Standard Chartered Bank Kenya Limited
2011 Full Year Results Announcement

Introduction

The Standard Chartered Bank story is one of consistent delivery and sustained growth. We have the right strategy, a distinctive culture and a strong brand. We are focused on delivering for our shareholders, supporting our customers and clients, and making a positive impact on the communities in which we live and work. We are well positioned in some of the fastest-growing segments of our economy. As a Bank, we continue to benefit from our deep client relationships, our network and a well capitalised balance sheet.

Over the last few years, we have pursued a focused agenda. We set ourselves ambitious performance goals and have consistently delivered against them. We have strengthened the infrastructure and technology of the Bank; we have reinvigorated our brand; and we have increased staff engagement and deepened our talent pool. We are focused on strategic growth, investing at pace in both of our businesses. We are obsessed with the basics of banking: being well capitalized and highly liquid; managing risk proactively; keeping tight control of costs; and staying well diversified. This makes our balance sheet and earnings extraordinarily resilient.

You may recall that our financial results for the first half were significantly impacted by the sharp rise in interest rates which resulted in the revaluation of our trading book and thereby causing mark-to-market unrealised losses in the bond trading portfolio and derivatives. At the time, we anticipated that this position would correct itself in the second half of the year. We are pleased to advise that the mark-to-market positions were largely reversed during the second half and our trading book activities are now profitable. We shall continue to maintain robust appropriateness and suitability process to mitigate any risk that may arise from financial markets dislocation.

I am therefore very pleased that in 2011, we continued on the path of rapid growth, strong financial performance and excellent strategic progress. We delivered against a balanced scorecard of growth and performance and cost control and risk management. Both our Wholesale and Consumer Banking businesses contributed

51% and 49% to operating income respectively, underlining our success in completely transforming the Consumer Bank and building a balanced business and is a strong testament to our diversified business.

The following is the top-line highlights of our financial performance for 2011 financial year.

Financial Highlights

- Total income rose 15% to Kshs.16.2 billion (2010: Kshs.14.2 billion) as a result of strong growth in interest income which increased by 21% from Kshs.8.4 billion to Kshs.10.1 billion;
- Non interest income increased by 6% to Kshs.6.1 billion due to good growth in revenue from foreign exchange, fees and commissions. However this was tempered by realized and unrealized mark-to-market losses in the bond portfolio as well as the foreign exchange derivatives;
- Net bad debt charge increased from Kshs.447 million to Kshs.561 million and is in line with the growth in our loans and advances portfolio;
- Total operating costs grew by 23% to Kshs.7.4 billion (2010: Kshs.6.0 billion) as we continued to invest in new business capabilities. A significant portion of the cost growth was due to our new head office building in Chiromo, the flow-through amortization of the acquisition of the Custody business and recruitment of additional staff in our Priority Banking and SME businesses.
- Profit before taxation rose by 7% to Kshs.8.3 billion (2010: Kshs.7.7 billion)
- Loans and advances increased by 59% to Kshs.96.1 billion (2010: Kshs.60.3 billion) while customer deposits increased by 22% to Kshs 122.3 billion (2010: Kshs.100.5 billion).
- Our Investment in government securities fell by 55% from Kshs.54.5 billion to Kshs.24.6 billion, as we continued to reposition our balance sheet away from government securities and into customer assets. Investment in government securities now constitutes only 15% of total assets compared to 38% in 2010.

Key performance metrics

- Cost: Income ratio of 45.6% up from 42.6% in 2010;
- Earnings per share of Kshs.19.75 per ordinary share, up 6%;
- Return on equity of 33% up from 30% in 2010;
- Total non performing loans as a proportion of total gross loans, stood at 1.1% (2010: 2.0%) and remains one of the lowest in the banking sector in Kenya.

- The directors are recommending a first and final dividend for 2011 of Kshs.11.00 per ordinary share compared to Kshs.13.50 per ordinary share in 2010;

Capital and liquidity metrics

- Core tier 1 capital ratio at 12.3% compared to 13.9% in 2010;
- Total capital ratio remained flat at 14.3% year on year;
- Advances to deposits at 78.6% compared to 60.0% in 2010 as we continue to grow both sides of the balance sheet;
- Liquid asset ratio at 34.1% compared to 55.1% in 2010;

Revenue

Total revenue grew to Kshs.16.2 billion, driven mainly by the following:

