances over the last one year. We remain cautiously optimistic and will continue to deploy innovative solutions to take advantage of any opportunities in the market.

Dividends

The Board recognises the importance of dividends to shareholders and believes in balancing returns with investment to support future growth, whilst at the same time preserving strong capital ratios. In the early stages of the COVID-19 pandemic, the Board, after careful consideration, decided to vary the 2019 final dividend to conserve capital and reduced this by 50 per cent, whilst augmenting this through a one in ten bonus issue to lessen the impact for our ordinary shareholders. This measure increased our core capital by KShs 2,576 million whilst improving our total capital ratio as at 31 December 2019 by 1.06 per cent to 18.79 per cent. The Board further decided that no interim dividend on ordinary shares and preference shares would be paid in 2020. This was a prudent but difficult decision, departing from our tradition over the years. These decisions are enabling us to provide support to individuals, businesses and communities as described above, strengthen our capital ratios and invest to transform the business for the long term.

The CEO Kariuki Ngari, will explain in more detail in this report how our financial performance was impacted in some respects by the effects of the COVID-19 pandemic. Those results also show evidence of great resilience with our profit reduced despite our costs remaining well controlled (whilst continuing our digital investments) due mainly to a combination of lower interest rates that affected income and higher loan impairments driven in part by the reserves we built to absorb possible future credit losses as the COVID-19 pandemic unfolds.

We remained highly liquid and our capital position strengthened further, which means with better visibility over the near-term economic outlook the Board is recommending the payment of a first and final dividend for the year of KShs 10.50 for every ordinary share of KShs 5.00. This compares to a total dividend of KShs 12.50 per ordinary share paid in 2019. The Board is also recommending the payment of a first and final dividend of KShs 168,000,000 on the non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares.

The payment of the dividends received no objection from the Central Bank in line with the CBK Banking Circular 11 of 2020.

Board and secretariat changes

During the year, we had changes in the composition of our Board. Mr. Ian Bryden retired after having served diligently on the Board as a Non-Executive Director for a period of four years. I would like to thank him for his commitment and important contributions to the success of the Company.

I am delighted to welcome Ms. Julie Browne to the Board following her appointment as a Non-Executive Director effective 15 December 2020. Ms. Browne has more than 15 years of experience in Credit Risk Management across many of Standard Chartered Group markets and brings on board significant understanding on credit and experience operating across many of our markets.

Mrs. Nancy Oginde retired as the Company Secretary effective 1 October 2020 having served in the position for more than 20 years. On behalf of the Board and the Company, I thank Mrs. Oginde for her diligent service and the integral role she played in driving the Company's corporate governance agenda over the years. We welcome Ms. Judy Nyaga who was appointed as the Company Secretary effective 15 December 2020.

In conclusion

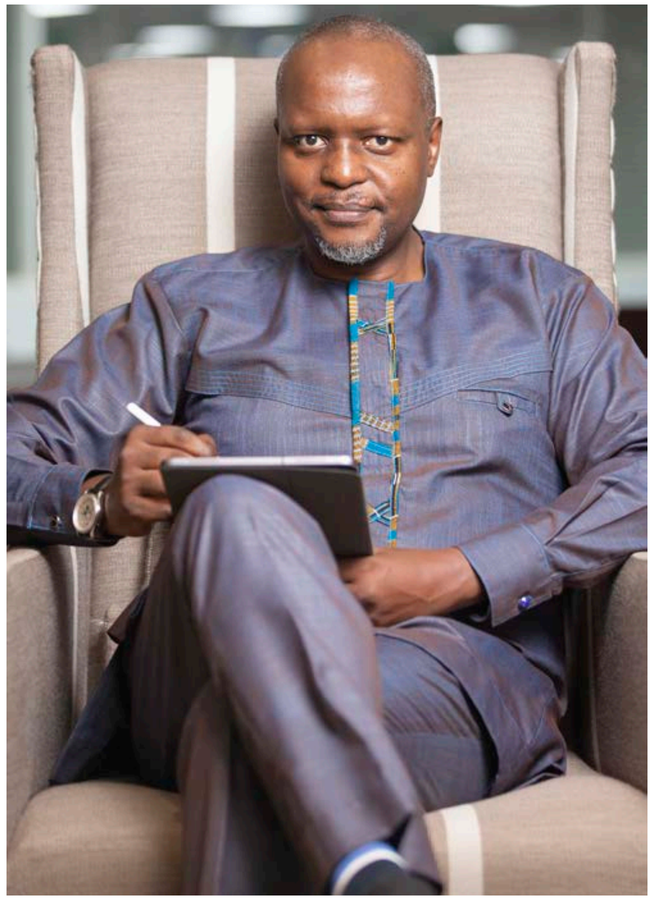
Finally, the pace of change required by the new normal and the ever changing financial sector dictates that we must keep evolving by adopting new ways of working and developing attractive value propositions for clients, advancing our own digital revolution and becoming more disruptive in our market. The good news is that our organisation has capable, passionate and talented people who are well equipped to ensure we continue to execute on our strategy, manage our risks, capital and liquidity while supporting our clients, colleagues and communities. Later in this report, our CEO Kariuki Ngari will set out the areas on which we will focus to develop the Company with a view to further improving returns.

As we work towards building a sustainable future, there are many exciting things coming our way in 2021. We have refreshed our brand, with a vibrant, modern and distinctive expression that reflects our progress, sustainability agenda and innovation within the Bank. I hope you will be as excited as I am to become an ambassador for our evolved brand.

Patrick Obath
Chairman

Date: 25 March 2021

Chief Executive Officer's statement



Kariuki Ngari
Chief Executive Officer

"We continue to implement our digital by design business strategy across all our business segments and banking platforms."

Our purpose

Our organisational behaviours and priorities are underpinned by our purpose – to drive commerce and prosperity through our unique diversity. These priorities; **Transform and disrupt with digital, Grow our wealth business, Deliver our network, Optimise low returning segments,** and **Improve productivity,** have led us to invest in what already differentiates us and have enabled us to capture the opportunities in the market.

Delivering on our strategic priorities – 2020 key milestones

2020 was an unconventional year with the COVID-19 pandemic ("COVID-19", "the pandemic") inevitably disrupting and reshaping many businesses. Despite this, our focus on strategic initiatives continued at pace. The speed at which we were able to shift to serving clients digitally with minimal disruption demonstrated that indeed our strategic initiatives were the right ones and we were moving in the right direction.

Managing COVID-19 pandemic and its impacts

We responded to the pandemic by aligning our support along the pillars of our staff, our clients and our communities.

Staff

We prioritised the wellbeing, safety and security of our staff and invested over KShs 150 million to ensure that they continue serving clients safely and effectively, whether from home or from the office. The investment was deployed towards ensuring that our offices and branches were adhering to health guidelines prescribed by the Ministry of Health. Further, we provided the necessary technological tools to keep staff connected to the office and clients including laptops, Virtual Private Network (VPN), secure video and audio-conferencing facilities, and data bundles. As a result, over 70 per cent of our staff worked from home effectively throughout the pandemic and continue to do so today.

Clients

To support our clients, we implemented the Central Bank of Kenya's relief measures which enabled them to manage through the pandemic. These included fee waivers, restructuring facilities for our borrowing clients and extending credit to businesses that needed to adapt their production facilities to support COVID-19 containment measures. As a result, we extended credit moratoriums valued at over KShs 26 billion on a total of 6,457 facilities.

In addition, we availed more than KShs 650 million in preferential loans to support Kenyan manufacturers and distributors at the forefront of fighting the pandemic. These include those in the pharmaceutical industry, healthcare providers, as well as non-medical companies that volunteered to add this capability to their manufacturing output for goods in scope such as ventilators, face masks, protective equipment, sanitisers and other consumables.

Communities

To support our communities, we donated over KShs 145 million to provide immediate relief to those affected by COVID-19. Our strategic relief partners and development organisations use these funds to support vulnerable groups particularly youth and women, to recover and rebuild from the pandemic.

As a result of these initiatives, the Bank was recognised as The Most Helpful Bank during COVID-19 in Kenya and 2nd in Africa, according to Bank Quality Consumer Survey on Retail Banks 2020 conducted by The Asian Banker. These accolades are testaments to the positive impact we have had on our clients and the communities we operate in.

For our supply partners, we reduced credit terms at the onset of the pandemic and to date we have made KShs 964 million in early repayments. We have also focused on e-invoicing to protect our staff and supply partners, and this has seen a 97 per cent adoption rate by our supply partners.

Progress on our strategic priorities

I am pleased to report good progress in 2020 demonstrating our agility, resilience and ability execute at pace.

Transforming and disrupting with digital

We continue to implement our **digital by design** business strategy across all our business segments and banking platforms. Our aim is to deploy an end-to-end digital service delivery model thus evolving with our clients' needs and preferences. Currently 90 per cent of our transactions are taking place in alternate channels away from the traditional brick and mortar branches, with 67 per cent of clients being active on digital channels. The investments we continue to make to enhance our digital capabilities have enabled us to continue serving our clients safely and seamlessly despite the disruption occasioned by the pandemic.

We have embedded over 70 client services on the SC Mobile application for Retail clients thus enabling us to scale up client acquisition at a much lower cost. As a result, 62 per cent of all service requests previously done at the branch are now being fulfilled on the SC Mobile App.

We have continued to digitise our Wealth Management product suite. Our clients can now access Motor, Home, Travel and Funeral cover; Mutual Funds and Fixed Income investment options on the SC Mobile App.

Straight2Bank, our online banking platform for Corporate and Commercial Banking clients, was enhanced enabling our clients to perform real-time transactions such as integrated tax payments, mobile wallets transfers, foreign exchange, utility payments and documentary trade applications. As a result, 93 per cent of the Corporate and Commercial clients are now active on the platform. We have also availed alternatives for in-branch cash deposits by providing fully automated Cash Deposit Machines at client sites with real-time credit to client accounts.

The market is recognising the efforts we have made on digital transformation.

- For the third year running, we were recognised as the **best tier 1 bank for digital experience** and the **best bank overall** in the Kenya Bankers Association customer satisfaction survey.
- Globally, Standard Chartered was recognised at the 2020 Global Finance Awards as the **Best Digital Consumer Bank**.
- More recently, our Fixed Income mobile platform won the **Outstanding Customer Experience for Financial Inclusion** award from The Digital Banker.
- The Bank was awarded and recognised as the **Most Recommended Retail Bank in Kenya and Africa** from the Bank Quality Consumer Survey on Retail Banks in 2020 by The Asian Banker. The survey enabled bank customers to rate and comment on their banking experiences and involved 4,000 consumers from Africa specifically Kenya, Ghana, Nigeria and South Africa.

These accolades are testament that we are on the right path and that our priorities are aligned to clients' needs.

Grow our Wealth business

Our wealth business remains a key focus for us. We continue to enhance our wealth management proposition as we seek to be increasingly relevant in our clients' life stages. Our affluent (Priority) and emerging affluent (Premium) segments now contribute 62 per cent of Retail Banking income with our wealth solutions contributing 21 per cent of this revenue today.

We have consciously developed and digitised our wealth solutions to make sure our clients are able to invest, grow, protect and transfer their wealth wherever they are. Our differentiated Insurance product suite now includes Motor, Home, Travel and Funeral cover, all available on the SC Mobile app. The investment business which comprises of local currency bonds, foreign currency bonds and offshore mutual funds has differentiated itself in the market, buttressed by strong product propositions, digital accessibility, superior relationship management and investment advisory capabilities.

We have over 100 Chartered Institute of Securities and Investment (CISI) certified wealth advisors delivering personalised investment advice to our clients. This is the highest number in market.

In 2020, our Wealth Management business achieved a remarkable milestone of Assets Under Management (AuM) of KShs 129 billion in 2020 reflecting a 90 per cent growth compared to 2019. This great milestone was made possible by the team's dedication and hard work along with the right strategy and strong collaboration across different business segments and by staff.

The Bank was recently awarded the Best Digital Financial Inclusion Initiative by the Digital Banker. This Award was as a result of multiple market-leading digital capabilities rolled out to make it more convenient, faster and simpler for our clients to execute their banking and investment needs, via the SC Mobile App. We continue to increase our investment in this space especially in data analytics capabilities to generate a unique understanding of our clients and their needs, and in turn deliver a personalised experience.

Deliver our network

As a Bank that operates in 60 diverse markets across Asia, Africa and the Middle East, our network is a key differentiator and our unique strength – this is one of the reasons most Global Corporates bank with us. We continue to facilitate and seamlessly support our clients' cross-border payment, trade, investment and wealth needs as we aim to become the go-to bank for our network.

Trade within the network and corridors was obviously impacted by the pandemic and experienced a revenue decline in 2020. This was supported by our differentiated capabilities in Supply Chain Finance, Distributor Finance and Cash Management Payments and Collections on our flagship Straight2Bank platform. We are optimistic that this will rebound as economies fully re-open.

Our "Banking the Ecosystem" value proposition, where we bank our clients, their buyers, suppliers, distributors and other ecosystem players continues to grow. The ecosystem helps us to support the SMEs, who are the suppliers and distributors of corporate clients and a key driver of growth of the Kenyan economy.

The ecosystem has enabled us to generate more value for clients, creating synergies across the businesses and products. As a result, we have deepened wallet share among existing client relationships and acquired new ones who are in the ecosystems of our existing clients.

Building resilience for long-term growth

The pandemic affected many clients and businesses alike. This inevitably impacted our income and elevated loan impairment provisions. We are keen to continue supporting clients through this season while managing credit and operational risks to drive the Bank's efficiency and productivity. We will continue to drive 'capital-lite' solutions, i.e. those with lower risk and risk-weighted assets (RWA) such as Transaction Banking and Financial Markets solutions.

Chief Executive Officer's statement continued

We are optimistic that our investment in digitisation will continue to support productivity improvements and enhance client experience. We will continue re-shaping our organisation to align client journeys, processes and ways of working to better support needs of our clients and partners. This will enable us to achieve operational improvements, scale revenue growth and enhance efficiency. Our investment in the digital platforms has helped us reduce our cost to serve and is gradually improving our cost to income ratio.

We continue to optimise our branch network responding to a significant shift in client transaction preference. We will continue to redefine our distribution footprint leveraging on partnerships and subletting excess space to retail brands that have high footfall.

We shall further embark on automation of key processes using new technologies to enhance speed, accuracy and consistency in transaction processing. This will result in better experience to our clients and efficiency for the Bank.

Summary of financial performance

The onset of the pandemic brought along challenging conditions which resulted in a reduced, but nonetheless resilient, financial performance for the year. Overall, income declined as did our profit before impairment losses, notwithstanding tight control of expenses. The actions taken in recent years to improve the quality of our balance sheet sheltered us from some of the worst effects of the pandemic, but we nonetheless incurred credit impairment charges that were significantly higher than the prior year. Overall, this resulted in profit after tax decreasing by 34 per cent, but we ended the year with a total capital ratio of 18.47 per cent. The Bank also retained a highly liquid balance sheet and consequently we believe we enter 2021 well equipped to see through the remaining challenges of COVID-19 and, importantly, well positioned to benefit from the subsequent upturn in the global economy.

- Operating income declined 4.5 per cent reflecting the subdued economic activity in 2020;
- Net interest income declined 2 per cent due to lower interest rates coupled with pandemic relief measures;
- Non-interest income decreased 10 per cent with reduced volumes more than offsetting a particularly strong performance in Financial Markets;
- Operating expenses increased by 1 per cent with the impact of COVID-19 resulting in a net reduced spend on travel and entertainment and other discretionary costs more than offset by the continued focus on investing in new digital capabilities;
- Credit impairment increased by KShs 3,352 million to KShs 3,586 million. This was mainly driven by a KShs 1,549 million increase in impairments across all client segments as a direct result of the pandemic and includes a net increase in the judgmental management overlay of KShs 970 million that the Bank proactively reserved for forward-looking risks.

Having made substantial provisions against expected credit losses during the year, conditions have stabilised somewhat in 2021. However, despite these encouraging signs, the credit risks facing the Bank are likely to remain elevated during what is likely to be a difficult economic recovery.

The balance sheet remains strong and highly liquid.

- Net loans and advances to customers decreased 5.6 per cent while customer deposits increased 12.3 per cent. Our focus on digital migration and continued investment in technology platforms continues to drive growth in the deposits. Funding quality remains high with current and savings accounts making up 88 per cent of total customer deposits.
- The liquidity ratio at 71.49 per cent remains well above the regulatory threshold.
- The total capital ratio of 18.47 per cent is above the regulatory minimum and within our capital risk appetite.

The Bank announced on 19 June 2020 that in response to the unprecedented challenges facing the world due to the COVID-19 pandemic, the Board had decided after careful consideration to vary the recommendation to pay a final dividend for 2019 of KShs 15.00 per ordinary share to KShs 7.50 per ordinary share which increased the total capital ratio by 106 basis points. This decision enabled the Bank to provide support to individuals, businesses and our communities while keeping our staff safe, and invest to transform the business for the long term.

We will continue to manage our balance sheet prudently, particularly throughout the remainder of the pandemic.

Our vision for a sustainable future

As the world deals with the global healthcare crisis, it has become clear that harsh climate and weather conditions have intensified the effects of the pandemic in some cities. Its impact on the environment and human health significantly affects sustainable economic growth. As a bank we are committed to sustainable social and economic development through our business, operations and communities. As a signatory to The UN Sustainable Development Goals (SDGs), we strive to be a more responsible company, underpinned by strong processes throughout our organisation.

Sustainable finance is integral to ensuring economic development and business resilience in the wake of COVID-19. Our recent survey of more than 1,000 investors, with a specific focus on affluent and high net worth investors, highlights the resilience of investor interest in socially responsible investments amidst market disruptions due to COVID-19. The survey showed that many investors have SDGs on top of their minds and that interest in sustainable investing is growing. Further, many investors are willing to invest a proportion of their funds in sustainable investment specifically in Clean Water and Sanitation, Good Health and Well-being, and Climate Action.

With less than a decade left to meet the UN's SDGs – which aim, among other things, to protect the planet and end poverty by 2030 – the next nine years will be critical in making the world a more sustainable place. There is a massive role for the financial services sector in helping the world solve one of its biggest problems, climate change. While the SDGs need more funding, investment is even more important in emerging markets. These markets are crucial as they face the biggest risks from climate change and broader environmental, social and governance challenges.

During 2020 we partnered with one of East Africa's leading Water and Energy Solutions provider to launch Kenya's first sustainable financing instrument to support a green, low-carbon and resilient future. Through the partnership we are extending credit facilities to our customers at discounted rates to enable them to acquire solar energy and water treatment equipment. This initiative aims to support individual clients' transition to cleaner technologies while harnessing and scaling more climate friendly business practices. The initiative will further facilitate access to clean water and sanitation across the country.

Central to sustainability is the use of technology to create a more sustainable planet. Technology is a key enabler for hard to abate sectors to cut their carbon emissions through processes such as carbon capture and storage. Data and technology will also be vital in monitoring the impacts of climate change, accelerating our use of renewables, directing capital due to smarter ESG reporting, ratings and investments.

Finally, in delivering community programmes, FutureMakers by Standard Chartered focuses on promoting economic inclusion and addressing the challenge of inequality. We are working with different partners to support young people, particularly girls and women, on education, employability and entrepreneurship.

- Our Women in Tech initiative which is ran in partnership with a leading Kenyan university, is helping women-led business integrate technology into their business operations for growth. So far, over 30 companies have participated in our incubation programme, with 15 companies awarded KShs 1 million each in seed funding. We have also developed a tailored lending product to provide our Women in Tech alumni with access to capital as we continue to provide them with business mentoring support.
- We launched a programme to reach 3,700 youth focused on building employability capacity among youth. In addition, we will engage 30 medium and large companies in the programme to train 50 managers and 30 apprentice trainers on working with people with disabilities.
- We have invested KShs 8 million to support and train 500 young athletes with entrepreneurship skills to build livelihood resilience and provide their households with COVID-19 care packages.

We recognise that we have only taken the first steps on what will be a long journey. However, action needs to be swift and decisive. We understand that a lot of collaboration and partnerships are needed to meet sustainable development and investments. We have made a conscious decision to drive partnerships that provide sustainable solutions to our clients while supporting the public and private sectors to achieve the UN SDGs.

Conclusion

The depth and scale of the pandemic impact has been unprecedented and is still hard to predict. As countries begin to emerge from lockdowns and economies restart, all eyes are on whether there will be a pivot to a sustainable way forward. There is a lot of optimism with the approval and ongoing rollout of vaccinations. Further, governments and central banks have focused their policies towards supporting economic recovery, thus driving a positive shift in outlook. Our focus has been and will continue to be protecting our staff and their well-being; supporting our clients; and standing with our communities.

The COVID-19 crisis has reinforced the relevance of our strategic priorities. Our diverse network means that we are well placed to help our clients manage their risks across borders in volatile conditions. Our significant investment into core digital capabilities in recent years has borne fruit during the pandemic, with up to three quarters of our staff working remotely. We have made the right investments to enable face-to-face interactions with most of our customers and our superior digital channels have helped us stay close and address their needs through the crisis while at the same time positioned us to take advantage of emerging opportunities.

We will continue to execute on our strategic priorities and invest in areas of our competitive strength as one thing remains clear: we can win through a relentless focus on improving the experience of our customers while working hard to attract new ones. We are aware that as our business model evolves with the changing needs of our clients, we must remain cognisant of our responsibility to fight financial crime, especially cybercrime and we will carry our clients along this transformation journey.

Finally, I commend the remarkable efforts of our staff this year as they ensured continuity of service to our clients often in difficult personal circumstances. These efforts enabled us to protect shareholders' interests in an exceptionally challenging year and maintain a steadfast support for our communities.

Kariuki Ngari
Chief Executive Officer

Date: 25 March 2021

From cards to loans, we make day-to-day banking easier

Voted Most Recommended Retail Bank in Kenya and Africa – Bank Quality Consumer Survey by The Asian Banker

We would like to thank everyone across Africa who nominated us, and thank you to all the staff that contributed to this success.

From payments to cards to investments, loans and more, we offer personalised products and services that are tailored around you, combined with support and guidance when you need it, so you can bank seamlessly and reach your financial goals.

standard chartered

Corporate Governance

Contents

Board of Directors

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

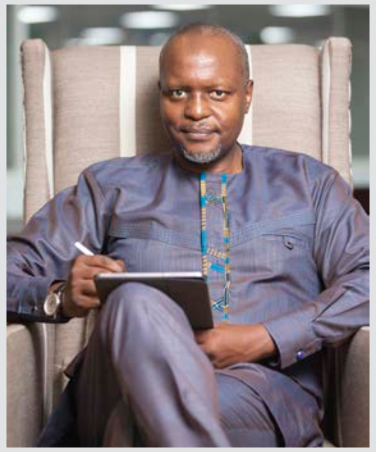
Patrick Obath (66)
Chairman

Appointment

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

Experience

Patrick has vast experience in change management, strategy, financial management and controls, turnarounds, governance and business risk. He is well versed in health, safety and environment management systems and processes. Patrick is the Managing Consultant at Eduardo and Associates and an Associate Director at Adam Smith International Africa Limited (ASI) Consultancies. He is the Chairman of PZ Cussons East Africa Limited, Adrian Kenya Limited and the International Chamber of Commerce, Kenya Committee amongst others. Previous appointments include Managing Director at Shell East Africa..



Kariuki Ngari (55)
Chief Executive Officer

Appointment

Kariuki was appointed to the Board in March 2019.

Experience

Kariuki has over 28 years of banking experience. He was instrumental in transforming the consumer banking divisions of Standard Chartered Bank Kenya and the 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 and 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 Executive Director Kenya from 2009 to 2013. He has also held senior positions at Absa Bank Kenya PLC. Kariuki serves as a Non-Executive Director on the Board of Standard Chartered Bank Uganda and is a Director on various other Standard Chartered Bank Kenya subsidiary Boards. In addition to his current role, Kariuki is also the Interim Regional head for Consumer Private and Business Banking in Africa Middle East and Europe(AMEE).

⊕ Kariuki Ngari chairs the Executive Committee

Chemutai Murgor (51)
Chief Financial Officer

Appointment

Chemutai was appointed to the Board in March 2007.

Experience

Chemutai has been with the Bank for 20 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.

⊕ Chemutai Murgor also sits on the Executive Committee

Peter Gitau (49)
Chief Operations Officer

Appointment

Peter was appointed to the Board in April 2020.

Experience

Peter has over 27 years experience in operations, technology, risk management and internal/external audit . He has held senior roles in Standard Chartered including Chief Information Officer (East Africa), Head of Audit (Africa), Group Head of Controls for Wholesale Banking Technology and Operations in Singapore.

⊕ Peter Gitau also sits on the Executive Committee

Richard Etemesi (59)
Non-Executive Director

Appointment

Richard was appointed to the Board in June 2017.

Experience

Richard is a past Managing Director and Chief Executive Officer of Standard Chartered Bank Kenya Limited a position he held until March 2014. Richard then moved on to become Chief Executive Officer for South Africa and Southern Africa and later on became the Vice Chairman of Standard Chartered Bank, Africa. After a career spanning more than 28 years Richard recently retired from Standard Chartered Group in April 2021. Richard has experience in Banking, Finance and Compliance and has vast knowledge from different African markets. He serves as a Non-Executive Director on the Boards of Standard Chartered Bank in Nigeria, Tanzania, Angola and Mauritius.

Board of Directors continued

Julie Browne (60)
Non-Executive Director

Appointment

Julie was appointed to the Board in December 2020.

Experience

Julie is the Chief Credit Officer responsible for Africa in Standard Chartered Bank and is based in Johannesburg. She is an accomplished corporate banker with more than 40 years' experience garnered from working in a range of different roles within corporate and institutional banking for major international banks in London, South East Asia and Africa. She has served in various capacities including as a Senior Credit Officer, Commodities Risk ASEAN region based in Singapore and as the Head of Policy and Process, Corporate, Commercial & Institutional Banking and Private Banking.

Dr. Catherine Adeya-Weya (52)
Independent Non-Executive Director

Appointment

Catherine was appointed to the Board in January 2016.

Experience

Dr. Catherine Adeya-Weya is a seasoned Information Scientist with over 20 years working in technology and development, with rich experience across academia, civil society, government, and the private sector. She is an expert in bilateral and multilateral agency operations with consolidated expertise and excellent skills in research, project planning and execution, finance management and policy development. A strategic thinker with proven management and leadership skills, she has vast global exposure in the UK, the Netherlands, USA and across sub-Saharan Africa. Dr. Adeya-Weya has worked at the United Nations University/ Institute of New Technologies in the Netherlands; as a Director at the Ministry of ICT in Kenya; and was the founder CEO of Konza Technology City. She is currently the Director of Research at the World Wide Web Foundation. She is also a Non-Executive Director at UAP Old Mutual Group and Adrian Kenya Limited.

Imtiaz Khan (51)
Independent Non-Executive Director

Appointment

Imtiaz was appointed to the Board in August 2018.

Experience

Imtiaz has 30 years of private equity investment, corporate finance advisory and audit experience in emerging and developed markets in Africa, Asia, the UK and USA. He manages Cassia Capital Partners, a regional private equity investment company which he co-founded. He previously worked with the IFC, investing in a wide range of banks and financial institutions in over a dozen countries across the world, and prior to that with PricewaterhouseCoopers in Kenya and the UK. He has extensive board and corporate leadership experience, currently serving on the Boards of a number of Cassia's investee companies. He previously served as a Non-Executive Director on the Board of Centum Investment Company PLC and several of its subsidiaries in Kenya, Uganda and Mauritius.

Imtiaz teaches on the Stanford SEED program run by the Graduate Business School of Stanford University and is a mentor with Endeavor, one of the world's leading networks of high impact entrepreneurs with a presence in over 40 countries around the world.

Kellen Eileen Kariuki (58)
Independent Non-Executive Director

Appointment

Kellen was appointed to the Board in February 2020.

Experience

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

David Ong'olo (66)
Independent Non-Executive Director

Appointment

David was appointed to the Board in January 2020.

Experience

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

Judy Nyaga (48)
Company Secretary

Appointment

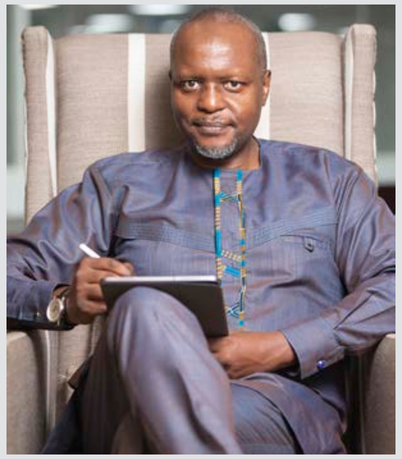
Judy was appointed as Company Secretary in December 2020.

Experience

Judy has over 20 years legal and corporate governance experience in the banking industry having worked at both Standard Chartered and other banks in Kenya. She has gained extensive knowledge and experience leading teams of company secretaries across various markets in Africa, Middle East, ASEAN and South Asia.

⊕ Judy Nyaga also sits on the Executive Committee

Executive Committee



Kariuki Ngari
Chief Executive Officer

Chemutai Murgor
Chief Financial Officer

Peter Gitau
Chief Operations Officer

Edith Chumba
Head, Retail Banking

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

Birju Sanghrajka
Head, Global Banking

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

Makabelo Malumane
Head, Transaction Banking

Makabelo is a seasoned professional with over 18 years of financial services experience across Europe, the Middle East and Africa. She joined Standard Chartered Bank in 2015 as the Cash Management Product Head for Africa and was instrumental in developing and delivering the digital and innovations strategy for the corporate, commercial and institutional banking client segments across SCB presence markets. Prior to joining the Bank, Makabelo held a number of key roles at Citibank and Stanbic Bank where she honed her international and multi-functional expertise across the sales, client management and product management disciplines.

Rebecca Kaggwa
Head, Conduct, Financial Crime and Compliance

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

Jared Obongo
Head, 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, Cooperative Bank of Kenya, Commercial Bank of Africa and Stanbic.

James Mucheke
Head, Credit

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

Executive Committee continued

Evans Munyori
Head, 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.

