2018

INTEGRATED REPORT AND FINANCIAL STATEMENTS

KCB
KCB BANK
Go ahead, take the region to greater heights
At KCB Bank we believe that whatever you want to achieve is possible. That's why our doors are always open to you, whatever stage you are in life. Go ahead is our way of saying that you can be optimistic about the road ahead, knowing that with us you have a trusted partner always there to help you progress.
CONTACT US TODAY: 0711 087000 or 0732 187000
contactcentre@kcbgroup.com | SMS 22522
Regulated by the Central Bank of Kenya

TABLE OF CONTENT

ABOUT THIS REPORT

KCB Group Plc Integrated Report and Financial Statements 2018 has been prepared for the period 1 January 2018 to 31 December 2018 and covers the business activities of KCB Group.

Framework

The report has been prepared in compliance with global best practice and prudent accounting frameworks for existing and prospective investors. It is aligned to the parameters of the Kenya Companies Act, 2015, Capital Markets Authority (CMA) guidelines, the Nairobi Securities Exchange (NSE) Listings Manual, and Central Bank of Kenya (CBK) Prudential Guidelines. This report is also in compliance with the International Integrated Reporting Council (IIRC) Guidelines. The Group's Annual Financial Statements were prepared in accordance with the International Financial Reporting Standards (IFRS). The report is part of our promise to be transparent and accountable to our stakeholders.

Materiality Determination

This report presents a balanced and succinct analysis of the Group's strategy, performance, governance and prospects. Potential material matters were identified through a broad range of processes, from engagement with our stakeholders to our own internal processes such as risk assessments and considering international trends.

Assurance

The Group Annual Financial Statements, KCB Bank Kenya, KCB Bank South Sudan and KCB Bank Rwanda were audited by KPMG. KCB Bank Uganda and KCB Bank Tanzania were audited by PwC while KCB Bank Burundi was audited by Deloitte.

To ensure that we report on issues that matter to our stakeholders please provide any feedback and questions to:
investorrelations@kcbgroup.com or visit **www.kcbgroup.com**

Overview

For over 120 years, KCB Group has supported East Africa's economic growth agenda. We have a solid footprint in the region covering Kenya, Tanzania, South Sudan, Uganda, Rwanda, Burundi and Ethiopia (representative office).

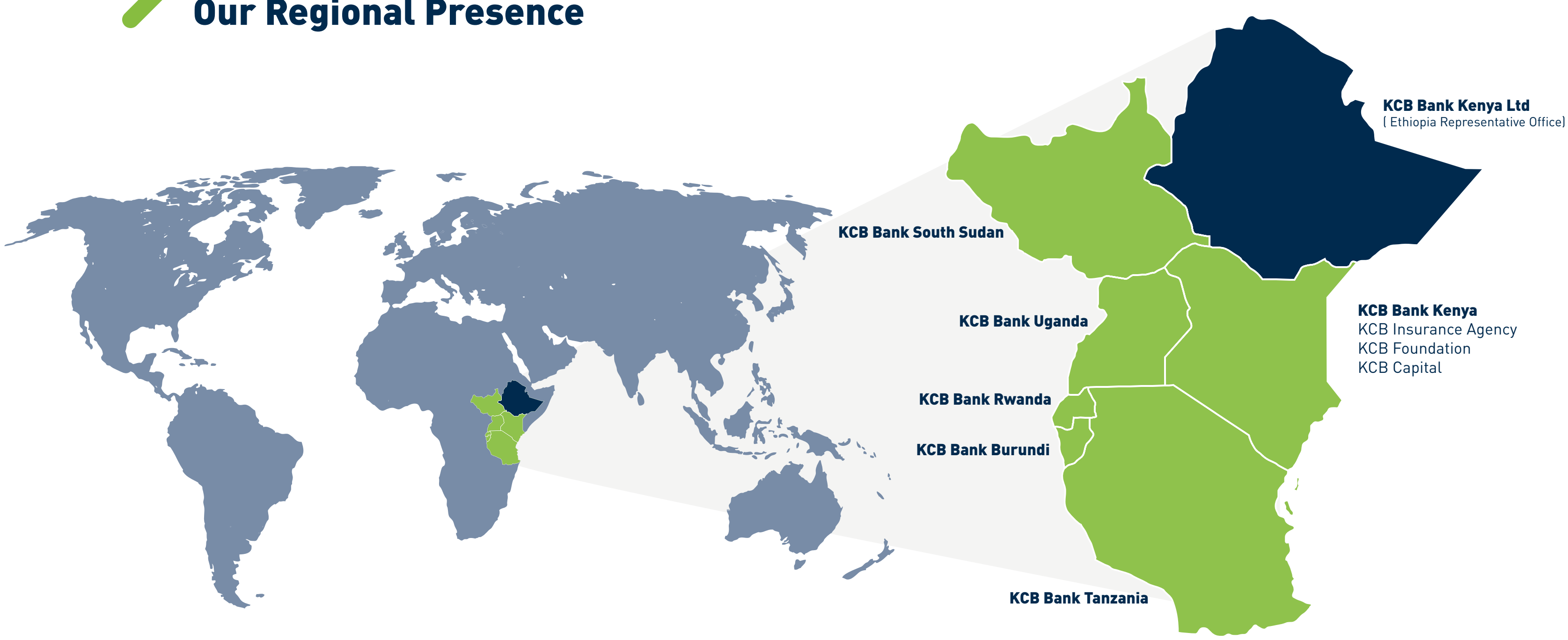
KCB Group plc is a registered non-operating holding company that oversees KCB Bank Kenya and all the regional subsidiaries. It also owns KCB Insurance Agency, KCB Capital, KCB Foundation and other associate companies.

The Group has the largest branch network in the region with 258 branches, 946 ATMs, 16,642 POS/Merchants and agents offering banking services on a 24/7 basis in East Africa. This is complemented by mobile banking and internet banking services with a 24-hour contact center service for our customers to get in touch with the Group. The Group also has a wide network of correspondent relationships totaling over 200 banks across the globe and our customers are assured of a seamless facilitation of their international trade requirements wherever they are.

The holding company was set up in January 2016 to enhance the Group's capacity to access unrestricted capital and also enable investment in new ventures, achieve operational and strategic autonomy for the Group's operating entities and enhance corporate governance across the Group in addition to providing oversight in management of subsidiaries.

Our shares are quoted at the Nairobi Securities Exchange (NSE), Dar es Salaam Stock Exchange (DSE), Uganda Securities Exchange (USE), and Rwanda Stock Exchange (RSE). Our story is one of innovation growth, resilience, and adaptation. This, we believe, is what has kept us in business for the past 12 decades.

Our Regional Presence



KShs. 113,661,138,000

Total Equity

258 Branches

946 ATMs, 16,642 Agents & POS / Merchants

6,220 Staff

17.4 million customers

2018 Highlights

Financial

Profit Before Tax (KShs. Million)
2018: 33,859
2017: 29,114

Net Loans and Advances (KShs. Million)
2018: 455,880
2017: 422,685

Non Performing Loans (KShs. Million)
2018: 32,692
2017: 38,643

Customer Deposits (KShs. Million)
2018: 537,460
2017: 499,549

Dividends (KShs. Million)
2018: 10,731
2017: 9,198

Total debt / Total equity
2018: 19.8%
2017: 14.0%

Market Capitalization (KShs. Million)
2018: 114,822
2017: 131,072

Return on Average Equity
2018: 22.0%
2017: 19.5%

Cost to Income Ratio
2018: 48.3%
2017: 51.0%

Non-Financial

Net Promoter Score
2018: 43%
2017: 42%

Customer Complaints
2018: 972,439
2017: 729,676

Complaints Settlement - First Contact Resoultion
2018: 86.1%
2017: 83.8%

Total Employee Benefits (KShs. M)
2018: 17,007
2017: 19,146

Reduction in Greenhouse Gas emissions
2018: 23%
2017: 15%

Reams of paper used
2018: 60,625
2017: 68,850

Water use
2018: 187M Litres
2017: 235M Litres

Female/Male Ratio
2018: 43:57
2017: 43:57

Number of staff health and safety incidences (in the work place)
2018: 9
2017: 5

Electricity Consumption at Kencom Head Office (Million Kw\h)
2018: 3.35
2017: 3.86

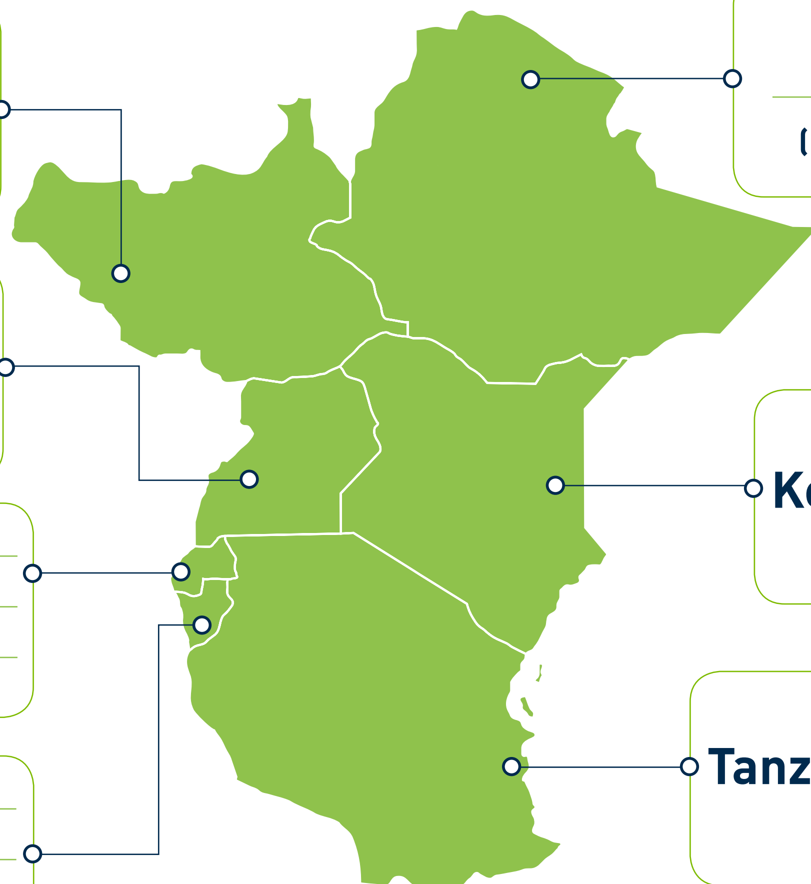
Our Footprint

South Sudan
- Branches 10
- ATMs 2
- Staff 138
- Agents 0

Uganda
- Branches 15
- ATMs 17
- Staff 322
- Agents 227

Rwanda
- Branches 14
- ATMs 25
- Staff 288
- Agents 270

Burundi
- Branches 5
- ATMs 7
- Staff 122
- Agents 172



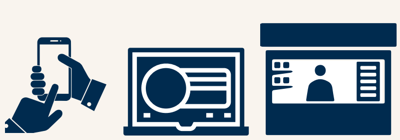
Ethiopia

(Representative Office)

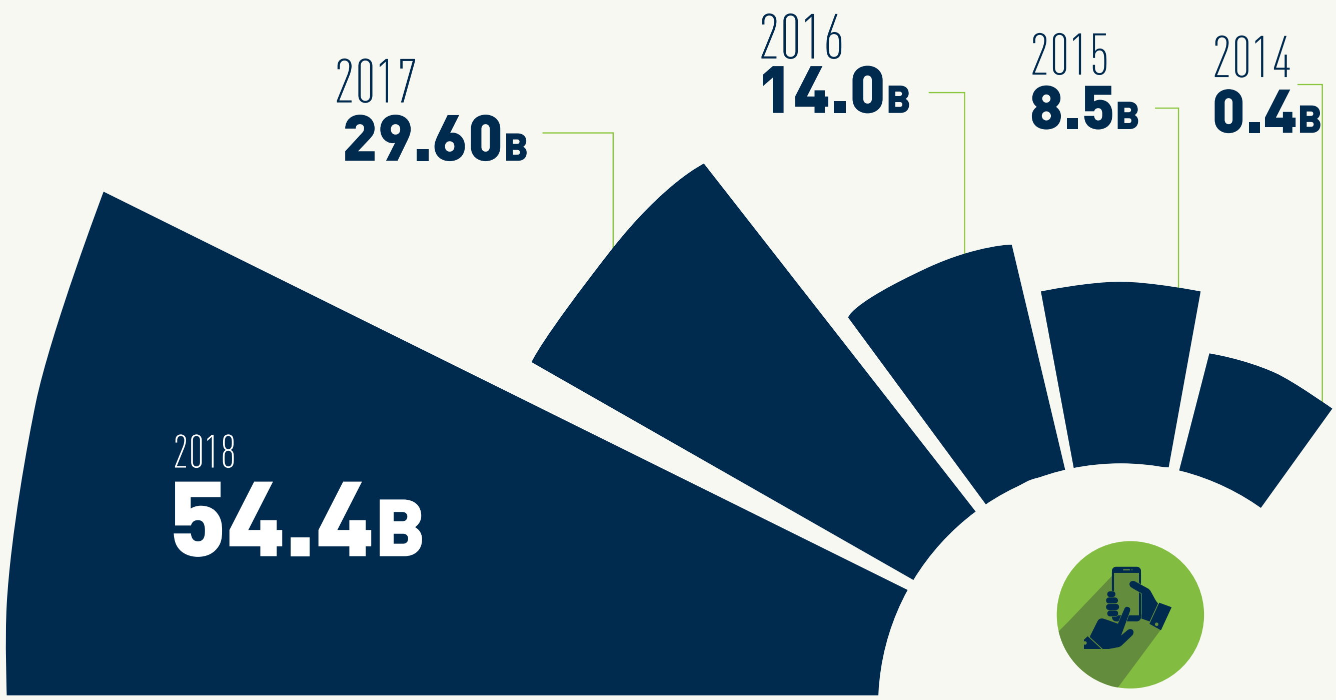
Kenya
- Branches 200
- ATMs 369
- Staff 5,058
- Agents 8,604

Tanzania
- Branches 14
- ATMs 17
- Staff 292
- Agents 49

Branch vs Non-Branch Transactions

	2016	2017	2018
 Branch Transactions	36%	23%	12%
 Non-Branch Transactions	64%	77%	88%

Digital Channel Performance



Mobile Loans Advanced (KShs.)