- Interest income on loans and advances increased by 59% to Kshs.9.5 billion on the back of strong asset growth across both businesses and re-pricing of facilities due to higher interest rates.
- Fees and commissions increased by 29% from Kshs.2.6 billion to Kshs.3.4 billion and were mainly driven by significant growth in loans and advances, trade finance and improved revenues from our custodial services business.
- Interest income from investments in government securities decreased by 39% largely on account of decreased volumes as we grew customer assets;
- Our interest expense increased by 31% to Kshs.2.0 billion as we grew deposits by 22% during the year. The cost of funding went up in 2011 following the sharp rise in interest rates and the persistent tight liquidity in the second half of the year leading to market rates for wholesale deposits increasing sharply.
- Income from foreign exchange trading increased to Kshs.2.6 billion resulting from the volatility of the shilling and on account of increased volumes traded by importers in the manufacturing, agriculture, oil and telecommunications industries. Growth in foreign exchange income was also driven by the combination of regular economic expansion coupled with an aggressive growth strategy. It included retaining and enhancing relationships with old clients, exploiting new opportunities (e.g. new custody business) and taking advantage of overall economic growth.
- Other income comprising mainly of income on government securities sales fell on the back of a 55% reduction in holdings in government securities as we repositioned our balance sheet in order to support the rapid growth in customer

assets and realized losses in the trading book and unrealized mark-to-market losses on the derivatives positions.

Costs

Total operating expenses increased by 23 % to Kshs.7.4 billion.

- Staff costs grew by 10% to Kshs.3.7 billion as we continued to grow staff headcount in line with our business expansion;
- Premises and equipment costs increased by 40% to Kshs.0.7 billion due to the flow through of investments made over the last eighteen months such as branch refurbishments, our new priority centers and the new head office building;
- Depreciation and amortization increased by 135% to Kshs.0.7 billion largely on account of the amortization charge on the intangible asset relating to the acquisition of the Custodial Services business as well as our continued investment in infrastructure and technology to support our business growth.
- Other costs increased by 23% to Kshs.2.2 billion in line with increased operating costs due to increased business and the impact of the prevailing high inflationary rates throughout 2011.

Consequently the cost:income ratio rose to 45.6% compared to 42.6% in 2010.

Non – Performing Loans and net Bad Debt Charge

Non-performing loans remain among the lowest in the market at Kshs.1.0 billion compared to Kshs.1.2 billion last year. This translates to 1.1% of gross total loans compared to 2.0% in 2010. The Bank is comfortable with the current level of provisions and continues to manage credit risks.

Liquidity and Capital

The Bank continues to remain very liquid and well capitalized with capital and liquidity ratios that are well above target ratios set by the Central Bank of Kenya. This strategically places us in a position to accommodate any further regulatory requirements and simultaneously take advantage of growth opportunities in our businesses. Our liquidity position also remains strong with a well diversified retail funding base. We also have an optimal loan deposit ratio of 78.6% that gives us good headroom to grow loans and advances.

Dividend

The Board will be recommending to the shareholders at the forthcoming Annual General Meeting, the payment of a final dividend for the year of Kshs.11.00 for every ordinary share of Kshs.5.00. This compares to Kshs.13.50 per ordinary share in 2010. This dividend payout gives us the right balance between bolstering our capital base to enable us pursue growth in loans and advances and continue to deliver attractive returns to our investors.

Business Review

In 2011 we saw strong-based momentum across the businesses, with activity levels and volumes up sharply in a number of products as we helped our clients' trade and invest.

Consumer Banking

Consumer Banking ended 2011 in the best shape it has ever been in for many years and is well positioned to take advantage of opportunities in the market. The transformation journey continues to deliver good results both on the balance sheet, profit and loss and the non financial metrics as well. Operating income increased by 21% to Kshs.7.8 billion which was 49% of the total bank income, up from 46% in 2010. The growth in income is on the back of increased balance sheet volumes, particularly in customer assets, and non funded income.

On the balance sheet, customer assets recorded a strong growth of 36% in 2011 to stand at Kshs.32.2 billion. Mortgages and SME lending were the main drivers in the growth in customer assets growing by 89% and 36% respectively. The fixed and partially fixed mortgage was the most popular product and the customers who took advantage of this offering are now enjoying the benefit of predictability. Customer deposits on the other hand grew by 9% to Kshs.70. billion with a good deposit mix. Current and savings accounts constituted 79% of all Consumer Banking deposits.

Both the Priority and SME segments did particularly well growing customer numbers in double digits during the year under review. At the beginning of the year, we launched Preferred Banking targeting the young emerging affluent consumer and re-positioned our SME customer proposition in line with customer needs. We continued to selectively grow our distribution network and opened one new branch in Chiromo and two priority centres – Chiromo and Treasury Square in Mombasa We also refurbished Treasury Square branch in Mombasa. On alternate channels, we continued to leverage on our technology platform to offer a variety of products and services such as e-statements, mobile and internet banking which served to give our customers various and convenient touch points for banking.