David Mwindi
Head, Audit

David joined the Bank in 2011 having previously worked for Barclays Bank, KPMG Kenya, PwC and Strathmore University. He has over 17 years experience in the finance sector. He is a Certified Public Accountant of Kenya and a Certified Internal Auditor. He previously served as a member of the Professional Standards Committee of the Institute of Certified Public Accountants of Kenya (ICPAK).

Jaine Mwai
Chief Information Officer

Jaine Mwai has over 22 years of experience working in Technology. She has worked in the Bank for 20 years in various roles .Prior to her appointment as Chief Information Officer, Jaine was the Country Technology Manager and Head of Program and Change Management.

Davidson Mwaisaka
Head, Legal

Davidson has over 14 years' legal experience. He started his career in legal practice in the law firms of Kaplan & Stratton Advocates and Oraro & Company Advocates. He later transitioned to in-house practice at Equatorial Commercial Bank (now Spire Bank) as Legal, Compliance Manager and Assistant Company Secretary, after which he joined Britam as the Group Legal Manager and Group Assistant Company Secretary responsible for the East and Southern Africa region. He joined the Bank in April 2014 as Country Senior Legal Counsel and Assistant Company Secretary. He is a Certified Company Secretary (CPS(K))

Judy Nyaga
Company Secretary

The Board and statutory information

DIRECTORS

P Obath	Chairman
K.Ngari	Chief Executive Officer
C.Murgor	
P Gitau	(appointed 30 April 2020)
R Etemesi	
J Browne*	(appointed 15 December 2020)
I Bryden*	(resigned 30 June 2020)
C. Adeya - Weya	
I Khan	
K Kariuki	(appointed 10 February 2020)
D. Ongalo	(appointed 28 January 2020)
J Nyaga	
*British	

SECRETARY

Judy Nyaga (appointed 15 December 2020)
(CPS No. 1279)
StandardChartered@Chiromo
48 Westlands Road
P.O. Box 30003
00100 Nairobi GPO

Nancy Oginde (retired 1 October 2020)
(CPS No. 1139)
StandardChartered@Chiromo
48 Westlands Road
P.O. Box 30003
00100 Nairobi GPO

AUDITOR

Ernst & Young LLP
Certified Public Accountants
Kenya Re Towers, Off Ragati Road,
P.O. Box 44286
00100 Nairobi GPO

REGISTERED OFFICE

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

CORPORATE GOVERNANCE AUDITOR

Dorion Associates
Thompson Estate, Diani Close
Off Ole Odume Road
P.O Box 29737 – 00202,
Nairobi

REGISTRARS AND TRANSFER OFFICE

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

Report of the Directors

The directors are pleased to submit their report together with the audited financial statements for the year ended 31 December 2020 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 the Capital Markets Authority Act and is regulated by the Central Bank of Kenya (CBK) and the Capital Markets Authority (CMA).

2. Results

The results for the year are set out in the attached financial statements on pages 85 to 191.

3. Dividends

The Board has resolved to recommend to the shareholders at the forthcoming Annual General Meeting, the payment of a first and final dividend of KShs 10.50 for every ordinary share of KShs 5.00 (2019 – KShs 12.50).

The Board has also resolved to recommend to the shareholders at the forthcoming Annual General Meeting the payment of a first and final dividend of KShs 168,000,000 on the non-redeemable non-cumulative, non-voting, non-participating and non-convertible preference shares (2019 – KShs 168,000,000).

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

The dividends will be payable to shareholders registered on the Company's Register at the close of business on 27 April 2021 and will be paid on or after 27 May 2021. The Register will remain closed on 28 April 2021 for the preparation of dividend warrants.

Bonus Shares

During the year, the Board recommended and obtained regulatory and shareholder approval to issue bonus shares in the proportion of 1 ordinary share for every 10 fully paid up ordinary shares then held, to the shareholders registered at the close of business on 27 April 2020.

4. Directors

The directors who served during the year up to and including the date of this report are set out on page 50.

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

- Ms. Julie Browne, appointed as a director to fill a casual vacancy will offer herself for election at the forthcoming Annual General Meeting in accordance with Article 109 of the Articles of Association.
- Mr. Richard Etemesi and Mr. David Ong'olo retire from office by rotation and will offer themselves up for re-election at the forthcoming Annual General Meeting in accordance with Section 107 of the Memorandum and Articles of Association.

5. Property

Details of the movements in property are shown on note 27 to the financial statements.

6. Business review

Strategy

Building on the Company's purpose of driving commerce and prosperity through its unique diversity, the Company continued its focus on the 5 strategic priorities. These are: transform and disrupt with digital; grow the affluent business; deliver on the network; optimise low-returning segments; and improve productivity. Considerable progress has been made on the priorities and the strategy proved to be relevant in the challenging operating environment occasioned by the COVID-19 pandemic. The progress made in regard to the strategy is detailed in the Chief Executive Officer's Statement on pages 36 to 39.

Performance and position

Details of the Group's performance, financial and capital position are included in the Chief Executive Officer's statement on pages 36 to 39.

Report of the Directors continued

6. Business review continued

Principal risks and uncertainties

The Company's principal risks that are inherent in the banking business include credit, market, capital and liquidity, operational, reputational, compliance, conduct, information and cyber security and financial crime. These principal risks are managed through an enterprise level ability to identify and assess current and future risks. There exist various committees set up by the Board where the above risks are openly discussed and prompt mitigating actions are taken. All employees who are engaged in, or supporting, revenue generating activities are expected to demonstrate the highest level of integrity by being transparent and proactive in disclosing and managing all types of risks. The staff in control functions adopt a constructive and collaborative approach in providing oversight and challenge and take decisions in a clear and timely manner. The directors expect all staff to be accountable for their decisions and feel safe using their judgment to make these considered decisions.

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

The COVID-19 pandemic continues to present a risk to the business and has had a devastating impact on the global economy. This has resulted in significant changes to government actions, economic and market drivers as well as consumer behaviour. This in turn has had a significant impact on the risks that the Group is exposed to. The depth and scale of the pandemic impact has been unprecedented and remains hard to predict. As countries begin to emerge from lockdowns and economies restart, all eyes are on whether there will be a pivot to a sustainable way forward.

This high degree of uncertainty has forced the Group to reassess assumptions, estimates and judgments used in the preparation of these financial results. There remains a risk that future performance and actual results may differ from the judgments and assumptions used.

Future outlook

There is a lot of optimism with the approval and ongoing rollout of vaccinations for COVID-19. Further, governments and central banks have focused their policies towards supporting economic recovery, thus driving a positive shift in the outlook. The directors envisage that the global economic recovery will strengthen as the year progresses and are confident that the Group is well positioned to take advantage of opportunities across the Kenyan economy. The Group's foundations remain solid, underpinned by strong relationships with our clients and a highly liquid and well capitalised balance sheet that provides a platform for sustainable growth in the long term.

Environmental impact of our operations

In line with our brand promise Here for good, we seek to ensure that the financing we provide supports sustainable economic and social development in the communities where we operate. In 2020, we continued to engage the community by financing programmes in the health and education sectors with a special focus on the youth. This was achieved through our community flagship initiatives, Goal and Financial Education programmes.

We aim to minimise the environmental impact of our operations as part of our commitment to be a responsible company by observing practices that encourage efficient use of energy, water and paper consumption. We continue to make tremendous progress in reducing Energy Use Intensity (EUI) after the installation of energy saving lights across our property portfolio while investing in green energy concurrently. We also surpassed our Water Use Intensity (WUI) targets in 2018. We are currently reviewing the methodologies used to measure our energy, water and waste to set more robust reduction targets.

7. Donations

Donations KShs 165 million (2019: KShs 144 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 2020.

9. Disclosure of information to auditor

With respect to each director at the time this report was approved:

- there is, so far as the director is aware, no relevant audit information of which the Group's auditor is unaware; and,
- the director has taken all the steps that the person ought to have taken as a director so as to be aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

10. Auditors

Ernst & Young LLP were appointed as the Group's statutory auditor at the Annual General Meeting held on 24 July 2020 following resignation of KPMG Kenya upon completion of the audit for the year ending 31 December 2019 in accordance with the provisions of the Kenyan Companies Act, 2015 section 717. Regulatory approval for the appointment of EY was received on 5 August 2020.

Ernst & Young LLP have indicated their willingness to continue in office in accordance with Section 721 (2) of the Kenyan Companies Act, 2015 and Section 24 (1) of the Banking Act.

The directors also approve the annual audit engagement contract which sets out the terms of the auditor's appointment and the related fees. The agreed auditor's remuneration of KShs 21 million has been charged to profit or loss in the year as disclosed in note 12 to the financial statements.

11. Approval of financial statements

The financial statements were approved and authorised for issue by the board of directors on 25 March 2021

BY ORDER OF THE BOARD

Patrick Obath
Chairman

Statement on Corporate Governance

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

The Company has an integrated approach to governance which ensures that the Company is effectively managed and controlled, in line with the strategy, and with regard to the requirements of 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 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 of the Company in the conduct of business in as far as it relates to the Company but also as expected of all ethical businesses.

The Board Composition

The Board is collectively responsible for the long-term success of the Company and for ensuring leadership within a framework of effective controls. The Board sets the strategic direction of the Company, approves the strategy and takes the appropriate action to ensure that the Company is suitably resourced to achieve its strategic aspirations. The Board considers the impact of its decisions and its responsibilities to all stakeholders, including employees, shareholders, regulators, clients, suppliers, the environment and the communities in which it operates.

The Board has the appropriate mix of skills, knowledge and experience to perform its role effectively. The areas of expertise of the directors are as follows:

Name	Areas of expertise
P. Obath	Oil industry, Private Sector and Financial Management
C. Adeya-Weya	Information Technology
I. Khan	Financial Management and Investments
D. Ong'olo	Economics
K. Kariuki	Banking, Financial Management and Human Resources
I. Bryden (resigned 30 June 2020)	Banking
R. Etemesi	Banking and Financial Management
J. Browne (appointed 15 December 2020)	Banking, Credit and Risk Management
K. Ngari*	Banking
C. Murgor*	Banking and Financial Management
Peter Gitau*(appointed 30 April 2020)	Operations, Technology and Risk 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 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 other significant commitments. In 2020, the Board spent significant time providing oversight over actions taken to steer the Company through the challenges presented by the COVID-19 pandemic.

Diversity and mix of skills

The Chairman is committed to ensuring the overall effectiveness of the Board and that it achieves the appropriate composition and balance of directors. The Board has ten members; seven non-executive directors including the Chair, five of whom are independent non-executive directors, and three executive directors. The Company Secretary is a member of the Institute of Certified Public Secretaries of Kenya (ICPSK) whilst the Finance Director is a member of the Institute of Certified Public Accountants of Kenya (ICPAK).

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

Diversity and mix of skills continued

With respect to Board diversity, the Board Charter describes the approach the Board takes to ensure that diversity in its broadest sense remains a central feature of the Board. The Company has a long history of diverse board membership. All Board appointments are based on merit with each candidate assessed against objective criteria, with the prime consideration of maintaining and enhancing the Board's overall effectiveness. This notwithstanding, the Board strives to maintain diversity recognising the benefits of a diverse mix of gender, social and ethnic backgrounds, knowledge, personal attributes, skills and experience. This diversity provides a mix of perspectives which we believe contributes to effective Board dynamics.

Mr. Ian Bryden stepped down from the Board on 30 June 2020 having served as a non-executive director for a period of four years. Ms. Julie Browne was appointed as a non-executive director effective 15 December 2020 while Mr. Peter Gitau was appointed as an executive director on 30 April 2020.

Board selection and appointment principles

Pursuant to the Capital Markets Authority Code of Corporate Governance (the Code), the Board has a formal and transparent procedure for the appointment of Board members based on a set of broad principles:

- the Board should have sufficient independence of mindset to challenge the executives as well as an appropriate balance of skills, knowledge, diversity (this includes diversity of gender and perceptions) and experience relevant to the Company's business;
- at least one third of the Board members must be comprised of independent directors;
- prospective independent directors are interviewed by the Board Nomination, Evaluation and Remuneration Committee, who assess their suitability and whether their values and behaviours are aligned with the Company's culture and values.
- independent directors should not serve longer than nine years. Where the Board considers the value and experience of an independent director, who is serving his/her ninth year, outweighs the nine-year term requirement, reasons for an extended term are clearly documented;
- in accordance with the Company's policy, due diligence/ screening checks must be completed prior to the appointment of any independent director to ensure there is no undue risk posed to the Company in relation to integrity, financial soundness, conflicts of interest and related party relationships;
- independent director candidates must not have political appointments;
- all directors should have the capacity to devote sufficient time and commitment to attend all Board, Board Committee meetings, as well as engage in other Company events;
- the Nomination, Evaluation and Remuneration Committee, in conjunction with the other independent directors, has periodic discussions to ensure the Company maintains a diverse pool of talented leaders as prospective directors;
- a key consideration for an appointment from within the Standard Chartered Group is the candidate's ability to bring broad knowledge of the Group to the Board's deliberations and provide context, so that the independent directors fully understand the Group's strategic direction and key priorities;
- the Board has established and maintains robust succession plans to ensure sound planning and a balance of knowledge and skills as well as appropriate continuity;
- a list of prospective independent directors is maintained by the Company Secretary and reviewed at least annually by the Nomination, Evaluation and Remuneration Committee; and
- all directors must receive a tailor-made induction upon joining the Board or any Board Committee and should regularly update and refresh their skills and knowledge.

The Code recommends that there should be a limit to the number of directorships Board members hold at any one time. In particular, the Code recommends that directors of listed companies should not hold directorships in more than three listed companies at any one time. The Directors of the Company are in compliance with this recommendation and are also in compliance with requirements of the Central Bank of Kenya Prudential Guidelines relating to other directorships. The Board fully endorses the principle that each director must be able to give enough time and attention to the affairs of the Company but does not restrict the number of directorships as a general rule. The Board is satisfied that the directors devoted sufficient time and attention to the affairs of the Company during 2020.

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 the independence of a non-executive director, the Board considers each individual against the criteria set out in the Capital Markets Authority of Kenya Code of Corporate Governance Practices for Issuers of Securities to the Public, the Central Bank of Kenya Prudential Guidelines on Corporate Governance as well as their contribution and conduct at Board meetings, including how they demonstrate objective judgment and independent thinking. Directors are required to declare any interests that may give rise to a potential or perceived conflict of interest on an ongoing basis. The Board considers all of the independent non-executive directors to be independent of the Company and has concluded that there are no relationships or circumstances likely to impair any individual non-executive director's judgment.

Non-executive directors are appointed for an initial term of three 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.

Statement on corporate governance continued

Director induction

The Company has a 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. Upon joining the Board, a new director receives a briefing on various aspects of the business from the Executive Directors, the Company Secretary and Business Heads and other Senior Executives.

Four new directors were appointed to the Board during 2020, being Mr. David Ong'olo, Mrs. Kellen Kariuki, Mr. Peter Gitau and Ms. Julie Browne. The directors bring highly relevant skills and a breadth of knowledge relevant to the Board debate. On joining the Board, the directors undertook a robust induction programme to ensure that they were well placed to make a positive contribution from the outset. The induction is relevant to all new Board members; however, the content of the programme is also tailored to meet each director's individual level of experience and expertise as may be appropriate.

A key part of the induction programme is to ensure that the directors have a good understanding of the governance environment, including a comprehensive understanding of their statutory duties, obligations and responsibilities as directors of a Company carrying on banking business. The Company Secretary plays a key role in supporting new directors through the induction process.

The induction process entails:

Constitution and Governance Structure	The director undertakes a review of the constitutional documents and governance structure as follows:
	• Memorandum and Articles of Association (Standard Chartered Bank Kenya Limited);
	• Board and Management structure;
	• Subsidiary governance structure (Committees);
	• Board Charter;
	• Board and Committee TORs
	  • Schedule of matters reserved for the Board
	  • Executive Committee/ Management Committee Terms of Reference (TOR)
	  • Any other Committee TORs as applicable.
	• Board and Committee meeting dates;
	• Rolling agenda for Board and Committee meetings; and
	• Board diversity.

Directors' duties	A director receives information tailored to maximise their knowledge and understanding of the following critical aspects: • Key legal and regulatory provisions such as the CMA Code on Corporate Governance; • Directors' roles and responsibilities; • Summary rules on disclosing insider information; • Summary of the directors' and officers' liability insurance; • Stakeholder engagement; and • Conflicts of interests including all directorships and personal interests.
About the business	The induction is designed to ensure a director receives essential information regarding the business in the areas below: • Various policies of the Company including Enterprise Risk Management Framework, Operational Risk Frame-work, Credit, Audit, Cyber Security, Conflict of Interest management, etc; • History of the Standard Chartered 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.

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 training on corporate governance. The directors have access to independent professional advice to enable them to discharge their duties.

Directors ongoing development

In view of the changing business environment, continuous Board members' development is undertaken in order to enhance governance practices within the Board itself and in the interest of the Company.

The continuous development programme is needs-based and is designed for individual directors or for the Board to facilitate competence up-skilling of the Directors. We ensure that directors secure at least twelve hours of development per year on areas of governance from credible sources.

Following from the annual evaluation exercise, the directors identify areas that require further consideration by the Board and individual Directors and these are addressed through training and board presentations. The Board Committees also receive specialist presentations and training relevant to the work of their Committees as may be required.

During the year, all directors received a combination of mandatory learning and training, internal and external briefings, presentations from guest speakers and papers on a range of topics to ensure the directors are well-informed and that the Board remains highly effective. The Board received training in 2020 on various aspects including:

- Sustainable Finance incorporating Environmental and Social Risk Management;
- Emerging technologies, and the emerging challenges and opportunities;
- Refresher awareness session on IFRS 9 - Financial Instruments and a look at the impact of COVID -19 pandemic;
- Cyber Security Risk Management training and emerging trends;
- Financial Crime Control (FCC) risks;
- Anti-Bribery and Corruption; and
- Cyber resilience and cyber readiness in the age of cyber threats.

Board effectiveness

The effective Board

The Board encourages open, transparent and constructive dialogue amongst the members. In addition to this, the Board has a carefully structured Board agenda which acts as a guideline to ensure that the minimum standards of governance are adhered to. The Board held a special strategy session in November 2020 to review, discuss and agree the Company's strategy. There was sufficient time to examine the emerging risks and opportunities in detail.

Board effectiveness evaluation

The annual Board evaluation was conducted in March 2020 through a process led by the Board Chair and supported by the Company Secretary. The evaluation entailed a peer 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.

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.

Roles of the Board Chairman and Chief Executive Officer

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

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.

Succession planning

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

Access to information

Directors have unrestricted access to information and Management. They are provided with timely information and comprehensive reports on material operational, risk management and financial matters of the Company to facilitate informed discussions during meetings.

All the directors have access to the advice of the Company Secretary, who provides support to the Board and is responsible for advising the Board on governance matters. Directors also have access to independent professional advice at the Company's expense where they judge it necessary to discharge their responsibilities as directors.

Statement on corporate governance continued

Board activities

To enable the Board to use its time most effectively and efficiently, supported by the Company Secretary, it maintains a scheduled programme of meetings and a rolling agenda. There is sufficient flexibility in the programme for specific items to be added to any agenda to ensure that the Board can focus on the key matters at the appropriate time. The Board also schedules informal sessions and interactions, which allows Board members to discuss areas of the business, strategy and the external environment with members of the Management Team and/or external advisers.

In 2020, due to restrictions imposed on gatherings by virtue of the COVID-19 pandemic, the Board held its meetings virtually. The Company's Articles of Association allow directors to participate in Board meetings by video conferencing or by any other audio-visual means.

Areas of Board discussion during 2020

The Board engaged in various activities including:

Strategy	• Review and oversight over implementation of COVID-19 pandemic crisis management actions including new legislation in Kenya on account of the COVID- 19 pandemic; • Reviewed and agreed the Company's strategy; • Monitored progress against the strategic priorities and reviewed and approved the corporate plan; • Received an update on progress against the Company's Retail Banking strategy including oversight over the Retail Banking Distribution Network Review; • Received an update on the Corporate & Institutional Banking and Commercial Banking businesses, including progress against the strategic priorities, revenue, risk and control structure; • Discussed and approved internal realignment of the Commercial Business and Corporate & Institutional Banking Business to achieve one CCIB Client Coverage team; • Discussed progress of the costs of investment initiatives; • Reviewed and scrutinised the strategic and operational performance of the business across client segments and product groups which included details of their priorities, progress and opportunities; • Monitored the progress of executing the Company's Innovation and Technology strategy and Information and Cybersecurity strategy; • Monitored and assessed the strength of the Company's capital and liquidity positions; and • Maintained balance in pursuing growth opportunities in tandem with appropriate governance systems, controls, processes and information flows.
Policy and oversight	• Setting of strategic plans, policies, monitoring the operational performance and processes that ensure integrity of the Company's risk management and internal controls; • Establishing a sound system of internal control for the Company and overseeing the corporate governance framework; • Establishing clear roles and responsibilities in discharging its fiduciary and leadership functions to ensure that management actively cultivates a culture of ethical conduct and set the values which the Company will adhere to; • Setting strategies that promote the sustainability of the Company and establish policies and procedures for the effective operation of the Company; • Ensuring that management adheres to all applicable laws, regulations, governance codes, guidelines and established systems to effectively monitor and control compliance across the Company; and • The Board discussed and approved various policies including: • Policy on Variable Compensation and Approach to Remuneration; and • Updates to the Conflict of Interest Policy, Sponsorship Standards and Donations Standards; and the Publication of the Non-Financial Regulatory Reporting (NFRR) Policy and Standard.
Risk management	• Monitored the heightened risk environment arising from the prevailing COVID-19 pandemic; • Received regular risk reports from the Head of Risk; • Approved material changes to the Enterprise Risk Management Framework; • Received an Information and Cyber Security risk and delivery status update; • Received regular reports on the Credit Portfolio and Credit Risk Management and the heightened credit risk presented by COVID-19 pandemic; • Evaluated and approved proposed changes in risk appetite; and • Discussed specific conduct matters and potential outcomes and impacts.

Board activities continued

Areas of Board discussion during 2020 continued

Budget and performance oversight	• Monitored and assessed the Company's capital and liquidity positions; • Approved the Internal Capital Adequacy Assessment Process taking into account the impact of the COVID-19 pandemic and mitigating measures taken by the Company; • Approved the Company's budget and monitored it against the agreed risk appetite thresholds; • Approved the 2019 full year and the 2020 quarterly results, and considered the key internal and external factors in determining payment of a final dividend for the 2019 financial year and bonus issue; and • Received updates on and monitored the statutory auditor transition from KPMG Kenya to Ernst and Young LLP.
People, culture and values	• Reviewed and monitored the implementation of the COVID-19 pandemic response plan and impact on the People; • Received regular updates on implementation of the People Strategy and the refreshed people learning strategy with a focus on Digital Learning; • Reviewed, considered and approved the Company's Remuneration Structure and Policies; • Discussed the results of the employee engagement survey "My Voice", 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; • Endorsed the Code of Conduct which every director recommitted to; and • Received reports regarding the Emerging Leaders and High Performers (HIPOs) programme.
Governance	• Reviewed the Board Composition to ensure an appropriate mix of skills, experience and diversity. To this end, approved the appointments of new directors and senior management on recommendation from the Nomination, Evaluation and Remuneration Committee; • Received reports at each of the meetings from the Board Committee Chairs on each of their key areas of focus; • Approved the appointment of a new Company Secretary; • Noted the observations and themes arising from the 2020 Board and Committee effectiveness review and approved the action Plan; • The board members attended training on varied topics during the year; • New directors who joined the Company in the year were inducted by the Company Secretary; and • Maintained linkages with Standard Chartered Group Plc, the parent company through attending calls hosted by the Standard Chartered Plc Board and Board Committees as well as other engagements.
External environment	The Board undertook the following activities: • Received an update on the macroeconomic headwinds and tailwinds in the economy, including an assessment of their impact on the key drivers of the Company's financial performance; • 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; and • Reviewed the potential impact of the new accounting standards.
Shareholder and stakeholder relationship	The Board considers the impact of its decisions and its responsibilities to all the Company'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 virtual Annual General Meeting (AGM) to obtain feedback and respond to all shareholders' queries; • Regularly received reports regarding significant regulatory matters and deliberated on approaches to regulatory changes, expectations, compliance and regulatory engagements throughout the year; • To enhance transparency when communicating with stakeholders, information was published through written and electronic media including investor briefing reports, as well as the launch of various initiatives and products in the year; and • Participated in Corporate Social Responsibility (CSR) projects funded by the Company.

Statement on corporate governance continued

Board meetings and attendance

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

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

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

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

	Scheduled	Ad Hoc
P. Obath(Chairman)	7/7	4/4
K. Ngari	7/7	4/4
C. Adeya-Weya	7/7	4/4
I. Khan	7/7	4/4
K. Kariuki	7/7	4/4
D. Ong'olo	7/7	4/4
I. Bryden (resigned 30 June 2020)	5/5	4/4
R. Etemesi	7/7	4/4
C. Murgor	7/7	4/4
P. Gitau (appointed 30 April 2020)	4/4	4/4

Board Committees

The Board has five primary 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 Board Technology and Innovation Committee all chaired by independent directors. The respective Chairs present their reports to the Board at each scheduled meeting. The Asset and Liability Committee (ALCO), the Executive Committee (EC) are management committees chaired by the CEO ,whilst the Outsourcing Committee is chaired by the CFO and all report quarterly to the Board.

Standard Chartered Bank Kenya Limited

Primary committees						
Board Audit Committee	Board Risk Committee	Board Credit Committee	Board Nomination, Evaluation and Remuneration Committee	Board Technology and Innovation Committee	Asset and Liability Committee	Executive Committee
Oversight and review of financial, audit and internal control compliance.	Oversight and review of risks including operational, compliance, financial crime, reputational, country, credit, traded, information and cyber security, conduct, capital and liquidity.	Oversight of the Company's credit policy and all lending undertaken by the Company in line with the established risk appetite.	Oversight of the staff remuneration policies and review of Board remuneration as well as Board composition and balance of skills.	Oversight over the Technology, Innovation, and Cyber risks of the Company to facilitate the achievement of the Company's strategic objectives.	Oversight over the Company balance sheet to ensure it is managed in line with regulatory requirements and Company policies.	Support the CEO in the oversight and day-to-day management as well as implement the Company strategy.

Board Committees continued

Current membership of the Board Committees

Name	Board Audit Committee	Board Risk Committee	Board Credit Committee	Board Nomination, Evaluation and Remuneration Committee	Board Technology and Innovation Committee
P. Obath				Chairperson	
I. Khan	Member	Chairperson	Chairperson		Member
K.Kariuki	Chairperson	Member	Member	Member	
D. Ongolo	Member	Member	Member		
C. Adeya-Weya					Chairperson

Chairperson Member

Details of these committees and membership are shown below:

Board Audit Committee

Committee composition

K. Kariuki	Chairperson
I. Khan	Independent Non-Executive Director
D. Ong'olo	Independent Non-Executive Director
C. Murgor*	Executive Director, Finance
N. Oginde* (retired 1 October,2020)	Secretary
J. Nyaga * (appointed 15 December 2020)	Secretary
D. Mwindi*	Head of Internal Audit
R. Kaggwa*	Head of Conduct, Financial Crime and Compliance
Ernst & Young LLP*	Statutory Auditors

* By invitation

The Committee members have detailed and relevant experience and bring an independent mindset to their role. The Board is satisfied that Ms. Kellen Kariuki, as Chairperson, 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.

Highlights for 2020

In 2020, the Committee discharged its mandate as set out in its Terms of Reference as follows:

- closely monitored audit findings and the actions thereon from the external and internal auditors;
- continued to robustly monitor the controls in place for management of capital and liquidity positions, especially in line with the regulatory requirements;
- reviewed and approved the financial statements of the Company for each quarter;
- satisfied itself that the Company's accounting policies and practices are appropriate;
- monitored the integrity of the published financial statements, reviewing the significant financial judgments and accounting issues;
- reviewed COVID-19 pandemic legislation enacted during the year following the advent of the COVID-19 pandemic;
- ensured action and follow up on all compliance monitoring reports;
- provided oversight of the work undertaken by the statutory auditor; and
- provided oversight of the External Auditor transition:
  - received and discussed updates on the status of the transition to Ernst & Young LLP (EY) as the Company's statutory auditor for 2020 to ensure a seamless and timely handover; and
  - reviewed and discussed EY's Audit Plan and sought and received assurance that EY's handover with KPMG and transition as auditor to the Company had taken place effectively and seamlessly. EY attended one Committee meeting and presented the audit plan to the Committee in December 2020 following appointment at the annual general meeting and subsequent regulatory approval.

Statement on corporate governance continued

Board Audit Committee continued

Role and function

The Committee has a Charter that specifies the responsibilities and procedures of the Committee including conduct of special investigations. The Committee's role is to review, on behalf of the Board, the Company's internal financial controls. It is also responsible for oversight and advice to the Board on matters relating to financial reporting and has exercised oversight of the work undertaken by the Company's Head of Compliance, Head of Internal Audit and the statutory auditor. The Committee reports to the Board on its key areas of focus following each Committee meeting.

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.

The Committee receives regular reports from the Head, Internal Audit on internal audits, compliance and legal risks and on the assurance framework. The Head, Conduct, Financial Crime and Compliance also submits reports on regulatory, compliance and conduct issues. The Finance Director, Head, Internal Audit, Head, Conduct, Financial Crime and Compliance, the external auditors and the Business Heads are regularly invited to the meetings to provide reports or respond to issues as required. The independent non-executive directors hold meetings with the Head, 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 six meetings in the year. Areas of focus in the year were:

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

Attendance	Scheduled	Ad Hoc
Number of meetings held in 2020		
K. Kariuki (Chairperson)	6/6	1/1
I. Khan	6/6	1/1
D. Ong'olo	6/6	1/1

Board Risk Committee

Members

I. Khan	Chairman
K. Kariuki	
D. Ong'olo	
J. Obongo*	Head, Risk
K. Ngari*	
C. Murgor*	
N. Oginde* (retired 1 October 2020)	Secretary
J. Nyaga * (appointed 15 December 2020)	Secretary
E. Chumba*	
B. Sanghrajka*	
G.Akello*	

* By invitation

Role and function

Risk management

The Committee is responsible for exercising oversight of and reviewing prudential risk. It reviews the Company's overall Risk Appetite Statement and makes recommendations to the Board. Its responsibilities also include reviewing the appropriateness and effectiveness of the Company's risk management systems, considering the implications of material regulatory change proposals, reviewing reports on principal risks to the business and ensuring effective due diligence on material acquisitions and disposals. The Committee reports to the Board on its key areas of focus following each Committee meeting.