CHANNEL TRANSACTIONS (KShs.Millions)

Channel	2017	2018	Change
Agency	22.8	34.7	52%
Mobile	52.0	62.1	20%
ATMs	15.0	15.4	2%
Merchant POS	7.3	7.9	9%
Branch Teller	18.6	16.2	-13%
Internet	0.9	1.3	44%

Our Strategy

Our Vision
To be the preferred financial solutions provider in Africa with global reach.

Our Mission
To drive efficiency whilst growing market share in order to be the preferred financial solutions provider in Africa with global reach.

Our Purpose
Simplifying your world to enable your progress

Our Values
- Inspiring
- Simple
- Friendly

Our Promise
Go Ahead

Our Behaviour
- I am a leader
- I find solutions
- I drive efficiency
- I simplify work
- I listen and care
- I am positive and committed

What drives us

2015-2019 Strategy: (Transformative Partnerships)

Customer Perspective
-Market Share
-Shared Value
-Brand Position

Financial
-Profit Before Tax
-Efficiency
-Shareholder Value

Internal Business Processes
-System Reliability
-Sustainability
-Control Environment

Learning and Growth
-Staff Productivity
-Staff Development
-Culture Change

Enablers

Financial Management | Robust Risk Management | Brand & Innovation |

How we achieve it	How we performed
Business Growth while addressing the Women and Youth agenda	-Loans: KShs. 456 Billion -Deposits: KShs. 537 Billion -Yield: 11.4% -Loans under women proposition: KShs. 5.2B
Customer Centricity	-Net Promoter Score: 43% -Customer Growth: 44% -Brand Power: 29% -Agency and Merchant Network: 16,642
Drive Shareholder Value	-Return on Average Equity: 22.0% -Dividend per share: KShs. 3.50 -2jiajiri beneficiaries: 23,059 -Inua Jamii beneficiaries: 717,342
Growth in Digital Financial Services	-Non-Funded Income: 32.2% -Mobile Loans Issued/Minute: 21 -Digital Inclusion reach: 13.2M Customers -Non-Branch Revenue: KShs. 5.2 Billion
Operational Efficiency	-Cost-to-Income Ratio: 48.3% -Non Performing Loans: 6.9% -System Uptime: 99.9% -Carbon footprint reduction: 23%
Talent Management	-Number of Staff: 6,220 -Average Training Days/Staff: 7.1 Days -Staff Cost-to-Income Ratio: 23.7% -Revenue/Staff: KShs.13.6 Million

Information & Technology | **Human Resources** | **Sustainability Agenda**

Our Value Creation Process

Our role as a financial services institution is to support and stimulate economic, social and environmental progress. We create shared value by providing products and services that help people to improve their lives and fuel economic growth.

SDGs

- 8 Decent work and economic growth
- 16 Peace, justice and strong institutions
- 9 Industry, innovation and infrastructure
- 1 No poverty
- 10 Reduced inequalities
- 17 Partnership for the goals
- 12 Responsible consumption and production
- 11 Sustainable cities and communities

OUR CAPITALS

FINANCIAL
- Equity: KShs. 113.67B
- Deposits: KShs. 537.46B
- Borrowings: KShs. 22.45B

MANUFACTURED
- 88% Out of branch transactions

INTELLECTUAL
-Innovations in 2018:
- Revamped KCB M-PESA
- Jaza Duka Initiative

HUMAN
- Staff Count: 6,220
- Average Tenure: 8.7 Years
- Revenue/Staff: KShs13.6 Million

SOCIAL
- 17.4 million Customers
- 108,260 MobiGro Accounts
- Strategic Partnerships

NATURAL
- Carbon-Neutral operations
- Monitored resource usage (water, fuel, power and paper)
- KCB Green Agenda

PROCESSES

Customer Centricity
- NPS score of 43% in 2018

Operational Efficiency
Cost-to-Income Ratio:
2018 – 48.3%;
2017 – 51.0%

Talent Management
Staff Cost-to-Income Ratio:
2018 – 23.7%;
2017 – 26.9%

Drive Shareholder value
ROAE of 22.0% in 2018

Business Growth
- Market Share of Loans: 17% in 2018

Growth in Digital Financial Services
- NFI Contribution of 32.2% in 2018

Highlights

31.3%
Of wealth created, distributed in Employees-Salaries, Wages, and Other Benefits.

18.2%
Of our wealth created, distributed in Government Taxes.

24.4%
Of our wealth created, retained to support future business growth

OUTPUTS

Accounts
We enable the progress of our customers through various money management solutions:
-Current -Transactional
-Mobile -Savings

Payments & Transactions
Enabling Funds transfer through:
-Mobile -Agents
-Internet -POS/Merchants
-Branches -ATMs

Loans
We extend credit incorporating responsible lending practices servicing:
-Personal - Corporate -Mortgage
-SME - Micro

Investments
Generation of yields by way of:
-FDR (Fixed Deposit Receipt)
-Call -Custody
-Savings products

Forex
Provision of brokerage services to buy and sell foreign currencies through:
-SWAPS -Swift
-Futures -T-Bill/Bonds

People
Career development & advancement opportunities to ensure we attract and retain top talent

OUTCOMES

Investors
- Return on Average Equity: 22.0%
- Return on Assets: 3.8%
- Earnings per share: KShs. 7.83
- Dividends per share: KShs. 3.50

Employees
- KShs. 17B salaries and benefits paid
- Employee Engagement score: 83%
- 155 promotions in 2018

Regulators
- Continuous streamlining with all required regulations
- Smooth transition into IFRS 9 reporting
- Corporation tax paid in 2018: KShs. 9.9B

Customers
- 140M Transactions facilitated across all channels.
- KShs. 456B growth in net loans advanced in 2018
- KShs. 537B growth in deposits mobilized in 2018

Communities
- KShs. 50 billion committed to youth entrepreneurship
- Average supplier performance of 87% on all deliverables
- KShs. 12.9B distributed to elderly and disabled
- Reduction of resource usage: water by 20%, fuel by 29% and paper by 12%

Our Capitals

1. Financial Capital

The International Integrated Reporting Council (IIRC) define financial capital as a store of value or a pool of funds available to an organization. KCB Group sees Financial Capital as a medium of exchange that realizes its value through conversion into other forms of capital. i.e. Our investors, both debt and equity, play a big part in the makeup of our financial capital and operationalization of our strategy. Additionally, our retained earnings make up part of the financial capital used in the execution and growth of our strategic investments. Whichever form of funding KCB Group sources, it is done at competitive rates, leveraging our financial might to efficiently create and maximize shareholder value.

The Group will continue building a resilient and diverse balance sheet, ready to capitalize on emerging opportunities in our existing markets.

2. Human Capital

This is wholesomely, the capability, knowledge, skills and experience that make-up the people that drive our strategy - our staff. We recognize that our people are instrumental in the utilization of our capitals leading to the realization of shared value.

The Group strives to ensure our staff have the key competencies required to carry out organizational activities. We do this through:

- Varied development initiatives such as training sessions on key strategic areas such as Sustainability, Ethics, Anti-Money Laundering & Cyber-Security, Risk management and Business Continuity Management. Furthermore, these trainings are supplemented with compulsory E-Learning courses that are refreshed annually for relevance.
- Performance based assessment.
- Competitive remuneration packages including benefits such as credit facilities among others.
- Employee wellness programmes including various leave programmes, prayer rooms, medical insurance and checkups.

KCB endeavors to have an inclusive workforce while also striking a balance between experience and youth. This allows for better business continuity management.

Gender

Male 57%

Female 43%

Age	
20-30	14%
31-40	61%
41-50	18%
51-60	7%

3. Intellectual Capital

Our intellectual assets, such as brand value, innovative products, innovation capacity and reputation also play a key role in growing the business. Strong brand affinity and exceptional innovation capacity keeps us ahead of the curve. In 2018, the bank achieved a brand power score of 29% up 600 basis points from 2017. The research arm of the bank undertakes annual review of our Brand Health with Brand drivers identified and aspects for improvement noted.

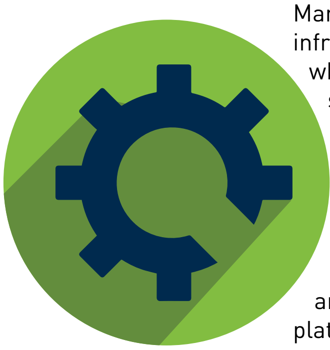
We put great impetus on harnessing intellectual capital and undertaking good management of knowledge from Research and Development (R&D). As a result, we generate innovations that improve customer experience, system efficiencies and unlocking of big data potential for product development. In 2018, we rolled out several products which is testament to the budding innovation emanating from the Group as seen by the revamping of KCB M-PESA.

Additionally, we have a huge brand following, with our social media channels very active given our customers demonstration and preference to engage through these channels.

Social Media Platform (As of 31 Dec. 2018)

Facebook	1,350,769
Twitter	294,600
LinkedIn	37,198
Instagram	29,813
YouTube	13,828

4. Manufactured/Infrastructural Capital



Manufactured capital is defined as those material goods, infrastructure and technology, leased or wholly owned and whose value is realized in the delivery of products and services. As stated earlier, the Group strives to see the realization of Financial Capital through conversion to other forms of capital. Thus, manufactured capital is reliant on the deployment and flow of financial capital to allow resources towards it. This allocation of resources forms the basis upon which we run the bank, including information technology software, systems and structures. These drive the channels which are the platforms we interact with our customers.

The Group's manufactured capital is key to sustainable business growth in two facets. Firstly, the Group's flexibility and resilience in the market is enabled by the efficient use of manufactured capital, allowing it to respond to societal needs, be innovative, and efficiently deliver new products and services to the market. Secondly, manufactured capital and technology can reduce resource use, and system downtime, thus enhancing both operational and cost efficiencies, ensuring sustainable growth.

From the traditional brick and mortar branches to convenience wherever and whenever you may need, we are tirelessly working on developing platforms that will serve our vast distribution of customers in entirety. We have rolled out different channels that ease access to banking services, without having to walk in to a branch.

5. Social & Relationship Capital

Our social and relationship capital involves the existing and potential collaborations that the Group forms with both our internal and external stakeholders. The Group works to foster these relationships in order to create shared value amongst our stakeholders, improving the collective wellbeing. We look to build the trust that we have been endowed with, as a bank for the generations, having been there for over 120 years.

The relationships we have include, but aren't limited to:

i) Supply-Chain relationships
ii) Customer experience
iii) Community engagements
iv) Regulatory relationships
v) Competitor relationships
vi) Partnerships

Customer Centricity

Our drive to excel in enabling the progress of our customers by simplifying their world comes about through a consistent focus on delivering quality and timely service to our customers. This is also driven by ensuring our systems' uptime is above 95%, allowing them to transact at will knowing that they will not be failed by system failure. We also protect the privacy of our customers with measures on data handling and client confidentiality in place to protect the interests of both the customer and the Bank.

Supply-Chain relationships

KCB Group eyes strategic development of the processes, people and supply base so as to improve security and quality of supply in order to optimize value from the total procurement spend of the organization.

We have systems and policies in place to ensure that we achieve a higher local percentage of our suppliers in order to create opportunities for our immediate communities. Once the onboarding processes have been followed, we make every effort to offer all our suppliers an equal chance at securing a performance contract. Close co-operation is required to ensure suppliers provide timely and quality services or goods, and upon completion, we ensure that they are fully compensated as per the contract agreement. Smoothening of this P2P process is constantly being done with an eye on achieving efficiencies and synergies.

Community engagements

KCB has embedded in its strategy an intentional bid for increased inclusivity and a push for creation of shared value. In 2018, we purposed to grow business in key customer segments, while unlocking the youth and women agenda. Our youth flagship program, 2jiajiri, and Igire in Rwanda, both held graduations in 2018 where over 23,000 youth graduated from the program. More on this can be found on page 62.

Competitors

Whether intentional or not, we form relationships with our competitors and in doing so we set industry standards, forming the benchmark for the Banking industry in the region. Relationships with other organisations for the betterment of societal welfare, such as our partnership with Safaricom on the M-Pesa Foundation, creates shared value for our communities. Our collaborations bring us together in the interest of the banking sector and community welfare.

Regulatory Relationships

We pride in having ethical values that contribute to our outstanding conduct and governance. The Group's culture is embodied around transparency,

Our Capitals

5. Social & Relationship Capital (continued)

disclosure, integrity and adherence of the laws and regulations that are active in regions we operate in. The Group is committed to utmost Legal and regulatory compliance in each of these jurisdictions.

Having operating commercial subsidiaries in 6 markets, the Group actively engages the regulators from the different markets and adjusts its operations to apply the strictest of the requirements as the minimum for the businesses. This has enabled the development of systems and procedures to monitor and confirm adherence.

6. Natural Capital

Our Natural Capitals are those stocks of environmental assets/resources that provide a flow of useful goods and/or services. These relate to our impact, directly and indirectly on the environment, and the impact which our customers, suppliers and other stakeholders may have on the natural resources.