We also went to the market in 2011 with the first ever guarantee on loan disbursements. This is a bold promise where the bank pays a customer Kshs.3,000 if their personal loan is not disbursed within 3 days of application.

As a result, Consumer Banking delivered a strong financial performance reflecting our increasingly broad based product and customer mix. Operating profit increased by 28% to reach Kshs.3.3 billion. In 2012, we will continue to invest at the right pace, focusing on increasing productivity and innovation. The business will continue to look at other service guarantees especially in the areas of mortgages and teller services.

Wholesale Banking

The Wholesale Banking business focused on key clients, deepening relationships and growing our product capabilities to support local trade and offering short term working capital solutions in addition to risk hedging solutions. We are proud of the support we give our clients in particular local corporates as they grow and trade. We are among the few banks in the country that offers commodity, interest rates and currency hedging. By helping our clients manage both investment and trade risks in an increasingly global economy, these derivative products have real economic and social value.

During the year, our Wholesale Banking business executed well on this strategy, delivering a year on year income growth of 9% to Kshs.8.2 billion. Disciplined investments in key sales and products teams and control functions delivered good results across all products and customer segments. This business continued to be driven by strong client income growth which was up 49% on last year, and accounts for 90% of total Wholesale Banking income. We continued to strengthen relations with existing clients and diversifying income growth using our network capabilities as a source of differentiation.

In 2011, the cross-sell ratio improved to 3.40 up from 2.29 in 2010 demonstrating deepening client relationships and product value add that we are providing to our clients. However, there is still room to further improve cross-sell ratios and strengthen our product capabilities. Our network in the Middle East, India, China and South East

Asia has proved to be important in giving us opportunities to leverage on as trade corridors change.

Looking ahead, we see a lot of opportunities as the country gears up to achieving the Vision 2030 goals. There are opportunities in infrastructure development/financing, energy and manufacturing. The business is well positioned to continue being the right partner to our clients. Indeed to our clients we will continue demonstrating that we are here for good and here for the long haul and to do business with them.

Outlook

Kenya's growth prospects in 2012 are mixed. The economy should continue to recover from bouts of adverse weather which impacted agriculture, hydroelectricity supply and manufacturing during 2011. In addition, inflation should continue on its downward trend which should lead to lower of interest rates in the second half of the year. However, the continued crisis in Europe as well uncertainty regarding the weather and world oil prices could prolong the period of high interest rates. Currency stability still remains a risk given the large current account deficit that the country is facing at the moment and the fact that growth in imports continues to outstrip export earnings.

Given the shock experienced after flawed elections at the end of 2008, politics will remain a key driver of Kenya's economic outlook. While passage of the constitution is broadly positive, signalling widespread support for devolution of power from the centre to more powerful regions, many of the tenets of the new constitution still require legislative changes to become operational. The process is not devoid of political risk.

The uncertainty around the political process and especially the elections will continue to act as drag on business confidence while the activities and actions of a forceful parliament in pursuing a populist agenda may have far reaching and damaging consequences that will go beyond the elections. A good example is parliament's bid to cap interest rates despite concrete evidence that it would be detrimental to the economy and offer little advantage or protection to majority of Kenyans.

Kenya's regional leadership should stand it in good stead in the medium term, when more meaningful regionalisation is expected following the signing of the East African

Protocol in July 2010. East Africa's new oil producers also look set to increase their reliance on Kenyan ports. Regional trading partners now account for 47% of Kenya's exports, granting it some degree of immunity to a slowdown elsewhere. Given robust growth in the East African sub-region, cargo throughput at Kenyan ports has already risen significantly, and will benefit from infrastructure development in the years to come.

For Standard Chartered Bank, we have started 2012 strongly and we are on track to deliver on our aspirations set for this year, but it is very early days and there are a number of factors which might affect our performance. Looking at the first two months of the year and our momentum into March, both businesses have had good starts, with income ahead of the comparable period last year. Expenses are under tight control across the Bank and credit quality remains good.

Nonetheless, we are cognizant of the uncertainties that face the Kenyan economy and that could have a negative impact our performance. We remain focused on the fundamentals of our business and on the disciplined execution of our strategy. We are well positioned in some of the most exciting customer segments and well placed to make the most of the opportunities they present.

Richard Etemesi
Chief Executive Officer
13th March 2012