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

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

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

Capital and liquidity

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

Highlights for 2020

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

- enhanced focus on emerging risks including capital, liquidity and market risk;
- focus on heightened risk arising from COVID-19 pandemic;
- 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;
- monitored the Company's capital adequacy and liquidity positions; and
- monitored measures implemented to strengthen the balance sheet to maintain adequate capital and liquidity, considering the COVID-19 pandemic.

Attendance	Scheduled	Ad Hoc
Number of meetings held in 2020		
I. Khan (Chairperson)	4/4	1/1
K. Kariuki	4/4	1/1
D. Ong'olo	4/4	1/1

Statement on corporate governance continued

Board Credit Committee

Members

I. Khan	Chairman
K. Kariuki	
D. Ong'olo	
K. Ngari*	
C. Murgor*	
G. Akello*	
N. Oginde* (retired 1 October 2020)	Secretary
J. Nyaga * (appointed 15 December 2020)	Secretary
E. Chumba*	
B. Sanghrajka*	
J. Mucheke*	

* By invitation

Roles and function

The Committee reviews and oversees the overall lending policy and credit strategy of the Company, issues regarding industry concentration, loan impairment, liquidity and compliance. Further, the Committee reviews and provides guidance on non-credit risk issues which are taken into account in making credit decisions. The Committee also reviews the top country risks and ratifies approvals that are above the Credit Approvals Committee limit levels. Further, the Committee assists the Board to discharge its responsibility to review the quality of the Company's loan portfolio and ensure that adequate provisions are made for bad and doubtful debts.

Highlights for 2020

The Committee met four times in the year and the areas of focus were:

- reviewed the lending policy of the Company;
- reviewed the quality of the Company's loan portfolio to ensure compliance with requirements of the Prudential Guidelines;
- reviewed and approved delegation of lending limits to the sanctioning arms of the Company;
- monitored the impact of COVID-19 pandemic and its potential impact on the quality of the Company's credit risk management;
- reviewed, approved and monitored the implementation of action plans to mitigate the impact of COVID-19 pandemic including monitoring implementation of regulatory requirements and implementation of the credit relief programme to clients; and
- reviewed the Company's concentration risk by industry and portfolio segments and ensured an appropriate balance was maintained.

Attendance	Scheduled
Number of meetings held in 2020	
I. Khan (Chairman)	4/4
K. Kariuki	4/4
D. Ong'olo	4/4

Board Nomination, Evaluation and Remuneration Committee

Members

P. Obath	Chairman
K. Kariuki	
K. Ngari*	
E. Munyori *	

*By invitation

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.

As part of the Committee's succession planning for the Board, it considers the Company's strategy and challenges, and makes recommendations to the Board in respect of any adjustments to the Board's composition. The Committee also: keeps under review the leadership needs of, and succession plans for, the Company in relation to both executive directors and other senior executives; has oversight of the process by which the Board, its committees and individual directors assess their effectiveness; keeps the diversity of the Board under review and monitors progress towards achieving its objectives in this area.

The Committee reports to the Board on its key areas of focus following each Committee meeting.

Highlights for 2020

The Committee met 4 times in the year and the areas of focus were:

- received reports on the impact of the COVID-19 pandemic on employees and monitored implementation of actions taken to prioritise the wellbeing, safety and security of employees;
- reviewed the annual increases for staff salaries and variable compensation awards for eligible staff. The Committee believes that it was appropriate to make these awards to those that contributed to the continued success of the Company;
- received reports on employee wellness as well as progress on implementation of wellness initiatives;
- considered and recommended to the Board further deliberation and approval of the re-organisation strategy pertaining to Retail Banking and realignment to achieve one Commercial, Corporate & Institutional Banking Client Coverage;
- considered and recommended the adoption of the Policy on Variable Compensation and Approach to Remuneration;
- adopted an enhanced board evaluation process;
- interviewed senior executives of the Company; and
- reviewed and recommended the Board succession plan for approval by the Board.

Attendance	Scheduled
Number of meetings held in 2020	
P. Obath (Chairman)	4/4
K. Kariuki	4/4
D. Ong'olo	4/4

Statement on corporate governance
continued

Board Technology and Innovation Committee

Members

C. Adeya-Weya	Chairperson
I. Khan	
K. Ngari*	
C. Murgor*	
P. Gitau*	
J. Mwai*	
N. Oginde* (retired 1 October 2020)	Secretary
J. Nyaga * (appointed 15 December 2020)	Secretary
E. Chumba*	
B. Sanghrajka *	
J. Obongo*	

*By invitation

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.

Highlights for 2020

The Committee met four times in the year and the areas of focus were:

- received reports on the Company's Information and Technology response to and provided oversight over implementation of action plans to ensure effective support of the monumental shift from working in the office to working from home as a result of the effects of COVID-19 pandemic;
- closely monitored the heightened information and cyber security risk and provided oversight on the responses implemented to mitigate the risks;
- considered and reviewed information and cyber security threat intelligence while ensuring proactive measures are taken to mitigate against the risks arising;
- reviewed the financial costs against budget/forecast and identified action plans to meet the IT cost targets and the necessary adjustments;
- monitored cyber security incidences affecting the Company;
- considered and reviewed the Company's Cyber Insurance Policy; and
- provided oversight on management of third-party risk relating to providers of IT services and goods.

Attendance	Scheduled
Number of meetings held in 2020	
C. Adeya-Weya (Chairman)	4/4
I. Khan	4/4

Asset and Liability Committee (Alco)

Members

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

Role and function

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

The Committee meets once a month. The Chief Financial Officer presents the ALCO report to the Board at each scheduled Board meeting.

Executive Committee

Members

K. Ngari	Chairman
E. Chumba	
B. Sanghrajka	
C. Murgor	
E. Munyori	
P. Gitau	
D. Mwindi	
J. Nyaga	
R. Kaggwa	
M. Malumane	
J. Obongo	
J. Mwai	
J. Mucheke	
D. Mwaisaka	

Role and function

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

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

Statement on corporate governance continued

Corporate Governance policies

Board Charter

The Board Charter outlines the specific roles and responsibilities of the Board which are separate from those of Management. The Charter provides for composition of the Board and its committees, and their respective Terms of Reference. Additionally, it covers areas relating to Board structure, functions, processes, effectiveness, diversity, and internal controls. The Charter is published on the Company's website.

Internal controls

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

The 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. As required by the Code a legal and compliance audit will be undertaken in 2021.

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 Group through its programme of business audits. The work of the Internal Audit function is focused on the areas of greatest risk as determined by a risk-based assessment methodology. The Internal Audit function reports to the Board Audit Committee and the Country Non-Financial Risk Committee (CNFRC).

The 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.

Conflict 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 and a register of directors' interests is maintained.

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.

Code of conduct

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

Whistle Blowing Policy

Speaking Up is our confidential and anonymous whistleblowing programme. It includes independent and secure channels for anyone – employees, contractors, suppliers and members of the public – to raise concerns.

The public, employees, contractors and suppliers 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.

Corporate Governance policies continued

Anti-bribery and corruption

Anti-bribery and corruption (ABC) policies aim to prevent employees, directors or third parties working on our behalf, from participating in active or passive bribery or corruption, or from making facilitation payments. To embed the policy, the Company regularly carries out training for all staff and the Board regarding the ABC risk. Further, the Company has worked with its third parties to raise awareness on the ABC risk, embed strict requirements in the contractual documents, and share best practices on controls to manage the risk.

Related party transactions standard

The Company has established a Related Party Transactions Standard that aims to set out requirements for the creation of any new Related Party and maintaining controls to prevent or identify Non-Exempt Transactions that are entered into with existing Related Parties. Details of transactions with directors and officers and other related parties are set out in Note 40 to the financial statements.

Insider trading

The Company has a policy on insider trading which is observed and implemented through the Group Transactional Conflicts and Information Walls Standard and the Group Personal Account Dealing Standard. Directors, management and employees 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 a specified period before the publication of the Company's annual and half year financial results and each interim management statement. Further, directors, management, and employees in possession of inside information must not deal directly or indirectly in any financial instruments to which the inside information relates, including Company shares. The Group Personal Account Dealing Standard which requires specific staff to declare any dealings with securities or company shares all year round.

Going concern

The directors have assessed the Group and Company's ability to continue as a going concern. This assessment has been made having considered the impact of COVID-19 pandemic and macroeconomic headwinds, and has included:

- a review of the Strategy and Corporate plan, including a review of the actual performance to date, loan book quality and legal and regulatory matters;
- consideration of the capital adequacy stress testing performed, including a COVID-19 pandemic stress scenario; and
- analysis of the funding and liquidity position of the Group, including a review of the Group's emerging risks, to which COVID-19 pandemic has been added.

Based on the analysis performed, the directors confirm that they are satisfied that the Group and Company have adequate resources to continue in business for a period of at least 12 months from the date of approval of these financial statements. For this reason, the Group continues to adopt the going concern basis of accounting for preparing these financial statements.

Relations with shareholders

The Board recognises the importance of good communications with all shareholders. The virtual Annual General Meeting (AGM) as well as the published annual report are used as an opportunity to communicate with all shareholders. The Company always gives shareholders the 21 days' notice of the AGM as provided for in the Kenyan Companies Act, 2015 and shareholders are encouraged to submit questions and 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 on the floor of the AGM. The Board uses electronic means to communicate with shareholders and shareholders are encouraged to visit **www.sc.com/ke** for general information on the Company as well as annual reports.

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

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

Legal and compliance audit

The Company has commissioned an external Legal and Compliance audit to be completed in 2021.

Governance Auditor's report

DORION Associates

The Governance People

Governance Auditor's report

Following the coming into force of the Code of Corporate Governance for Issuers of Securities to the Public, 2015 ("the Code"), listed companies are specifically required to engage the services of an independent and accredited Governance Auditor to establish the extent to which the Board has applied Corporate Governance principles.

The annual Governance Audit should be conducted by a competent and recognised professional accredited for that purpose by ICS. Standard Chartered Bank Kenya Limited, in compliance with the Act and Code, retained Ms. Catherine Musakali of Dorion Associates ("the Auditor") to conduct a Governance Audit of the governance structures, procedures and processes of the Company in order to assure the Board that its goals, structure and operations are consistent with the law, the Code, as well as the latest developments in Corporate Governance; and that the Company has adopted best practices in Corporate Governance as a means of ensuring sustainability. The Code further requires that after undergoing the Governance Audit, the Board should provide an explicit statement on the level of compliance.

The scope of the Audit is derived from the Code, the Companies Act, 2015 and the Governance Audit Tool developed by the ICS. More specifically, the Audit covers the following broad areas;

1. Leadership and strategic management;
2. Transparency and disclosure;
3. Compliance with laws and regulations;
4. Communication with stakeholders;
5. Board independence and governance;
6. Board systems and procedures;
7. Consistent shareholder and stakeholders' value enhancement; and
8. Corporate social responsibility and investment.

Governance Auditor's responsibility

Our responsibility is to express an opinion on the existence and effectiveness of governance instruments, policies, structures, systems and practices in the organisation in accordance with best governance practices as envisaged within the legal and regulatory framework. We conducted our audit in accordance with ICS Governance Audit Standards and Guidelines, which conform to global Standards. These standards require that we plan and perform the Governance Audit to obtain reasonable assurance on the adequacy and effectiveness of the organization's policies, systems, practices and processes. The Audit involved obtaining audit evidence on a sample basis. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Opinion

In our opinion, the Board has put in place a governance framework which is to a large extent in compliance with the legal and regulatory governance framework, and in this regard, we issue an unqualified opinion.

Catherine Musakali

FCS. Catherine Musakali, ICPSK GA. No 006

For Dorion Associates

For more information about this GAR, please contact:

Catherine Musakali – cmusakali@dorion.co.ke

Governance Auditor's Report continued

The Kenya Companies Act, 2015 requires Directors to act in good faith, to promote the success of the Company for the benefit of its stakeholders and to avoid conflict between their personal interests and those of the Company, always acting in the best interest of the Company.

The Code of Corporate Governance for Issuers of Securities to the Public, 2015 ("the Code") requires listed companies to engage the services of an independent and accredited Governance Auditor to establish the extent to which the Board has applied Corporate Governance principles. The Code further requires that after undergoing the Governance Audit, the Directors should provide an explicit statement on the level of compliance.

The Directors are responsible for putting in place governance structures and systems that support the practice of good governance in accordance with best practice, the requirements of the Kenya Companies Act, the Code and the Governance Audit Tool developed by the Institute of Certified Secretaries ("ICS"). The responsibility includes planning, designing and maintaining governance structures that ensure effective leadership and strategic management, transparency and disclosure, compliance with laws and regulations, communication with stakeholders, Board independence and governance, Board systems and procedures, consistent shareholder and stakeholders' value enhancement and corporate social responsibility and investment.

The Directors also accept responsibility for putting in place an effective and efficient Management Team and effective internal control and risk governance systems that are designed to promote good governance practice.

The Directors accept that the independent Governance Audit does not relieve them of their responsibilities.

The Directors are not aware of any material governance issues that may adversely impact the operations of the Company.

As required by the Code therefore, the Directors commissioned a Governance Audit with the aim of ensuring that the Company has complied with the Act, the Code, and adopted new best practices in Corporate Governance in order to deliver long term value to stakeholders.

The Directors have adopted this Governance Audit report for the year ended 31 December 2020, and which discloses the state of Governance within the Company.

Adoption of the Governance Audit Report

The Governance Audit Report was adopted by the Board of Directors of Standard Chartered Bank Kenya Limited on 24th day of March 2021.

....	....
Chairman	Chief Executive Officer

Date: 24 March 2021

Director's remuneration report

The Company presents the Directors' remuneration report for the year ended 31 December 2020. This report is in compliance with the Company's reward policy, banking regulations, the Capital Markets Authority (CMA) Code of Corporate Governance guidelines on Directors' remuneration, and the Kenyan Companies Act, 2015. A key provision of the Company's principles is that reward will directly support the business strategy with a clear and measurable linkage to business performance.

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

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

Our Fair Pay Charter

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

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

Directors' remuneration

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

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

The Committee has the responsibility to review the annual remuneration of the executive and non-executive directors and the structure of their compensation package for approval by the Board. The Board received shareholders' authorisation to fix the directors' remuneration by a resolution passed at the Annual General Meeting held on 24 July 2020. The Committee monitors the competitiveness of directors' remuneration to ensure the Group is able to motivate and retain individuals of the appropriate calibre as directors. The remuneration of the executive directors is as per negotiated employment contracts.

In determining remuneration for 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 Group. Compensation is set to attract non-executive directors (NEDs) who together with the Board as a whole have a broad range of skills and experience to determine the Group's strategy and oversee its implementation.

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

NEDs are also reimbursed for expenses, such as travel and subsistence, incurred in the performance of their duties.

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

- Five Independent Non-Executive directors: Patrick Obath, Dr. Catherine Adeya-Weya, Imtiaz Khan, Kellen Kariuki and David Ong'olo.
- Three Executive Directors: Mr. Kariuki Ngari, Ms. Chemutai Murgor and Mr. Peter Gitau.
- Three Non-executive directors: Mr. Ian Bryden*, Ms. Julie Browne and Mr. Richard Etemesi.

Directors' remuneration continued

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

Name	Scheduled	Retirement
Patrick Obath (Chairman)	24 January 2012	-
Catherine Adeya-Weya	1 January 2016	-
Imtiaz Khan	9 August 2018	-
Kellen Kariuki	10 February 2020	-
David Ong'olo	28 January 2020	
Ian Bryden*	12 July 2016	30 June 2020
Richard Etemesi	30 June 2017	-
Julie Browne*	15 December 2020	-
Peter Gitau	30 April 2020	-

* British

Non-executive directors' remuneration and policy

The Company has put in place a policy that 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 comparable 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 employed by Standard Chartered Group are not remunerated by the Company.

Service contracts for non-executive directors

Independent 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.

Director's remuneration report continued

Service contracts for executive directors

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

The executive directors were appointed as indicated below:

Name	Appointment Date	Contract end date
Kariuki Ngari	4 March 2019	Permanent terms
Chemutai Murgor	1 March 2007	Permanent terms
Peter Gitau	30 April 2020	Permanent terms

Directors' emoluments

The following table shows the directors' remuneration for services rendered for the financial year ended

31 December 2020 together with the comparative figures for 2019. The aggregate directors' emoluments are shown in Note 12.

Year ended 31 December 2020

KShs'000	Basic pay	Bonus	Deferred cash awards	Share based awards	Non-cash benefits	Pension	Fees retainer	Sitting allowance	Total
Executive Directors									
K Ngari	45,371	20,946	6,982	6,982	4,195	6,166	-	-	90,642
C Murgor	27,361	7,875	-	-	395	3,313	-	-	38,944
P Gitau*	19,225	7,875	-	-	395	2,334	-	-	29,829
	91,957	36,696	6,982	6,982	4,985	11,813	-	-	159,415
Non-Executive Directors									
P Obath	-	-	-	-	-	-	3,300	1,420	4,720
C Adeya-Weya	-	-	-	-	-	-	1,680	1,280	2,960
I Khan	-	-	-	-	-	-	1,680	1,730	3,410
P Ong'olo	-	-	-	-	-	-	1,558	1,395	2,953
K Kariuki	-	-	-	-	-	-	1,680	2,482	4,162
R Etemesi	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	9,898	8,307	18,205
	91,957	36,696	6,982	6,982	4,985	11,813	9,898	8,307	177,620

Year ended 31 December 2019

KShs'000	Basic pay	Bonus	Deferred cash awards	Share based awards	Non-cash benefits	Pension	Fees retainer	Sitting allowance	Total
Executive directors									
K. Ngari*	34,028	27,546	18,365	12,422	3,593	4,624	-	-	100,578
L. Manjang**	10,622	4,742	3,161	9,491	3,625	247	-	-	31,888
T. Singh**	28,114	12,670	3,759	2,874	6,731	1,896	-	-	56,044
D. Idoru**	13,958	9,108	1,580	15	4,241	2,662	-	-	31,564
C. Murgor	25,974	10,395	-	-	511	3,136	-	-	40,016
	112,696	64,461	26,865	24,802	18,701	12,565	-	-	260,090
Non-executive directors									
A Mutahi	-	-	-	-	-	-	1,036	728	1,764
P Obath	-	-	-	-	-	-	2,031	2,849	4,880
C Adeya-Weya	-	-	-	-	-	-	1,100	2,520	3,620
L Baillie	-	-	-	-	-	-	550	777	1,327
I Khan	-	-	-	-	-	-	1,200	1,841	3,041
I Bryden	-	-	-	-	-	-	-	-	-
R Etemesi	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	5,917	8,715	14,632
	112,696	64,461	26,865	24,802	18,701	12,565	5,917	8,715	274,722

*Prorated from the period of appointment

** Prorated to the period of retirement.

Directors' emoluments continued

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

Share awards

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

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:

	At 1 January 2020	Awarded	Exercised	Lapsed	At 31 December 2020	Vesting date
Kariuki Ngari						
2011 Deferred Restricted Share Award	21,922	17,787	8,656	67	30,986	19 March 2020 to 09 March 2023
Management Long Term Incentive Plan	36,008	-	-	-	36,008	
2013 Share save plan	3,502	-	-	1,695	1,807	01 December 2022
Peter Gitau						
2011 Deferred Restricted Share Award	1,132	1,122	517	-	1,737	9 March 2021 to 09 March 2023

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

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

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

BY ORDER OF THE BOARD

Chairman

Date: 25 March 2021

Statement of the Directors' responsibilities

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and Company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the Group and Company keeps proper accounting records that: (a) show and explain the transactions of the Group and Company; (b) disclose, with reasonable accuracy, the financial position of the Group and Company; and (c) enable the directors to ensure that every financial statement required to be prepared complies with the requirements of the Kenyan Companies Act, 2015.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

- designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- selecting suitable accounting policies and applying them consistently; and,
- making accounting estimates and judgments that are reasonable in the circumstances.

Having made an assessment of the Group and Company's ability to continue as a going concern, the directors are not aware of any material uncertainties related to events or conditions that may cast doubt upon the Group and Company's ability to continue as a going concern.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

Approved by the Board of Directors on 25 March 2021 and signed on its behalf by:

Director: P. Obath

Director: K. Ngari

Director: C. Murgor

In difficult times we're here for our clients

Voted Most Helpful Bank during COVID-19 in Kenya and 2nd in Africa

We would like to thank everyone across Africa who nominated us in this category covering an extremely important topic. For everything our clients need, we are always here through the difficult times as well as the good times.

standard chartered

Financial statements

Contents

Independent Auditor's Report

To the members of Standard Chartered Bank Kenya Limited

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of Standard Chartered Bank Kenya Limited ('the Company') and its Subsidiaries (together 'the Group') set out on pages 85 to 191, which comprise the consolidated and separate statements of financial position as at 31 December 2020, and the consolidated and separate statements of profit or loss, the consolidated and separate statements of other comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group and the Company as at 31 December 2020, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of Kenyan Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report. We are independent of the Group and the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated and separate 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.

Other matter

The financial statements of the Group and the Company for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those financial statements on 18 March 2020.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current year. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our descriptions of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated and separate financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated and separate financial statements.

Report on the audit of the consolidated and separate financial statements continued

Key audit matters continued

The key audit matter	How the matter was addressed
Expected Credit Losses (ECLs) on loans and advances to customers As disclosed in Note 20 (c) to the financial statements, as at 31 December 2020, the Group and the Company reported total impairment losses (expected credit losses) on loans and advances to customers of KShs 9,196 million (2019: KShs 7,844 million). The estimation of expected credit losses ("ECLs") on financial instruments, involves significant judgment and estimates due to the significant uncertainty associated with the assumptions used in the estimation in respect of the timing and measurement of ECLs. We have therefore identified the audit of the ECLs as a key audit matter. The key areas where we identified greater levels of management judgment include: Significant increase in credit risk (SICR) Allocation of assets to stage 1, 2, or 3 is dependent on criteria used in identification of SICR which is highly judgmental. Staging of assets determines whether a 12-month or lifetime ECL is assessed and can materially impact the ECLs recognised. Expected Credit loss Modelling Accounting interpretations, modelling assumptions and data used to build and run the models that calculate the ECLs are inherently judgmental and can materially impact the ECLs recognised. ECL Macroeconomics There are significant judgments involved in determination of significant macroeconomic factors that correlate with historical data of the Bank's portfolios to achieve a forward-looking model.	Our procedures included, but were not limited to the following: We reviewed the appropriateness of the Group's accounting policy manual (GAPM) and other IFRS 9 Financial Instruments technical documentations on correct classification of the financial assets between IFRS 9 categories and IFRS 9 ECL model of estimation. We evaluated the design and operating effectiveness of controls relevant to the Company's processes over material ECL balances, including the judgments and estimates noted, involving EY specialists to assist us in performing our procedures to the extent they were appropriate. Significant Increase in credit risk (SICR) We evaluated the criteria used to allocate financial assets to stage 1, 2 or 3 in accordance with IFRS 9. We reperformed the staging distribution for a sample of assets and assessed the reasonableness of staging applied by management. Expected Credit loss Modelling We performed a risk assessment on models involved in the ECL calculation to select a sample of models to test. Our EY specialists evaluated a sample of ECL models by assessing the reasonableness of underpinning assumptions, inputs and formulae used. This included a combination of assessing the appropriateness of model design and formulae used, alternative modelling techniques and recalculating the Probability of Default, Loss Given Default and Exposure at Default. Post Model Adjustments We also assessed the material post-model adjustments which were applied as a response to model ineffectiveness and risk event overlays as a result of COVID-19. With our EY specialists, we also considered the completeness and appropriateness of these adjustments by considering the judgments, methodology and governance applied. ECL Macroeconomics We held discussions with management and involved our specialists to understand significant macroeconomic forecasts considered in the ECL model and corroborated assumptions using both internal and publicly available information.

Independent Auditor's report continued

Report on the audit of the consolidated and separate financial statements continued

Key audit matters continued

The key audit matter	How the matter was addressed
Expected Credit Losses (ECLs) on loans and advances to customers continued Post Model Adjustments Significant management judgment is applied in determining appropriateness, completeness and valuation of post model adjustments and COVID-19 specific risk event overlays on modelled outputs. Impairment of individually assessed assets Measurement of individual provisions including the assessment of probability weighted scenarios and the impact COVID-19 has on exit strategies, collateral valuations and time to collect involves greater levels of management judgment. The disclosures associated with ECLs are set out in the financial statements in the following notes: —Note 3 – Financial assets and liabilities —Note 4(a) – Credit risk —Note 20 –Loans and advances to customers	Impairment of individually assessed assets We recomputed a sample of individually assessed provisions and challenged management's forward-looking economic assumptions of the recovery outcomes identified, time to realisation and individual probability weightings applied. We evaluated the adequacy of the Group's disclosures on this matter in Notes 3, 4(a) and 20 to the financial statements.
Provisions and contingent liabilities in respect of claims and litigations The Group is subject to a number of significant claims and litigations. The amounts of claims may be significant and estimates of the amounts of provisions or contingent liabilities are subject to significant management judgment. Given the uncertainties surrounding resolution of these matters, management has to use significant judgment in order to determine the probability of an outflow of resources, its timing and the amount it will have to pay to discharge the liability. This area is significant to our audit, since the accounting and disclosure for contingent liabilities in respect of claims and litigations is complex and judgmental (due to the difficulty in predicting the outcome of the matter and estimating the potential impact if the outcome is unfavourable), and the amounts involved are, or can be, material to the financial statements as a whole. The disclosure associated with contingent liabilities in respect of claims and litigations is set out in Note 33 to the financial statements.	Our procedures included, but were not limited, to the following: • Gained an understanding of the process of identification of claims, litigations and contingent liabilities. • Held discussions with the in-house legal counsel on the nature of all significant on-going claims and legal cases and validated the status of each case and the accounting and disclosure implications. • Obtained formal legal confirmations from external legal counsel for all significant litigation matters, evaluated the likelihood of an unfavourable outcome against management assessment and checked for completeness of provisions made. • Reviewed the provisions to assess whether the disclosures made in the financial statements detailing significant legal procedures adequately disclose the potential liabilities.

Report on the audit of the consolidated and separate financial statements continued

Other information

The directors are responsible for the other information. The other information comprises Corporate Information, the Report of the Directors as required by the Kenyan Companies Act, 2015 and the Directors' Remuneration Report, which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon, except as prescribed by the Kenyan Companies Act, 2015, as set out below.

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

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015 and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the Group'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 the Company or to cease operations, or have no realistic alternative but to do so.

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

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

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

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

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

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

Independent Auditor's report continued

Report on the audit of the consolidated and separate financial statements continued

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

Report on other matters prescribed by the Kenyan Companies Act, 2015

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

(i) In our opinion the information given in the **Report of the Directors** on pages 51 to 53 is consistent with the consolidated and separate financial statements; and

(ii) In our opinion the auditable part of the **Directors' Remuneration Report** on pages 72 to 76 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

The engagement partner responsible for the audit resulting in this independent auditor's report was CPA Herbert C. Wasike, Practising Certificate No. P.1485

Nairobi, Kenya

31 March 2021

Consolidated and Company income statement

For the year ended 31 December 2020

	Notes	2020 Group KShs million	2020 Company KShs million	2019 Group KShs million	2019 Company KShs million
Interest income	6	**23,734**	**23,722**	25,273	25,161
Interest expense	6	**(4,971)**	**(4,989)**	(6,148)	(6,167)
Net interest income	6	**18,763**	**18,733**	19,125	18,994
Fee and commission income	7	**5,538**	**4,275**	5,951	4,926
Fee and commission expense	7	**(1,006)**	**(1,006)**	(802)	(787)
Net fee and commission income	7	**4,532**	**3,269**	5,149	4,139
Net trading income	8	**3,330**	**3,330**	3,615	3,615
Dividend income	9	**-**	**624**	-	1,294
Other operating income	10	**64**	**94**	61	61
Operating income		**26,689**	**26,050**	27,950	28,103
Staff costs	11	**(7,857)**	**(7,754)**	(7,411)	(7,297)
Premises and equipment expenses	11	**(930)**	**(926)**	(695)	(691)
General administrative expenses		**(5,412)**	**(5,252)**	(6,148)	(5,904)
Depreciation and amortisation	11	**(1,508)**	**(1,508)**	(1,288)	(1,288)
Operating expenses		**(15,707)**	**(15,440)**	(15,542)	(15,180)
Operating profit before impairment losses and tax		**10,982**	**10,610**	12,408	12,923
Impairment losses on financial instruments	20 (d)	**(3,586)**	**(3,592)**	(234)	(232)
Profit before tax	12	**7,396**	**7,018**	12,174	12,691
Income tax expense	13	**(1,955)**	**(1,690)**	(3,937)	(3,702)
Profit for the year		**5,441**	**5,328**	8,237	8,989
Basic and diluted earnings per share - (KShs)(2019 adjusted)	14	**13.95**	**13.66**	21.36	23.35

The notes set out on pages 97 to 191 form an integral part of these financial statements.