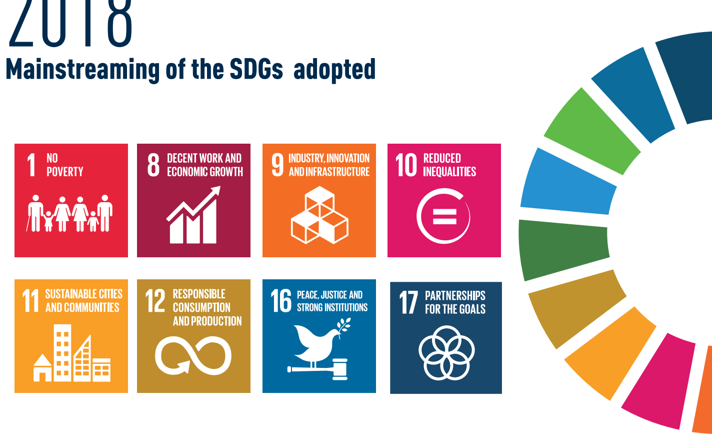
We have made significant strides to deepen our commitment towards driving a sustainable business for the future since the KCB Green Agenda that was launched in 2009. We approved Social and Environmental Management System (SEMS) in 2015 which are integrated into our credit system. This allows us to conduct social & environmental due diligence prior to loan disbursement, during loan tenure and upon repayment of the loan. Furthermore, in 2017, we adopted and embedded 8 SDG's into our strategy and quantifying these, to ensure measurability and monitoring. In order to maximize the impact of this adoption, we have revised part of our supplier requirements to include measures and processes that encourage and build on sustainable practices. Beyond this, during the year 2018, we joined a group of 28 other global banks that took part in drafting the 6 Principles for Responsible Lending, that was coordinated by the UNEP Financial Initiative (FI). These principles have been designed with a suitability for banks in both emerging and developed markets. The 6 Principles are Alignment, Impact, Clients and Customers, Stakeholders, Governance and Target Setting, and finally, Transparency and Accountability. This is yet another milestone in the further entrenchment of the sustainability agenda into our strategy and business.

A decade of KCB Green Agenda

KCB joined a group of 28 other global banks that took part in drafting the 6 Principles for Responsible Lending, that was coordinated by the UNEP Financial Initiative (FI).

2018

Mainstreaming of the SDGs adopted



UNEP FINANCE INITIATIVE | PRINCIPLES FOR RESPONSIBLE BANKING

Our Material Issues

KCB Group undertakes annual materiality reviews that assist in prioritizing our strategy policies and action plans in the area of ESG. Our material issues assessment is part of a wider set of stakeholder engagement process undertaken by the Group. The results of the materiality assessment informed the strategic themes and form the basis of this report.

Methodology and findings of our latest assessment are described below:

Issue Identification

To establish a KCB perspective on material issues affecting the Group, cross-functional staff were invited to participate in a materiality workshop where they discussed issues that may hamper KCB from achieving its strategy.

Access to external stakeholders was made through other engagements held in the course of the year. A light touch review of the outcomes of these engagements at the time of the workshop did not reveal any substantial difference.

The issues were grouped into 7 broad categories and the most recurrent, assumed to have higher importance. The summary of the categorization is tabulated below:

Collation & Prioritization

The output from both engagements was then collated and similar issues combined to one descriptor e.g. P2P (Procure-to-Pay) comprised of procurement processes, payment processes, turnaround time, onboarding processes of suppliers among others.

This process yielded 21 unique descriptors each aligned to one of the 7 broad categories aforementioned and highlighted on page 17. Ranking the importance of the categories was based on the frequency with which they were alluded to during the workshop. The frequency of these mentions formed the KCB perception while the light touch review was aligned to the 7 categories, resulting in the formation of the stakeholder perception.

CORPORATE CONDUCT	TALENT MANAGEMENT	CUSTOMER CENTRICITY	OPERATIONAL EFFICIENCY	RISK MANAGEMENT	SHARED VALUE, DIVERSITY AND INCLUSIVITY	BUSINESS GROWTH
Governance, Ethics, Accountability, Culture (Trust), Regulatory Compliance, Transparency, Structured Engagement, Communication, Professionalism, Confidentiality, Integrity, Values, Brand consistency	Capacity, Alignment, Identify, Retain, Nurture, Capacity-Building, Succession, equipping for Future, Placement – matching competencies, Remuneration, Promotion, Disability consideration, Strategy engagement, competence, Rewarding	Trust, Culture, One Stop shop, Seamless experience, Brand consistency, Accessibility, Relationships, Agility, Dynamism, Innovation, Flexibility	People, Process (Responsiveness (TAT)), Technology, Reliability, Convenience, Culture	Succession, Strategy engagement, Prudence, Proactive and not Reactive, Anticipation, Planning, Compliance, Portfolio Diversification, Audit, Relevant Policies, Monitoring the environment (PESTEL), Due diligence in Emerging Trends/ Markets	Green Agenda, Youth, Women, SME and Local Procurement) Equity & Parity in Remuneration, Disability consideration, personalized experience, financial inclusion	Strategy and Execution, Shareholder Value, Market Value, Sustainable Growth, Portfolio Diversification, Partnerships, Capacity, Region, Nurturing and creating opportunities, financial inclusion

Materiality Matrix

Materiality Matrix Output

A continuous scale of 1-5 was used to rate the importance of the material issues where:

1 –Low importance,

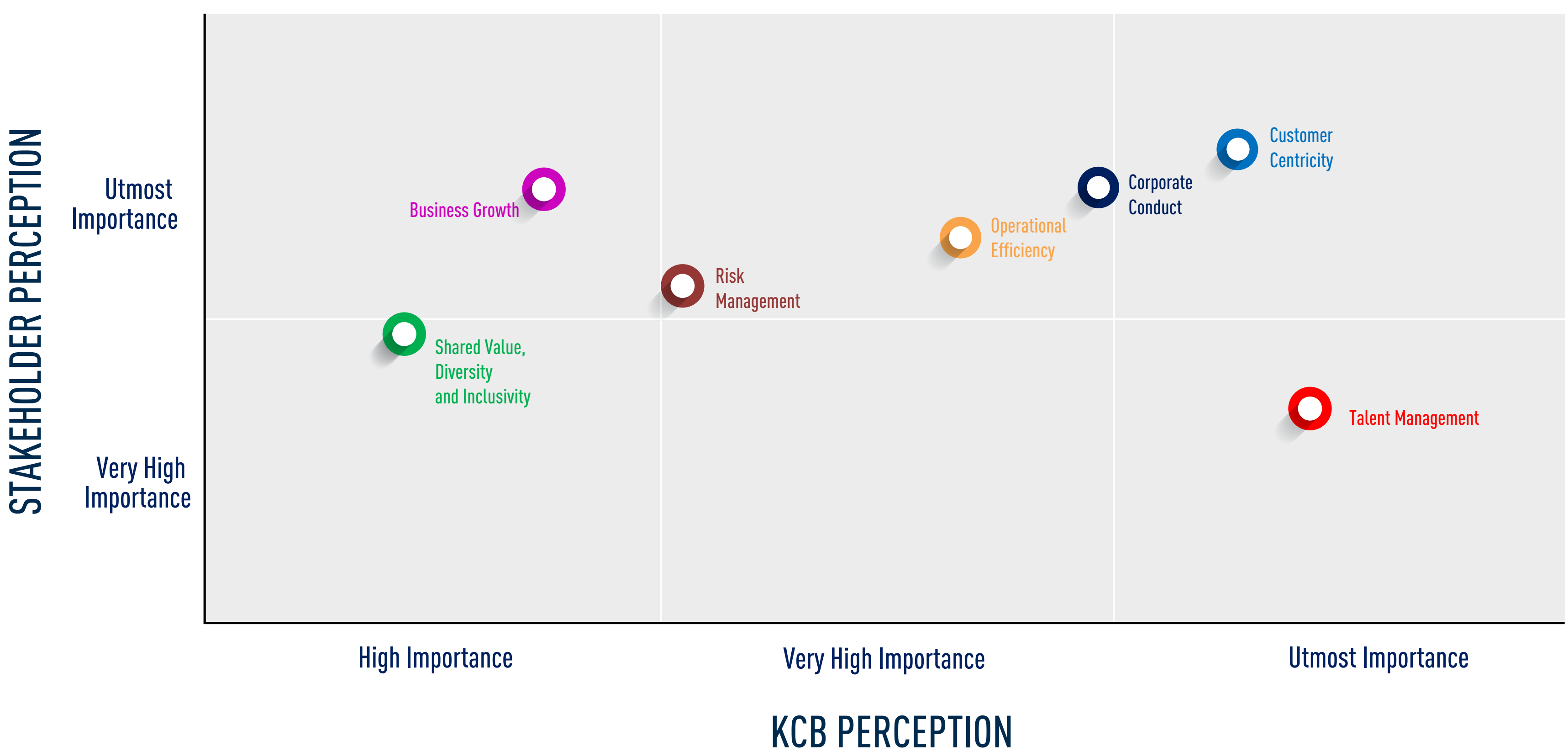
2- Moderate importance,

3 – High importance,

4 – Very high Importance

5 – Utmost importance.

The categories were placed in the matrix below relative to the degree of stakeholder perception and KCB perception. The 7 categories collectively represent the material issues facing our business and experience has demonstrated some form of interdependency between them. Further, this assessment informs how the board and management approach the strengths, weaknesses, opportunities and threats to long term value creation.



"KCB Group undertakes annual materiality reviews by actively inviting selected groups amongst our stakeholders to give us feedback on a range of issues that may give rise to Environmental Social and Governance issues."

Materiality Issues Explained

For greater understanding, we broke down the 7 categories in the matrix, with the descriptors under each explained. These factors were individually weighted, averaged and grouped accordingly.

1 Corporate Conduct

Compliance
Upholding utmost compliance to the Laws and Regulations of all jurisdictions we operate in.

Culture
Enabling customer's progress by simplifying their world
Disclosure & Transparency
Clarity in disseminating useful and relevant information to our stakeholders in a timely manner

Ethics, Integrity & Governance
Maintaining sustainable ethics and integrity in our businesses and communities.

Strategy
Engagement in determining the Groups' strategic themes and executing them to meet and surpass KPI targets

2 Talent Management

Benefits/Remuneration
Ensuring the wellness of our staff and fairly compensating them, while also ensuring for a positive working environment.

Upskilling
Developing the Group's staff with relevant skills to enable them to deal with all of our stakeholders needs; including necessary engagement.

3 Customer Centricity

Products Specificity
Providing innovative, unique & affordable products tailor-made to customers' needs and ensuring their ease of use and efficiency.

Confidentiality
Protecting customer data and maintaining client privacy.

Customer Experience
Commitment to making the customer experience as seamless and costless as possible.

4 Operational Efficiency

Service Delivery
Enhanced capacity to execute solution oriented services to enable our customers' progress in good time.

P2P - Procure to Pay
Efficiency and timeliness in facilitating the onboarding, retaining and payment of partners

5 Risk Management

Legislation
Actively coping with pertinent legislation as drafted in Parliament or by way of Civil procedures.
Cyber-crime, Fraud & Theft
Raising vigilance and awareness of such risks through training and proactivity in efforts to secure our business ecosystem.

ESG Risk
Integrating our social and environmental risk management into business processes allowing the Group to avoid and manage loans with potential social and environmental risks by conducting social & environmental due diligence prior to loan disbursement.

System Stability
Reducing system down-time while also ensuring efficiency in responsiveness and resolution of issues.

Digital Disruption
Vigilance on the impact new technologies may have on the Group's strategy, but also researching on ways these disruptions may be opportunities for growth.

6 Shared Value, Diversity and Inclusivity

Enabling Communities
Striving to provide economic empowerment, through various avenues, not limited to supporting start-ups, SME's, sponsorships, scholarships.

KCB Green Agenda/SEMS
Embracing the pursuit of a Sustainable enterprise through reduction of costs, emissions, waste and responsible lending. (see 10-point action Plan on page 68)

Partnerships
Supporting our key stakeholders to enable their progress.

7 Business Growth

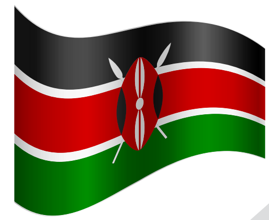
Sustainable Economic Growth
Driving towards consistent, sustainable financial position while sustainably investing in our core businesses.

Shareholder Return
Maximizing shareholder value and ensuring a consistent dividend payout to our shareholders.

Innovation
Constant product and sector innovation that will allow the Group to grow and survive through changing periods.

Operating Environment

KENYA



Estimates of Gross Domestic Product (GDP) indicate that the economy grew on average by 6.0% during the first three quarters of 2018 compared to 4.7% in a similar period of 2017. Favorable weather conditions and a stable macroeconomic environment created a conducive environment for the growth during the period. The growth was mostly supported by pickup in agriculture, trade and transport. A rebound in activities of the manufacturing sector also contributed significantly to the improved performance during the period. Accommodation and food service and information and communication recorded the highest growths of 16.0% and 9.1%, respectively.

Overall inflation in 2018 averaged 4.7% compared to 8.0% in 2017. The high inflation in 2017 was driven by high food prices. In 2018 adequate rainfall drove food prices to low levels and inflation during the year was due to increase in fuel and electricity prices.

Year on year, the shilling appreciated 1.4% (only African currency to do so) to close the year at 101.85 to the USD. The shilling averaged 101.30 to the USD in 2018 compared to 103.42 in 2017 (a 2.05% appreciation). This was as a result of increased exports of tea and horticulture, increased diaspora remittances, strong receipts from tourism, and lower imports of food and SGR-related equipment relative to 2017.

The CBK usable foreign exchange reserves remained strong at USD 8,001 million (5.2 months of imports cover) as at end of December 2018. This fulfilled the requirement to endeavor to maintain at least 4 months of imports cover, and the EAC region's convergence criteria of 4.5 months of imports cover.

The Central Bank Rate (CBR) averaged 9.3% in 2018 compared to an average of 10% in 2017. During the year under review, the monetary policy committee reviewed the CBR downwards twice, each by 50 basis points (bps) (March and July). This reduced on the commercial banks' lending rate, averaging 13.06% in 2018 from 13.67% in 2017.

The yield on the 91-day treasury bill averaged 7.74% in 2018 compared to 8.37% in the previous year. The period was characterized by declining yields on treasury bills with oversubscriptions on all the three different tenure bills.

Domestic credit grew by 4.6% in the month of December 2018, averaging 2.4% in the 12 months to December 2018. Strong growth in private sector credit was observed mainly in finance and insurance; consumer durables; business services and private households.

Public debt in Kenya grew by 15.4% year on year driven by 15.9% growth in external debt, while domestic debt grew 14.8%.

2019 looks to be a strong year for Kenya supported by the 'handshake' which eased political tension, creating renewed political momentum, while spurring business confidence and continued macroeconomic stability will contribute to growth. Moreover, Kenya's Big Four economic plan envisages enhancing structural transformation, addressing deep-seated social and economic challenges, and accelerating economic growth to at least 7% a year. By implementing the B4 strategy, Kenya hopes to reduce poverty and create decent jobs.

