

Briefing Note :Standard Chartered Bank Kenya (SCBK) Pension Liability & Dividend Outlook

Executive Summary

Standard Chartered Bank Kenya is facing a KES 7.79Bn pension liability following a June 2025 ruling by the Retirement Benefits Appeals Tribunal. The tribunal directed the bank to recalculate and pay additional pension benefits, plus legal costs, to 629 former employees.

At KES 7.79Bn, the liability equals **86.6% of H1 2025 net profit (KES 8.08Bn)** and nearly **50% of FY 2024 dividend (KES 14Bn)**. While this represents a significant **profitability shock**, SCBK remains **well capitalized** with a **19.5% core capital ratio** and **64.5% liquidity ratio**, well above regulatory minimums.

The risk is therefore **earnings compression**, not solvency.

Background of the Case

- **Claimants:** 629 retirees, including 111 from the 1994 Voluntary Early Retirement Scheme.
- **Allegations:** flawed actuarial calculations, and unlawful withdrawal of **KES 1.1Bn** from the scheme surplus.
- **RBAT ruling (June 18, 2025):** recalculated benefits of **KES 7Bn + KES 709Mn** legal costs.
- **Bank response:** structured retiree engagement.

Metric	Value	Comment / Benchmark
Core Capital	KES 56.2 billion	+6% YoY
Core Capital Ratio	19.5%	vs 10.5% regulatory minimum
Total Capital Ratio	19.7%	vs 14.5% regulatory minimum
Liquidity Ratio	64.5%	vs 20% regulatory minimum

The New Development: 325 Claimants

- A separate group of 325 former staff have petitioned to be included.
- Claims mirror the earlier case: undervalued pensions, miscalculated lump-sums.
- SCBK's stance: "no legal or factual merit," pledging to defend strenuously.

Dividend Policy & Outlook

- **Historical:** SCBK has paid out **70–80% of earnings** over the last 5 years, with a **KES 14 billion record dividend in 2024** (100% payout).
- **2025 Cut:** Proposed dividend of **KES 3.1 billion** (↓78% YoY) equates to a payout ratio of <40%.
- **Provisioning Dynamics:**

Full Provision in 2025 (Base Case): If SCBK fully absorbs the KES 7.8Bn liability this year, dividends will be severely compressed in 2025 but could normalize more quickly. From FY2026, payout ratios may rebound towards 50–60%, closer to historical averages, provided no escalation in claims.

Staggered Payouts / Partial Provision: If the liability is spread over multiple years, dividends may remain capped at 30–40% payout through 2025–26, delaying recovery.

Medium-Term Outlook: Even under a conservative staggered approach, SCBK's strong capital position supports gradual normalization to 40–50% payout from FY2026. A faster rebound (towards 60%) would depend on front-loaded provisioning and no material expansion of the claimant pool.

Investor Implication: The dividend cut is **severe but potentially temporary** if SCBK opts for a one-off provision in 2025. However, prolonged or additional claims could extend **depressed dividends into 2026–27**, keeping yields structurally below historical norms.

Bottom Line

- **At KES 7.8B**, the pension liability is a **profitability shock, not a solvency issue**.
- SCBK's capital and liquidity remain resilient, but **dividends will stay suppressed**.

Interpretation

- The **blended fair value is KES 281.2/share**, slightly below the current price of KES 289.8 as of 18th September 2025.

- However, the stock is still trading **below its 52-week high of KES 348**, which provides an attractive **entry point for long-term investors** who believe the pension liability will be resolved without escalating into the worst-case KES 30Bn exposure.
- Market pricing implies that **investors are already discounting much of the pension liability risk**, leaving limited upside in the near term.
- Base case recommendation remains: **HOLD**.
- Short-term earnings may be hit by the pension payout, but **capital buffers, liquidity, and retained earnings remain strong**, mitigating solvency concerns.

Outlook & Watchpoints

- **November 19, 2025 Q3 release:** first clear disclosure on settlement quantum.
- **Court process:** Whether the 325 claims are admitted or dismissed at preliminary stage.
- **Provisioning approach:** Full kitchen-sink in FY2025 vs staggered recognition.

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