Consolidated and Company statements of other comprehensive income

For the year ended 31 December 2020

		2020		2019	
	Notes	Group KShs million	Company KShs million	Group KShs million	Company KShs million
Profit for the year		**5,441**	**5,328**	8,237	8,989
Other comprehensive income					
Items that will not be reclassified to profit or loss:					
Re-measurement of retirement benefit obligations	35	**(18)**	**(18)**	(25)	(25)
Related deferred tax	29	**5**	**5**	7	7
Revaluation surplus on non-current assets held for sale	27	**(20)**	**(20)**	-	-
Related deferred tax		**6**	**6**	-	-
Revaluation surplus on property and equipment	27	**269**	**269**	-	-
Related deferred tax		**(78)**	**(78)**	-	-
		164	**164**	(18)	(18)
Items that may subsequently be reclassified to profit or loss:					
Movement in fair value reserve					
Valuation gains/(losses) through equity		**432**	**377**	(349)	(331)
Related deferred tax		**(129)**	**(113)**	105	100
Reclassified to income statement		**(78)**	**(60)**	(261)	(261)
Related deferred tax		**23**	**18**	78	78
Movement in expected credit loss on investment securities at FVOCI					
Net remeasurement		**21**	**23**	56	54
Related tax		**(6)**	**(7)**	(16)	(16)
Reclassified to income statement		**(9)**	**(5)**	(21)	(21)
Related deferred tax		**2**	**2**	6	6
		256	**235**	(402)	(391)
Total other comprehensive income for the year		**420**	**399**	(420)	(409)
Total comprehensive income for the year		**5,861**	**5,727**	7,817	8,580

The notes set out on pages 97 to 191 form an integral part of these financial statements.

Consolidated and Company statements of financial position

As at 31 December 2020

		2020		2019	
ASSETS	Notes	Group KShs million	Company KShs million	Group KShs million	Company KShs million
Cash and balances with Central Bank of Kenya	16	**20,619**	**20,619**	20,621	20,621
Government and other securities held at FVPTL	17	**4,949**	**4,949**	1,957	1,957
Derivative financial instruments	18	**739**	**739**	810	810
Loans and advances to banks	19	**7,533**	**7,533**	7,734	7,734
Loans and advances to customers	20	**121,524**	**121,524**	128,690	128,690
Government securities held at FVOCI	21	**94,852**	**94,852**	97,672	96,546
Tax recoverable	13	**441**	**340**	1,091	1,026
Other assets	22	**2,776**	**2,735**	3,497	3,487
Amounts due from group companies	23	**62,757**	**63,105**	31,799	33,118
Investment in subsidiaries	24	**-**	**141**	-	141
Non-current asset held for sale	26	**222**	**222**	-	-
Property and equipment	27	**3,634**	**3,634**	3,894	3,894
Goodwill and intangible assets	28	**3,023**	**3,023**	2,732	2,732
Deferred tax asset	29	**2,536**	**2,457**	1,641	1,538
TOTAL ASSETS		**325,605**	**325,873**	302,138	302,294
LIABILITIES AND SHAREHOLDERS' EQUITY					
Liabilities					
Deposits from banks	30	**454**	**454**	8,028	8,028
Deposits from customers	31	**256,498**	**256,498**	228,434	228,434
Derivative financial instruments	18	**648**	**648**	603	603
Other liabilities	32	**5,741**	**5,726**	5,923	5,905
Amounts due to group companies	23	**11,209**	**11,209**	11,122	11,122
Amount due to subsidiaries	23	**-**	**958**	-	715
Retirement benefit obligations	35	**164**	**164**	267	267
Total liabilities		**274,714**	**275,657**	254,377	255,074
Shareholders' equity (Pages 88-95)					
Share capital	36(a)	**2,169**	**2,169**	1,998	1,998
Share premium	36(b)	**7,792**	**7,792**	7,792	7,792
Capital contribution reserve	36(c)	**1,885**	**1,885**	1,931	1,931
Revaluation reserve	36(d)	**900**	**900**	732	732
Fair value reserve	36(e)	**1,159**	**1,159**	903	924
Statutory credit risk reserve	36(f)	**969**	**969**	1,477	1,477
Retained earnings		**31,882**	**31,207**	27,691	27,129
Proposed dividends	15	**4,135**	**4,135**	5,237	5,237
Total shareholders' equity		**50,891**	**50,216**	47,761	47,220
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**325,605**	**325,873**	302,138	302,294

The financial statements set out on pages 85 to 191 were approved and authorised for issue by the Board of Directors on 25 March 2021

P. Obath
Director

K. Ngari
Director

C. Murgor
Director

The notes set out on pages 97 to 191 form an integral part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2020

2020	Notes	Share capital KShs million	Share premium KShs million	Capital contribution reserve KShs million	Revaluation reserve KShs million	Fair value reserve KShs million	Statutory credit risk reserve KShs million	Retained earnings KShs million	Proposed dividends KShs million	Total KShs million
At 1 January		1,998	7,792	1,931	732	903	1,477	27,691	5,237	47,761
Profit for the year		-	-	-	-	-	-	5,441	-	5,441
Transfer from statutory credit risk reserve		-	-	-	-	-	(508)	508	-	-
Other comprehensive income										
Re-measurement of retirement benefit obligations	35	-	-	-	-	-	-	(18)	-	(18)
Related deferred tax	29	-	-	-	-	-	-	5	-	5
Change in fair value of FVOCI investments		-	-	-	-	432	-	-	-	432
Related deferred tax		-	-	-	-	(129)	-	-	-	(129)
Change in fair value of FVOCI investments reclassified to income statement		-	-	-	-	(78)	-	-	-	(78)
Related deferred tax		-	-	-	-	23	-	-	-	23
Revaluation surplus		-	-	-	249	-	-	-	-	249
Related deferred tax	29	-	-	-	(72)	-	-	-	-	(72)
Excess depreciation transfer		-	-	-	(13)	-	-	13	-	-
Related deferred tax	29	-	-	-	4	-	-	(4)	-	-
Impairment on FVOCI investments		-	-	-	-	21	-	-	-	21
Related deferred tax		-	-	-	-	(6)	-	-	-	(6)
Impairment on FVOCI investments reclassified to income statement	20(d)	-	-	-	-	(9)	-	-	-	(9)
Related deferred tax	29	-	-	-	-	2	-	-	-	2
Total other comprehensive income		-	-	-	168	256	-	(4)	-	420
Total comprehensive income for the year		-	-	-	168	256	(508)	5,945	-	5,861
Transactions with owners, recorded directly in equity										
Bonus share issue		171	-	-	-	-	-	(171)	-	-
Withholding tax on bonus share issue							-	(24)	-	(24)
Share-based payments – 2019 paid		-	-	(107)	-	-	-	-	-	(107)
– 2020 accrual		-	-	61	-	-	-	-	-	61
Dividends paid – Ordinary shares (final 2019)		-	-	-	-	-	-	-	(2,576)	(2,576)
– Preference shares (final 2019)		-	-	-	-	-	-	-	(85)	(85)
Proposed dividends - Dividend adjustment (2019)		-	-	-	-	-	-	2,576	(2,576)	-
– Ordinary shares	15	-	-	-	-	-	-	(3,967)	3,967	-
- Preference shares	15	-	-	-	-	-	-	(168)	168	-
Total contributions by and distributions to owners		171	-	(46)	-	-	-	(1,754)	(1,102)	(2,731)
At 31 December		2,169	7,792	1,885	900	1,159	969	31,882	4,135	50,891

The notes set out on pages 97 to 191 form an integral part of these financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2020

2019	Notes	Share capital KShs million	Share premium KShs million	Capital contribution reserve KShs million	Revaluation reserve KShs million	Fair value reserve KShs million	Statutory credit risk reserve KShs million	Retained earnings KShs million	Proposed dividends KShs million	Total KShs million
At 1 January		1,998	7,792	1,932	742	1,305	-	27,977	4,894	46,640
Profit for the year		-	-	-	-	-	-	8,237	-	8,237
Transfer to statutory credit risk reserve		-	-	-	-	-	1,477	(1,477)	-	-
Other comprehensive income										
Re-measurement of retirement benefit obligations	35	-	-	-	-	-	-	(25)	-	(25)
Related deferred tax	29	-	-	-	-	-	-	7	-	7
Change in fair value of FVOCI investments		-	-	-	-	(349)	-	-	-	(349)
Related deferred tax		-	-	-	-	105	-	-	-	105
Change in fair value of FVOCI investments reclassified to income statement		-	-	-	-	(261)	-	-	-	(261)
Related deferred tax		-	-	-	-	78	-	-	-	78
Revaluation surplus		-	-	-	-	-	-	-	-	-
Related deferred tax	29	-	-	-	-	-	-	-	-	-
Excess depreciation transfer		-	-	-	(14)	-	-	14	-	-
Related deferred tax	29	-	-	-	4	-	-	(4)	-	-
Impairment on FVOCI investments		-	-	-	-	56	-	-	-	56
Related deferred tax		-	-	-	-	(16)	-	-	-	(16)
Impairment on FVOCI investments reclassified to income statement		-	-	-	-	(21)	-	-	-	(21)
Related deferred tax		-	-	-	-	6	-	-	-	6
Total other comprehensive income		-	-	-	(10)	(402)	-	(8)	-	(420)
Total comprehensive income for the year		-	-	-	(10)	(402)	1,477	6,752	-	7,817
Transactions with owners, recorded directly in equity										
Share-based payments – 2018 paid		-	-	(108)	-	-	-	-	-	(108)
– 2019 accrual		-	-	107	-	-	-	-	-	107
Dividends paid – Ordinary shares (final 2018)		-	-	-	-	-	-	-	(4,809)	(4,809)
– Preference shares (final 2018)		-	-	-	-	-	-	-	(85)	(85)
– Ordinary shares (interim 2019)		-	-	-	-	-	-	(1,718)	-	(1,718)
– Preference shares (interim 2019)		-	-	-	-	-	-	(83)	-	(83)
Proposed dividends – Ordinary shares		-	-	-	-	-	-	(5,152)	5,152	-
– Preference shares	15	-	-	-	-	-		(85)	85	-
Total contributions by and distributions to owners		-	-	(1)	-	-	-	(7,038)	343	(6,696)
At 31 December		1,998	7,792	1,931	732	903	1,477	27,691	5,237	47,761

The notes set out on pages 97 to 191 form an integral part of these financial statements

Company statement of changes in equity

For the year ended 31 December 2020

2020	Notes	Share capital KShs million	Share premium KShs million	Capital contribution reserve KShs million	Revaluation reserve KShs million	Fair value reserve KShs million	Statutory credit risk reserve KShs million	Retained earnings KShs million	Proposed dividends KShs million	Total KShs million
At 1 January		1,998	7,792	1,931	732	924	1,477	27,129	5,237	47,220
Profit for the year		-	-	-	-	-	-	5,328	-	5,328
Transfer from statutory credit risk reserve		-	-	-	-	-	(508)	508	-	-
Other comprehensive income										
Re-measurement of retirement benefit obligations	35	-	-	-	-	-	-	(18)	-	(18)
Related deferred tax	29	-	-	-	-	-	-	5	-	5
Change in fair value of FVOCI investments		-	-	-	-	377	-	-	-	377
Related deferred tax		-	-	-	-	(113)	-	-	-	(113)
Change in fair value of FVOCI investments reclassified to income statement		-	-	-	-	(60)	-	-	-	(60)
Related deferred tax		-	-	-	-	18	-	-	-	18
Revaluation surplus		-	-	-	249	-	-	-	-	249
Related deferred tax	29	-	-	-	(72)	-	-	-	-	(72)
Excess depreciation transfer		-	-	-	(13)	-	-	13	-	-
Related deferred tax	29	-	-	-	4	-	-	(4)	-	-
Impairment on FVOCI investments		-	-	-	-	23	-	-	-	23
Related deferred tax		-	-	-	-	(7)	-	-	-	(7)
Impairment on FVOCI investments reclassified to income statement		-	-	-	-	(5)	-	-	-	(5)
Related deferred tax		-	-	-	-	2	-	-	-	2
Total other comprehensive income		-	-	-	168	235	-	(4)	-	399
Total comprehensive income for the year		-	-	-	168	235	(508)	5,832	-	5,727
Transactions with owners, recorded directly in equity										
Bonus share issue		171	-	-	-	-	-	(171)	-	-
Withholding tax on bonus share issue		-	-	-	-	-	-	(24)	-	(24)
Share-based payments – 2019 paid		-	-	(107)	-	-	-	-	-	(107)
– 2020 accrual		-	-	61	-	-	-	-	-	61
Dividends paid – Ordinary shares (final 2019)		-	-	-	-	-	-	-	(2,576)	(2,576)
– Preference shares (final 2019)		-	-	-	-	-	-	-	(85)	(85)
Proposed dividends – Dividend adjustment (2019)		-	-	-	-	-	-	2,576	(2,576)	-
– Ordinary shares		-	-	-	-	-	-	(3,967)	3,967	-
– Preference shares	15	-	-	-	-	-	-	(168)	168	-
Total contributions by and distributions to owners		171	-	(46)	-	-	-	(1,754)	(1,102)	(2,731)
At 31 December		2,169	7,792	1,885	900	1,159	969	31,207	4,135	50,216

The notes set out on pages 97 to 191 form an integral part of these financial statements.

Company statement of changes in equity

For the year ended 31 December 2020

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

The notes set out on pages 97 to 191 form an integral part of these financial statements.

Financial Statements

Statement of cash flows

For the year ended 31 December 2020

		2020		2019	
	Notes	Group KShs million	Company KShs million	Group KShs million	Company KShs million
Net cash from /(used in) operating activities	37(a)	**35,463**	**34,492**	(4,718)	(3,670)
Cash flows from investing activities					
Purchase of property and equipment	26	**(432)**	**(432)**	(401)	(401)
Proceeds from sale of property and equipment		**13**	**13**	2	2
Purchase of intangible assets	27	**(1,104)**	**(1,104)**	(1,551)	(1,551)
Net cash used in investing activities		**(1,523)**	**(1,523)**	(1,950)	(1,950)
Cash flows from financing activities					
Lease liability payments	34	**(167)**	**(167)**	(165)	(165)
Share based payments settled: 2019/2018		**(107)**	**(107)**	(108)	(108)
Withholding tax on bonus share issue		**(24)**	**(24)**		
Dividends paid on ordinary shares:					
– Final 2019/2018	15	**(2,576)**	**(2,576)**	(4,809)	(4,809)
– Interim 2020/2019	15	**-**	**-**	(1,718)	(1,718)
Dividends paid on preference shares:					
– Final 2019/2018	15	**(85)**	**(85)**	(85)	(85)
– Interim 2020/2019	15	**-**	**-**	(83)	(83)
Net cash used in financing activities		**(2,959)**	**(2,959)**	(6,968)	(6,968)
Increase/(decrease) in cash and cash equivalents		**30,981**	**30,010**	(13,636)	(12,588)
Cash and cash equivalents at 1 January		**24,567**	**25,886**	38,203	38,474
Cash and cash equivalents at 31 December	37(b)	**55,548**	**55,896**	24,567	25,886

The notes set out on pages 97 to 191 form an integral part of these financial statements.

Notes to the financial statements

For the year ended 31 December 2020

CONTENTS

1. REPORTING ENTITY

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

StandardChartered@Chiromo

48 Westlands Road

P.O. Box 30003

00100 Nairobi GPO.

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Statement of compliance

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

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

(b) Basis of measurement

The Group and Company financial statements set out on pages 85 to 191 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)
- effective interest rate (eir) (note 3)
- fair value and impairment of financial instruments (note 3)
- tax (note 13)
- goodwill impairment (note 28)
- retirement benefit obligation (note 35)
- determination of lease term for lease contract with renewal/ termination options (note 34)
- estimating incremental borrowing rate (note 34)
- revaluation of land and buildings (note 27)

2. SIGNIFICANT ACCOUNTING POLICIES continued

(d) Functional and presentation currency

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

(e) Transactions and balances in foreign currencies

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

(f) Impairment of non-financial assets

- Further disclosures relating to impairment of non-financial assets are also provided in the following notes:
- Property, plant and equipment Note 27, and;
- Goodwill and intangible assets Note 28.

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators. The Group bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation. For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

2. SIGNIFICANT ACCOUNTING POLICIES continued

(g) New standards, amendments and interpretations

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

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2020 and 1 June 2020. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The new amendments and interpretations effective of as of 1 January 2020 and 1 June 2020 are listed below:

New standard or amendments	Effective for annual periods beginning on or after
Definition of a Business – Amendments to IFRS 3	1 January 2020
Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform	1 January 2020
Amendments to IFRS 16 COVID-19 Related Rent Concessions	1 June 2020
The Conceptual Framework for Financial Reporting	1 January 2020
Definition of Material – Amendments to IAS 1 and IAS 8	1 January 2020

Definition of a Business – Amendments to IFRS 3

The amendment to IFRS 3 Business Combinations clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group but may impact future periods should the Group enter into any business combinations.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the consolidated financial statements of the Group as it does not have any interest rate hedge relationships.

Amendments to IFRS 16 COVID-19 Related Rent Concessions

On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19 pandemic related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 pandemic related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the consolidated financial statements of the Group.

Conceptual Framework for Financial Reporting

In March 2018 the IASB published a revised Conceptual Framework for Financial Reporting, often referred to as the "Conceptual Framework", applicable to IFRS preparers for annual periods beginning on or after 1 January 2020. The Conceptual Framework provides guidance to preparers on determining accounting policies where no specific IFRS or IAS Standard applies to a particular transaction or where a Standard allows for an accounting policy choice. It includes limited revisions of definitions of an asset and a liability, as well as new guidance on measurement and derecognition, presentation and disclosure. The concept of prudence has been reintroduced with the statement that prudence supports neutrality. The Conceptual Framework is not an IFRS Standard and does not replace any specific Standards. The changes in the Conceptual Framework are not considered material to the Group since all of the Group's significant accounting policies are derived from specific IFRS or IAS standards.

2. SIGNIFICANT ACCOUNTING POLICIES continued

(g) New standards, amendments and interpretations

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

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018 the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors ("the amendments"), applicable to IFRS preparers for annual periods beginning on or after 1 January 2020. The purpose is to align the definition of 'material' across the Standards and to clarify certain aspects of the definition. Information is 'material' if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The revised definition is already aligned to how the Group assesses whether the effect of a change in accounting policy, change in accounting estimate or error would be considered 'material' to the primary users of the Group's financial statements, hence these amendments have no specific effect on the preparation of these financial statements and are not expected to affect the preparation of future financial statements.

These amendments do not have a material effect on these financial statements as no transactions in scope of IFRS 3 have occurred during the period and no adjustment is required to opening retained earnings.

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2020

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2020 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
Interest Rate Benchmark Reform – Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	In August 2020, the IASB published the second phase of its amendments to IFRS concerning the global initiative to replace or reform interbank offered rates (IBORs) that are used to determine interest cash flows on financial instruments such as loans to customers, debt securities and derivatives. These amendments were endorsed by the EU on 14 January 2021 and by the UK Secretary of State for Business, Energy and Industrial Strategy on 5 January 2021. Phase 2 focuses on issues expected to affect financial reporting when an existing IBOR is replaced with an alternative risk-free rate (RFR). These amendments are effective from 1 January 2021. The Phase 2 amendments contain a practical expedient to account for the change in benchmark interest rate in a financial instrument to be treated as a change in floating interest rate, provided the re-papered instrument denominated in the alternative RFR is on an economically equivalent basis to the original IBOR-linked instrument. This may include the addition of a fixed spread to compensate for a basis difference between the existing IBOR benchmark and alternative RFR, changes to reset period, reset dates or number of days between coupon payment dates that are necessary to effect reform of an IBOR benchmark and the addition of any fall-back provision to the contractual terms of a financial instrument that allow any of the above changes to be made.	The Group is assessing the impact on its financial statements resulting from the application of Interest Rate Benchmark Reforms.

2. SIGNIFICANT ACCOUNTING POLICIES continued

(g) New standards, amendments and interpretations

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2020

New or amended standards	Summary of requirements	Possible impact on consolidated financial statements
Interest Rate Benchmark Reform – Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Any other change to contractual terms would be assessed under the Group's accounting policies for loan modifications, including an assessment of whether derecognition of the original instrument is required. The amendments also provide reliefs which allow the Group to change hedge designations and corresponding documentation without the hedge relationship being discontinued. These include the ability to: • redefine the description of the hedged item and/or hedging instrument; • redefine the hedged risk to reference an alternative RFR; • change the method for assessing hedge effectiveness due to modifications required by IBOR reform; and • elect, on a hedge-by-hedge basis, to reset the cumulative fair value changes in the assessment of retrospective hedge effectiveness to zero. A hedge designation may be modified more than once, each time a relationship is affected as a direct result of IBOR reform (for example, if the hedged item and hedging instrument are re-papered into the alternative RFR at different times). Where an alternative RFR designated as a non-contractually specified risk portion is not separately identifiable (i.e. fair value hedge of a fixed rate debt instrument), the Group may assume that the alternative RFR is deemed have met that requirement provided it reasonably is expected the alternative RFR will be separately identifiable within 24 months. The 24-month period begins individually for each benchmark, but if it is subsequently assessed that the alternative RFR is no longer expected to be separately identifiable within 24 months of the first hedge designation of a benchmark, then all hedges for that benchmark are discontinued prospectively.	

2. SIGNIFICANT ACCOUNTING POLICIES continued

(g) New standards, amendments and interpretations

(ii) New standards, amendments and interpretations in issue but not yet effective for the year ended 31 December 2020

New or amended standards	Summary of requirements	Possible impact on consolidated financial statements
IFRS 17 Insurance Contracts	IFRS 17 Insurance Contracts sets out the requirements that an entity should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. An entity shall apply IFRS 17 Insurance Contracts to: (a) insurance contracts, including reinsurance contracts, it issues; (b) reinsurance contracts it holds; and (c) investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts. The standard requires an entity that issues insurance contracts to report them on the statement of financial position as the total of: (a) the fulfilment cash flows—the current estimates of amounts that the entity expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and (b) the contractual service margin—the expected profit for providing insurance coverage. The expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided. The standard requires an entity to recognise profits as it delivers insurance services, rather than when it receives premiums, as well as to provide information about insurance contract profits that the Company expects to recognise in the future. The standard requires an entity to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be loss making. Any expected losses arising from loss-making, or onerous, contracts are accounted for in the income statement as soon as the Company determines that losses are expected. The standard requires the entity to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and of discount rates.	The adoption of these changes is not expected to have a material impact on the Group's financial statements as the Group does not issue insurance contracts.
	The entity: (a) accounts for changes to estimates of future cash flows from one reporting date to another either as an amount in the income statement or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it; and (b) chooses where to present the effects of some changes in discount rates—either in the income statement or in other comprehensive income. The standard also requires disclosures to enable users of financial statements to understand the amounts recognised in the entity's statement of financial position and the income statement loss and other comprehensive income, and to assess the risks the Company faces from issuing insurance contracts. The standard replaces IFRS 4 Insurance Contracts. The standard is effective for financial periods commencing on or after 1 January 2023. An entity shall apply the standard retrospectively unless impracticable. A Company can choose to apply the standard before that date, but only if it also applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.	

2. SIGNIFICANT ACCOUNTING POLICIES CONTINUED

(h) Going concern

These financial statements were approved by the Board of directors on 25 March 2021. The directors have assessed the Group's ability to continue as a going concern. This assessment has been made having considered the impact of COVID-19 macroeconomic headwinds, including:

- A review of the Strategy and Corporate Plan, both of which cover a year from the date of signing the annual report;
- An assessment of the actual performance to date, loan book quality, credit impairment, legal, regulatory and compliance matters, and the updated annual budget;
- Analysis of the capital position of the Company including the capital ratios, and the Internal Capital Adequacy Assessment Process ("ICAAP") performed under a COVID-19 stress scenario which summarises the Company's capital and risk assessment processes, assesses its capital requirements and the adequacy of resources to meet them. Under the scenario, the Company has sufficient capital to continue as a going concern and meet minimum regulatory capital requirements;
- An analysis of the Company's liquidity position and whether sufficient liquidity resources are being maintained to meet liabilities as they fall due. Further, liquidity was considered in the context of the risk appetite metrics, including the advances-to-deposits ratio ("ADR"); and
- A detailed review of all principal and emerging risks.

Based on the analysis performed, the directors confirm they are satisfied that the Group and Company have adequate resources to continue in business for a period of at least 12 months from the date of approval of these financial statements. For this reason, the Group continues to adopt the going concern basis of accounting for preparing the financial statements.

3. FINANCIAL ASSETS AND LIABILITIES

Classification and measurement

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

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

Financial liabilities are classified as either:

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

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

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

Debt instruments held at amortised cost or held at fair value through other comprehensive income (FVOCI) have contractual terms that give rise to cash flows that are solely payments of principal and interest (SPPI characteristics). The transaction price 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.

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 a 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.

3. FINANCIAL ASSETS AND LIABILITIES continued

Classification and measurement continued

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

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

Mandatorily classified at FVTPL

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

Trading, including:

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

Non-trading, including:

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

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 being the premium received, while financial guarantees and loan commitments issued at market rates are recorded off balance sheet. Subsequently, these instruments are measured at the higher of the expected credit loss (ECL) provision, and the amount initially recognised less the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers.

3. FINANCIAL ASSETS AND LIABILITIES continued

Fair value of financial assets and liabilities

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

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

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

Initial recognition

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

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

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

Subsequent measurement

Financial assets and financial liabilities held at amortised cost

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

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

Financial assets held at FVOCI

Debt instruments held at FVOCI are subsequently carried at fair value, with all unrealised gains and losses arising from changes in fair value (including any related foreign exchange gains or losses) recognised in other comprehensive income and accumulated in a separate component of equity. Foreign exchange gains and losses on the amortised cost are recognised in income. The ECL for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to the income statement. The accumulated loss recognised in OCI is recycled to the income statement upon derecognition of the assets.

Financial assets and liabilities held at FVTPL

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

Financial liabilities designated at FVTPL

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

3. FINANCIAL ASSETS AND LIABILITIES continued

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 to the extent that an impairment loss has not already been recorded.

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 through sale 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.

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 to the extent that an impairment loss has not already been recorded.

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

Reclassifications

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

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

Reclassified from amortised cost

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

For financial assets held at amortised cost that are reclassified to FVOCI, the difference between the fair value of the assets at the date of reclassification and the previously recognised gross carrying value is recognised in other comprehensive income. The effective interest rate and the measurement of expected credit losses are not adjusted as a result of the reclassification.

Reclassified from FVOCI

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

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

Reclassifications continued

Reclassified from FVTPL

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

Offsetting of financial assets and financial liabilities

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

Significant accounting estimates and judgments

(i) Credit impairment

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

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

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

Expected credit losses

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

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

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

Measurement

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

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.

3. FINANCIAL ASSETS AND LIABILITIES continued

Significant accounting estimates and judgments continued

(i) Credit impairment continued

Measurement continued

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

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

1. POCI assets do not attract an ECL provision on initial recognition. An ECL provision will be recognised only if there is an increase in ECL from that considered at initial recognition.
2. Debt and investment securities classified as FVOCI are held at fair value on the face of the statement of financial position. 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 undrawn commitments, letters of credits and financial guarantees is recognised as a liability provision. Where a financial instrument includes both a loan (i.e. financial asset component) and an undrawn commitment (i.e. loan commitment component), and it is not possible to separately identify the ECL on these components, ECL amounts on the loan commitment are recognised together with ECL amounts on the financial asset. To the extent the combined ECL exceeds the gross carrying amount of the financial asset, the ECL is recognised as a liability provision.

Recognition

12 months expected credit losses (Stage 1)

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

Significant increase in credit risk (Stage 2)

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

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

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

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

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.

3. FINANCIAL ASSETS AND LIABILITIES continued

Significant accounting estimates and judgments continued

(i) Credit impairment continued

Recognition continued

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

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

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

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

Expert credit judgment

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

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.

3. FINANCIAL ASSETS AND LIABILITIES continued

Significant accounting estimates and judgments continued

(i) Credit impairment continued

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.

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

Forborne loans

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

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

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

Write-offs of credit impaired instruments and reversal of impairment

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

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

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

Improvement in credit risk/curing

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

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.

3. FINANCIAL ASSETS AND LIABILITIES continued

Significant accounting estimates and judgments continued

(i) Credit impairment continued

Improvement in credit risk/curing continued

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; and
- the customer is likely to repay its obligations in full without realising security.

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.

(ii) Effective interest Method (EIM)

Effective Interest Method (EIM) is the method used to recognise interest income or expense of an asset or a liability carried at amortised cost and assets measured at FVOCI. EIM is a method of allocating the interest income or expense over the relevant time period. It is same as 'constant effective yield' or 'yield to maturity' and produces a constant periodic rate of return on an asset or liability.

EIM is an important concept in respect of items other than those restated or re-measured at fair value through profit and loss. Assets classified as FVOCI or amortised cost and Liabilities carried at amortised cost require application of EIM. Where such items are hedged and the interest remains within interest income or expense, such interest should be recorded using the EIM.

EIM requires the computation of an 'Effective Interest Rate (EIR)', which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument.

EIR has to be computed taking into account the following:

- contractual rate of interest including stepped interest rate;
- premium/discount;
- transaction costs incurred for the creation of an asset or liability;
- fees received that are either an integral part of the effective interest rate or received on origination; and
- Expected life or actuarial life of the asset or liability.

This will be arrived at after considering various contractual terms such as call/prepayment options as well as historical behaviour of market effectively, EIR considers all the components that affect the return on an asset or a liability and generates income or expense in each period at a uniform rate directly linked to the carrying balance of the asset or liability.

For non-credit impaired financial assets (ie. those in stage 1 or stage 2), interest income is calculated based on the gross carrying amout of the financial asset. Where financial assets are credit-impaired (stage 3), the EIR is recognised on a net basis, ie. gross outstanding less stage 3 loss allowances. Where assets are Purchased or Credit Impaired (POCI), EIR is recognised on a credit-adjusted basis (ie. including estimates of expected credit losses).

The application of EIM requires estimation of the cash flows and their timing on a fairly reliable basis. Adjustments to the assumptions regarding the timing of cash flows (e.g. as a result of a re-estimation of actuarial life) may result in a cumulative catch-up adjustment being made to net interest income in the income statement. In this respect, entities must reassess actuarial lives and cash flow assumptions at least twice a year.

In some situations, the premium/discount may need to be amortised over a shorter period than the expected life. This shorter period has to be decided based on the variable which determines this premium/discount. The shorter period amortisation policy is generally applicable in two scenarios as follows:

- premium/discount relating to securities with early call or redemption option. In this case premium/discount should be amortised over the probable early call date if that is practicable to determine a reliable basis; and
- premium/discount on floating rate securities and the portion that relates to prevailing market rates should be amortised over the next re-pricing date. This requires split of premium/discount into that attributable to prevailing market rates and that attributable to credit risk of the issuer.