Our performance

	2017 KShs. million	2018 KShs. million
Total income	61,795	63,627
Operating expense	(29,245)	(29,165)
PAT	18,717	22,366
Total assets	641,068	692,765

Ratios

	2017	2018
NPL	8.5%	6.9%
CIR	46.8%	45.1%
ROA	3.6%	3.8%
ROE	22.6%	24%

BOARD OF DIRECTORS

Adil Khawaja
Chairman

Tom Ipomai

Julius Mutua
(Alternate to Henry Rotich*)

Simeon Rono

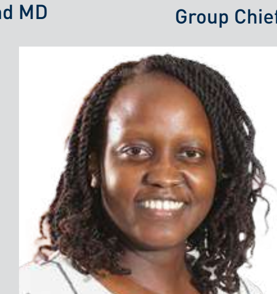
Njeri Onyango

Caroline Rabar-Okongo

Joseph Muigai

Joshua Oigara
Group CEO and MD

Samuel Makome
Group Chief Operating Officer



Bonnie Okumu
Company Secretary

* Cabinet Secretary National Treasury

TANZANIA

2018 was a positive year for the economy with solid and sustained performance over the past 3 years.

This year's performance was mainly driven by domestic demand and expansion of bank credit, especially to households, and trade and manufacturing companies.

The GDP performance for the year was estimated at 6.7% in 2018, from 6.8% in 2017. The performance was mainly driven by the expansion in the construction sector with projects such as the Standard Gauge Railway (SGR) and Rural Energy Agency (REA) triggering GDP growth. Furthermore, the expansion of Air Tanzania resulted in the growth of the service industry, trade sector, as well as providing a welcome boost to tourism which all supported this continued GDP growth.

The medium-term outlook is positive, with growth projected at 6.6% in both 2019 and 2020, supported by large infrastructure spending, with opportunities likely to arise from peace and political stability in the country.

Annual Average Headline Inflation decreased to 3.5% in 2018 from 5.3% recorded in 2017. The decrease was mainly attributed to decrease in annual average inflation rate for food items to 3.7% from 9.6% in 2017. However, non-food items annual average inflation rate increased to 4.3% from 3.2% recorded in 2017. Headline inflation is projected to marginally increase to 5.2% in 2019 and 5.1% in 2020 due to increased government spending.

The Tanzanian Shilling (TZS) maintained its firm levels against the dollar closing the year at 2,281.23 compared to TZS 2,230.06 in December 2017, depreciating at 2.3%. The average lending rate eased to 17.39% in Dec 2018 from 17.60% in Dec 2017.

Treasury Bills yields for the 91, 182 and 364 day T-bills were stable throughout the year, closing the year at 3.0%, 5.22% and 8.74% respectively. From a regulatory standpoint, monetary policy was accommodative in the year, with the BOT slashing its discount rates in August 2018, from 9% to 7%, and we expect

6.7%

GDP Performance

this to be maintained in the same level in 2019. With regards to the banking sector, tightening liquidity environments, higher core capital requirements and high NPLs could prompt banks to seek mergers or acquisitions.

Some headwinds that may be expected arise largely from economic policy uncertainty with stunted private sector growth. Moreover, poverty and income inequality remain high despite high economic growth, largely as a result of youth unemplyment, which increased to 7.3% in 2016, compared with 5.7% in 2012.

The country, however, sees great opportunities that may arise in 2019, which are centered around peace and political stability. These opportunities are mainly borne from the country's abundant natural resources, a strategic geographic location, and immense development potential for tourism.

The Export Zone Processing Agency has accelerated manufacturing exports and helped the country achieve structural transformation attracting close to $1 billion in foreign direct investment and revive the manufacturing sector into one of the fastest growing in Africa.

Our performance

	2017 KShs. million	2018 KShs. million
Total income	2,113	2,397
Operating expense	(1,518)	(1,503)
PAT	8	434
Total assets	23,440	26,654

BOARD OF DIRECTORS

Zuhura Muro
Chairman

Fatuma Chillo

Dr. Alex Nguluma

John Nyerere

John Ulanga

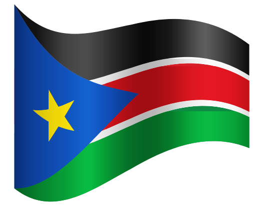
Georgina Malombe

Cosmas Kimario
Managing Director

Antonia Kilama
Company Secretary

Operating Environment

SOUTH SUDAN



The Republic of South Sudan steadily recovered from years of civil conflict, with the country's economic conditions improving following the signing of the peace agreement late last year.

This comes at the back of a combination of internal conflict, weak global oil prices, the closure of oil fields and poor rains that resulted in economic activity contracting, between 2016-18. These events led to the declaration of the hyperinflationary economy.

GDP growth improved by 2% from -8.20% in 2017 to -6.30% in 2018 due to improved security and the signing of the comprehensive peace agreement. Annual GDP is expected to grow by 5.40% in 2019 due to the anticipated tailwinds.

Oil accounted for over 99% of South Sudan's export revenues during 2014-2018, with sesame seeds the only other export commodity of some significance. However, the country's oil production was on an upward trend in 2018 with on-and-off conflict disrupting output and transport processes.

However, output is expected to recover in 2019 going forward to a tune of 350,000 barrels a day.

-6.3%

GDP Performance

Monetary Policy:

The country is still facing a severe shortage of foreign currency, with little reason to believe that the weakening trend would stop heading into 2019, especially due to the oil-dependent economy. The sharp depreciation in the currency placed significant pressure on imported consumer prices.

Headline inflation peaked at 831% year-on-year in Oct 2016 and has subsequently been on a broadly downward trajectory to stop at 32% in Dec 2018. The IMF expects inflation to moderate at an average 45% in 2019. However, this is premised on some key assumptions, including the state implementing proposed fiscal adjustments.

Should the peace agreement bring resolution to the conflict, a fiscal deficit no larger than 3% of GDP is estimated by the IMF with exchange rate stability and a recovery in both oil production and non-oil GDP to follow.

Economic prospects remain promising in 2019 and beyond after signing the peace agreement late last year. Oil production is expected to hit an all-time after the signed agreement with China to develop the dilapidated infrastructure in exchange of crude oil. This will in return increase the country's non-oil revenue collection.

However, given the country's over-dependence on crude oil exports, slight changes in oil production, prices, and demand can quickly translate into massive economic shocks.

The country has one of the most constrained business and investment climates in the world but is expected to improve with the introduction of large infrastructural projects.

Our performance

	2017 KShs. million	2018 KShs. million
Total income	3,174	1,298
Operating expense	(1,057)	(590)
PAT	11	428
Total assets	19,068	14,113

BOARD OF DIRECTORS

Gen. (Rtd) Joseph Kibwana
Chairman

Charity Muya-Ngaruiya

Nyiel Kuol

Prof. Festus Abduleziz James

Yacoub Leju Kenyi

Lawrence Kimathi

Harun Kibongong
Managing Director

Mary Oganga
Company Secretary

RWANDA

The year 2018 showed a continued improvement of economic activities, increasing growth and narrowing of the trade balance gap compared to the previous two years. It was estimated that the economy grew by 8.6% in 2018, markedly higher than the projected rate of 7.2%, and 550 basis points higher than the 3.4% reported in 2017. The story of steady growth above 7% on average since 2007 has been maintained through sound economic policies, government-led investment with donors, major infrastructure projects and relatively strong performance in agriculture, initially in coffee and tea but with an increasing share in non-traditional agriculture exports.

8.6%

GDP Performance

Economic growth has mainly been driven by the service, trade, transport and ICT sectors which all recorded growth. Moreover, the construction and mining sectors also marked growth following the increase in the international metal prices. Lastly, the agriculture sector grew by 8%, supported by positive weather conditions that were experienced in the region in 2018. These conditions permitted good growth in maize, bush beans, cassava and banana, which led to growth in food crops, export crops and livestock.

Annual inflation was mainly driven by imported items whose cost went up by 3.4% in December 2018 and by 3.3% the previous month. Excluding food and energy, consumer price index went up by 1.4% when compared to December 2 2017.

Through FY2017/2018, Money Market interest rates have been declining in line with an accommodative monetary policy stance and improved banking system liquidity conditions. The weighted normal rate of T-Bills decreased from 8.78% in 2017 to 6.64% in 2018 while lending rates slightly declined to 15.6% in 2018 compared to 17.4% in 2017.

The Rwandan Franc (RWF), like most currencies in the sub-Saharan Region, depreciated by 4.8% against the USD in 2018, majorly due to the relatively increased demand for dollars to finance imports. However, pressures on exchange rate remained moderate due to the significant increase in exports, at 23.8% increase, while imports grew by 7%. Additionally, the 'Made in Rwanda' initiative and international conferences in Rwanda injected further foreign currencies in the economy, supporting the RWF.

2019 holds great prospects for the Rwandan economy and banking in general, with the economy is projected to grow at 7.8% in 2019 and 8.0% in 2020. These forecasts are supported by export growth resulting from the Made in Rwanda policy, continued public investments such as the Bugesera International Airport, which will boost tourism and finally, through the country's strong record of implementing reforms to achieve its long-term development goals.

Our performance

	2017 KShs. million	2018 KShs. million
Total income	1,879	1,842
Operating expense	(1,251)	(1,498)
PAT	375	226
Total assets	19,023	24,001

BOARD OF DIRECTORS

John Bosco Birungi
Chairman

Tom Ipomai

Daniel Zitunga

Speciose Ayinkamiye

Molly Rwigamba

Antonia Muturo

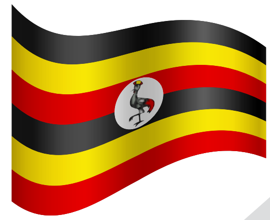
Timothy Kariuki Mwai

George Odhiambo
Managing Director

Brice Manzi
Company Secretary

Operating Environment

UGANDA



Uganda's economy is expected to grow 6.3 percent in 2019 (International Monetary Fund, IMF), slightly higher than the 2018 growth rate of 5.3%, helped by robust activity in sectors including manufacturing, foreign direct investment in the oil and mining subsectors, and reforms to improve the business operating environment. 2018's growth was an improvement from 5.0% in 2017. On the supply side, industry and services contributed considerably to this growth while agriculture showed slower growth. On the demand side, greater investment in public infrastructure was the main contributor to growth while the current account registered a deficit due to growing imports of capital goods, thereby stymieing growth.

Treasury Bills yields for the 91, 182 and 364 day T-bills all increased slightly to 10.8%, 12.0% and 13.0% as at the end of December 2018 from 8.69%, 12.5% and 13.1% at the beginning of the year.

Inflation reduced to an estimated 3.2% in 2018 due mainly to lower food inflation and prudent monetary policy. In the near term, inflation outlook is slightly lower than the previous forecasts, mainly on account of lower food prices. Both headline and core inflation are forecast to converge on the 5.0% target in the medium term.

The fiscal deficit widened to an estimated 4.7% in 2018, driven largely by ongoing public infrastructure investments supported by borrowing from both domestic and external sources. The country's debt to GDP ratio was estimated at 40.0% in 2018. Despite this ratio, the country's debt sustainability assessment indicated a low risk of debt distress. The fiscal deficit is projected to narrow to 4.4% in 2019 with the current account deficit stabilizing at 4.9%.

The Uganda shilling on average remained relatively stable during 2018 with a year on year average depreciation rate of 3.2% against the US dollar. Going forward, the Uganda shilling may remain relatively stable in the very near term on account of increased inflows. Over the medium term however, the shilling may come under pressure on account of the weak current account position owing to higher import growth that is likely to continue outpacing the growth in exports in addition to the volatile international economic environment.

2019 has potential to be a good year for Uganda given that the 2016 elections went by peacefully, despite some disputes. Upsides come from the improved credit to the private sector anchored by supportive monetary policy stance. Moreover, anticipated expansion of the manufacturing, construction, and services sectors will also support growth in 2019. This outlook is premised on the continued favourable weather conditions, external demand, increased Foreign Direct Investment (FDI) inflows as oil exports draw closer, and prudent expenditure on public infrastructure projects, as planned. These tailwinds are however hampered by potential downside risks to the economy such as adverse weather impact on the agricultural sector. Furthermore, the slow implementation of infrastructure investments, low commodity prices and demand for the country's exports in major markets, appreciation of the US dollar and tightening of global financing conditions that could discourage FDI and adverse spill over shocks from fragile regional neighbors.

5.3%
GDP Performance

Our performance

	2017 KShs. million	2018 KShs. million
Total income	1,693	1,825
Operating expense	(1,343)	(1,379)
PAT	317	317
Total assets	21,085	18,770

BOARD OF DIRECTORS

Aga Sekalala Jr.
Chairman

Dr. Jeff Sebuyira- Mukasa

Apollo Obbo

Getrude Karugaba

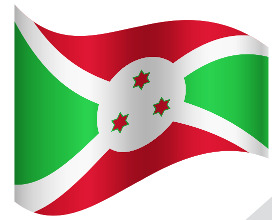
Edgar Omoto

Paul Russo

Samuel Makome

Edgar Byamah
Acting Managing Director

BURUNDI



After three years of contraction, Burundi's economy continues to recover slowly with annual GDP growth improving from to 0.5% in 2017 to 2.8% in 2018, based on estimates from the World Bank. Agriculture accounts for over 40% of GDP and employs more than 90% of the population. Burundi's primary exports are coffee and tea, which account for 90% of foreign exchange earnings. However, the international prices of agricultural commodities declined by 3%. This is likely to have a negative impact on the revenues generated from coffee. Burundi 's export earnings and its ability to pay for imports, rest primarily on weather conditions and international coffee and tea prices.

Headline inflation averaged 16.1% in 2017 but began declining in 2018, with the 2018 average being -2.58%(being in deflation) as per the national statistics. October 2018 saw the country record an all-time low inflation of -8.4%, largely due to a good agricultural harvest and the subsequent decline of food prices.