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 31 December 2020 KShs million	Notes	Financial instruments at fair value: Mandatorily held at fair value through profit or loss	Financial instruments at fair value: Fair value through other comprehensive income	Financial instruments at fair value: Total	Financial instruments at amortised cost	Total
Cash and balances with Central Bank of Kenya	16	-	-	-	20,619	20,619
Government and other securities held at FVTPL	17	4,949	-	4,949	-	4,949
Derivative financial instruments	18	739	-	739	-	739
Loans and advances to banks	19	-	-	-	7,533	7,533
Loans and advances to customers	20	-	-	-	121,524	121,524
Government and other securities held at FVOCI	21	-	94,852	94,852	-	94,852
Other assets – uncleared effects	22	-	-	-	784	784
Amounts due from group companies	23	-	-	-	62,757	62,757
Total assets		5,688	94,852	100,540	213,217	313,757
Liabilities						
Deposits from banks	30	-	-	-	454	454
Deposits from customers	31	-	-	-	256,498	256,498
Derivative financial instruments	18	648	-	648	-	648
Other liabilities	32	-	-	-	317	317
Amounts due to group companies	23	-	-	-	11,209	11,209
Total liabilities		648	-	648	268,478	269,126
31 December 2019 KShs million						
Cash and balances with Central Bank of Kenya	16	-	-	-	20,621	20,621
Government and other securities held at FVTPL	17	1,957	-	1,957	-	1,957
Derivative financial instruments	18	810	-	810	-	810
Loans and advances to banks	19	-	-	-	7,734	7,734
Loans and advances to customers	20	-	-	-	128,690	128,690
Government and other securities held at FVOCI	21	-	97,672	97,672	-	97,672
Other assets – uncleared effects	22	-	-	-	547	547
Amounts due from group companies	23	-	-	-	31,799	31,799
Total assets		2,767	97,672	100,439	189,391	289,830
Liabilities						
Deposits from banks	30	-	-	-	8,028	8,028
Deposits from customers	31	-	-	-	228,434	228,434
Derivative financial instruments	18	603	-	603	-	603
Other liabilities	32	-	-	-	685	685
Amounts due to group companies	23	-	-	-	11,122	11,122
Total liabilities		603	-	603	248,269	248,872

3. FINANCIAL ASSETS AND LIABILITIES continued

(a) Accounting classification

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

Company 31 December 2020 KShs million	Notes	Financial instruments at fair value: Mandatorily held at fair value through profit or loss	Financial instruments at fair value: Fair value through other comprehensive income	Financial instruments at fair value: Total	Financial instruments at amortised cost	Total
Cash and balances with Central Bank of Kenya	16	-	-	-	20,619	20,619
Government and other securities held at FVTPL	17	4,949	-	4,949	-	4,949
Derivative financial instruments	18	739	-	739	-	739
Loans and advances to banks	19	-	-	-	7,533	7,533
Loans and advances to customers	20	-	-	-	121,524	121,524
Government and other securities held at FVOCI	21	-	94,852	94,852	-	94,852
Other assets – uncleared effects	22	-	-	-	784	784
Amounts due from group companies	23	-	-	-	63,105	63,105
Total assets		5,688	94,852	100,540	213,565	314,105
Liabilities						
Deposits from banks	30	-	-	-	454	454
Deposits from customers	31	-	-	-	256,498	256,498
Derivative financial instruments	18	648	-	648	-	648
Other liabilities	32	-	-	-	317	317
Amounts due to group companies	23	-	-	-	11,209	11,209
Amounts due to subsidiaries	23	-	-	-	958	958
Total liabilities		648	-	648	269,436	270,084
31 December 2019 KShs million						
Cash and balances with Central Bank of Kenya	16	-	-	-	20,621	20,621
Government and other securities held at FVTPL	17	1,957	-	1,957	-	1,957
Derivative financial instruments	18	810	-	810	-	810
Loans and advances to banks	19	-	-	-	7,734	7,734
Loans and advances to customers	20	-	-	-	128,690	128,690
Government and other securities held at FVOCI	21	-	96,546	96,546	-	96,546
Other assets – uncleared effects	22	-	-	-	547	547
Amounts due from group companies	23	-	-	-	33,118	33,118
Total assets		2,767	96,546	99,313	190,710	290,023
Liabilities						
Deposits from banks	30	-	-	-	8,028	8,028
Deposits from customers	31	-	-	-	228,434	228,434
Derivative financial instruments	18	603	-	603	-	603
Other liabilities	32	-	-	-	685	685
Amounts due to group companies	23	-	-	-	11,122	11,122
Amounts due to subsidiaries	23	-	-	-	715	715
Total liabilities		603	-	603	248,984	249,587

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.

(c) Valuation hierarchy - Financial instruments at fair value

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

- Level 1: Fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Fair value measurements are those with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable; and
- Level 3: Fair value measurements are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data.

3. FINANCIAL ASSETS AND LIABILITIES continued

(c) Valuation hierarchy - Financial instruments 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 2020 and 2019:

31 December 2020: KShs million	Notes	Group Level 1	Group Level 2	Group Level 3	Group Total	Company Level 1	Company Level 2	Company Level 3	Company Total
Assets									
Government and other securities held at FVTPL	17	-	4,927	22	4,949	-	4,927	22	4,949
Derivative financial instruments	18	-	739	-	739	-	739	-	739
Government and other securities held at FVOCI	21	-	94,852	-	94,852	-	94,852	-	94,852
Total assets		-	100,518	22	100,540	-	100,518	22	100,540
Derivative financial instruments	18	-	648	-	648	-	648	-	648
Total liabilities		-	648	-	648	-	648	-	648

31 December 2019: KShs million	Notes	Group Level 1	Group Level 2	Group Level 3	Group Total	Company Level 1	Company Level 2	Company Level 3	Company Total
Assets									
Government and other securities held at FVTPL	17	-	1,939	18	1,957	-	1,939	18	1,957
Derivative financial instruments	18	-	810	-	810	-	810	-	810
Government and other securities held at FVOCI	21	-	97,672	-	97,672	-	96,546	-	96,546
Total assets		-	100,421	18	100,439	-	99,295	18	99,313
Derivative financial instruments	18	-	603	-	603	-	603	-	603
Total liabilities		-	603	-	603	-	603	-	603

There has been no significant change in valuation or lending approaches in 2020. 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.

3. FINANCIAL ASSETS AND LIABILITIES continued

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

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

		Group					Company				
31 December 2020 KShs million	Notes	**Total carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total fair values**	**Total carrying amount**	**Level 1**	**Level 2**	**Level 3**	**Total fair values**
Assets											
Cash and balances with Central Bank of Kenya	16	20,619	-	20,619	-	20,619	20,619	-	20,619	-	20,619
Loans and advances to banks	19	7,533	-	7,533	-	7,533	7,533	-	7,533	-	7,533
Loans and advances to customers	20(a)	121,524	-	-	121,524	121,524	121,524	-	-	121,524	121,524
Other assets – uncleared effects	22	784	-	-	784	784	784	-	-	784	784
Amounts due from group companies	23	62,757	-	-	62,757	62,757	63,105	-	-	63,105	63,105
Total assets		213,217	-	28,152	185,065	213,217	213,565	-	28,152	185,413	213,565
Deposits from banks	30	454	-	454	-	454	454	-	454	-	454
Deposits from customers	31	256,498	-	31,881	224,617	256,498	256,498	-	31,881	224,617	256,498
Other liabilities	32	317	-	-	317	317	317	-	-	317	317
Amounts due to group companies	23	11,209	-	6,564	4,645	11,209	11,209	-	6,564	4,645	11,209
Amounts due to subsidiaries	23	-	-	-	-	-	958	-	958	-	958
Total liabilities		268,478	-	38,899	229,579	268,478	269,436	-	39,857	229,579	269,436

		Group					Company				
31 December 2019 KShs million	Notes	Total carrying amount	Level 1	Level 2	Level 3	Total fair values	Total carrying amount	Level 1	Level 2	Level 3	Total fair values
Assets											
Cash and balances with Central Bank of Kenya	16	20,621	-	20,621	-	20,621	20,621	-	20,621	-	20,621
Loans and advances to banks	19	7,734	-	7,734	-	7,734	7,734	-	7,734	-	7,734
Loans and advances to customers	20(a)	128,690	-	-	128,690	128,690	128,690	-	-	128,690	128,690
Other assets – uncleared effects	22	547	-	-	547	547	547	-	-	547	547
Amounts due from group companies	23	31,799	-	-	31,799	31,799	33,118	-	-	33,118	33,118
Total assets		189,391	-	28,355	161,036	189,391	190,710	-	28,355	162,355	190,710
Deposits from banks	30	8,028	-	8,028	-	8,028	8,028	-	8,028	-	8,028
Deposits from customers	31	228,434	-	40,983	187,451	228,434	228,434	-	40,983	187,451	228,434
Other liabilities	32	685	-	-	685	685	685	-	-	685	685
Amounts due to group companies	23	11,122	-	6,097	5,025	11,122	11,122	-	6,097	5,025	11,122
Amounts due to subsidiaries	23	-	-	-	-	-	715	-	715	-	715
Total liabilities		248,269	-	55,108	193,161	248,269	248,984	-	55,823	193,161	248,984

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW

This section provides details of the Group's and Company's exposure to risk and describes the methods used by management to control risk in respect of financial instruments. The most significant types of financial risks to which the Group and Company are exposed to are credit risk, liquidity risk, market risk and operational risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's enterprise risk management framework.

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

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

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

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

Stress testing

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

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

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.

Impairment model

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

Staging of financial instruments

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

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

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

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

(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 (neither past due 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
Higher risk	Credit Grade 13 and 14	Past due over 90 days

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

Group	31 December 2020				31 December 2019			
KShs million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
On balance sheet:								
Loans and advances to banks	7,536	-	-	7,536	7,737	-	-	7,737
Loss allowance	(3)	-	-	(3)	(3)	-	-	(3)
Carrying amount	7,533	-	-	7,533	7,734	-	-	7,734
Loans and advances to customers								
Grades 1-11 (normal)	111,942	-	-	111,942	120,604	-	-	120,604
Grade 12 (watch)	-	5,565	-	5,565	-	3,661	-	3,661
Grade 13 (substandard)	-	-	3,870	3,870	-	-	3,602	3,602
Grade 14 (doubtful/loss)	-	-	9,343	9,343	-	-	8,667	8,667
Total	111,942	5,565	13,213	130,720	120,604	3,661	12,269	136,534
Loss allowance	(969)	(1,503)	(6,724)	(9,196)	(757)	(651)	(6,436)	(7,844)
Carrying amount	110,973	4,062	6,849	121,524	119,847	3,010	5,833	128,690
Amounts due from group companies	62,934	-	-	62,934	31,808	-	-	31,808
Loss allowance	(177)	-	-	(177)	(9)	-	-	(9)
Carrying amount	62,757	-	-	62,757	31,799	-	-	31,799
FVOCI Investment securities	94,852	-	-	94,852	97,672	-	-	97,672
Loss allowance *	334	-	-	334	322	-	-	322

Company	31 December 2020				31 December 2019			
KShs million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
On balance sheet:								
Loans and advances to banks	7,536	-	-	7,536	7,737	-	-	7,737
Loss allowance	(3)	-	-	(3)	(3)	-	-	(3)
Carrying amount	7,533	-	-	7,533	7,734	-	-	7,734
Loans and advances to customers								
Grades 1-11 (normal)	111,942	-	-	111,942	120,604	-	-	120,604
Grade 12 (watch)	-	5,565	-	5,565	-	3,661	-	3,661
Grade 13 (substandard)	-	-	3,870	3,870	-	-	3,602	3,602
Grade 14 (doubtful/loss)	-	-	9,343	9,343	-	-	8,667	8,667
Total	111,942	5,565	13,213	130,720	120,604	3,661	12,269	136,534
Loss allowance	(969)	(1,503)	(6,724)	(9,196)	(757)	(651)	(6,436)	(7,844)
Carrying amount	110,973	4,062	6,489	121,524	119,847	3,010	5,833	128,690
Amounts due from group companies	63,282	-	-	63,282	33,127	-	-	33,127
Loss allowance	(177)	-	-	(177)	(9)	-	-	(9)
Carrying amount	63,105	-	-	63,105	33,118	-	-	33,118
FVOCI Investment securities	94,852	-	-	94,852	96,546	-	-	96,546
Loss allowance *	334	-	-	334	316	-	-	316

*These instruments are held at fair value on the statement of financial position. The ECL provision in respect of investment securities measured at FVOCI is held within reserves

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW CONTINUED

(a) Credit risk continued

(ii) Credit quality analysis continued

Analysis of financial instruments by stage continued

Group and Company	31 December 2020				31 December 2019			
KShs million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Off balance sheet:								
Guarantees and standby letters of credit	54,868	467	239	55,574	43,083	2,172	370	45,625
Letters of credit acceptances and other documentary credits	8,189	2,266	7	10,462	6,486	81	27	6,594
Total trade contingents[1]	63,057	2,733	246	66,036	49,569	2,253	397	52,219
Loss allowance	68	145	-	213	96	79	1	176

Analysis of loans and advances concentration by sector

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

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

Group and Company	31 December 2020				31 December 2019			
KShs million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
On balance sheet								
Business services	724	44	-	768	772	1	17	790
Manufacturing	20,395	166	3,343	23,904	14,665	72	3,532	18,269
Wholesale and retail	13,088	1,528	3,851	18,467	15,827	1,698	3,254	20,779
Transport and communication	3,799	63	241	4,103	14,387	-	241	14,628
Real Estate	1,186	31	198	1,415	1,085	100	72	1,257
Agriculture	3,417	1,289	258	4,964	3,016	-	194	3,210
Energy and water	5,576	6	2,105	7,687	4,188	14	2,205	6,407
Others	63,757	2,438	3,217	69,412	66,664	1,776	2,754	71,194
Total	111,942	5,565	13,213	130,720	120,604	3,661	12,269	136,534
Loss allowance	(969)	(1,503)	(6,724)	(9,196)	(757)	(651)	(6,436)	(7,844)
Carrying amount	110,973	4,062	6,489	121,524	119,847	3,010	5,833	128,690

Analysis of loans and advances concentration by client segment

Group and Company	31 December 2020				31 December 2019			
KShs million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
On balance sheet:								
Corporate & Institutional Banking	24,454	1,786	3,290	29,530	34,138	1,362	3,539	39,039
Commercial Banking	19,502	888	5,847	26,237	14,169	241	6,375	20,785
Retail Banking	67,986	2,891	4,076	74,953	72,297	2,058	2,355	76,710
	111,942	5,565	13,213	130,720	120,604	3,661	12,269	136,534

(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.

[1] Trade contingents are off-balance sheet instruments. Only the ECL is recorded on statement of financial position under other liabilities and therefore there is no net carrying amount.

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW CONTINUED

(a) Credit risk continued

(iii) Collateral held and other credit enhancements continued

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

Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse purchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held as at 31 December 2020 and 2019.

The table below details collateral held against exposures, showing separately stage 1, stage 2 and stage 3 exposures and corresponding collateral.

Fair value of collateral held

Group and Company	Total	Stage 1	Stage 2	Stage 3
2020	KShs million	KShs million	KShs million	KShs million
Amount outstanding	130,720	111,942	5,565	13,213
Collateral held	(115,938)	(98,384)	(11,488)	(6,066)
Net exposure	14,782	13,558	(5,923)	7,147
2019				
Amount outstanding	136,534	120,604	3,661	12,269
Collateral held	(90,812)	(84,276)	(2,103)	(4,433)
Net exposure	45,722	36,328	1,558	7,836

(iv) Problem credit management

Accounts or portfolios are placed on an early alert report and regularly reviewed by the Credit Issues Committee when they display signs of weakness or financial deterioration for example where there is a rapid decline in the client's position within the industry, a breach of covenants, non-performance of an obligation, or there are issues relating to ownership or management.

Such accounts and portfolios are subjected to a dedicated process with oversight involving the Chief Executive Officer, 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

(v) Expected credit loss measurement

Staging of financial instruments

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

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

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

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

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW CONTINUED

(a) Credit risk continued

(v) Expected credit loss measurement continued

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 all arrears have been cleared 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 or stage 1 when they are no longer considered to have significant increase in credit risk; 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).

Approach to determining ECL - inputs, assumptions and estimation techniques

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

- PD is the probability at a point in time that a counterparty will default, calibrated over up to 12 months from the reporting date (stage 1) or over the lifetime of the asset (stage 2) and incorporating the impact of forward-looking economic assumptions that have an effect on credit risk, such as interest rates, unemployment rates and GDP forecasts. PD is estimated at a point in time, that means it will fluctuate in line with the economic cycle.
- LGD refers to the loss that is expected to arise on default, incorporating the impact of forward-looking economic assumptions where relevant, which represents the difference between the contractual cash flows due and those that the Bank expects to receive. The Group and Company estimate LGD based on the history of recovery rates and consider the recovery of any collateral that is integral to the financial asset, taking into account forward-looking economic assumptions where relevant.
- EAD refers to the expected balance sheet exposure at the time of default, taking into account the expected change in exposure over the lifetime of the exposure. This incorporates the impact of drawdowns of committed facilities, repayments of principal and interest, amortisation and prepayments, together with the impact of forward-looking economic assumptions where relevant.

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

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

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

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

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, drawn and undrawn revolving facilities in these client segments do not give rise to credit risk and hence no ECL because the Group and Company have a legal right to revoke the facilities at short notice and has a practice of doing so in response to a SICR.

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

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

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

Incorporation of forward looking information

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

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

The Multiple Scenario solution consists of three integrated components:

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

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

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

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

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

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

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 2020			31 December 2019		
	Base forecast	Low[2]	High[3]	Base forecast	Low	High
GDP Growth (YoY%)	1	0.94	1.15	5.60	5.04	6.16
FX rate (KShs)	111	99	122	103	93	113
Government spending (KShs Billions)	2,475	2,228	2,723	2,549	2,294	2,803
Household income (KShs Billions)	2,165	1,949	2,382	2,061	1,855	2,267
Imports (KShs Billions)	412	371	453	440	396	484
Interest rate - 91 Day TB rate (%)	6.91	6.22	7.60	7.2	6.48	7.92
Consumer price index	204	183	224	190	171	209
Equity index	39	35	43	58	52	63

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

Significant increase in credit risk

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

[2] Represents the 10th percentile in the range used to determine non-linearity
[3] Represents the 90th percentile in the range used to determine non-linearity

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW CONTINUED

(a) Credit risk continued

(v) Expected credit loss measurement continued

Significant increase in credit risk continued

Corporate & Institutional Banking and Commercial Banking segments

- **Quantitative criteria:** exposures are assessed based on both the absolute and the relative movement in the PD from origination to the reporting date. The relative threshold is a 100 per cent increase in PD and the absolute change in PD is between 50 - 100 basis points.
- **Qualitative criteria**: all accounts that have been placed on Early Alert (for non-purely precautionary reasons) are deemed to have experienced a significant increase in credit risk. An account is placed on Early Alert on a non-purely precautionary basis if it exhibits risk or potential weaknesses of a material nature requiring closer monitoring, supervision or attention by management. Weaknesses in such a borrower's account, if left uncorrected, could result in deterioration of repayment prospects and the likelihood of being downgraded. Indicators could include a rapid erosion of position within the industry, concerns over management's ability to manage operations, weak/ deteriorating operating results, liquidity strain and overdue balances among other factors.

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

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

Retail Banking

- **Quantitative criteria**: exposures are assessed based on both the absolute and the relative movement in the PD from origination to the reporting date. The relative threshold is a 100 per cent increase in PD and the absolute change in PD is between 50 - 100 basis points.
- **Qualitative criteria**: accounts that are 30 dpd that have not been captured by the quantitative criteria are considered to have experienced a SICR. For less material portfolios, which are modelled based on a roll-rate or loss-rate approach, SICR is primarily assessed through the 30 dpd trigger.

Backstop

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

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

Assessment of credit-impaired assets

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

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

Corporate & Institutional Banking and Commercial Banking segments

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

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

COVID-19 pandemic relief measures

COVID-19 pandemic payment-related relief measures were put in place within the guidelines provide by the Central Bank of Kenya to support distressed clients. These measures included principal and/or interest moratoria and term extensions and were generally available to eligible borrowers (those that are current or less than 30 days past due). The specific measures were as follows for Retail;

- 3 months payment Holidays
- Interest repament only for 6 months and
- Tenor extension not exceeding 12 months.

COVID-19 pandemic related tenor extensions have also been made available to Corporate & Institutional Banking and Commercial Banking clients, primarily for periods of 3 to 12 months, if they are expected to return to normal payments within 12 months.

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW CONTINUED

(a) Credit risk continued

(v) Expected credit loss measurement continued

COVID-19 pandemic relief measures continued

Assessment for expected credit losses

The COVID-19 pandemic payment reliefs that are generally available to an industry as a whole and are not borrower-specific in nature have not, on their own, resulted in an automatic change in stage (that is, individual customers are not considered to have experienced a significant increase in credit risk or an improvement in credit risk) nor have they been considered to be forborne.

A customer's stage and past due status reflects their status immediately prior to the granting of the relief, with past due amounts assessed based on the new terms as set out in the temporary payment reliefs.

If a customer requires additional support after the expiry of the initial payment relief period, these will be considered at a borrower level, after taking into account their individual circumstances. Depending on the type of subsequent support provided, these customers may be classified within stage 2 or stage 3.

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

ECL for financial assets will transfer from a 12- month basis to lifetime when there is significant increase in credit risk compared with what was expected at origination or when they become credit impaired. On transfer to a lifetime basis, the ECL for those assets will reflect the impact of a default event expected to occur over the remaining lifetime of the instrument rather than just over the 12 months from the reporting date. Hence there is an increase in ECL provisions once financial assets move from stage 1 to stage 2 and to stage 3.

Impact from temporary changes to loan contractual terms

Retail Banking

KShs 19,308 million outstanding loan balances have been subject to payment relief measures. This represents 25% of the Retail Bank's gross loans and advances to banks and customers.

Corporate & Institutional Banking and Commercial Banking

KShs 6,794 million of outstanding loan balances have been subject to payment relief measures. This represents 1.6% of Corporate & Institutional Banking and Commercial Banking gross loans and advances to banks and customers.

The table below sets out the extent to which payment reliefs are in place across the Bank's loan portfolio per sector based on the gross carrying amount of loan applications received and approved up to 31 December 2020.

	Retail Banking		Corporate & Institutional Banking and Commercial Banking		Total	
	Accounts	Amount KShs million	Accounts	Amount KShs million	Accounts	Amount KShs million
Agriculture	7	105	7	2,575	14	2,680
Manufacturing	15	161	8	1,553	23	1,714
Building and construction	7	272	5	537	12	809
Mining and Quarrying	-	-	-	-	-	-
Energy and water	1	33	-	-	1	33
Trade	168	2,456	2	1,633	170	4,089
Tourism, Restaurant and Hotels	35	784	1	13	36	797
Transport and Communication	17	209	3	483	20	692
Real Estate	7	175	-	-	7	175
Financial Services	-	-	-	-	-	-
Personal	6,174	15,113	-	-	6,174	15,113
Total	**6,431**	**19,308**	**26**	**6,794**	**6,457**	**26,102**

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW CONTINUED

(a) Credit risk continued

(v) Expected credit loss measurement continued

Management overlay – COVID-19 pandemic

Where a model's performance breaches the monitoring thresholds or validation standards, an assessment is completed to determine whether an ECL Post Model Adjustment (PMA) is required to correct for the identified model issue. PMAs will be removed when the models are updated to correct for the identified model issue, or the estimates return to being within the monitoring thresholds.

The unprecedented volatility in the quarterly macroeconomic forecasts seen over 2020 has meant that the Group's IFRS 9 ECL model is now operating outside the boundaries to which they were calibrated. As a result, at 31 December 2020 the Group has made adjustments to the modelled output to remove this volatility to ensure that the resulting ECL remains unbiased and appropriately reflects the Group's credit risks in the current environment. The adjustments are based on a combination of portfolio-level Credit Risk analysis (retail) and an evaluation of ECL coverage at an exposure level. These adjustments will be removed once the quarterly macroeconomic forecasts and associated model estimates become less volatile in line with historical norms.

As at 31 December 2020, the Group held a KShs 970 million management overlay relating to uncertainties as a result of the COVID-19 pandemic that are not captured by the model.

KShs 128 million of which relates to Corporate Institutional and Banking and Commercial Banking and KShs 842 million to Retail Banking. The overlay has been determined after taking account of the post model adjustment. The amount of loans placed on non-purely precautionary early alert increased significantly over 2020 as the impact of COVID-19 pandemic was evaluated on the Group's portfolio. However, the impact of the rapid deterioration in the economic environment in 2020 has not yet been fully observed in customers' financial performance. In part this has been due to ongoing government support measures and we have not yet seen a significant increase in the level of stage 3 loans relating to COVID-19 pandemic as at 31 December 2020. To take account of the heightened Credit Risk and the continuing uncertainties in the pace and timing of economic recovery, a judgmental overlay has been taken by estimating the impact of further deterioration to the non-purely precautionary early alert portfolio.

A number of components contribute to the judgmental overlay for Retail Banking. Within Business Banking, the Group has evaluated those sectors that have been adversely impacted by COVID-19 pandemic, both through internal credit processes as well as through a 'Voice of Customer' survey to understand how customers have been affected. The Group has also considered the extent to which lockdowns have impacted collections and recoveries, and the extent to which payment reliefs may mask underlying credit risks.

Sensitivity of expected credit loss calculation to macroeconomic variables

The ECL calculation relies on multiple variables and is inherently non-linear and portfolio-dependent, which implies that no single analysis can fully demonstrate the sensitivity of the ECL to changes in the macroeconomic variables. The Group has conducted a series of analyses with the aim of identifying the macroeconomic variables that might have the greatest impact on overall ECL. These encompassed single variable and multi-variable exercises, using simple up/down variation and extracts from actual calculation data, as well as bespoke scenario design and assessments. The primary conclusion of these exercises is that no individual macroeconomic variable is materially influential. The Group believes this is plausible as the number of variables used in the ECL calculation is large. This does not mean that macroeconomic variables are uninfluential; rather, that the Group believes that consideration of macroeconomics should involve whole scenarios, as this aligns with the multi-variable nature of the calculation.

Grouping of instruments for losses measured on a collective basis

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

Retail Banking segment

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

Recovery of unsecured debt post credit-impairment is recognised based on actual cash collected, either directly from clients or through the sale of defaulted loans to third-party institutions. Release of credit-impairment provisions for secured loans is recognised if the loan outstanding is paid in full (release of full provision), or the provision is higher than the loan outstanding (release of the excess provision).

If the loan is paid to current and remains in current for more than 180 days (1 year for forborne loans) the account will be transferred to stage 2. Where insufficient information is available for certain small retail portfolios for the Group and Company to assess lifetime ECL at individual instrument level, ECL may be measured on a collective basis that considers credit risk information on instrument groups that share similar credit risk characteristics.

Write-offs

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

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW CONTINUED

(a) Credit risk continued

(v) Expected credit loss measurement continued

Modified financial assets

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

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

Amounts arising from ECL

Loss allowance

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

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

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

Loans and advances to banks

	2020				2019			
Group and Company	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
KShs million								
At 1 January	3	-	-	3	2	-	-	2
New financial assets originated	21	-	-	21	22	-	-	22
Change in model risk parameters	(21)	-	-	(21)	(21)	-	-	(21)
At 31 December	3	-	-	3	3	-	-	3

Loans and advances to customers at amortised cost

Group and Company	2020				2019			
KShs million	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
At 1 January	757	651	6,436	7,844	1,000	1,078	7,130	9,208
Translation	3	32	62	97	1	(2)	(10)	(11)
Transfers to stage 1	158	(158)	-	-	832	(832)	-	-
Transfers to stage 2	(122)	130	(8)	-	(793)	848	(55)	-
Transfers to stage 3	-	(263)	263	-	-	(554)	554	-
New financial assets originated	547	-	-	547	867	-	-	867
Net re-measurement of loss allowance	(374)	1,111	2,486	3,223	(1,150)	113	738	(299)
Recoveries	-	-	(403)	(403)	-	-	(403)	(403)
Amounts written off	-	-	(1,750)	(1,750)	-	-	(1,041)	(1,041)
Discount unwind	-	-	(362)	(362)	-	-	(477)	(477)
At 31 December	969	1,503	6,724	9,196	757	651	6,436	7,844

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW CONTINUED

(a) Credit risk continued

(v) Expected credit loss measurement continued

Amounts arising from ECL continued

Loss allowance continued

Undrawn commitments

Group and Company	2020				2019			
KShs million	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
At 1 January	96	79	1	176	66	86	1	153
Transfers to stage 1	161	(161)	-	-	73	(73)	-	-
Transfers to stage 2	(46)	46	-	-	(70)	70	-	-
Transfers to stage 3	-	-	-	-	-	(1)	1	-
New financial assets originated	131	-	-	131	195	-	-	195
Net re-measurement of loss allowance	(248)	156	-	(92)	(163)	(2)	(1)	(166)
Write-offs	(26)	25	(1)	(2)	(5)	(1)	-	(6)
At 31 December	68	145	-	213	96	79	1	176

Investment securities[4]

	2020				2019			
Group	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
KShs million								
Balance at 1 January	322	-	-	322	287	-	-	287
Net re-measurement of loss allowance	12	-	-	12	35	-	-	35
At 31 December	334	-	-	334	322	-	-	322
Company								
Balance at 1 January	316	-	-	316	283	-	-	283
Net re-measurement of loss allowance	18	-	-	18	33	-	-	33
At 31 December	334	-	-	334	316	-	-	316

[4] FVOCI investment securities are held at fair value on the statement of financial position and the ECL provision is held within reserves.

(a) Credit risk continued

(v) Expected credit loss measurement continued

Amounts arising from ECL continued

Loss allowance continued

Amounts due from group companies

2020:	Stage 1	Stage 2	Stage 3	Total
Group and Company KShs million				
Balance at 1 January	9	-	-	9
Net charge to income statement	168	-	-	168
Balance at 31 December	177	-	-	177

2019:				
Balance at 1 January	5	-	-	5
Net charge to income statement	4	-	-	4
Balance at 31 December	9	-	-	9

The following table provides a reconciliation between:

- amounts shown in the above tables reconciling opening and closing balances of loss allowance per class of financial instrument; and
- the impairment losses of financial instruments' line item in the income statement and statement of other comprehensive income.

Group	Loans and advances to banks	Loans and advances to customers	FVOCI investment securities	Amounts due from group companies	Financial guarantees and loan commitments	Total
KShs million						
At 1 January 2020	3	7,844	322	9	176	8,354
Net charge to income statement	-	3,367	12	168	39	3,586
Translation	-	97	-	-	(2)	95
Write - offs	-	(1,750)	-	-	-	(1,750)
Discount unwind	-	(362)	-	-	-	(362)
At 31 December 2020	3	9,196	334	177	213	9,923
Company						
KShs million						
At 1 January 2020	3	7,844	316	9	176	8,348
Net charge to income statement	-	3,367	18	168	39	3,592
Translation	-	97	-	-	(2)	95
Write - offs	-	(1,750)	-	-	-	(1,750)
Discount unwind	-	(362)	-	-	-	(362)
At 31 December 2020	3	9,196	334	177	213	9,923

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW CONTINUED

(a) Credit risk continued

(v) Expected credit loss measurement continued

Amounts arising from ECL continued

Loss allowance continued

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

Company	Loans and advances to banks	Loans and advances to customers	FVOCI investment securities	Amounts due from group companies	Financial guarantees and loan commitments	Total
KShs million						
At 1 January 2019	2	9,208	283	5	153	9,651
Net charge to income statement	1	165	33	4	29	232
Translation	-	(11)	-	-	-	(11)
Write -offs	-	(1,041)	-	-	(6)	(1,047)
Discount unwind	-	(477)	-	-	-	(477)
At 31 December 2019	3	7,844	316	9	176	8,348

Other financial assets

Certain financial assets do not share the same characteristics as typical loan portfolios, hence specific ECL models' considerations apply to the following:

Cash and other assets

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

Debt securities

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

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.

The table below shows other financial assets financial assets that have not attracted ECL.

Group and Company	2020 KShs million	2019 KShs million
Cash and balances with Central Bank of Kenya	**20,619**	20,621
Government and other securities held at FVTPL	**4,949**	1,957
Derivative financial instruments	**739**	810

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW CONTINUED

(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 Country Recovery Plan (CRP) which addresses both Liquidity and Capital Crisis.

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 (TR). 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 High Quality Liquid Assets (HQLA), 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 and Solvency crisis management plans (CRP) are maintained by the Group and Company and are reviewed and approved annually. The liquidity and Capital/Solvency crisis management plan lays out trigger points and actions in the event of a liquidity and or Capital 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.

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW CONTINUED

(c) Liquidity risk continued

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

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

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

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

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

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

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

Company	2020 %	2019 %
At 31 December	72	63
Average for the year	68	68
Highest for the year	72	72
Lowest for the year	63	61

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	2020 KShs million	2019 KShs million
Loans and advances to customers	121,524	128,690
Deposits from customers	256,498	228,434
	%	%
Advances to deposits ratio	47	56

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW CONTINUED

(c) Liquidity risk continued

Group

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 (KShs million)

2020	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 ears	Over 5 years	Total
LIABILITIES						
Deposits from banks	454	-	-	-	-	454
Deposit from customers	232,396	7,135	16,930	744	8	257,213
Derivative financial instruments	648	-	-	-	-	648
Other financial liabilities – Bills payable	312	-	-	-	-	312
– Lease liability	-	-	134	395	-	529
Amounts due to group companies	3,663	-	1,092	6,552	-	11,307
At 31 December 2020	237,473	7,135	18,156	7,691	8	270,463

2019	Up to 1 month	1 – 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
LIABILITIES						
Deposits from banks	8,028	-	-	-	-	8,028
Deposit from customers	198,889	8,024	19,648	3,172	26	229,759
Derivative financial instruments	603	-	-	-	-	603
Other financial liabilities – Bills payable	685	-	-	-	-	685
– Lease liability	-	-	12	309	395	716
Amounts due to group companies	5,138	-	-	6,198	-	11,336
At 31 December 2019	213,343	8,024	19,660	9,679	421	251,127

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW CONTINUED

(c) Liquidity risk continued

Company

2020	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
LIABILITIES						
Deposits from banks	454	-	-	-	-	454
Deposit from customers	232,396	7,135	16,930	744	8	257,213
Derivative financial instruments	648	-	-	-	-	648
Other financial liabilities – Bills payable	312	-	-	-	-	312
– Lease liability	-	-	134	395	-	529
Amounts due to group companies	3,663	-	1,092	6,552	-	11,307
Amounts due to subsidiaries	-	-	1,033	-	-	1,033
At 31 December 2020	237,473	7,135	19,189	7,791	8	271,596

2019	Up to 1 month	1–3 months	3–12 months	1–5 years	Over 5 years	Total
LIABILITIES						
Deposits from banks	8,028	-	-	-	-	8,028
Deposit from customers	198,889	8,024	19,648	3,172	26	229,759
Derivative financial instruments	603	-	-	-	-	603
Other financial liabilities – Bills payable	685	-	-	-	-	685
– Lease liability	-	-	12	309	395	716
Amounts due to group companies	5,138	-	-	6,198	-	11,336
Amounts due to subsidiaries	-	-	769	-	-	769
At 31 December 2019	213,343	8,024	20,429	9,679	421	251,896

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.

(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.

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW CONTINUED

(d) Market risk continued

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

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

TRM co-ordinates the limit review process. Typically, the main limit review is concluded in the first two months of the year, and an additional, light touch review is performed at mid year, ordinarily to accommodate business changes that have occurred in the first half.

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

Sensitivity analysis

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

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

The Group and Company applies two VaR methodologies:

Historical simulation: involves the revaluation of all existing positions to reflect the effect of historically observed changes in market risk factors on the valuation of the current portfolio. This approach is applied for general market risk factors and the majority of specific (credit spread) risk VaR.

Monte Carlo simulation: this methodology is similar to historical simulation but with considerably more input risk factor observations. These are generated by random sampling techniques, but the results retain the essential variability and correlations of historically observed risk factor changes. This approach is applied for some of the specific (credit spread) risk VaR in relation to idiosyncratic exposures in credit markets.

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

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

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

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

Losses beyond the 97.5 per cent confidence interval are not captured by a VaR calculation, which therefore gives no indication of the size of unexpected losses in these situations. To manage the risk arising from such events, which the VaR methodology does not fully capture, Traded Risk (TR) complements the VaR measurement by weekly stress testing of market risk exposures to highlight the potential risk that may arise from extreme market events that are rare but plausible.

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

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW CONTINUED

(d) Market risk continued

Sensitivity analysis continued

One basis point change in the yield curve will have the following impact on the statement of financial position.

Group and Company

KShs million				
2020	**At 31 December**	**Average**	**High**	**Low**
Daily value at risk:				
Foreign exchange risk	**10**	**10**	**19**	**3**
Interest rate risk	**134**	**158**	**217**	**75**
Rates trading	**12**	**21**	**51**	**3**
Total	**156**	**189**	**287**	**81**
2019				
Daily value at risk:				
Foreign exchange risk	12	11	29	3
Interest rate risk	79	53	81	41
Rates trading	7	12	22	2
Total	98	76	132	46

(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.

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW CONTINUED

(d) Market risk continued

(i) Interest rate risk continued

Group
All figures are in Kenya Shillings (KShs million)
31 December 2020

	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	6.71	5,501	-	-	-	-	15,118	20,619
Government and other securities held at FVTPL	10.26	-	1,980	-	80	2,783	106	4,949
Derivative financial instruments	-	-	-	-	-	-	739	739
Loans and advances to banks	6.28	7,350	-	-	-	-	183	7,533
Loans and advances to customers	9.58	18,608	10,989	6,795	40,665	37,469	6,998	121,524
Investment securities	9.64	3,944	15,442	46,429	21,222	7,000	815	94,852
Other assets – uncleared effects	-	-	-	-	-	-	784	784
Amounts due from group companies	1.50	10,844	24,024	12,558	7,600	-	7,731	62,757
		46,247	52,435	65,782	69,567	47,252	32,474	313,757
LIABILITIES								
Deposits from banks	0.51	454	-	-	-	-	-	454
Deposits from customers	3.67	64,221	7,260	16,594	167	2	168,254	256,498
Derivative financial instruments	-	-	-	-	-	-	648	648
Other financial liabilities – Bills payable	-	-	-	-	-	-	317	317
Amounts due to group companies	0.30	-	-	1,092	4,368	2,184	3,565	11,209
		64,675	7,260	17,686	4,535	2,186	172,784	269,126
Interest rate sensitivity gap		(18,428)	45,175	48,096	65,032	45,066	(140,310)	44,631

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW CONTINUED

(d) Market risk continued

(i) Interest rate risk

Company
All figures are in Kenya Shillings (KShs million)
31 December 2020

	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	6.71	5,501	-	-	-	-	15,118	20,619
Government and other securities held at FVTPL	10.26	-	1,980	-	80	2,783	106	4,949
Derivative financial instruments	-	-	-	-	-	-	739	739
Loans and advances to banks	6.28	7,350	-	-	-	-	183	7,533
Loans and advances to customers	9.58	18,608	10,989	6,795	40,665	37,469	6,998	121,524
Investment securities	9.64	3,944	15,442	46,429	21,222	7,000	815	94,852
Other assets – uncleared effects	-	-	-	-	-	-	784	784
Amounts due from group companies	1.50	11,192	23,374	12,558	7,600	-	8,381	63,105
		46,595	51,785	65,782	69,567	47,252	33,124	314,105
LIABILITIES								
Deposits from banks	0.51	454	-	-	-	-	-	454
Deposits from customers	3.67	64,221	7,260	16,594	167	2	168,254	256,498
Derivative financial instruments	-	-	-	-	-	-	648	648
Other financial liabilities – Bills payable	-	-	-	-	-	-	317	317
Amounts due to group companies	0.30	-	-	1,092	4,368	2,184	3,565	11,209
		64,675	7,260	17,686	4,535	2,186	172,784	269,126
Interest rate sensitivity gap		(18,080)	44,525	48,096	65,032	45,066	(139,660)	44,979

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW CONTINUED

(d) Market risk continued

(i) Interest rate risk

Group
All figures are in Kenya Shillings (KShs million)
31 December 2019

	Weighted average effective interest rate (%)	Up to 1 month	1 – 3 months	3 - 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
ASSETS								
Cash and balances with Central Bank of Kenya	-	-	-	-	-	-	20,621	20,621
Government and other securities held at FVTPL	11.94	-	-	-	280	1,609	68	1,957
Derivative financial instruments	-	-	-	-	-	-	810	810
Loans and advances to banks	2.25	7,469	-	-	-	-	265	7,734
Loans and advances to customers	10.40	28,742	15,139	5,122	46,973	23,527	9,187	128,690
Investment securities	10.02	2,000	15,500	48,474	27,484	3,004	1,210	97,672
Other assets – uncleared effects	-	-	-	-	-	-	547	547
Amounts due from group companies	3.66	16,176	2,027	3,041	7,600	-	2,955	31,799
		54,387	32,666	56,637	82,337	28,140	35,663	289,830
LIABILITIES								
Deposits from banks	3.48	8,028	-	-	-	-	-	8,028
Deposits from customers	2.03	72,096	8,057	18,779	2,577	-	126,925	228,434
Derivative financial instruments	-	-	-	-	-	-	603	603
Other financial liabilities – Bills payable	-	-	-	-	-	-	685	685
Amounts due to group companies	1.93	-	-	-	4,054	2,027	5,041	11,122
		80,124	8,057	18,779	6,631	2,027	133,254	248,872
Interest rate sensitivity gap		(25,737)	24,609	37,858	75,706	26,113	(97,591)	40,958

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW CONTINUED

(d) Market risk continued

(i) Interest rate risk

Company
All figures are in Kenya Shillings (KShs million)
31 December 2019

	Weighted average effective interest rate (%)	Up to 1 month	1 – 3 months	3 - 12 months	1 – 5 years	Over 5 years	Non-interest bearing	Total
ASSETS								
Cash and balances with Central Bank of Kenya	-	-	-	-	-	-	20,621	20,621
Government and other securities held at FVTPL	11.94	-	-	-	280	1,609	68	1,957
Derivative financial instruments	-	-	-	-	-	-	810	810
Loans and advances to banks	2.25	7,469	-	-	-	-	265	7,734
Loans and advances to customers	10.40	28,742	15,139	5,122	46,973	23,527	9,187	128,690
Investment securities	10.02	2,000	15,500	48,474	27,484	2,986	102	96,546
Other assets – uncleared effects	-	-	-	-	-	-	547	547
Amounts due from group companies	3.66	16,175	2,027	3,041	7,600	-	4,275	33,118
		54,386	32,666	56,637	82,337	28,122	35,875	290,023
LIABILITIES								
Deposits from banks	3.48	8,028	-	-	-	-	-	8,028
Deposits from customers	2.03	72,096	8,057	18,779	2,577	-	126,925	228,434
Derivative financial instruments	-	-	-	-	-	-	603	603
Other financial liabilities – Bills payable	-	-	-	-	-	-	685	685
Amounts due to group companies	1.93	-	-	-	4,054	2,027	5,041	11,122
		80,124	8,057	18,779	6,631	2,027	133,254	248,872
Interest rate sensitivity gap		(25,738)	24,609	37,858	75,706	26,095	(97,379)	41,151

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 (KShs million)

31 December 2020	USD	Euro	GBP	Other	Total
ASSETS					
Cash, deposits and advances to banks	4,505	577	499	221	5,802
Loans and advances to customers	28,772	3,426	723	-	32,921
Other assets	2,387	1,290	677	443	4,797
Amounts due from group companies	45,902	4,315	3,828	448	54,493
	81,566	9,608	5,727	1,112	98,013
LIABILITIES					
Deposits from banks	178	16	-	-	194
Deposits from customers	77,954	8,259	5,473	426	92,112
Other liabilities	3,605	191	254	25	4,075
Amounts due to group companies	8,481	-	-	4	8,485
	90,218	8,466	5,727	455	104,866
Net statement of financial position exposure	(8,652)	1,142	-	657	(6,853)

31 December 2019	USD	Euro	GBP	Other	Total
ASSETS					
Cash, deposits and advances to banks	9,334	4,739	156	150	14,379
Loans and advances to customers	29,575	2,156	663	155	32,549
Other assets	2,101	78	125	29	2,333
Amounts due from group companies	18,686	199	3,768	618	23,271
	59,696	7,172	4,712	952	72,532
LIABILITIES					
Deposits from banks	32	49	-	2	83
Deposits from customers	59,767	5,916	4,588	286	70,557
Other liabilities	338	18	24	4	384
Amounts due to group companies	6,261	-	-	4	6,265
	66,398	5,983	4,612	296	77,289
Net statement of financial position exposure	(6,702)	1,189	100	656	(4,757)

Financial Statements

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 financial crime risk related due to mobile and internet banking external fraud events.

The Group's and Company's profile of operational loss events in 2020 and 2019 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	**2020**	2019
Agency services	**0.0**	0.0
Commercial Banking	**0.3**	1.9
Corporate Finance	**0.0**	0.0
Corporate items	**0.7**	0.6
Payments and settlements	**0.8**	26.4
Retail Banking	**98.2**	71.1
Retail brokerage	**0.0**	0.0
Trading and sales	**0.0**	0.0
	100.0	100.0

The Group's and Company's profile of operational loss events in 2020 and 2019 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	**2020**	2019
Business disruption and system failure	**0.7**	0.1
Clients' products and business practices	**1.4**	1.5
Employment practices and workplace safety	**0.0**	0.0
Execution, delivery and process management	**14.1**	67.4
External fraud	**83.8**	30.8
Internal fraud	**0.0**	0.2
	100.0	100.0

Other principal risks

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

Operational risk management principles

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

Roles and Responsibilities

The ORTF considers processes and tools that are forward-looking – they should be repeatable, sustainable and anticipate future needs. The first line, when formulating business strategy and planning, must consider and address Operational Risk 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.

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW CONTINUED

(e) Operational risk continued

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

The ORTF is periodically reviewed, at a minimum annually, or earlier if triggered by any material change in circumstances.

Mitigation

The ORTF sets out the Group and Company overall approach to the management of Operational Risk in line with the Operational Risk Appetite of the Group and Company. Risk appetite and scenarios are forward looking and are used strategically to help planning and business management. This is supported by Risk and Control Self-Assessment (RCSA) which is a top-down, complete and consistent approach to risks and controls management process.

The RCSA process involves objective assessments of risks based on client impact and likelihood, more focus on material risks, more thinking on control design rather than simply testing, and tools to allow the Company to prioritise actions.

When an operational risk event occurs, rapid escalation and root-cause reviews are tracked to completion. People are skilled and rewarded for good risk management behaviour. The data and system encourage good risk management behaviour. Second line independent review is risk-based and proportionate.

Operational risk governance

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

Monitoring

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

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

Stress testing

Stress testing and scenario analysis are used to assess capital requirements for operational

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

(f) Capital review

The Company defines capital risk as the potential of insufficient level or composition of capital to support our normal activities. The capital review provides an analysis of the Company's capital position and requirements.

Capital summary

The Company's capital position is managed within the Board approved risk appetite. This requires that the Company should maintain a strong capital position including the maintenance of management buffers sufficient to support its strategic aims.

Regulatory capital

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

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

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

4. FINANCIAL RISK MANAGEMENT AND CAPITAL REVIEW CONTINUED

(f) Capital review continued

Regulatory capital continued

In implementing current capital requirements, the Central Bank of Kenya requires a bank to maintain at all times:

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

In addition, a bank must maintain a minimum core capital of KShs 1,000 million.

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

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

Supplementary capital includes 25% of revaluation reserves of property and equipment and the statutory credit risk reserve.

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

Company	2020 KShs million	2019 KShs million
Core (Tier 1) capital instruments and reserves		
Share capital	**2,169**	1,998
Share premium	**7,792**	7,792
Retained earnings	**31,207**	27,129
Capital contribution reserve	**1,824**	1,824
	42,992	38,743
Tier 1 regulatory adjustments		
Goodwill on acquired intangible (Note 28)	**(1,112)**	(1,112)
Acquired intangible (Note 28)	**(184)**	(391)
Deferred tax asset	**(2,457)**	(1,538)
Core (Tier 1) capital	**39,239**	35,702
Supplementary (Tier 2) capital adjustments and reserves		
Revaluation reserves (25%)	**225**	183
Statutory credit risk reserve	**969**	1,477
Subordinated debt	**5,243**	5,676
Supplementary (Tier 2) capital	**6,437**	7,336
Total capital	**45,676**	43,038
Risk weighted assets		
Credit risk	**158,072**	153,966
Market risk	**24,465**	26,917
Operational risk	**64,713**	61,920
Total risk weighted assets	**247,250**	242,803
Deposits from customers	**256,498**	228,434

Capital ratios	CBK minimum	2020	2019
	%	**%**	%
Tier 1 capital	10.50	**15.87**	14.70
Total capital	14.50	**18.47**	17.73
Tier 1 to total deposits	8.00	**15.30**	15.63

Capital planning

On an annual basis, strategic business and capital plans are drawn up covering a five-year horizon, and are approved by the Board. The capital plan ensures that adequate levels of capital and an efficient mix of the different components of capital are maintained to support our strategy and business plans.

Capital planning takes the following into account:

- current regulatory capital requirements;
- demand for capital due to business growth, and potential market shocks or stresses;
- available supply of capital and capital raising options; and
- internal controls and governance for managing the Company's risk, performance and capital.

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

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

5. SEGMENTAL INFORMATION

The Group's segmental reporting is in accordance with IFRS 8 Operating Segments and is reported consistently with the internal performance framework and as presented to the Group's Management Team. The three client segments are Corporate & Institutional Banking, Commercial Banking and Retail Banking. Activities not directly related to a client segment are included in Central and 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 tax.

The analysis reflects how the client segments are managed internally. This is described as the Management view.

The segment results were as follows:

5. SEGMENTAL INFORMATION CONTINUED

Group

Income statement for the year ended 31 December 2020	Corporate & Institutional Banking KShs million	Commercial Banking KShs million	Retail Banking KShs million	Central and other items KShs million	Total KShs million
Net interest income	3,444	1,707	8,600	5,012	18,763
Non funded income	3,812	622	3,460	32	7,926
Operating income	7,256	2,329	12,060	5,044	26,689
Operating expenses	(4,637)	(1,811)	(8,977)	(282)	(15,707)
Impairment losses on financial instruments	(103)	(292)	(2,987)	(204)	(3,586)
Profit before tax	2,516	226	96	4,558	7,396

Income statement for the year ended 31 December 2019	Corporate & Institutional Banking KShs million	Commercial Banking KShs million	Retail Banking KShs million	Central and other items KShs million	Total KShs million
Net interest income	4,014	1,843	8,608	4,660	19,125
Non funded income	4,302	570	3,884	69	8,825
Operating income	8,316	2,413	12,492	4,729	27,950
Operating expenses	(5,065)	(1,720)	(8,198)	(559)	(15,542)
Impairment losses on financial instruments	632	(164)	(661)	(41)	(234)
Profit before tax	3,883	529	3,633	4,129	12,174

Company

Income statement for the year ended 31 December 2020	Corporate & Institutional Banking KShs million	Commercial Banking KShs million	Retail Banking KShs million	Central and other items KShs million	Total KShs million
Net interest income	3,444	1,707	8,600	4,982	18,733
Non funded income	3,812	622	2,197	686	7,317
Operating income	7,256	2,329	10,797	5,668	26,050
Operating expenses	(4,637)	(1,811)	(8,711)	(281)	(15,440)
Impairment losses on financial instruments	(103)	(292)	(3,014)	(183)	(3,592)
Profit before tax	2,516	226	(928)	5,204	7,018

Income statement for the year ended 31 December 2019	Corporate & Institutional Banking KShs million	Commercial Banking KShs million	Retail Banking KShs million	Central and other items KShs million	Total KShs million
Net interest income	4,014	1,843	8,608	4,529	18,994
Non funded income	4,302	570	2,875	1,362	9,109
Operating income	8,316	2,413	11,483	5,891	28,103
Operating expenses	(5,065)	(1,720)	(8,198)	(197)	(15,180)
Impairment losses on financial instruments	632	(164)	(661)	(39)	(232)
Profit before tax	3,883	529	2,624	5,655	12,691

5. SEGMENTAL INFORMATION CONTINUED

Group

Statement of financial position as at 31 December 2020	Corporate & Institutional Banking KShs million	Commercial Banking KShs million	Retail Banking KShs million	Central and other items KShs million	Total KShs million
Total assets employed	33,552	22,761	71,493	197,799	325,605
Of which: loans and advances to customers	27,293	22,750	71,481	-	121,524
Total liabilities employed	100,223	25,669	140,153	8,669	274,714
Of which: customer deposits	93,468	25,541	137,489	-	256,498
Other segment items:					
Depreciation and amortisation	470	127	675	236	1,508
Capital expenditure	68	57	976	584	1,685

Statement of financial position as at 31 December 2019	Corporate & Institutional Banking KShs million	Commercial Banking KShs million	Retail Banking KShs million	Central and other items KShs million	Total KShs million
Total assets employed	38,879	17,018	74,804	171,437	302,138
Of which: loans and advances to customers	36,926	16,997	74,767	-	128,690
Total liabilities employed	79,159	20,577	133,218	21,423	254,377
Of which: customer deposits	77,441	20,342	130,651	-	228,434
Other segment items:					
Depreciation and amortisation	362	110	553	263	1,288
Capital expenditure	300	57	1,034	765	2,156

Company

Statement of financial position as at 31 December 2020	Corporate & Institutional Banking KShs million	Commercial Banking KShs million	Retail Banking KShs million	Central and other items KShs million	Total KShs million
Total assets employed	33,552	22,761	71,483	198,077	325,873
Of which: loans and advances to customers	27,293	22,750	71,481	-	121,524
Total liabilities employed	100,223	25,669	140,153	9,612	275,657
Of which: customer deposits	93,468	25,541	137,489	-	256,498
Other segment items:					
Depreciation and amortisation	470	127	675	236	1,508
Capital expenditure	68	57	976	584	1,685

Statement of financial position as at 31 December 2019	Corporate & Institutional Banking KShs million	Commercial Banking KShs million	Retail Banking KShs million	Central an other items KShs million	Total KShs million
Total assets employed	38,879	17,018	74,782	171,615	302,294
Of which: loans and advances to customers	36,926	16,997	74,767	-	128,690
Total liabilities employed	79,159	20,577	133,217	22,121	255,074
Of which: customer deposits	77,441	20,342	130,651	-	228,434
Other segment items:					
Depreciation and amortisation	362	110	553	263	1,288
Capital expenditure	300	57	1,034	765	2,156

6. NET INTEREST INCOME

Accounting policy

Interest income for financial assets held at either FVOCI or amortised cost, and interest expense on all financial liabilities held at amortised cost is recognised in the income statement using the effective interest method.

Interest income and expense on financial instruments held at FVTPL is recognised within net interest income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the expected life of the instrument. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortised cost of a financial liability. When calculating the effective interest rate for financial instruments other than credit impaired assets, the Group estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but does not consider the expected credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs that are directly attributable to the acquisition, issue or disposal of the financial asset or financial liability, expected credit losses (for stage 3 instruments) and all other premiums or discounts.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

Where the Group is a lessee and the contract gives it the right to use a specified underlying physical asset for a lease term greater than 12 months, it recognises a liability equal to the present value of lease payments over the lease term, discounted using the incremental borrowing rate applicable. Interest expense on the lease liability is recognised in net interest income.

	2020		2019	
	Group KShs million	**Company KShs million**	Group KShs million	Company KShs million
Loans and advances to customers	**11,951**	**11,951**	12,937	12,937
Loans and advances to banks	**1,853**	**1,853**	1,262	1,262
FVOCI investment securities	**9,568**	**9,556**	10,137	10,025
FVTPL financial instruments	**-**	**-**	460	460
Accrued on impaired assets (Discount unwind)	**362**	**362**	477	477
Total interest income	**23,734**	**23,722**	25,273	25,161
Deposits from customers	**4,572**	**4,590**	5,503	5,522
Deposits from banks	**330**	**330**	568	568
Interest expense on IFRS 16 lease liabilities	**69**	**69**	77	77
Total interest expense	**4,971**	**4,989**	6,148	6,167
Net interest income	**18,763**	**18,733**	19,125	18,994

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 or significant act performed.

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

Loan syndication fees are recognised as revenue when the syndication has been completed and the Group has retained no part of the loan package for itself, or retained a part at the same effective interest rate for the other participants. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts as the related services are performed.

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

The Group can act in a fiduciary capacity that results in the holding of individual trust retirement benefit plans and other institutions. The assets and income arising thereon are excluded from these financial estimates as they are not assets and income of the Group.

The determination of the services performed for the customer, the transaction price, and when the services are completed depends on the nature of the product with the customer. The main considerations on income recognition by product are as follows:

Transaction Banking

The Group recognises fee income associated with transactional trade and cash management activities at the point in time the service is provided. The Group recognises income associated with trade contingent risk exposures (such as letters of credit and guarantees) and periodic custody activities over the period in which the service is provided. Payment of fees is usually received at the same time the service is provided. In some cases, letters of credit and guarantees issued by the Group have annual upfront premiums, which are amortised on a straight-line basis to fee income over the year.

Financial Markets and Corporate Finance

The Group recognises fee income at the point in time the service is provided. Fee income is recognised for a significant non-lending service when the transaction has been completed and the terms of the contract with the customer entitle the Group to the fee. Fees are usually received shortly after the service is provided. Syndication fees are recognised when the syndication is complete. Fees are generally received before completion of the syndication, or within 12 months of the transaction date. Fees are also received from custody services.

Wealth Management

Upfront consideration on bancassurance agreements is amortised on a straight-line basis over the contractual term. Commissions for bancassurance activities are recorded as they are earned through sales of third-party insurance products to customers. These commissions are received within a short time frame of the commission being earned. Target-linked fees are accrued based on a percentage of the target achieved, provided it is assessed as highly probable that the target will be met. Cash payment is received at a contractually specified date after achievement of a target has been confirmed. Upfront and trailing commissions for managed investment placements are recorded as they are confirmed. Income from these activities is relatively even throughout the period, and cash is usually received within a short time frame after the commission is earned.

Retail Products

The Group recognises most income at the point in time the Group is entitled to the fee, since most services are provided at the time of the customer's request. Credit card annual fees are recognised at the time the fee is received since, there are contractual circumstances under which fees are waived, so income recognition is constrained until the uncertainties associated with the annual fee are resolved. The Group defers the fair value of reward points on its credit and debit card reward programmes, and recognises income and costs associated with fulfilling the reward at the time of redemption.

	2020		2019	
	Group KShs million	**Company KShs million**	Group KShs million	Company KShs million
Fee and commission income	**5,538**	**4,275**	5,951	4,926
Fee and commission expense	**(1,006)**	**(1,006)**	(802)	(787)
Net fee and commission income	**4,532**	**3,269**	5,149	4,139

7. NET FEE AND COMMISSION INCOME CONTINUED

Group KShs million	2020 Corporate & Institutional Banking	2020 Commercial Banking	2020 Retail Banking	2020 Central and other items	2020 Total	2019 Corporate & Institutional Banking	2019 Commercial Banking	2019 Retail Banking	2019 Central and other items	2019 Total
Transaction banking	481	340	31	-	852	801	296	24	-	1,121
Trade	176	232	31	-	439	280	209	24	-	513
Cash management	305	108	-	-	413	521	87	-	-	608
Financial markets	1,214	-	-	-	1,214	1,287	-	-	-	1,287
Securities services	1,060	-	-	-	1,060	1,128	-	-	-	1,128
Other	154	-	-	-	154	159	-	-	-	159
Corporate finance	55	11	-	-	66	42	3	-	-	45
Lending	31	94	-	-	125	58	76	-	-	134
Wealth management	-	-	1,263	-	1,263	-	-	1,009	-	1,009
Retail products	-	-	1,004	-	1,004	-	-	1,501	-	1,501
Treasury	-	-	-	-	-	-	-	-	9	9
Others	6	2	-	-	8	43	-	-	-	43
	1,787	447	2,298	-	4,532	2,231	375	2,534	9	5,149
Company KShs million										
Transaction banking	481	340	31	-	852	801	296	24	-	1,121
Trade	176	232	31	-	439	280	209	24	-	513
Cash management	305	108	-	-	413	521	87	-	-	608
Financial markets	1,214	-	-	-	1,214	1,287	-	-	-	1,287
Securities services	1,060	-	-	-	1,060	1,128	-	-	-	1,128
Other	154	-	-	-	154	159	-	-	-	159
Corporate finance	55	11	-	-	66	42	3	-	-	45
Lending	31	94	-	-	125	58	76	-	-	134
Retail products	-	-	1,004	-	1,004	-	-	1,501	-	1,501
Treasury	-	-	-	-	-	-	-	-	8	8
Others	6	2	-	-	8	43	-	-	-	43
	1,787	447	1,035	-	3,269	2,231	375	1,525	8	4,139

8. NET TRADING INCOME

Accounting policy

Gains and losses arising from changes in the fair value of financial instruments held at FVTPL are included in the income statement in the period in which they arise.