2.8%

GDP Performance

Foreign exchange pressures have continued, with shortages constraining the import of essential goods. The decline in external support after 2015 has resulted in the depletion of international reserves with limited other sources of foreign exchange (exports, foreign direct investment, and remittances). The Central Bank made interventions, including liquidity injections and restrictions on foreign exchange transactions, which resulted in the limited depreciation of the official exchange rate to 2.3% in 2018 from 4.6% 2017.

An important change in the financial calendar of Burundi occurred in 2018, where the budget has been running from January to December, but for 2019, the Government decided to harmonise its budgeting year with the rest of EAC. This means that the country will operate on a preliminary budget from January to June 2019.

The low interest rate regime continued in 2018. In genaral, there has been a declining trend from December 2017. The 5-year Bond is the lowest in the EAC region at a rate of 10.5% while the 364-day T-bill rate annual average was 3.82% in 2018.

2019's outlook for Burundi is promising, especially after the successful and peaceful referendum that was held in May 2018. The incumbent president further renounced his participation in the 2020 general elections, which has spurred on the country, giving hope for a brighter future. Furthermore, there are several strengths and opportunities, that if tapped, will have a considerable impact on growth and job creation. These include underexploited mining potential for peat, limestone, nickel, tantalite, phosphates, vanadium and carbonatites. Moreover, there is massive room for exploitation of Burundi's hydropower potential of 1,300 MW, with currently less than 40 MW tapped. This will supplement development of the 650-kilometer-long Lake Tanganyika, home to 10 ports, which could make it an interregional trade hub. The establishment of the Burundi Special Economic Zone (BSEZ) in Warubondo next to the DRC border is also expected to boost the economic growth of Burundi.

Our performance

	2017 KShs. million	2018 KShs. million
Total income	731	813
Operating expense	(582)	(566)
PAT	69	224
Total assets	7,160	7,279

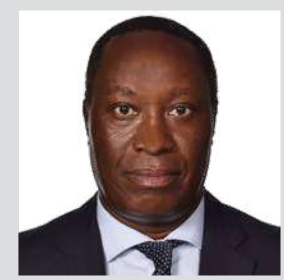
BOARD OF DIRECTORS

Julius Mutua
Chairman

Consolata Ndayishimiye

Adrien Sibomana

Margaret Kositany



Joseph Muigai

Gloria Nyambok
Managing Director

Janet Mwaluma
Company Secretary

Control Environment

RISK MANAGEMENT

KCB Group has adopted an enterprise-wide risk management framework with the overall objective of ensuring that risks are identified, quantified, managed and monitored to achieve an optimal-risk reward profile. This in turn enhances shareholder value by managing risks proactively and intelligently in order to maximize earnings potential, ensure earnings stability and take measures to protect KCB Group against unforeseen losses.

KCB Group has adopted integrated risk management that seeks to protect the Group's solvency through preservation of high asset quality, efficient operations and forward looking capital management resulting in sustained earnings that augment core capital, enabling regulatory compliance, enhancing market reputation and stakeholder support.

Risk Management Framework

KCB Group has established and implemented required risk management framework, appropriate policies and procedures for managing the risks across the Group that can be seen in the diagram below.

Risk assessment and management

The Group performs comprehensive examinations to assess the risks to which it is exposed and to determine the materiality of such risks. Within the ICAAP (the Internal Capital Adequacy Assessment Process), the Bank defined the following risks as material risks: credit risk, concentration risk, market risk, operational risk (including IT risk and cyber risk), interest-rate risk in the banking book, liquidity risk, reputational risk, strategic risk, regulatory risk, and compliance risk.

The risk-management strategy of the Group is designed to support the achievement of the strategic objectives of the Group as a whole while identifying and quantifying risks, establishing risk ownership, and maximizing business value, taking into consideration costs in terms of risk, by every responsible function at all levels of the organization.

Risk management at the Group is based on a uniform methodology, from a comprehensive perspective, adapted to regulatory requirements, with the aim of supporting informed risk-taking in order to maximize the Group's profitability at a risk level aligned with its risk appetite.

The Group actively takes risks, as allowed within its risk appetite and risk tolerance. Risks are taken while examining the adequacy of the benefit in business terms. Unacceptable risks are risks at a level that exceeds the maximum risk tolerance level, as defined by the Group board of directors, or risks that may impair the strategic position of the Group to the extent of disruption of the successful continuation of its core activity.

i. Credit Risk

Credit risk is the risk that a borrower or debtor may default on obligations to the Group under a credit agreement.

The credit portfolio is a major component of the asset portfolio of the Group; therefore, deterioration in the stability of the various borrowers may have an adverse effect on the Group's asset value and profitability.

Activities that create credit risk include:

- ***Balance sheet exposures –*** Present liabilities to the Group, such as credit and mortgages to the public, credit to banks and deposits with banks and credit to governments.
- ***Off-balance sheet exposures –*** Potential (unrealized) liabilities to the Group, such as guarantees, unutilized commitments to grant credit and unutilized credit facilities.

Another risk arising from the portfolio of credit exposures is concentration risk. Concentration risk arises from non-optimal diversification of specific risks in the credit portfolio, such that the credit portfolio is insufficiently diversified across the various risk factors; for example, when the credit portfolio is composed of a small number of borrowers (name concentration) or has a high degree of exposure to a particular economic sector (sector concentration).

Management of credit risks

The goal of credit-risk management is to allow the Group to operate, and to ensure that it operates, in accordance with the policies and strategic objectives established and within the risk appetite defined in the area of credit, from the level of the single transaction to the overview of the credit portfolio.

The Group's credit risk management policy is based on diversification of the credit portfolio and controlled management of risks. Risk diversification is reflected by the distribution of the Group's credit portfolio among different sectors of the economy, a large number of borrowers, different linkage segments, and different geographical regions.

The policy of distributing risks among economic sectors is based on an evaluation of anticipated developments in the different sectors. For this purpose, the Group conducts industry-level economic feasibility studies to evaluate the risk and business potential related to activity in the various economic

sectors. The Group's business objectives are determined in accordance with these studies.

Credit review systems identify, monitor, and report to the responsible function and to managers on negative signs related to borrowers. Credit risk management is based on the following principles:

• ***Independence –*** The principle of independence is an essential element of proper corporate governance, in order to prevent conflicts of interest and create a system of checks and balances. The goal of this principle is to ensure that the information regarding risks reported to management functions, and in particular to senior management and the board of directors, is objective and is not influenced by other considerations, in particular considerations of business success and remuneration for such success.

• ***Hierarchy of authority –*** The Group has a hierarchy of authority that outlines a sequence of credit authorizations, according to the level of debt of the borrower or group, the risk rating, and problematic debt classifications, allowing control over the process of approving new credit transactions. The hierarchy of authority provides a definition of individual credit approval thresholds and thresholds for transfer to approval committee.

• ***Credit policies and procedures –*** The Group Board of Directors sets forth the credit policy which is examined and updated routinely, according to changes in the financial markets and in the economy. This policy includes various limits on the credit portfolio, in accordance with the risk appetite of the Group, including exposure limits by economic sector, country, or financial institution, as a function of the risk level assessed by the Group. Limits are also imposed on the maximum exposure to a single borrower, according to the credit rating assigned to the borrower, which reflects the borrower's risk level, as well as a maximum limit for a group of borrowers.

• ***Controls and risk identification –*** The process of reviewing and identifying credit risks is conducted by the three lines of defense. Controls are applied from the level of each individual credit item to the level of the portfolio, in the first and second lines of defense, according to materiality thresholds. The Credit and Risk Divisions coordinate reports to the senior management and board of directors regarding trends and changes in the credit portfolio, including the level of credit risk in the portfolio, compliance with limits, special events, and analysis of concentration, stress scenarios, and presentation of general risk indicators.

In the third line of defense, Internal Audit is responsible, among other matters, for reviewing the implementation and effectiveness of risk-management procedures and risk-assessment methodologies, including the implementation of risk management and control policies at the Group.

The identification of credit risk in existing products is based on risk management, measurement, and control processes at the various levels. The identification of risk in new products relies on the policy for new products, which specifies the processes to be followed for each new product at the Group in order to identify all risks involved in the product, assess the extent and materiality of such risk, and provide solutions for the measurement, control, and hedging of the risk.

ii. Operational Risk

Operational Risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It includes legal risk covering, but not limited to, exposure to fines, penalties, or punitive damages resulting from supervisory actions, as well as private settlements. It does not include strategic and reputational risks. The chart below highlights common Operational risks within the Operational Risk definition:

In order to provide clarity and a common language around ORM, the Group breaks down operational losses primarily in three dimensions: - Loss Events, Loss Effect and Causal Factors as recommended by Basel II accord.

Operational Risk Management

The Group has Operational Risk Management Process outlines the sequence of activities and decisions involved to manage Operational Risk. Operational Risk Management process in KCB consists of following components.

• Identification;

• Assessment;

• Monitoring;

• Reporting;

• Controlling / Mitigating of Operational risks.

• Training and Awareness

The operational risk profile is monitored periodically in relation to the operational risk appetite established in the policy, using various parameters, at the level of the Group as a whole and at the level of specific units and processes. The Group allocates capital in respect of operational risk assets, on the basis of a standardized model defined by the Group. Reports on compliance with risk-appetite limits

Risk Management

are submitted on a quarterly basis, within the consolidated risk document.

The ORM risk governance model details the structure and relevant roles and responsibilities. Various committees are set up to manage the risk agenda led by the Group Operational Risk and Compliance Committee (GORCCO), which is a senior management committee that provides oversight of significant risk issues and divisional meetings DORCCO where risk issues are discussed. The branches also hold their monthly risk meetings to deliberate on risk matters.

Various tools developed under the Operational Risk framework ensure that adequate measures are put in place to mitigate Operational risks. The Group may retain certain level of risks to carry out business, while the decision to insure risks is taken in accordance with the overall business strategy and risk appetite.

iii. Fraud Risk

KCB has adopted the Association of Certified Fraud Examiners (ACFE) definition of fraud as being all those activities involving dishonesty and deception that can drain value from a business, directly or indirectly, whether or not there is personal benefit.

Fraud Risk Management

The Group Board has approved Fraud Risk Framework/ policy which covers both internal and external frauds. It is applicable across the KCB Group including Board of Directors. It covers Prevention, Detection and Investigation of Frauds.

The Fraud Risk Management Framework aims to reinforce the KCB values of honesty, integrity and ethics and in this regard has a "Zero Tolerance" approach to fraud and corruption. KCB is committed to ensuring that a fraud free environment exists and high ethical standards are upheld in the organization.

The key objectives of Fraud Risk framework are:

- Development of a suitable environment for fraud management.
- Maximum deterrence of fraud.
- Successful prevention of fraud which cannot be deterred.
- Professional investigation of detected fraud.
- Effective sanctions, including legal action against people committing fraud.
- Effective methods for seeking redress in respect of money defrauded.
- Raising awareness of fraud and its prevention within the Group and to give guidance on reporting of suspected fraud and how the investigations will be conducted.

> **"Risk management at the Group is based on a uniform methodology, from a comprehensive perspective, adapted to regulatory requirements, with the aim of supporting informed risk-taking in order to maximize the Group's profitability at a risk level aligned with its risk appetite."**

Fraud Risk Framework applies to the prevention, detection and response to any fraud, or suspected fraud, involving staff of KCB Group as well as shareholders, consultants, suppliers, contractors, outside agencies doing business with employees of such agencies, and/or any other parties with a business relationship with KCB Group.

All Stakeholders of the Group has a responsibility in respect to the fight against fraud and other illegal acts. It is everybody's responsibility to prevent and report fraud, misappropriation, and other inappropriate conduct within their knowledge and ability. Hence, the employees are trained on fraud awareness in their respective areas of work.

We have built in mandatory checks into our processes/operations as fraud prevention measures. There is a management level Disciplinary Committee which decides on the consequences for cases depending on their severity.

iv. Market and Liquidity Risk

Market Risk is the risk of loss arising from potential adverse changes in the value of the Group's assets and liabilities due to fluctuations in market risk factors including but not limited to interest and foreign exchange rates.

Liquidity Risk is the risk that the Group is unable to meet its contractual or contingent obligations or that it does not have the appropriate amount, tenor and composition of funding and liquidity to support its assets.

Market and Liquidity Risk Management

Market Risk exposures arising from the trading book are managed by the Treasury department whilst those arising from the non-trading activities are managed through the ALM (Asset and Liability Management) and ICAAP processes. Oversight of market and liquidity risk is provided by ALCO (the asset liability committee).

Market and Liquidity Risk measurement, limit setting, reporting and oversight is conducted by the Market Risk department under the CRO. The relevant market risks are Foreign Exchange Risk (FX Risk) and Interest Rate Risk (IRR).

KCB has a Board-approved Market Risk Framework which ensures sound risk management practices. It outlines the policies that govern KCB's strategy and objectives for Market, Liquidity and Country Risk management and the approach and processes by which KCB achieves those objectives. The Market Risk Framework establishes Risk Management Processes that result in the identification, assessment, measurement, monitoring and control / mitigation of market, liquidity and country risks in a consistent manner across KCB Group. It defines the risk governance structure and relevant roles and responsibilities, with the ALCO providing key oversight at the management level.

KCB expresses its acceptable level of market, liquidity and country risk through risk appetite statements and setting of the respective risk limits.

Market, Liquidity and Country Risk Monitoring

The Group monitors risk through the various limits including, but not limited to exposure, risk (PV01) and stop loss limits. The Group has a limit approval matrix that allows the Business units to take risk in a controlled manner. The respective limits are monitored on a daily / weekly / monthly / quarterly basis, keeping a record for all breaches as well as the breach authorization.

Liquidity risk is monitored through the Liquidity and Loan to Deposit Ratio limits as well as the review of the funding analysis looking at inter bank borrowing and deposit concentration. There is also a Contingency Funding Plan in place.

v. Information Risk

The Group is dependent upon IT systems and infrastructure for its various activities. ICT risk arises as a result of inadequate information technology and processing, or arises from an inadequate ICT strategy and policy or inadequate use of the Group's information and communication technology. ICT risk can cause adverse impact on the Group's business processes or mission, ranging from inconsequential to catastrophic loss.