Income is recognised from the sale and purchase of trading positions, margins on market making and customer business and fair value changes.

Foreign exchange gains and losses on monetary items are recognised in net trading income.

	2020 KShs million	2019 KShs million
Group and Company		
Gains less losses on foreign currency transactions	2,607	3,174
Other trading profits – FVTPL	723	441
	3,330	3,615

9. DIVIDEND INCOME

Accounting policy

Dividends from subsidiaries are recognised when the right to receive payment is established.

	2020 KShs million	2019 KShs million
Company		
Standard Chartered Investment Services Limited	544	1,008
Standard Chartered Insurance Agency Limited	80	286
	624	1,294

10. OTHER OPERATING INCOME

Accounting policy

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

On disposal of FVOCI financial instruments, the cumulative gain or loss recognised in other comprehensive income is recycled to the income statement in other operating income.

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

10. OTHER OPERATING INCOME CONTINUED

	2020 Group KShs million	2020 Company KShs million	2019 Group KShs million	2019 Company KShs million
Gains on disposal of FVOCI securities:				
- Government treasury bonds and bills	102	110	296	296
Fair value reserve reclassified from OCI	(78)	(60)	(261)	(261)
Expected credit loss on investments securities at FVOCI reclassified from OCI	(9)	(5)	(21)	(21)
Net gain on disposal of FVOCI securities	15	45	14	14
Rental income from operating leases	36	36	29	29
Gain/(loss) on sale of property and equipment	1	1	2	2
Profit on sale of motor vehicle	-	-	2	2
Gain on lease modification (Note 34)	12	12	-	-
Other	-	-	18	18
	64	94	61	61

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 2020 in respect of 2019 performance, which vest in 2021-2023, is recognised as an expense over the period from 1 January 2019 to the vesting dates in 2021-2023. 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 reporting date, the estimate of the number of options that are expected to vest is revised. The impact of the revision of original estimates, if any, is recognised in the income statement, and a corresponding adjustment to equity over the remaining vesting period. Forfeitures prior to vesting attributable to factors other than the failure to satisfy a non-market vesting condition are treated as a cancellation and the remaining unamortised charge is debited to the income statement at the time of cancellation.

Deferred cash awards: Cash-settled awards are revalued at each reporting date and a liability recognised on the statement of financial position 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.

11. OPERATING EXPENSES CONTINUED

Accounting policy continued

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 27.

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

	2020 Group KShs million	2020 Company KShs million	2019 Group KShs million	2019 Company KShs million
Salaries and wages	5,345	5,262	5,728	5,629
Contributions to defined contribution plan	622	613	621	611
Increase in retirement benefit obligations (Note 35)	57	57	57	57
Redundancy costs	1,349	1,342	289	289
Employee share-based payments expenses	7	7	26	26
Deferred cash awards	27	27	27	27
Other staff costs	450	446	663	658
	7,857	7,754	7,411	7,297

The number of employees at the year-end was:	2020 No.	2019 No.
Group and Company		
Management	1,079	1,133
Unionisable	146	205
Other	55	59
	1,280	1,397

Premises and equipment expenses

	2020 Group KShs million	2020 Company KShs million	2019 Group KShs million	2019 Company KShs million
Rental of premises	74	74	165	165
Rental of computers and equipment	142	142	144	144
Electricity	75	75	91	91
Premises restructuring expenses	367	367	-	-
Other premises and equipment expenses	272	268	295	291
	930	926	695	691

11. OPERATING EXPENSES CONTINUED

Premises and equipment expenses continued

Premises and equipment expenses relate to costs incurred on premises and equipment that do not qualify for capitalisation under the Group policy and are expensed as they are incurred.

Group and Company	2020 KShs million	2019 KShs million
Depreciation and amortisation		
Depreciation on property and equipment (Note 27)	715	639
Amortisation of intangible assets (Note 28)	793	649
	1,508	1,288

General administrative expenses

General administrative expenses mainly include recharges as disclosed in note 40 and other miscellaneous general administrative expenses.

12. PROFIT BEFORE TAX

	2020		2019	
Profit before tax is arrived at after charging:	Group KShs million	Company KShs million	Group KShs million	Company KShs million
Depreciation on property and equipment (Note 27)	715	715	639	639
Amortisation of intangible assets (Note 28)	793	793	649	649
Directors' emoluments - Fees	18	15	15	15
- Other	159	159	260	260
Loss on sale of property and equipment	-		2	2
Auditors remuneration	21	21	21	21
And after crediting:				
Gain on lease modification	12	12	1	1
Gain on sale of property and equipment	1	1	-	-
Profit on sale of motor vehicle	-	-	2	2

13. TAX

Accounting policy

Income tax expense comprises current and change in deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income. The Group has determined that interest and penalties related to income taxes do not meet the definition of income taxes and therefore has accounted for them under IFRIC 23 **Uncertainty Of Income Tax Treatments** and has recognised the related expenses in operating expenses.

(i) Current tax

Current tax comprises the expected tax payable or receivable on the taxable income for the year and any adjustment to the tax payable or receivable in respect of previous years. The amount of current tax payable or receivable is the best estimate of the tax amount expected to be paid or received having considered the uncertainty related to income taxes, if any. It is measured using tax rates enacted or substantively enacted at the reporting date.

(ii) Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

13. TAX CONTINUED

Accounting policy continued

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised .

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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.

(iii) Income tax

	2020		2019	
	Group KShs million	Company KShs million	Group KShs million	Company KShs million
Current year's tax at 25% (2019:30%)	2,825	2,585	3,611	3,354
Adjustment in respect of current income tax of prior years'	202	191	643	628
	3,027	2,776	4,254	3,982
Deferred tax credit at 30% (Note 29)	(1,072)	(1,086)	(317)	(280)
Income tax expense	1,955	1,690	3,937	3,702

Financial Statements

13. TAX CONTINUED

(iii) Income tax continued

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

	2020 Group KShs million	2020 Company KShs million	2019 Group KShs million	2019 Company KShs million
Accounting profit before tax	7,396	7,018	12,174	12,691
Computed tax using the applicable				
corporation tax rate at 25%(2019:30%)*	1,849	1,755	3,652	3,807
Tax exempt income	(117)	(272)	(54)	(443)
Non-deductible expenses	180	177	304	304
Adjustment in respect of deferred tax of prior years	24	24	(608)	(594)
Adjustment in respect of				
current income tax of prior years	202	191	643	628
Effects of change in rate of tax*	(183)	(185)	-	-
Income tax expense	1,955	1,690	3,937	3,702

	2020 Group KShs million	2020 Company KShs million	2019 Group KShs million	2019 Company KShs million
(iii) Tax recoverable				
At 1 January	1,091	1,026	329	351
Current year tax expense	(2,825)	(2,585)	(3,611)	(3,354)
Adjustment in respect of current income tax of prior years	(202)	(191)	(643)	(628)
Income taxes paid	2,377	2,090	5,016	4,657
At 31 December	441	340	1,091	1,026

*For the year ended 31 December 2020, the corporation tax was reduced from 30% to 25%, as part of the COVID-19 pandemic relief measures put in place by the Kenya Government. Corporation tax for the year has been computed at 25%.

The 30% corporation tax rate was reinstated with effect from 1 January 2021. As a consequence, deferred tax has been computed at 30%, this being the rate that the deferred tax assets and liabilities would be expected to crystallise at.

14. EARNINGS PER ORDINARY SHARE

Accounting policy

The Group measures earnings per share on the profit or loss attributable to ordinary equity holders. Where the number of ordinary or potential ordinary shares outstanding increases as a result of a capitalisation, bonus issue or share split, or decreases as a result of a reverse share split, the calculation of basic and diluted earnings per share for all periods presented shall be adjusted retrospectively.

The calculation of Group basic earnings per share at 31 December 2020 and 2019 is based on the profit attributable to ordinary shareholders of KShs 5,273 million (2019 – KShs 8,069 million) and a weighted average number of ordinary shares outstanding during the year of 377,850,589 (2019 adjusted– 377,850,589).

The calculation of Company basic earnings per share at 31 December 2020 and 2019 is based on the profit attributable to ordinary shareholders of KShs 5,160 million (2019 – KShs 8,821 million) and a weighted average number of ordinary shares outstanding during the year of 377,850,589 (2019 adjusted – 377,850,589).

14. EARNINGS PER ORDINARY SHARE CONTINUED

Accounting policy continued

	2020 Group KShs million	2020 Company KShs million	2019 Group KShs million	2019 Company KShs million
Profit attributable to ordinary shareholders:				
Profit for the year	5,441	5,328	8,237	8,989
Dividend on non-redeemable, non-cumulative, non-voting, non-participating and non-convertible preference shares	(168)	(168)	(168)	(168)
	5,273	5,160	8,069	8,821
Basic earnings per share (KShs) (2019 adjusted)	13.95	13.66	21.36	23.35

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	2020 KShs million	2019 KShs million
Dividends – Ordinary shares	3,967	5,152
Dividends – Preference shares	168	85
	4,135	5,237

The movement in dividend is as follows:	2020 KShs million	2019 KShs million
At 1 January	5,237	4,894
Dividend proposed		
Ordinary shares	3,967	5,152
Preference shares	168	85
Dividend paid		
Ordinary shares	(2,576)	(4,809)
Preference shares	(85)	(85)
Dividend adjustment	(2,576)	-
At 31 December	4,135	5,237

15. DIVIDEND CONTINUED

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

On 19 March 2020, the directors announced a recommendation for shareholder approval to pay a final dividend of KShs 15.00 per ordinary share of KShs 5.00, in respect of the year ended 31 December 2019. Before the shareholder approval was obtained, the directors, considering the events that had taken place since the recommendation, particularly the rapidly unfolding economic crisis that came out of the COVID-19 pandemic, decided to vary its recommendation and instead recommended to the shareholders the payment of a final dividend for the year ended 31 December 2019 of KShs 7.50 for every ordinary share of KShs 5.00.

At the Annual General Meeting to be held on 27 May 2021, a first and final dividend in respect of the year ended 31 December 2020 of KShs10.50 (2019 – KShs 12.50) per ordinary share of KShs 5.00 is to be proposed.

At the Annual general Meeting to be held on 27 May 2021, a first and final dividend in respect of the year ended 31 December 2020 of KShs 168,000,000 (2019 – KShs 168,000,000) for the preference shares is to be proposed.

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 15% 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	2020 KShs million	2019 KShs million
Cash on hand	**3,675**	3,288
Balances with Central Bank of Kenya:		
– Restricted balances (Cash Reserve Ratio)	**11,184**	11,878
– Unrestricted balances	**5,760**	5,455
	20,619	20,621

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 2020, the Cash Reserve Ratio requirement was 4.25% (2019 – 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 4.25% (2019:5.25%).

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 2020	Treasury bonds KShs million	Treasury bills KShs million	Equity shares KShs million	Total KShs million
At 1 January	**1,939**	**-**	**18**	**1,957**
Additions	**21,425**	**2,000**	**-**	**23,425**
Disposals and maturities	**(20,526)**	**-**	**-**	**(20,526)**
Translation difference	**-**	**-**	**4**	**4**
Changes in fair value	**109**	**(20)**	**-**	**89**
At 31 December	**2,947**	**1,980**	**22**	**4,949**
2019				
At 1 January	2,323	1,614	19	3,956
Additions	14,079	-	-	14,079
Disposals and maturities	(14,425)	(1,614)	-	(16,039)
Translation difference	-	-	(1)	(1)
Changes in fair value	(38)	-		(38)
At 31 December	1,939	-	18	1,957

The weighted average effective interest rate on government securities mandatorily held at FVTPL at 31 December 2020 was 10.26% (2019 – 11.94%)

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.

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.

18. DERIVATIVE FINANCIAL INSTRUMENTS CONTINUED

Group and Company

	2020			2019		
	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	**2,989**	**739**	**648**	1,726	810	603
Forward exchange contracts	**52,680**	**-**	**-**	76,928	-	-
	55,669	**739**	**648**	78,654	810	603

19. LOANS AND ADVANCES TO BANKS

Accounting policy

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

Group and Company	2020 KShs million	2019 KShs million
Loans and advances to local banks	**7,360**	7,583
Loans and advances to foreign banks	**176**	154
	7,536	7,737
Less credit loss allowance (Note 4 (a) (v))	**(3)**	(3)
	7,533	7,734

The weighted average effective interest rate on loans and advances to banks at 31 December 2020 was 6.28% (2019 – 2.25%).

20. LOANS AND ADVANCES TO CUSTOMERS

Accounting policy

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

Group and Company	2020 KShs million	2019 KShs million
(a) Product classification		
Overdrafts	**28,164**	25,268
Loans	**102,338**	111,005
Bills discounted	**218**	261
Gross loans and advances	**130,720**	136,534
Less loss allowance (Note 4(a) (v)), (Note 20(c))	**(9,196)**	(7,844)
Net loans and advances	**121,524**	128,690

20. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

Group and Company	2020 KShs million	2019 KShs million
(b) Maturity term classification		
Repayable on demand	33,469	30,337
Less than 3 months	13,842	17,146
3 months to 1 year	6,918	5,102
1 to 5 years	42,281	46,981
5 to 10 years	13,496	14,834
Over 10 years	20,714	22,134
Gross loans and advances	**130,720**	136,534

The weighted average effective interest rate on loans and advances to customers at 31 December 2020 was 9.58%(2019 – 10.40%).

(c) Impairment losses on loans and advances

Group and Company

2020	Stage 1 KShs million	Stage 2 KShs million	Stage 3 KShs million	Total KShs million
At 1 January	**757**	**651**	**6,436**	**7,844**
Translation	**3**	**32**	**62**	**97**
Transfers	**36**	**(291)**	**255**	**-**
Net (credit)/charge to income statement	**173**	**1,111**	**2,486**	**3,770**
Recoveries	**-**	**-**	**(403)**	**(403)**
Amounts written off	**-**	**-**	**(1,750)**	**(1,750)**
Discount unwind	**-**	**-**	**(362)**	**(362)**
At 31 December	**969**	**1,503**	**6,724**	**9,196**

2019	Stage 1 KShs million	Stage 2 KShs million	Stage 3 KShs million	Total KShs million
At 1 January	1,000	1,078	7,130	9,208
Translation	1	(2)	(10)	(11)
Transfers	39	(538)	499	-
Net (credit)/charge to income statement	(283)	113	738	568
Recoveries	-	-	(403)	(403)
Amounts written off	-	-	(1,041)	(1,041)
Discount unwind	-	-	(477)	(477)
At 31 December	757	651	6,436	7,844

20. LOANS AND ADVANCES TO CUSTOMERS CONTINUED

(d) Net impairment charge on financial instruments:

The table below summarises the net impairment charge to the income statement against the financial instruments subject to impairment:

	2020		2019	
	Group KShs million	Company KShs million	Group KShs million	Company KShs million
Loans and advances to customers	3,367	3,367	165	165
Loans and advances to banks	-	-	1	1
Amounts due from group companies	168	168	4	4
FVOCI investment securities	12	18	35	33
Financial guarantees and loan commitments	39	39	29	29
	3,586	3,592	234	232

21. GOVERNMENT SECURITIES HELD AT FVOCI

Accounting policy

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

	2020		2019	
Group	Group KShs million	Company KShs million	Group KShs million	Company KShs million
Treasury bonds - FVOCI	42,591	42,591	41,576	40,450
Treasury bills - FVOCI	52,261	52,261	56,096	56,096
	94,852	94,852	97,672	96,546

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

	2020		2019	
	Group KShs million	Company KShs million	Group KShs million	Company KShs million
At 1 January	97,672	96,546	94,749	93,745
Additions	77,024	77,024	74,956	74,397
Disposals and maturities	(84,900)	(83,815)	(77,216)	(76,763)
Changes in fair value	432	377	(349)	(331)
Fair value recycled through income statement	(78)	(60)	(261)	(261)
Movement in accrued interest	106	134	196	188
Translation differences	-	-	-	-
Amortisation of discounts and premiums	4,596	4,646	5,597	5,571
At 31 December	94,852	94,852	97,672	96,546

21. GOVERNMENT SECURITIES HELD AT FVOCI CONTINUED

The weighted average effective interest rate on treasury bonds at 31 December 2020 was 9.86% (2019 – 11.88%) and on treasury bills was 8.36% (2019 – 9.30%).

There were no treasury bills under repurchase agreements outstanding at 31 December 2020 and 2019. There were no money market bonds as at 31 December 2020 (2019 – nil).

At 31 December 2020, unamortised premiums on investment securities amounted to KShs 250 million (2019 – KShs 220 million) and unamortised discounts amounted to KShs 2,067 million (2019 – KShs 2,267 million) .

22. OTHER ASSETS

Accounting policy

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

	2020		2019	
	Group KShs million	Company KShs million	Group KShs million	Company KShs million
Un-cleared effects	784	784	547	547
Prepayments	232	232	219	219
Other receivables	1,760	1,719	2,731	2,721
	2,776	2,735	3,497	3,487

23. GROUP COMPANY BALANCES

Accounting policy

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

	2020		2019	
	Group KShs million	Company KShs million	Group KShs million	Company KShs million
Amounts due from group companies	62,934	63,282	31,808	33,127
Less loss allowance (Note 4(a)(v))	(177)	(177)	(9)	(9)
	62,757	63,105	31,799	33,118
Amounts due to group companies	11,209	11,209	11,122	11,122
Amounts due to subsidiaries	-	958	-	715

Included in amounts due to group companies is an amount of US$60 million (KShs 6,564 million) (2019 – US$ 60 million (KShs 6,097 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.

23. GROUP COMPANY BALANCES CONTINUED

The subordinated debts are unguaranteed and subordinated to the claims of other creditors including without limitation, customer deposits and deposits by banks. The Company has the obligation 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 2020 on the subordinated debts was 4.5.% (2019 – 4.86%). The Company is assessing the impact of the IBR reforms.

The weighted average effective interest rate at 31 December 2020 on amounts due from group companies was 3.66% (2019 – 3.66%) and on amounts due to group companies was 5.54% (2019 – 1.93%).

Amounts due to subsidiaries relate to cash held in current and term deposit accounts on behalf of the Company's subsidiaries. The weighted average effective interest rate on the term deposits was 7.00% (2019 – 7.00%).

24. INVESTMENT IN SUBSIDIARY UNDERTAKINGS

Accounting policy

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

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

The following subsidiaries are wholly owned by the Company:

	Status	2020 KShs million	2019 KShs million
Company			
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 amount of investments for Standard Chartered Kenya Nominees Limited are below KShs 1,000,000.

All the subsidiaries are incorporated in Kenya. The group has assessed the investment in subsidiaries for impairment and have determined that the investment is not impaired (2019 - nil).

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 28.

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

In addition to the purchase price paid by SCBKL, Standard Chartered PLC paid GBP £14,133,404 (KShs 1,824 million) in respect of the value that BBKL's custody clients provide across the Pan-African network covered by the Barclays Bank PLC's Africa custody business as a whole. This represents the value deemed to arise as a result of revenue streams from regional and global customer relationships acquired. In effect, the purchase price paid for by Standard Chartered PLC is deemed to be a capital contribution.

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

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.

25. BUSINESS COMBINATION CONTINUED

Accounting policy continued

The intangible asset arising from the acquisition is as follows:

Group and Company

	KShs million
Purchase consideration:	
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 28)	1,112

Contribution from the acquisition:	2020 KShs million	2019 KShs million
Operating income	2,012	2,251
Profit before tax	1,620	1,857

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. NON-CURRENT ASSET HELD FOR SALE

Accounting policy

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. For classification as non-current asset held for sale, the following criteria must be met;

- the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable;
- appropriate level of management must be committed to a plan to sell the asset;
- an active programme to locate a buyer and complete the plan must have been initiated;
- the asset actively marketed for sale at a price that is reasonable in relation to its current fair value; and
- the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification,

Immediately before classification as held for sale, the assets, or components of a disposal group, are re-measured in accordance with the Group's accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

For non-financial assets, fair value takes into account the highest and best use either on a standalone basis or in combination with other assets or other assets and liabilities. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to financial assets, deferred tax assets and employee benefit assets which continue to be measured in accordance with the Group's accounting policies.

Non-current assets held for sale are not depreciated or amortised. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale shall continue to be recognised.

Group and Company	Freehold land and buildings KShs million
At 1 January	-
Transfer from property and equipment (Note 27)	222
At 31 December	222

The outstanding balance of the non-current asset held for sale relates to Treasury Square Limited located at Mombasa Island. This is freehold property classified as commercial property and gazetted as a Heritage site.

The property has been placed on the market with the sale expected within the 2021 financial year.

The asset of KShs 222 million (2019 –Nil) is classified under the Central and other items portion of the operating segment report in Note 5.

27. 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 reporting 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. In addition, the depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the asset, the method shall be changed to reflect the changed pattern.

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

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

Leasehold land is recognised as an asset and amortised over the lease period.

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

- buildings on freehold land – up to 50 years;
- buildings on leasehold land – life of lease up to 50 years;
- Leasehold land – life of lease;
- fixtures, fittings and equipment – 3-10 years;
- automated teller machines (ATMs) – 7 years;
- computers – 3 - 5 years; and
- motor vehicles – 3 years.

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

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

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

Revaluation surpluses are not distributable.

27. PROPERTY AND EQUIPMENT CONTINUED

Accounting policy continued

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

Non-depreciable items

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

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

Derecognition

The carrying amount of an item of property and equipment shall be derecognised:

- on disposal; or
- when no future economic benefits are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property and equipment shall be included in the income statement when the item is derecognised.

Leases classified as right-of-use assets under IFRS 16

Where the Group is a lessee of a right-of-use asset, the leased assets are capitalised and included in Property and equipment with a corresponding liability to the lessor recognised in Other liabilities, in accordance with the Group's leased assets accounting policy in Note 34.

Significant accounting estimates and judgments

- critical estimates are made by management in determining the useful life for property and equipment; and
- certain items of property and equipment are measured at revalued amounts. The fair value is determined based on the market and cost approaches using quoted market prices for similar items when available and replacement cost when appropriate.

PAGE INTENTIONALLY LEFT BLANK

27. PROPERTY AND EQUIPMENT CONTINUED

Group and Company	Freehold land and buildings KShs million	Buildings on leasehold land KShs million	Right-of-use asset-leasehold land KShs million	Fixtures, fittings and equipment KShs million	Motor Vehicles KShs million	Capital- work-in progress KShs million	Right-of-use asset-non-land leases KShs million (Note 34)	Total KShs million
Cost or valuation:								
At 1 January 2020	250	1,465	278	5,657	28	244	826	8,748
Additions	-	-	-	397	-	36	148	581
Transfers	-	-	-	90	-	(90)	-	-
Transfer to non-current assets held for sale (Note 26)	(230)	-	-	-	-	-	-	(230)
Disposals/write-offs	-	-	-	(206)	-	-	(286)	(492)
Revaluation (deficit) / surplus	(20)	211	-	-	-	-	-	191
At 31 December 2020	-	1,676	278	5,938	28	190	688	8,798
Depreciation								
At 1 January 2020	7	44	43	4,571	16	-	173	4,854
Transfer to non-current assets held for sale (Note 26)	(8)	-	-	-	-	-	-	(8)
Depreciation written back on revaluation	-	(58)	-	-	-	-	-	(58)
Charge for the year	1	20	3	497	5	-	189	715
Disposals/write-offs	-	-	-	(194)	-	-	(145)	(339)
At 31 December 2020	-	6	46	4,874	21	-	217	5,164
Carrying amount: At 31 December 2020	-	1,670	232	1,064	7	190	471	3,634

Group and Company	Freehold land and buildings KShs million	Buildings on leasehold land KShs million	Right-of-use asset-leaseholdland KShs million	Fixtures, fittings and equipment KShs million	Motor Vehicles KShs million	Capital- work-in progress KShs million	Right-of-use asset-non-land leases KShs million(Note 34)	Total KShs million
Cost or valuation:								
At 1 January 2019	250	1,465	-	5,391	20	218	-	7,344
Recognition of right-of-use asset on initial application of IFRS 16	-	-	278	-	-	-	655	933
Adjusted balance at 1 January 2019	250	1,465	278	5,391	20	218	655	8,277
Additions	-	-	-	213	16	172	204	605
Transfers	-	-	-	146	-	(146)	-	-
Disposals/write-offs	-	-	-	(93)	(8)	-	(33)	(134)
At 31 December 2019	250	1,465	278	5,657	28	244	826	8,748
Depreciation								
At 1 January 2019	4	25	-	4,224	20	-	-	4,273
Recognition of right-of-use asset on initial application of IFRS 16	-	-	40	-	-	-	-	40
Adjusted balance at 1 January 2019	4	25	40	4,224	20	-	-	4,313
Charge for the year	3	19	3	434	4	-	176	639
Disposals/write-offs	-	-	-	(87)	(8)	-	(3)	(98)
At 31 December 2019	7	44	43	4,571	16	-	173	4,854
Carrying amount: At 31 December 2019	243	1,421	235	1,086	12	244	653	3,894

27. PROPERTY AND EQUIPMENT CONTINUED

Included in property and equipment at 31 December 2020 are assets with a gross value of KShs 2,556 million (2019 – KShs 2,420 million) which are fully depreciated but still in use. The notional depreciation charge on these assets for the year would have been KShs 902 million (2019 – KShs 858 million).

There were no idle assets as at 31 December 2020 and 2019.

Capital work-in-progress relates to the branch optimisation project that was ongoing during the year.

Freehold land and buildings were revalued on an open market basis by professional valuers, Legend valuers Limited and Joe Musyoki Consultants as at 30 September 2020. 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 2020.

There were no capitalised borrowing costs related to the acquisition of property and equipment during the year ended 31 December 2020 (2019 – Nil).

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

	2020 KShs million	2019 KShs million
Cost	**616**	647
Accumulated depreciation	**(155)**	(150)
Carrying amount	**461**	497

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.

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.

The table below summarises the assumptions made in the revaluation of the property.

	Valuation technique	Significant unobservable inputs	Range (weighted average)	Sensitivity of the input to fair value
Kenyatta Avenue Branch	Market Comparable Approach	estimated market rental value	KShs 38 million per year	5% increase or decrease would result in an increase/(decrease) in fair value of KShs 24 million.
Standard Chartered@ Chiromo	-Cost approach -sale comparable approach -Investment approach	estimated market rental value	KShs 196 million per year	5% increase or decrease would result in an increase/(decrease) in fair value of KShs 138 million.
Nyeri Branch	-Depreciated replacement cost approach market comparison approach Income approach	Market comparable prices	KShs 175 million to KShs 193 million	5% increase or decrease would result in an increase/(decrease) in fair value of KShs 8.5 million.
Nanyuki Branch	Depreciated replacement cost approach market comparison approach Income approach	Market comparable prices	KShs 18 million to KShs 50 million	5% increase or decrease would result in an increase/(decrease) in fair value of KShs 1 million.

28. 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 reporting 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).

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Additional details on impairment of goodwill are in Note 2.

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 statement of financial position is impaired. The estimation of future cash flows and the level to which they are discounted is inherently uncertain and requires significant judgment.

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.

Acquired intangibles and computer software

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. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

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.

The useful lives of intangible assets are assessed as either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss in the expense category that is consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss.

28. GOODWILL AND INTANGIBLE ASSETS CONTINUED

Group and Company

	2020				2019			
	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	2,335	7,154	3,707	1,112	784	5,603
Additions	-	-	1,104	1,104	-	-	1,551	1,551
Disposal	-	-	(25)	(25)	-	-	-	-
At 31 December	3,707	1,112	3,414	8,233	3,707	1,112	2,335	7,154
Amortisation								
At 1 January	3,316	-	1,106	4,422	3,084	-	689	3,773
Charge for the year	207	-	586	793	232	-	417	649
Disposal	-	-	(5)	(5)	-	-	-	-
At 31 December	3,523	-	1,687	5,210	3,316	-	1,106	4,422
Carrying amount: At 31 December	184	1,112	1,727	3,023	391	1,112	1,229	2,732

As at 31 December 2020, assets with a gross value of KShs 798 million (2019 – KShs 672 million) are fully amortised but still in use. The notional amortisation charge for the year on these assets would have been KShs 266 million (2019 – KShs 224 million).

There were no idle assets as at 31 December 2020 and 2019.

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 (2019 - 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 2020 was determined similarly as in 2019. The calculation of the value in use was based on the following key assumptions:

- cash flows were projected based on past experience, actual operating results and budgets and forecasts approved by management up to 2018. Management forecasts projected revenue growth rates greater than long-term Gross Domestic Product (GDP) growth rates but which are in line with past performance as adjusted to reflect current economic climate and any known business cycles. Cash flow projections were extrapolated forward up to 2021 using steady long-term estimated GDP growth rates.
- the cash flows were discounted using a pre-tax discount rate of 17.50% which reflected the prevailing market rates appropriate for this business on the date of the transaction.

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

29. DEFERRED TAX

Accounting policy

Refer to Note 13 Tax for the accounting policy.