The Group is subject to various forms of threats which can impact any or all of its ICT systems and operations. A system threat is the potential for a threat-source to exercise, accidentally trigger or intentionally exploit a specific vulnerability.

Information Risk Management

The Group has Board approved Information Technology Risk Policy to govern the protection of the Group's information assets from all threats, whether internal or external, deliberate or accidental, to ensure business continuity, minimize business damage and maximize return on investments and business opportunities. The objective is to protect the Group, its staff, customers and other third parties from information risks where the likelihood of occurrence and the consequences are significant. It also provides a consistent risk management framework in which information risks are identified, considered and addressed in key approval, review and control processes.

The Group Board has also approved Information Security policy to govern the management and security of data and the information systems that handle these data. KCB understands that Information is an important business asset and to be suitably protected from a growing variety of threats and vulnerabilities to ensure business continuity, minimize business risk, and maximize return on investments and business opportunities.

The Group's information assets are protected against current and emerging sources of threats including but not limited to:

- Cybercrime,
- Computer-assisted fraud,
- Espionage, sabotage and vandalism,
- Natural disaster, fire etc.
- Malicious software, computer hacking, and denial of service attack

Cyber Risk

Cyber risk is the risk of damage, including disruption, disturbance, shutdown of operations, theft of property, collection of intelligence, or damage to reputation or the confidence of the public as a result of a cyber event. The sophistication and severity of cyber-attacks on the global financial sector have grown in recent years. The technological developments and the expansion of digital services, on one hand, and the advanced tools available to attackers, on the other hand, have led to higher exposure to cyber risks.

The Group invests extensive resources (both human and technological) in strengthening its information security and cyber defense system, in order to cope with the development of these threats. The Group's defense framework consists of layers of protection using advanced technologies. The Group operates cyber defense processes in order to minimize the risk of penetration, unauthorized access to information systems, and materialization of attacks, and to ensure the correctness, availability, and confidentiality of its databases. The Group continually works to identify targets to defend, threats, risks, and the effectiveness of defenses, and to build work plans for improvement of the defensive framework accordingly.

vi. AML /CFT Compliance

The Group is committed to strictly uphold and comply with all rules and standards as well as any other provisions which, by law, apply to the Group with regard to Bank/customer relationship, Anti-Money Laundering (AML) and Counter-Terror Financing (CFT). The Group in its Compliance Policy has implemented an AML and CFT compliance programs, which apply also to its branches and subsidiaries.

Adherence and compliance to the group policy is the responsibility of all employees. In this framework, the Group requires its employees and managers to adhere to high standards and to stringently maintain the regulations on matters of compliance. It is the policy of the Group to take appropriate steps to prevent persons engaged in money laundering, terror financing, fraud, tax offences, or other financial crimes, from exploiting the Group's network, products and/or services. The Group examines, on a regular basis, its compliance strategy, the objectives and goals in order to implement and maintain an effective compliance plan in reference to the Group activity which reflects high standards and best practice.

Risk Management (continued)

The Group has developed and implemented written AML/CFT policies, procedures, internal controls as well as systems, which include but are not limited to the following:-

- A customer identification program and procedures;
- Customer Due Diligence and Enhanced Due Diligence based on risk approach methodology;
- Monitoring of customer transactions and activity;
- Screening of names and relevant information against watch lists;
- Reporting of suspicious activity;
- Record retention; and
- Training

Application

As an enterprise-wide program the Group's Compliance Policy applies to all subsidiaries. Wherever there is a conflict between local laws of a subsidiary and the Group Policy in regard to the prohibition of money laundering and financing of terror, the stricter provision will apply. The policies have been implemented with the appropriate changes and to an extent that this does not constitute any contradiction with local law.

vii. Emergency preparedness

Our strategic pillars are underpinned by our aim to be future-proof, by putting in place our sustainability pillars (Financial Economic Environmental and Social) to ensure business continuity.

The Group maintains and implements a continuous plan for emergency preparedness and business continuity (BCMP – business continuity management plan). The Group's preparedness is based on detailed action plans, working procedures, and periodic tests and drills, defined in a system of emergency procedures. As part of its emergency preparedness, the Group defines reference scenarios, map and analyze critical processes and the resources required for the recovery of such processes during an emergency (BIA), and update its action plans based on the prevalent methodologies. The Group Business Continuity Committee meets quarterly to ensure that should anything happen, we should still be able to operate and run the critical functions. However, in the case of actualization of inherent risks, we have dedicated recovery teams and sites that ensure business continuity with minimal impact to workflow. These sites have the critical capabilities used by business units so as to ensure that we should be able to switch over seamlessly in case of a disaster. The activation of a contingency plan is under the responsibility of the BCP Steering Committee.

In the year under review, we had a target of testing 100% of the 80% of the critical functions and surpassed the target by testing 100% of the 90 critical functions.

Additionally, we have established a disaster recovery site, to ensure the availability and protection of our information systems and of the information itself.

RISK CULTURE

The Group develops and maintains a risk-management culture that aids awareness of risk and appropriate behavior and judgment in connection with risk taking in the context of corporate governance, supports effective risk management, promotes appropriate risk taking, and ensures that emerging risks or risk-taking activities are identified, assessed, escalated, and addressed in a timely manner.

The risk-management culture instilled at the Group emphasizes the importance of:

(1) Achieving the proper balance between compensation and risk, subject to the risk appetite;

(2) An effective system of controls congruent with the scale and complexity of the Group;

(3) The ability to challenge the quality of risk models, the level of accuracy of the data, the ability of the available tools to measure risks correctly, and the justifications for taking risks;

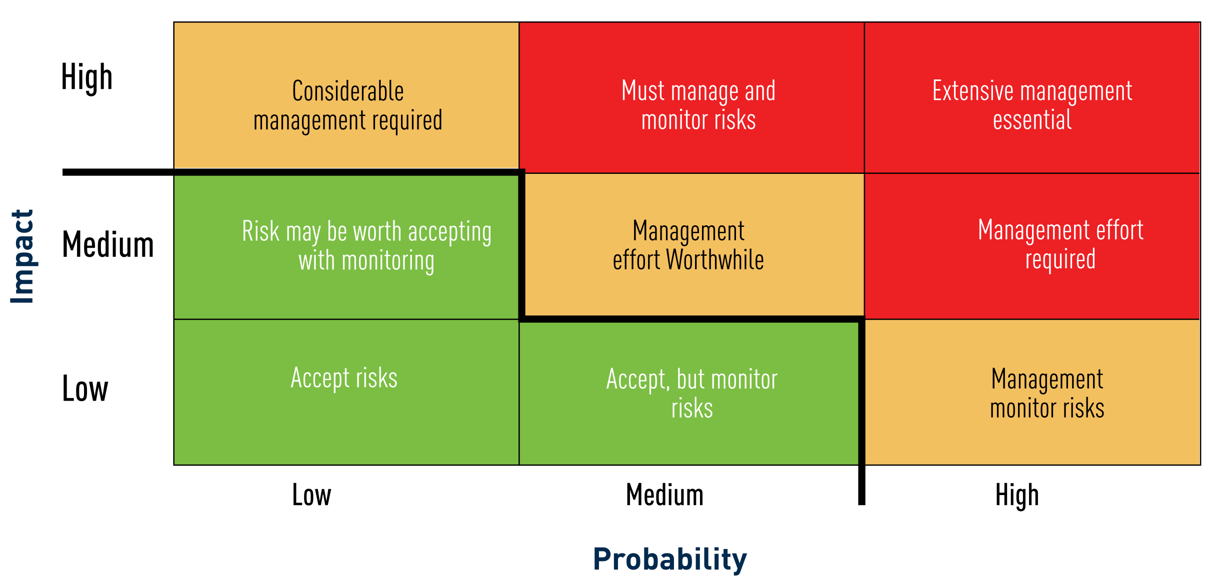
(4) Monitoring violation of limits and divergence from established policies, and application of proportional disciplinary proceedings, as necessary;

(5) Cultivating integrity, with a focus on fair service to customers.

RISK APPETITE

Risk appetite at the Group constitutes an effective framework for risk management and a key tool linking the organization's strategy, capital allocation, and risk management. The risk-appetite document declares the risk appetite of the Group. The Board of Directors establishes the risk-appetite framework, taking into consideration the recommendations of Senior Management. The risk appetite is translated into targets and limits for the business lines. The risk-appetite document also establishes the roles and responsibilities of the Board of Directors and senior management in formulating the risk-appetite statement. The risk-appetite framework includes policies, processes,

Risk Heat Map & Appetite



controls, and systems used to implement, communicate, and supervise risk appetite.

The risk-appetite framework includes a statement of risk appetite and risk capacity, risk limits, and descriptions of the roles and responsibilities of those charged with the implementation and control of the risk-appetite framework. The risk-appetite framework refers to the material risks to the Group, and establishes the risk profile in alignment with the Group's business strategy and risk capacity. An effective risk-appetite framework provides a shared structure and means for senior management and the Board of Directors to communicate, understand, and evaluate the level of risk that they are willing to accept. The framework explicitly defines the boundaries within which Management is expected to operate in order to realize the business strategy of the Group.

The framework includes the following main components:

• ***Risk-appetite statement:*** Written formulation of the extent and types of aggregate risk that the Group is interested in bearing in order to achieve its business objectives, including qualitative reports as well as quantitative metrics of profits, capital, risk indicators, liquidity, and other relevant means, as necessary, including:

• ***Risk capacity:*** The maximum level of risk that the Bank is able to sustain without violating capital limits relevant to stress tests, including from the perspective of shareholders and customers. Compliance with the risk capacity shall be examined, among other matters, by applying stress tests designed to estimate the impact on the Bank's profit and capital adequacy as a result of the materialization of a stress scenario.

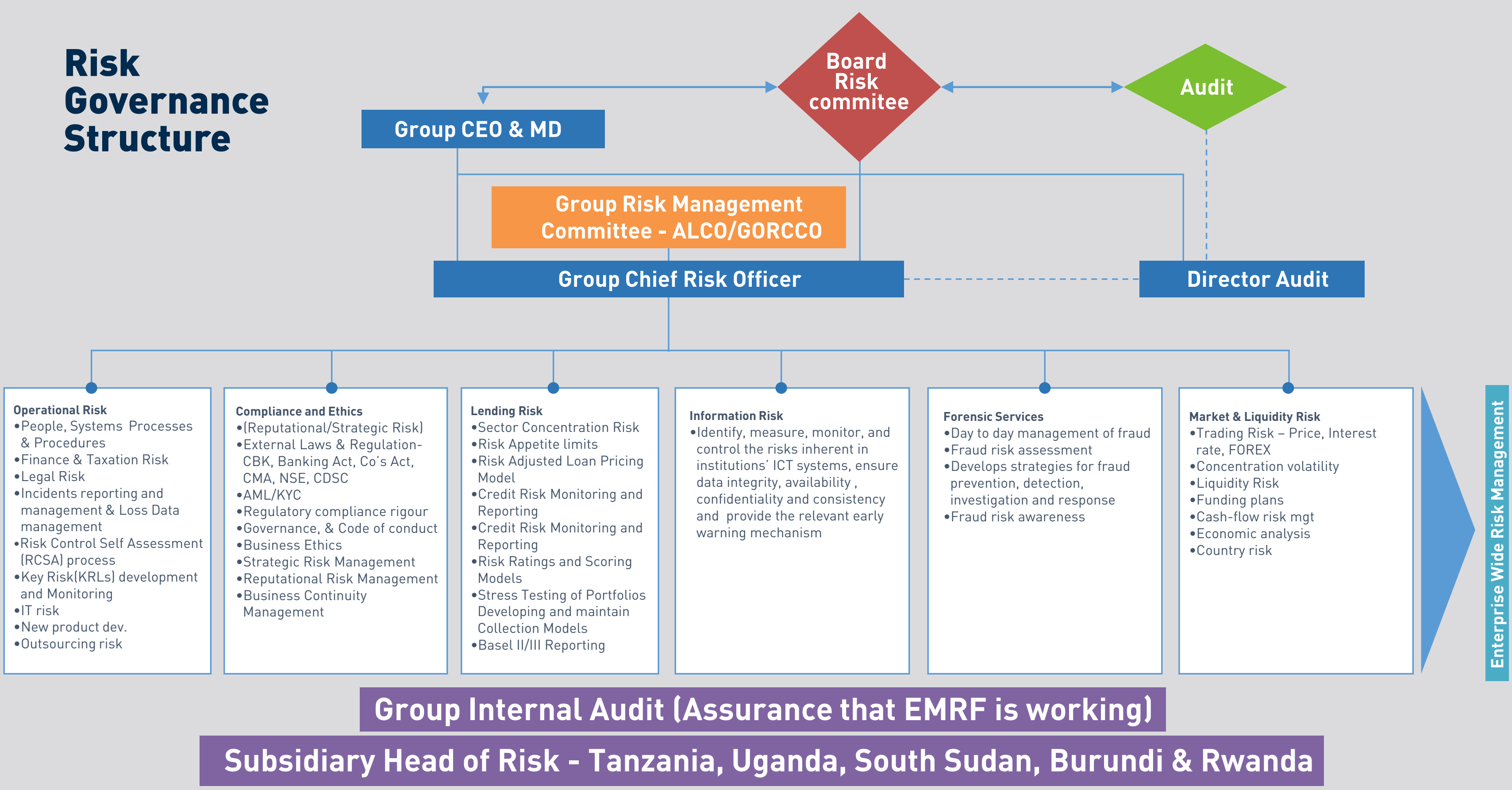
• ***Risk appetite:*** The maximum total aggregate risk that the Group is willing to bear, within its defined risk capacity, in order to achieve its business objectives in accordance with the strategic plan, under various constraints (such as sources of capital and liquidity, regulatory requirements, risk/return characteristics, etc.).

• Risk limits: Quantitative indicators that give practical expression to the aggregate risk-appetite statement of the Bank.

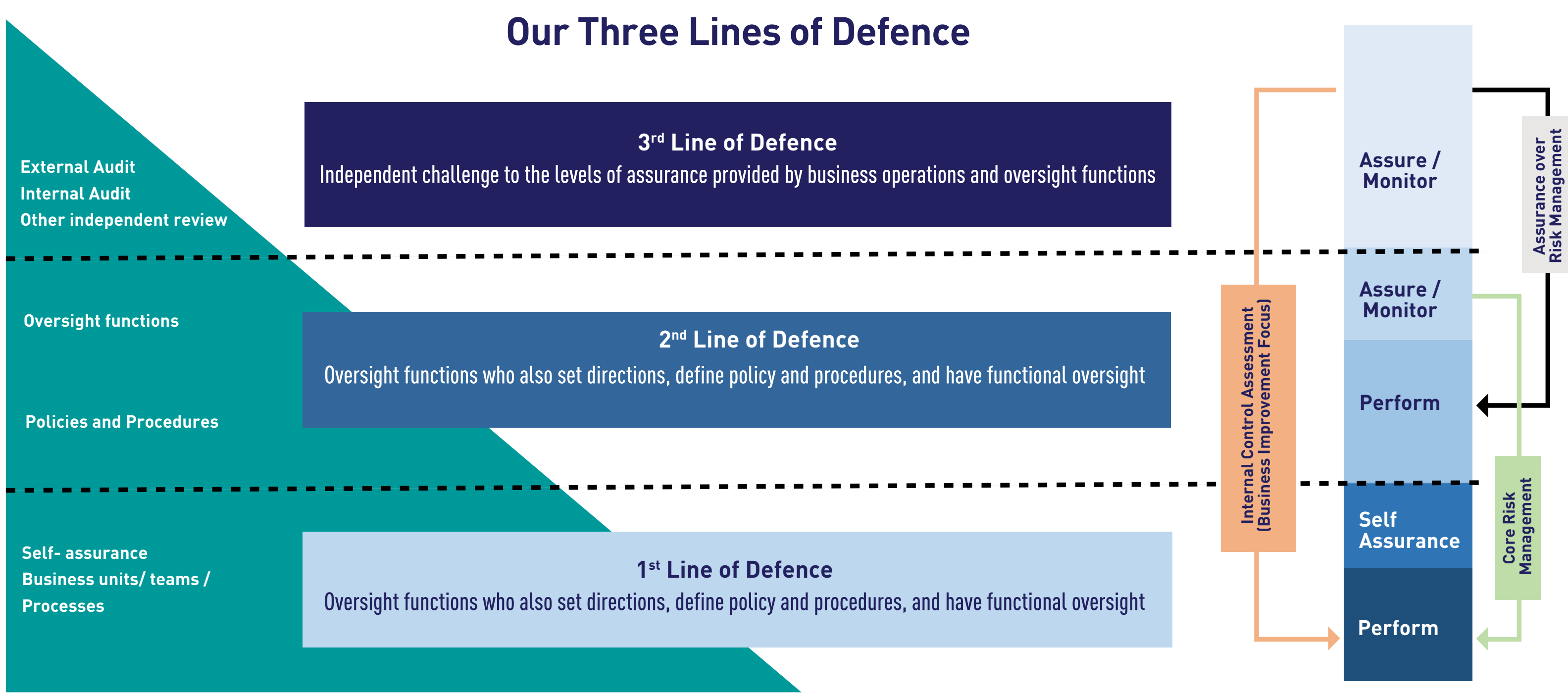
RISK GOVERNANCE

The risk governance structure set out the responsibilities for decisions on risk taking, oversight and management in the Group. This ensures accountability regarding risk management through articulation of risk management responsibilities.

The diagram below presents the KCB Group Risk Management governance structure. Risk governance is an integral aspect of corporate governance which focuses on the structures, processes and approaches for management of the significant risks. It defines clear responsibilities and expectations for all relevant parties as shown below.



Risk Governance



Risk management is performed based on a global view of the Group's activity in Kenya and of activity at the Subsidiaries' in the Region, with due attention to the activity of subsidiaries with exposure significant for the Group. The subsidiaries are instructed to manage risks based on the risk strategy and policy of the Group, with adjustments according to the circumstances, which are reported to the parent company. Risks are managed separately by each company in the Group, according to policy formulated by each company's board of directors.

The approach taken with regard to control of all financial and operational risks at the Bank involves identification and assessment of the risks, and control of compliance with risk-appetite limits and with additional limits stipulated in the various internal regulations, through three lines of defense:

KCB Group has adopted the three lines of defense model that provides a simple and effective way to enhance communications on risk management and controls by clarifying essential roles and duties. It provides a fresh look at operations thus helping to assure the ongoing success of risk management initiatives. This strategy gives the board and senior management three clear line functions to rely on, to ensure the effectiveness of the risk management framework.

First line: The business units are responsible for identifying, assessing, measuring, monitoring, mitigating, and reporting all risks inherent in products, activities, processes, and systems under their responsibility, as well as for managing an appropriate control environment in the context of risk management.

Further controls are performed at the second level of the first line of defense, in addition to those carried out in the units that create risk as part of the routine management of their business.

Second line: The second line of defense supplements the risk-management activities of the business lines. They challenge and advise the first line and serve as a countervailing power. A Risk Committee, chaired by a non-executive director, oversees the implementation of risk policies and monitors risk appetite across the Group. The Group's Chief Risk Officer reports on risk issues across all risk types to the Group Operational Risk & Compliance Committee (GORCCO) who ensure risk control and compliance oversight.

Third line: Internal Audit operates independently and objectively as a third line of defense. Its goals include helping the Group achieve its objectives by recommending risk mitigation through improved control. We have significantly improved the closure rate of audit issues over the last few years. In 2015, the closure rate of Group audit issues stood at 70% which has since improved significantly to 95% in 2018.

ICAAP

KCB Group has undertaken various initiatives to achieve compliance with CBK ICAAP guidance notes, regulatory prudential guidelines and risk management guidelines. The Group's ICAAP is comprehensive and provides for identification, quantification and reporting of all the material risks. It has established internal capital adequacy goals and a process for internal control, review and audits. A detailed framework for stress testing risks, such as Credit related risks, Credit Concentration Risk, Forex Risk, Liquidity Risk, Interest Rate Risk in the Banking Book, Operational Risk etc., has been developed by the Group. The results indicate that the Group's position remains moderate under scenarios of low and medium stress conditions.

Considering the risk profile and operating environment of KCB, the material risks to which the Bank is exposed to are mentioned in the ICAAP table.

Planning and management of capital by the Group

Capital planning is an annual process with a rolling planning horizon of three years. Capital management is performed routinely, as an integral part of the Group's strategic and financial plan. Capital planning at the Group is based on the workplan of the Group and on regulatory directives, which are translated into risk-adjusted assets and changes in the various tiers of capital, while maintaining safety margins. Various sensitivity tests are applied within the planning of capital and capital ratios. The Group also routinely monitors actual results as compared to planning, and the gaps between result and planning, and, as necessary, examines the actions needed in order to maintain the established capital targets. The policy of the Group is to maintain capital adequacy at a level higher than the minimum ratio required by the Regulator, and not lower than the level of capital adequacy required to cover the risks, as assessed in the Internal Capital Adequacy Assessment Process (ICAAP). Within the ICAAP, the Group also examines the effect of stress scenarios on capital-adequacy ratios; accordingly, a plan is in place for a return to regulatory capital adequacy in the case of such a stress event.

KCB GROUP RISK MANAGEMENT PROCESS

KCB Group has put in place systems and processes to ensure Risk Management, which is comprised of interrelated elements, are summarized into risk identification, Risk assessment and measurement, Risk mitigation, Risk monitoring and reporting.

2019 OUTLOOK

In striving for business growth in 2019, we remain vigilant of the inherent risks that may hamper us from achieving our targets. We seek to capitalize on Big Data and Artificial Intelligence (AI) to enhance credit scoring models which will better position us to grow 'good' market share and enhance service delivery.

Moreover, we look to have heightened Know Your Customer requirements in order to fully enhance our AML/CFT monitoring, which will in the long run enhance the customer experience, from seamless onboarding and service enablement. We additionally rolled out retail and mobile lending behavioral models which gives us better scrutiny of customer behaviors and helps in the management and prediction of risks that may arise in these areas.

Increasingly, we will continue stress testing and enhancing our Operational Risk Management through our monthly DORCCO's and GORCCO's. Improved flow of information is targeted in order to achieve optimal monitoring and reporting. Finally, enhancing our detection and prevention controls, with expected enrollment of our comprehensive Fraud Management System which will go live in the course of the year. This will drive us towards a further reduction in fraud and losses, lower than the 24% drop we had in 2018.

	Types of Risk	Materiality	Capital Charge Implication	Methodology
Pillar 1				
1	Credit Risk	Material	Yes	Standardized Approach
2	Market Risk	Material	Yes	Standardized Approach
3	Operational Risk	Material	Yes	Standardized Approach
Pillar 2				
4	Concentration Risk	Material	Yes	HerfindahlHirschman Index (HHI) and Excess over Limits
5	Interest Rate Risk	Material	Yes	EVE approach to assess the impact of change in Interest Rates
6	Liquidity Risk	Material	No	Ratio Analysis and Cash Flow Gap Analysis
7	Strategic Risk	Material	No	Scorecard, ROE deviations
8	Reputation Risk	Material	No	Reputation Events, Social Media management
9	Compliance Risk	Material	No	Internal and Regulatory submissions and compliance
10	ICT Risk	Material	No	Incident monitoring
11	Country Risk	Material	Yes	Excess over Risk Limits
12	Pension Risk	Material	No	Fund shortfall analysis

KCB Group Risk Management Process

Risk Identification

Identification of risks is undertaken on an on-going basis for all products, activities, processes, systems including new product/systems/market roll out. This is achieved using the appropriate established methodologies.

Risk Assessment & Measurement

This process includes the assessment of inherent and residual risks, and associated controls. Risks are assessed in terms of probability of occurrence and resulting impact on the achievement of Group earnings, or capital or reputation, and against the Group's risk appetite. The impact is categorized in monetary terms or qualitatively. The Group has established the appropriate risk measurement tools and methodologies to be able to compare and prioritize risks, and recognize an increase or decrease in overall perception of risk exposure.

Risk Mitigation

The Group establishes the appropriate risk mitigation strategies. These includes accepting, mitigating, transferring and avoidance of risks. The risk responses selected are determined by the appetites and tolerance levels defined by the Board. Management is responsible for the implementation of the appropriate risk response to manage risks to acceptable levels and within reasonable costs.

Risk Monitoring and Reporting

Risks and control activities are monitored to ensure risk exposures are maintained within the acceptable risk levels, and that emerging risks are identified in a timely manner and appropriate controls implemented. This is achieved through oversight of each risk type along with tracking of key metrics and limits. Continuous risk monitoring is undertaken to provide assurance that the identified risks are being managed as expected and assess whether risk mitigation strategies are effective and adequately designed.

Internal risk reporting includes reporting of significant risks and associated metrics to senior management and the Board. This reporting highlights the key and emerging risks. Risk indicators that are above the established levels are escalated with appropriate mitigation plans to ensure such risks are adequately managed.

KCB Group delivered on its promises for 2018 on the back of a sustained and managed lending strategy, coupled with the step change in our digital offering. My assessment of the Group's performance is good and within the overall budget. This success was not without headwinds such as the aftermath of the 2017 electioneering period in Kenya and changes to the regulatory landscape, both somewhat redefining the business growth trajectory.

Despite this, economic growth chugged along at a healthy average of 6% across the countries we operate in, driven by ICT, manufacturing, services and construction sectors.

The Kenya business played an anchor role, contributing substantially to the Group's profitability. The international businesses, together with KCB Capital and KCB Insurance Agency also helped push up the bottom line. The target is for the subsidiaries to contribute at least 20% of the Group's profit by 2020, from the current 6%. The priority and significance of this focus led the Board to appoint a seasoned executive, Paul Russo, as the Group Regional Businesses Director with effect from January 1, 2019. The mandate given to him is to drive the agenda from the Group strategy perspective to ensure that the subsidiaries are operating at the optimum and are well integrated with the Group's aspirations. At the same time, his appointment will ensure that the Group CEO has an improved span of control to concentrate on strategic initiatives that enhance shareholder value.

We expect the subsidiaries to have a return on investment equal to or greater than the Kenya operation. We, however appreciate that each subsidiary operates in a unique environment and any strategic changes in terms of the direction each business will take would have to take this into account in addition to obtaining local regulatory approvals.

As part of our regional footprint strategy, we are excited to see increased momentum towards liberalization of the key economic sectors taking place in Ethiopia. The Group has a representative office in Addis Ababa which has been operational for 3 years now. We feel that we

Group Chairman's Statement

are well positioned to make an entry into this market which has over 100 million people when the opportunity arises.

The Board appreciates the ever increasing role KCB plays in the wider environment. To aptly deliver on the responsibility placed upon us by the shareholders, the engagement with the regulators, customers, the community around us and our staff form a significant part of our strategy. This translates to:

- Supporting customers to grow their businesses, meet their financial needs and generally improve their lives.
- Adoption and adherence to legislation and regulatory requirements.
- Offering opportunities to customers to invest their funds in prime assets
- Providing jobs to 6,220 staff.
- Investing in impactful programmes aimed at solving problems and uplift the lives of communities around us.

Future Outlook

The Kenyan banking sector has witnessed some consolidation in the past few years. However, for the sector to remain strong and competitive at the regional and continental level, there is a need for a faster pace of consolidation to take place. Whichever way you look at it, Kenya is over-banked compared to continental peers such as Nigeria and South Africa. Economies like Rwanda and Tanzania have demonstrated the capacity for higher returns in the financial services sector. KCB remains open to opportunities to further grow the financial sector.

Digital transformation

Our digital transformation has had a profound impact on the economy and directly to our business. In current day environment, factors such as dynamics of time to serve, cost to serve, do-it-yourself, product differentiation, and churn are changing dramatically. As such, we have continued to invest in Fintech, and it has paid off. Today, we are among the top players in terms of digital loans. We will remain focused on providing policy guidelines to the management to ensure that we remain agile in an evolving digital landscape.

Corporate Governance

The Board recognizes that we must continue to strengthen and enhance our oversight and risk management practices. From an operational perspective, Anti-Money Laundering (AML) and Know Your Customer (KYC) requirements are essential cogs in the banking sector.