The net deferred tax assets at 31 December 2020 and 2019 are attributable to the following:

Group 2020:	At 1 January KShs million	Recognised in the income statement current year KShs million	Recognised in other comprehensive income KShs million	At 31 December KShs million
Property and equipment				
- current year	129	60	-	189
- adjustment in respect to deferred tax in prior years	(20)	20	-	-
Acquired intangible asset	(117)	62	-	(55)
ECL on stage 1 and 2 financial instruments	506	448	-	954
ECL on stage 3 financial instruments	293	99	-	392
Revaluation surplus	(272)	4	(72)	(340)
Fair value reserve - FVOCI	(291)	-	(106)	(397)
Accrued interest	206	(71)	-	135
Other provisions				
- current year	499	1,114	(4)	1,609
- adjustment in respect to deferred tax in prior years	628	(628)	-	-
Retirement benefit obligations	80	(36)	5	49
	1,641	1,072	(177)	2,536

Company 2020:	At 1 January KShs million	Recognised in the income statement current year KShs million	Recognised in other comprehensive income KShs million	At 31 December KShs million
Property and equipment				
- current year	36	74	-	110
- adjustment in respect to deferred tax in prior years	(20)	20	-	-
Acquired intangible asset	(117)	62	-	(55)
ECL on stage 1 and 2 financial instruments	506	448	-	954
ECL on stage 3 financial instruments	293	99	-	392
Revaluation surplus	(272)	4	(72)	(340)
Fair value reserve	(302)	-	(95)	(397)
Accrued interest	206	(71)	-	135
Other provisions				
- current year	514	1,100	(5)	1,609
- adjustment in respect to deferred tax in prior years	614	(614)	-	-
Retirement benefit obligations	80	(36)	5	49
	1,538	1,086	(167)	2,457

29. DEFERRED TAX CONTINUED

Group 2019:	At 1 Januar KShs million	Recognised in the income statement current year KShs million	Recognised in other comprehensive income KShs million	At 31 December KShs million
Property and equipment				
- current year	30	99	-	129
- prior year over provision	-	(20)	-	(20)
Acquired intangible asset	(187)	70	-	(117)
ECL on stage 1 and 2 financial instruments	793	(287)	-	506
ECL on stage 3 financial instruments	661	(368)	-	293
Revaluation surplus	(276)	4	-	(272)
Fair value reserve - FVOCI	(474)	-	183	(291)
Accrued interest	192	14	-	206
Other provisions				
- current year	340	169	(10)	499
- prior year over provision	-	628	-	628
Retirement benefit obligations	65	8	7	80
	1,144	317	180	1,641

Company 2019:	At 1 January KShs million	Recognised in the income statement current year KShs million	Recognised in other comprehensive income KShs million	At 31 December KShs million
Property and equipment				
- current year	(25)	61	-	36
- prior year over provision	-	(20)	-	(20)
Acquired intangible asset	(187)	70	-	(117)
ECL on stage 1 and 2 financial instruments	793	(287)	-	506
ECL on stage 3 financial instruments	661	(368)	-	293
Revaluation surplus	(276)	4	-	(272)
Fair value reserve	(480)	-	178	(302)
Accrued interest	192	14	-	206
Other provisions				
- current year	340	184	(10)	514
- prior year over provision	-	614	-	614
Retirement benefit obligations	65	8	7	80
	1,083	280	175	1,538

30. DEPOSITS FROM BANKS

Accounting policy

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

Group and Company	2020 KShs million	2019 KShs million
Balances from local banks	**165**	7,818
Balances from foreign banks	**289**	210
	454	8,028

The weighted average effective interest rate on deposits from banks at 31 December 2020 was 3.48% (2019 – 3.48%).

31. DEPOSITS FROM CUSTOMERS

Accounting policy

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

Group and Company	2020 KShs million	2019 KShs million
(a) Maturity profile		
Payable on demand	**232,383**	189,453
Payable within 3 months or less	**7,073**	17,349
Payable after 3 months	**17,042**	21,632
	256,498	228,434
(b) Product classification		
Current and demand accounts	**188,934**	155,531
Savings deposits	**28,590**	30,582
Time deposits	**31,881**	40,983
Other	**7,093**	1,338
	256,498	228,434

The weighted average effective interest rate on interest bearing deposits from customers at 31 December 2020 was 4.60% (2019 – 2.03%).

32. OTHER LIABILITIES

Accounting policy

Refer to Note 3 Financial instruments for the accounting policy.

	2020		2019	
	Group KShs million	Company KShs million	Group KShs million	Company KShs million
Financial liabilities at amortised cost				
Bills payable	**317**	**317**	685	685
Non – financial liabilities				
Dividends payable	**262**	**262**	412	412
ECL on undrawn commitments	**213**	**213**	176	176
Lease liability	**529**	**529**	716	716
Other trade payables	**4,420**	**4,405**	3,934	3,916
	5,424	**5,409**	5,238	5,220
	5,741	**5,726**	5,923	5,905

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.

(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:

Group and Company	2020 KShs million	2019 KShs million
Guarantees and standby letters of credit	**55,574**	45,625
Letters of credit, acceptances and other documentary credits	**10,462**	6,594
	66,036	52,219

33. CONTINGENT LIABILITIES AND COMMITMENTS CONTINUED

Nature of contingent liabilities

Guarantees are generally written by a bank to support performance by a customer to third parties. The Company will only be required to meet these obligations in the event of the customer's default.

Letters of credit commit the Company to make payment to third parties, on production of documents, which are subsequently reimbursed by customers.

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Company expects most acceptances to be presented and reimbursement by the customer is almost immediate.

(b) Legal and regulatory matters

Accounting policy

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

Four of the significant claims are described below:

(i) In the ordinary course of business, the Company is a defendant in a case in which a former customer was awarded damages amounting to KShs 251 million by the Court of Appeal of the Republic of Kenya. The directors, having considered the award and obtained appropriate legal advice, challenged the ruling of the Court of Appeal of the Republic of Kenya at the Common Market for East and Southern Africa (COMESA) Court of Justice. At an initial hearing, the COMESA court ruled, among others, that no execution should be levied in respect of the award granted by the Court of Appeal of the Republic of Kenya, pending the final determination of the case.

In June 2006, management withdrew the case from the COMESA Court of Justice and filed for a review at the Court of Appeal of the Republic of Kenya with an expectation that the Court of Appeal of the Republic of Kenya would review its earlier decision. A ruling was delivered in 2016 in favour of the Company on its application to set aside the KShs 251 million judgment.

The Court of Appeal found that there was a failure of justice in the 2002 Court of Appeal ruling and the appeal against the Company's favourable judgment shall be heard afresh in the Court of Appeal. The plaintiff filed an appeal to the Supreme Court. The Supreme Court, in a unanimous decision, upheld the Company's submissions that in the circumstances of this case, there was no justifiable fault in the Court of Appeal setting aside its judgment and re-opening the Appeal for a fresh hearing. The Court further held that the issues raised in the appeal were noble and required input from the Supreme Court. Consequently, the appeal before the Supreme Court was dismissed with each party bearing its own costs.

The effect of this decision is that the Court of Appeal will now proceed to hear and determine the appeal afresh.

(ii) A pension matter where the Company was sued by over 629 ex-employees. The claimants filed a lawsuit against the trustees of the pension fund and the Company for a claim of KShs 14.6 billion on grounds that the lumpsum benefits paid to them, close to 20 years ago following their retrenchment, were miscalculated. The claimants are yet to provide the particulars of the claim to the court. The pension payments were computed based on professional advice.

(iii) A claim by a former customer and is made up of two cases. The customer had defaulted on his borrowings and the Company attempted to realise the securities held for the borrowings. The customer sued the Company in this matter alleging that the Company did not account for some KShs 55 million deposited in the customer's account. The effect of this case was to stop the Company from realising the securities. The customer reported the matter to the Anti-Banking Fraud Unit and recently applied to the High Court in a Constitutional Petition to compel the Director of Public Prosecutions to prosecute the Company. The application was declined but the customer has filed Notice of Appeal.

(iv) A claim where the plaintiff sued the Company and Standard Chartered Estates Management (SCEM) Limited, a former wholly owned subsidiary of the Company, in 2003 seeking compensation for losses incurred after the plaintiff engaged SCEM Limited to manage their flower farm in 1996.

In addition, the Company has some on-going matters with the Kenya Revenue Authority. As at 31 December 2020, the directors have not made provisions for tax demand letters as they are of the view, based on advice received, that these amounts are not payable.

34. LEASES

Accounting policy

The Group assesses whether a contract is a lease in scope of this policy by determining whether the contract gives it the right to use a specified underlying physical asset for a lease term greater than 12 months, unless the underlying asset is of low value.

Where the Group is a lessee and the lease is deemed in scope, it recognises a liability equal to the present value of lease payments over the lease term, discounted using the incremental borrowing rate applicable. The liability is recognised in 'Other liabilities'. A corresponding right-of-use asset equal to the liability, adjusted for any lease payments made at or before the commencement date, is recognised in 'Property and equipment'- Note 27. The lease term includes any extension options contained in the contract that the Group is reasonably certain it will exercise.

The Group subsequently depreciates the right-of-use asset using the straight-line method over the lease term and measures the lease liability using the effective interest method. Depreciation on the asset is recognised in operating expenses – Note 11 under depreciation and amortisation and interest on the lease liability is recognised in Net interest income – Note 6.

Significant estimates and judgments

The significant estimates and judgments in determining lease balances are the determination of whether the Group is reasonably certain that it will exercise extension options or termination present in lease contracts. A remeasurement is performed when extension of a lease is confirmed.

A remeasurement of the lease liability and right-of-use asset is also done when there is;

- a change in future lease payment amounts due to market review;
- a change in future lease payment due to change in occupied floor space; and
- a change in expected lease term.

The significant estimates were the determination of incremental borrowing. the Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease.

The Group estimates the IBR using observable inputs and has adopted Government bond rates as the benchmark rate for incremental borrowing.

Short term leases and leases of low value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for leases of low value assets and short-term leases, including leases of IT equipment. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Group and Company

Right-of-use asset	2020		2019	
	Leasehold land	Non-land leases	Leasehold land	Non-land leases
	KShs million	KShs million	KShs million	KShs million
Balance at 1 January	235	653	-	-
Recognition of right-of-use asset on initial application of IFRS 16	-	-	238	655
Additions	-	148	-	204
Disposals	-	(286)	-	(33)
Depreciation charge for the year (Note 26)	(3)	(189)	(3)	(176)
Depreciation on disposals	-	145	-	3
Balance at 31 December	**232**	**471**	235	653

34. LEASES CONTINUED

Set out below are the carrying amounts of lease liabilities (included under 'Other liabilities' in Note 32) and the movements during the period:

Lease liability	2020 KShs million	2019 KShs million
At 1 January	716	-
Recognition of lease liability on initial application of IFRS 16	-	804
Leases cancelled	(77)	-
Lease modification (Note 10)	(12)	-
Interest on lease liabilities (Note 6)	69	77
Payments	(167)	(165)
Balance at 31 December	529	716

The table below summarises expenses that were recognised in the income statement.

	2020		2019	
Group and Company	Leasehold land KShs million	Non-land leases KShs million	Leasehold land KShs million	Non-land leases KShs million
Interest on lease payments (Note 6)	-	69	-	77
Expenses relating to short-term property leases	-	74	-	165
Expenses relating to low value				
non-property leases	-	126	-	139
Amounts recognised in statement of cashflows				
Lease liability payments	-	167	-	167

The table below shows the Group's and Company's minimum lease payments in relation to rental income.

Group and Company	2020 KShs million	2019 KShs million
Within 1 year	27	20
After 1 year but less than 5 years	67	40
After 5 years	-	-
Total rent receivable	94	60

35. RETIREMENT BENEFIT OBLIGATIONS

Standard Chartered Bank Kenya Limited operates a defined contribution scheme for all full time permanent employees and a defined benefit scheme for pensioners and deferred pensioners who existed as at 31 December 1998.

The benefits provided by the defined benefit scheme are based on a formula taking into account years of service and remuneration levels, whilst the benefits provided by the defined contribution scheme are determined by accumulated contributions and returns on investments.

Both schemes are governed by the **Retirement Benefits Act, 1997**. This requires that an actuarial valuation be carried out at least every 3 years for the defined benefit scheme. The most recent actuarial valuation of the defined benefit scheme was carried out as at 31 December 2018 by an independent qualified actuary. However, the Company's actuary did a review for the year ended 31 December 2020. 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 statement of financial position is the present value of the defined benefit obligation at the reporting 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.

35. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

In order to calculate the present value of economic benefits, consideration is given to any minimum funding requirements that apply to the plan. An economic benefit is available to the Group if it is realisable during the life of the plan, or on settlement of the plan liabilities. When the benefits of a plan are improved, the portion of the increased benefit related to past service by employees is recognised in the income statement on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

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

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

Significant accounting estimates and judgments

There are many factors that affect the measurement of retirement benefit obligations as it requires the use of assumptions which are inherently uncertain. The assumptions include, inflation rates, discount rate and expected return on assets. 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	2020 KShs million	2019 KShs million
Fair value of plan assets	670	568
Present value of funded obligations	(834)	(835)
Retirement benefit obligations as at 31 December	(164)	(267)
Plan assets consist of the following:		
Government bonds and bills	516	442
Corporate bonds	-	34
Other	154	92
	670	568
Movement in plan assets		
Fair value of plan assets at 1 January	568	604
Expected return on plan assets	80	73
Benefits paid by the plan	(138)	(136)
Employer contributions	178	30
Recognised actuarial losses	(8)	(1)
Administrative expenses paid	(10)	(2)
Fair value of plan assets at 31 December	670	568
Movement in retirement benefit obligations		
Retirement benefit obligations at 1 January	835	819
Interest cost	97	98
Past service cost	30	30
Benefits paid by the plan	(138)	(136)
Recognised actuarial losses	10	24
Present value of funded obligations	834	835
The net charge recognised in the income statement is as follows:		
Interest cost	(97)	(98)
Expected return on plan assets	80	73
Past service cost	(30)	(30)
Administrative expenses paid	(10)	(2)
Total charge included in staff costs (Note 11)	(57)	(57)

35. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

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

	2020 KShs million	2019 KShs million
At 1 January	(267)	(215)
Employer contributions	178	30
Charge to the income statement	(57)	(57)
Recognised in other comprehensive income	(18)	(25)
At 31 December	(164)	(267)

Historical information	2020 KShs million	2019 KShs million	2018 KShs million	2017 KShs million	2016 KShs million
Fair value of plan assets	670	568	604	655	670
Present value of funded obligations	(834)	(835)	(819)	(819)	(755)
Retirement benefit obligations	(164)	(267)	(215)	(164)	(85)

Key assumptions

The principal actuarial assumptions used at the reporting date were:

	2020 % pa	2019 % pa
Discount rate	12.80	12.60
Expected return on plan assets	12.80	12.60
Future pension increases	-	-

The overall expected long term rate of return on the assets is 12.80% (2019 – 12.60%) based on the portfolio as a whole and not on the sum of returns on the individual assets.

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

	2020		2019	
	Increase KShs million	Decrease KShs million	Increase KShs million	Decrease KShs million
Discount rate (-1% movement)	37	-	38	-
Discount rate (+1% movement)	-	35	-	37
Future mortality (longevity of member aged 60 increasing by 1 year)	55	-	51	-

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 and Company

(a) Share capital

Authorised

The authorised share capital of the Company at 31 December 2020 was KShs 2,169 million (2019 – KShs 1,998 million) made up of 377,850,589 (2019 – 343,510,572) ordinary shares of KShs 5.00 each and 56 million (2019 – 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 2020:	Number of ordinary shares million	Number of preference shares million	Authorised share capital KShs million
At 1 January 2020	344	56	1,998
Increase	34	-	171
At December 2020	378	56	2,169
2019:			
At 1 January 2019 and 31 December 2019	344	56	1,998

Issued and fully paid	Number of ordinary shares million	Number of preference shares million	Authorised share capital KShs million
At 1 January 2020	344	56	1,998
Increase	34	-	171
At December 2020	378	56	2,169
2019:			
At 1 January 2019 and 31 December 2019	344	56	1,998

36. SHARE CAPITAL AND RESERVES CONTINUED

(a) Share capital continued

The shareholders at 31 December 2020 and 31 December 2019 that had large holdings were as follows:

At 31 December 2020

Name	Number of shares (million)	%
1. Standard Chartered Holdings (Africa) BV	279	73.89
2. Standard Chartered Kenya Nominees –A/C KE004667	4	1.13
3. Shawmut Limited	4	1.03
4. Stanbic Nominees Limited A/C NR5551514	2	0.54
5. Standard Chartered Nominees – RESD A/C KE11450	2	0.50
6. Kenya Commercial Bank Nominees Limited – A/C 915B	2	0.43
7. Standard Chartered Africa Limited	2	0.42
8. Standard Chartered Nominees – RESD A/C KE11401	1	0.34
9. Old Mutual Life Assurance Company Limited	1	0.33
10. Standard Chartered Nominees RESD A/C KE11443	1	0.30
11. Others	80	21.09
	378	100.00

At 31 December 2019

Name	Number of shares (million)	%
1. Standard Chartered Holdings (Africa) BV	254	73.89
2. Standard Chartered Kenya Nominees –A/C KE002382	4	1.21
3. Kabarak Limited	4	1.03
4. Stanbic Nominees Limited A/C NR5551514	2	0.55
5. Standard Chartered Nominees – RESD A/C KE11450	2	0.50
6. Standard Chartered Nominees – A/C 9230	2	0.45
7. Kenya Commercial Bank Nominees Limited – A/C 915B	1	0.43
8. Standard Chartered Africa Limited	1	0.42
9. Old Mutual Life Assurance Company Limited	1	0.40
10. Standard Chartered Nominees – RESD A/C KE11401	1	0.34
11. Others	72	20.78
	344	100.00

The distribution of shareholders as at 31 December 2020 and 2019 was as follows:

	2020			2019		
Share range	Number of shareholders	Shares held (million)	%	Number of shareholders	Shares held (million)	%
Less than 500	9,931	2	0.49	9,920	2	0.51
501 to 5,000	19,768	29	7.68	19,517	27	7.71
5,001 to 10,000	439	3	0.80	403	3	0.82
10,001 to 100,000	534	16	4.29	506	15	4.54
100,001 to 1,000,000	119	30	7.83	110	25	7.21
Above 1,000,000	10	298	78.91	10	272	79.21
Total	30,801	378	100.00	30,466	344	100.00

(b) Share premium

These reserves arose when the shares of the Company were issued at a price higher than the nominal (par) value. These will be applied towards capital in future.

	2020 KShs million	2019 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.

36. SHARE CAPITAL AND RESERVES CONTINUED

(d) Revaluation reserve

Revaluation reserve is from the periodic revaluation of freehold land and buildings. The carrying amounts of these assets are adjusted to the revaluations. Revaluation surpluses are not distributable.

(e) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of investment securities at FVOCI excluding impairment losses, until the investment is derecognised.

(f) Statutory credit risk reserve

Where impairment losses required by legislation or regulations exceed those calculated under International Financial Reporting Standards (IFRSs), the excess is recognised as a statutory credit risk reserve and accounted for as an appropriation of retained profits. These reserves are not distributable.

37. STATEMENT OF CASH FLOWS

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

		2020		2019	
		Group KShs million	Company KShs million	Group KShs million	Company KShs million
Profit before taxation		7,396	7,018	12,174	12,691
Depreciation	26	715	715	639	639
Amortisation of intangible assets	27	793	793	649	649
(Gain)/loss on sale of property and equipment		(1)	(1)	34	34
Lease modification		12	12	-	-
Loss on disposal of intangible assets		20	20	-	-
Retirement benefit obligation	35	57	57	57	57
Lease interest		69	69	77	77
Expected credit loss on FVOCI		12	18	35	33
Share based payments allocated		61	61	107	107
(Increase)/decrease in operating assets					
Balances with Central Bank of Kenya					
– Cash Reserve Ratio		694	694	222	222
Government and other securities held at FVTPL		(2,988)	(2,988)	1,998	1,998
Derivative financial instruments		71	71	(416)	(416)
Loans and advances to banks		-	-	1,274	1,274
Loans and advances to customers		7,166	7,166	(10,038)	(10,038)
Investment securities		3,170	2,007	(5,025)	(4,885)
Amounts due from group companies		(9,518)	(9,518)	(5,546)	(5,546)
Other assets		721	752	(293)	(295)
Increase/(decrease) in operating liabilities					
Deposits from customers		28,064	28,064	4,150	4,150
Derivative financial instruments		45	45	377	377
Amounts due to group subsidiaries		-	243	-	41
Amounts due to group companies		1,563	1,563	(33)	(33)
Defined benefit obligation	35	(178)	(178)	(30)	(30)
Other liabilities		(104)	(101)	(114)	(119)
Cash generated from operating activities		37,840	36,582	298	987
Income taxes paid	13	(2,377)	(2,090)	(5,016)	(4,657)
Net cash from/ (used in) operating activities		35,463	34,492	(4,718)	(3,670)

37. STATEMENT OF CASH FLOWS CONTINUED

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

	2020 Group KShs million	2020 Company KShs million	2019 Group KShs million	2019 Company KShs million
Cash on hand	**3,675**	**3,675**	3,288	3,288
Unrestricted cash balances with Central Bank of Kenya	**5,760**	**5,760**	5,455	5,455
Loans and advances to banks	**7,533**	**7,533**	7,734	7,734
Deposits from banks	**(454)**	**(454)**	(8,028)	(8,028)
Amounts due from group companies	**42,599**	**42,947**	21,159	22,478
Amounts due to group companies	**(3,565)**	**(3,565)**	(5,041)	(5,041)
	55,548	**55,896**	24,567	25,886

38. ASSETS PLEDGED AS SECURITY

As at 31 December 2020, 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. 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.

	2020 Group KShs million	2020 Company KShs million	2019 Group KShs million	2019 Company KShs million
Value of asset security documents held on behalf of customers	1,017,004	402,134	988,441	497,225

40. RELATED PARTY TRANSACTIONS

In the ordinary course of business, transactions are entered into with Standard Chartered PLC, the ultimate holding company and other companies related to Standard Chartered Bank Kenya Limited through common shareholding or common directorships.

	Group					Company				
	Interest income	Interest expense	Net fee and commission income	Recharges	Trade Contingents	Interest income	Interest expense	Net fee and commission income	Recharges	Trade Contingents
2020	KShs million	KShs million	KShs million	KShs million	KShs million	KShs million	KShs million	KShs million	KShs million	KShs million
Standard Chartered PLC	**861**	**266**	**176**	**1,564**	**4,316**	**861**	**266**	**176**	**1,564**	**4,316**
Other group companies	**85**	**31**	**(17)**	**2,158**	**26,129**	**85**	**50**	**(17)**	**2,012**	**26,129**
	946	**297**	**159**	**3,722**	**30,445**	**946**	**316**	**159**	**3,576**	**30,445**
2019										
Standard Chartered PLC	488	355	469	1,319	3,053	488	355	469	1,319	3,053
Other group companies	174	-	38	959	26,734	174	22	38	1,109	26,734
	662	355	507	2,278	29,787	662	377	507	2,428	29,787

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 arms-length.

The related party balances at 31 December 2020 and 2019 are shown in Note 23. Trade contingent liabilities with group companies at 31 December 2020 was KShs 30,435 million (2019: KShs 29,082 million).

40. RELATED PARTY TRANSACTIONS CONTINUED

Directors and officers

Details of directors' remuneration is disclosed in the Directors' remuneration report on pages 72-76.

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	2020 KShs million	2019 KShs million
Salaries and other employee benefits	**499**	589

Transactions with directors and others

During the year, the number of key management staff was 16 (2019: 16).

At 31 December 2020, balances relating to deposits from directors, employees and associates amounted to KShs 925 million (2019 – KShs 704 million).

The interest expense paid during the year on deposits from directors, employees and associates amounted to KShs 5 million (2019 – KShs 11 million).

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

Group and Company Loans and advances to directors, employees and their associates	2020 KShs million	2019 KShs million
At start of the year	**7,114**	6,629
Amounts advanced during the year	**1,716**	4,776
Amounts repaid during the year	**(2,099)**	(4,291)
At end of the year	**6,731**	7,114
Loans and advances to directors or companies controlled by directors or their families	**47**	47
Loans and advances to employees	**6,684**	7,067
	6,731	7,114
Collateral	**6,295**	7,118

The interest income earned during the year on loans and advances to directors, employees and associates amounted to KShs 417 million (2019 – KShs 427 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 2020 (2019 – 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 2020, deposits from SCKPF and SCKSRBS 2006 amounted to KShs 117 million (2019 – KShs 63 million).

41. HOLDING COMPANY

The ultimate holding company of Standard Chartered Bank Kenya Limited is Standard Chartered PLC, which is a limited liability company incorporated and domiciled in Great Britain.

42. CURRENT/NON-CURRENT DISTINCTION

The table below shows an analysis of assets and liabilities presented according to when they are expected to be recovered or settled. Trading assets and liabilities including derivatives have been classified to mature and/or be repaid within 12 months, regardless of the actual contractual maturities of the products. With regard to loans and advances to customers, the Bank uses the same basis of expected repayment behaviour that was used for estimating the EIR. Issued debt reflects the contractual coupon amortisation.

	Group			Company		
2020 **ASSETS**	**Within 12 months KShs million**	**After 12 months KShs million**	**Total KShs million**	**Within 12 months KShs million**	**After 12 months KShs million**	**Total KShs million**
Cash and balances with Central Bank of Kenya	20,619	-	20,619	20,619	-	20,619
Government and other securities held at FVTPL	1,980	2,969	4,949	4,949	-	4,949
Derivative financial instruments	739	-	739	739	-	739
Loans and advances to banks	7,533	-	7,533	7,533	-	7,533
Loans and advances to customers	50,748	70,776	121,524	50,748	70,776	121,524
Government securities held at FVOCI	65,815	29,037	94,852	65,815	29,037	94,852
Tax recoverable	441	-	441	340	-	340
Other assets	2,776	-	2,776	2,735	-	2,735
Amounts due from group companies	47,773	14,984	62,757	48,121	14,984	63,105
Investment in subsidiaries	-	-	-	-	141	141
Non-current asset held for sale	222	-	222	222	-	222
Property and equipment	-	3,634	3,634	-	3,634	3,634
Goodwill and intangible assets	-	3,023	3,023	-	3,023	3,023
Deferred tax asset	-	2,536	2,536	-	2,457	2,457
Total assets	198,646	126,959	325,605	201,821	124,052	325,873
LIABILITIES						
Deposits from banks	454	-	454	454	-	454
Deposits from customers	88,242	168,256	256,498	88,242	168,256	256,498
Derivative financial instruments	648	-	648	648	-	648
Other liabilities	5,741	-	5,741	5,726	-	5,726
Amounts due to group companies	1,092	10,117	11,209	1,092	10,117	11,209
Amount due to subsidiaries	-	-	-	958	-	958
Retirement benefit obligations	164	-	164	164	-	164
Total liabilities	96,341	178,373	274,714	97,284	178,373	275,657

42. CURRENT/NON-CURRENT DISTINCTION CONTINUED

	Group			Company		
2019 **ASSETS**	Within 12 months KShs million	After 12 months KShs million	Total KShs million	Within 12 months KShs million	After 12 months KShs million	Total KShs million
Cash and balances with Central Bank of Kenya	20,621	-	20,621	20,621	-	20,621
Government and other securities held at FVTPL	280	1,677	1,957	280	1,677	1,957
Derivative financial instruments	810	-	810	810	-	810
Loans and advances to banks	7,469	265	7,734	7,469	265	7,734
Loans and advances to customers	49,003	79,687	128,690	49,003	79,687	128,690
Government securities held at FVOCI	65,974	31,698	97,672	65,974	30,572	96,546
Tax recoverable	1,091	-	1,091	1,026	-	1,026
Other assets	3,497	-	3,497	3,487	-	3,487
Amounts due from group companies	21,243	10,556	31,799	21,243	11,875	33,118
Investment in subsidiaries	-	-	-	-	141	141
Property and equipment	-	3,894	3,894	-	3,894	3,894
Goodwill and intangible assets	-	2,732	2,732	-	2,732	2,732
Deferred tax asset	-	1,641	1,641	-	1,538	1,538
Total assets	169,988	132,150	302,138	169,913	132,381	302,294
LIABILITIES						
Deposits from banks	8,028	-	8,028	8,028	-	8,028
Deposits from customers	98,932	129,502	228,434	98,932	129,502	228,434
Derivative financial instruments	603	-	603	603	-	603
Other liabilities	5,923		5,923	5,905	-	5,905
Amounts due to group companies	-	11,122	11,122	-	11,122	11,122
Amount due to subsidiaries	-		-	715	-	715
Retirement benefit obligations	-	267	267	-	267	267
Total liabilities	113,486	140,891	254,377	114,183	140,891	255,074

43. EVENTS AFTER PERIOD END

The COVID-19 pandemic continued to affect the Group, countries and businesses at the time of issuing these financial statements. The directors having assessed, the Group's ability to continue a going concern as noted in Noted 2 (g), have determined that the Group's operations will continue despite the disruption caused by the pandemic. The directors have also assessed that:

- No adjusting events or conditions existed at the reporting date affecting the financial statements.
- The going concern status of the Group will not be affected by this event in the foreseeable future and the Company will continue to operate as a going concern. The Group's management and directors are closely monitoring the economic developments in the key markets and sectors including undertaking scenario analysis. This enables management and directors to take appropriate actions where necessary, including enhanced monitoring, amending the Company's risk appetite and/or reducing limits and exposures.

It is reasonably possible, based on existing knowledge, that outcomes within the next financial period that are different from the judgments and assumptions used, could require a material adjustment to the carrying amounts of the assets or liabilities reported in these financial statements. The directors and management will continue to monitor the measures taken by the Government of Kenya and adjust the Group's business strategies and plans accordingly.

There have been no material revisions to the nature and estimates of amounts reported after period end. However, the effects of COVID-19 pandemic have required judgments and estimates to be made, including:

- Determining which information obtained subsequent to period end provides evidence of conditions that existed as at the end of the reporting period ('adjusting events after the reporting period') and which do not ('non-adjusting events after the reporting period').
- Estimates of expected credit losses attributable to financial instruments, including the incorporation of forward-looking information to supplement historical credit loss rates.