As such, we have strict AML and KYC guidelines that serve as an early warning system, raising early red flags and ensuring that appropriate action is taken.

We are committed to meeting the expectations of our regulators and protecting and serving the interests of our stakeholders. To support these efforts, we have made significant changes to Board composition, reconstituted the number of committees from six to five, and worked with the Group management to improve on the reporting and analysis provided to the Board. We are confident that with these changes, the Board will remain laser focused on the things that matter most to the business.

We also reconstituted our various subsidiary Boards to bring in new perspectives while tapping into the experience of existing members. The new Board members bring a broad range of crucial capabilities and skills. I am happy to report that throughout this transition, the Board has maintained its focus on diversity in line with global best practices and in-country laws.

Sustainability

We recognize that our shareholders have placed their trust in KCB Group and we are focused on managing the business to achieve long-term value. This is through a diversified business model, strong risk discipline, efficient execution, a solid balance sheet, and a world-class team. More importantly, we recognize that we can only be successful and have optimal impact if the principle of sustainability is ingrained in our business. Our focus must go beyond financial returns to also give due attention to the economic, social and environmental pillars of development.

KCB has been operational for more than 120 years. We hope to be around for much longer. For us to achieve this feat, we must put in place measures that will not only ensure the Bank continues to grow but also operate within social and environmental expectations. We intend to continue lending responsibly, reducing our carbon foot print, mainstreaming the Sustainable Development Goals (SDGs) and playing a leading role as one of the regional anchors of the UNEP Finance Initiative Principles on Responsible Banking.

With KCB 2Jiajiri – our youth empowerment and entrepreneurship programme – we have shown that with the right focus, we can create a dynamic environment for the youth to be successful entrepreneurs.

Big Four

The Kenya government has identified four pillars on which the country's development will be pegged on in the coming years: universal healthcare, affordable housing, manufacturing and food security. KCB Group has over the years supported all these pillars in one way or the other but we now see bigger opportunities. Governments in all the other markets too have set out the specific growth ambitions. We will continually roll out initiatives to support the agenda.

Looking ahead

We expect higher growth and new opportunities in 2019, driven by renewed investor confidence and a rebound in the economies. The banking sector is expected to grow in tandem and therefore, we are optimistic we will maintain our positive growth trajectory.

As a Board, we appreciate the invaluable efforts by the management in ensuring that the Bank remains a key pillar in the development of the countries which we operate in. Our customers and shareholders have extended to us invaluable support and we are grateful to them too.

I would also like to record my appreciation to my fellow Board members for providing strategic guidance to the running of the business. However, we cannot rest on our laurels; there is more work to do if we are to reach our stated ambition of being a trillion-shilling company over the coming two to three years.

Andrew Wambari Kairu
Group Chairman

Kampuni ya KCB lilitimiza ahadi zake za 2018 kutokana na mkakati endelevu wa ukopeshaji pamoja na uboreshaji wa huduma za kidijitali. Utathmini wangu wa matokeo ya Kampuni ni kwamba ni ya kuridhisha na yanalingana vyema na bajeti kwa jumla. Ufanisi huu ulipatikana licha ya changamoto kadha kama vile athari za kipindi cha uchaguzi mkuu wa 2017 nchini Kenya. Uchaguzi huo uliathiri kwa jumla mazingira ya uendeshaji biashara. Pia, kulitokea mabadiliko ya kisheria. Mambo haya mawili yaliathiri kwa kiasi fulani ukuaji wa biashara yetu.

Licha ya haya, ukuaji wa kiuchumi uliendelea kwa kiwango cha kuridhisha, ambapo kulikuwa pato la jumla la taifa lilikuwa 6% katika mataifa ambayo huwa tunaendesha shughuli zetu. Biashara yetu Kenya Ilichangia kwa kiwango kikubwa faida yetu. Kampuni zetu tanzu katika mataifa hayo mengine pamoja na KCB Capital na Wakala wa Bima wa KCB zote zilichangia mapato ya Kampuni kwa njia ya kuridhisha. Lengo sasa ni kuhakikisha kampuni tanzu zinachangia zaidi ya 20 % ya faida ya Kampuni kufikia 2020, kutoka kwa kiwango cha sasa cha 6%. Kutokana na kulipatia kipaumbele suala hili na umuhimu wake, Bodi iliamua kumteua afisa mtendaji mwenye uzoefu mwingi, Paul Russo, kuwa Mkurugenzi wa Biashara za Kanda wa Kampuni hii kuanzia Januari 1, 2019. Amepewa jukumu la kuongoza ajenda hii kuanzia ngazi ya juu kabisa ya Kampuni kuhakikisha kampuni tanzu zinafanya kazi kwa njia bora zaidi na zimefungamanishwa na maono ya Kampuni.

Siku zijazo, tunatarajia kampuni tanzu zivune matunda ya uwekezaji ya kiwango sawa au hata bora zaidi kuliko biashara yetu Kenya. Bodi hata hivyo inatambua kwamba kila kampuni tanzu hutenda kazi katika mazingira tofauti ya kibiashara. Mabadiliko yoyote ya kimikakati yanayohitajika katika kila kampuni tanzu ni lazima yazingatie hilo pamoja na kufuata masharti na sheria katika nchi husika.

Kama sehemu ya mkakati wetu katika kanda hii, tunafurahia kwamba kuna

Taarifa ya Mwenyekiti wa Kundi

kuongezeka kwa kasi katika kufanya huru sekta muhimu za kiuchumi nchini Ethiopia. Kampuni yetu imekuwa na afisi ya uwakilishi ambayo imekuwa ikifanya kazi kwa miaka mitatu sasa Addis Ababa.

Ni matumaini yetu kwamba tumepata ufahamu wa kutosha wa soko nchini humo na hivyo basi tupo katika nafasi nzuri ya kuingia katika soko hilo lililo na watu zaidi ya milioni 100 fursa hiyo itakapotokea. Bodi inatambua mchango unaotekelezwa na KCB katika kanda hii unaoendelea kuongezeka. Uhusiano wetu na serikali, wateja, na jamii katika maeneo tunayofanyia kazi pamoja na wafanyakazi wetu ni sehemu muhimu ya mkakati wetu katika kutekeleza vyema wajibu tuliopewa na wenyehisa. Tunatekeleza hili kupitia:

• Mabilioni ya pesa yametolewa kwa wateja kuwasaidia kukuza biashara zao na kuboresha maisha yao

• Kukumbatiwa na kuzingatiwa kikamilifu kwa viwango vya ubora na matakwa ya kisheria.

• Kutoa fursa kwa wateja kuweka akiba na kuwekeza pesa zao za ziada katika uwekezaji unaozalisha riba

• Kutoa ajira kwa wafanyakazi 6,220.

• Kuwekeza pesa na kutekeleza miradi yenye lengo la kutatua shida mbalimbali na kuboresha hali ya maisha katika jamii.

Mustakabali

Sekta ya benki nchini Kenya imeshuhudia kuungana kwa benki kadha miaka ya karibuni.

Hata hivyo, ndipo sekta hii ibaki kuwa thabiti na yenye ushindani, kunahitajika kasi zaidi katika kuungana huku kwa benki. Kenya ina benki nyingi kupita kiasi ukilinganisha na mataifa mengine ya kiwango sawa kiuchumi barani kwa mfano Nigeria na Afrika Kusini. Katika kanda hii, Rwanda na Tanzania zimedhihirisha kuwepo kwa uwezo mkubwa wa mapato zaidi kutoka kwa sekta ya kifedha. Kampuni ya KCB inaendelea kutafuta fursa za kukuza zaidi sekta ya kifedha.

Mabadiliko ya kidijitali

Mabadiliko ya kidijitali yamebadilisha sana uchumi na kuathiri pia biashara yetu. Kama Kampuni, tumeendelea kuwekeza katika matumizi ya teknolojia kutoa huduma za kifedha, maarufu kama Fintech, na matunda yake yameonekana. Leo hii, tupo miongoni mwa kampuni zinazoongoza kwa kutoa mikopo kwa wingi kupitia mfumo wa dijitali. Kama bodi, tutazidi kuangazia kutoa mwongozo wa kisera kwa wasimamizi wa kampuni kuhakikisha tunasalia wepesi wa kuchukua hatua katika ulimwengu huu wa kidijitali unaobadilika kila uchao.

Usimamizi wa Kampuni

Bodi inatambua kwamba tunapaswa kuendelea kuimarisha na kuboresha juhudi zetu katika utathmini na pia kuzingatia hatari mbalimbali. Mahitaji ya kisheria ya Kukabiliana na Utakatishaji wa Fedha (AML) na Mfahamu Mteja Wako (KYC) yana umuhimu sana kwa sekta ya benki. Tuna miongozo thabiti sana ya AML na KYC ambayo huwa macho kila wakati na hutoa tahadhari mapema na kuhakikisha hatua zifaazo zinachukuliwa.

Tunatambua madhara ambayo udhaifu katika AML/KYC unaweza kusababishia kampuni yetu, pamoja na madhara mengine kwa sekta hii kwa jumla. Tumejitolea kutimiza matarajio ya mamlaka zinazosimamia sekta hii na kulinda na kutetea maslahi ya wenyehisa wetu, wateja, wafanyakazi na jamii katika mataifa ambayo tunafanyia kazi. Ili kuunga mkono juhudi hizi, tumefanya mabadiliko makubwa kwenye muundo wa bodi, na tukabadilisha idadi ya kamati za bodi kutoka sita hadi tano. Aidha, tumefanya kazi kwa pamoja na wasimamizi wa Kundi la KCB kuimarisha utathmini na uwasilishaji wa taarifa kwa bodi.

Tuna imani kwamba mabadiliko haya yataisaidia bodi kusalia kuwa makini zaidi katika kuangazia masuala ya umuhimu mkubwa zaidi kwa kampuni. Tulifanyia pia mabadiliko bodi zetu mbalimbali katika kanda ili kuleta mitazamo mipya huku tukiendelea kufaidi kutokana na uzoefu wa wanachama ambao bado wamekuwa wakihudumu. Wanachama wapya wa bodi wanatuletea uwezo mbalimbali ukiwemo utaalamu katika huduma za kifedha, usimamizi wa hatari, teknolojia, usimamizi wa vipaji, fedha na uhasibu, utoaji huduma za hisani kwa jamii na masuala ya kisheria. Nina furaha kuwajulisha kwamba katika kipindi hiki cha mpito, bodi imeendelea kuzingatia kujumuishwa kwa watu wa asili mbalimbali na kwa kufuata kanuni na maadili kwa viwango vya kimataifa na kwa kuheshimu sheria za wafanyakazi katika kanda hii.

Uendelevu

Tunatambua kwamba wenyehisa wetu wameweka imani yao katika Kampuni ya KCB. Tunaangazia kusimamia kampuni hii kutimiza malengo ya muda mrefu ya kampuni hii. Muhimu zaidi, tunatambua kwamba tunaweza tu kufanikiwa na kupata matokeo bora iwapo tutazingatia uendelevu katika biashara zetu. Lengo letu ni lazima liwe zaidi ya kutengeneza faida. Ni lazima tuzingatie pia nguzo tatu za maendeleo ambazo ni uchumi, jamii na mazingira.

KCB imekuwepo kwa zaidi ya miaka 120. Tunatumai tutakuwepo kwa miaka mingi. Ndipo tuweze kutimiza hili, ni lazima tuweke mikakati itakayohakikisha benki hii inaendelea kuwepo, na kunaendesha shughuli zetu tukizingatia maslahi ya jamii na uhifadhi wa mazingira.

Tunakusudia kuendelea kukopesha wateja kwa uadilifu, kupunguza mchango wetu katika uzalishaji wa gesi zinazochangia ongezeko la joto duniani, kuzingatia Malengo ya Maendeleo Endelevu (SDGs) na kutekeleza mchango muhimu katika mstari wa mbele kama mmojawapo wa wadau muhimu katika kanda hii wa mpango wa UNEP wa Mkakati wa Maadili ya Kifedha kuhusu utoaji huduma za Benki kwa Uwajibikaji. Kupitia KCB 2Jiajiri –mpango wetu wa kuwawezesha vijana na ujasiriamali – tumedhihirisha kwamba tunaweza kufanikisha mazingira bora ya kuwawezesha vijana kuwa wajasiriamali wanaofanikiwa.

Nguzo nne kuu

Serikali ya Kenya imetaja nguzo nne kuu ambazo itaangazia katika maendeleo ya taifa kwa miaka ijayo: huduma bora ya afya kwa wote, makao na nyumba za bei nafuu, viwanda na chakula. Kundi la KCB kwa miaka mingi limekuwa likichangia juhudi zake katika nguzo hizi kwa njia moja au nyingine. Lakini sasa tunaona fursa kuu. Serikali za mataifa mengine pia zina malengo yake ya ukuaji. Tutaendelea kuzindua mikakati ya kusaidia juhudi hizo.

Mustakabali

Tunatarajia ukuaji halisi na kutokea kwa fursa mpya mwaka 2019 kutokana na kufufuliwa kwa imani ya wawekezaji na kujikwamua kwa mataifa ya kanda hii kiuchumi. Sekta ya benki inatarajiwa kukua sambamba na ukuaji wa kiuchumi na kwa hivyo, tuna matumaini makubwa kwamba tutaendeleza ukuaji wa kuridhisha mwaka huu.

Kama Bodi, tunatambua juhudi muhimu sana zinazotekelezwa na wasimamizi katika kuhakikisha kwamba benki hii inasalia kuwa nguzo muhimu katika maendeleo katika nchi zinazohudumu. Tunatambua bidii yao. Wateja wetu na wenye hisa nao wametupa usaidizi usio na kifani na tunawashukuru pia. Ningependa pia kuwashukuru wanachama wenzangu kwenye bodi kwa uongozi na ushauri wao bora ambao umehakikisha Kampuni ya KCB inasalia kuwa benki inayoongoza katika kanda hii. Hata hivyo, hatuwezi kulegeza juhudi zetu. Bado kuna kazi zaidi ya kufanywa kutimiza lengo letu la kuwa kampuni ya thamani ya zaidi ya shilingi trilioni moja katika kipindi cha miaka miwili hadi tatu ijayo.

Andrew Wambari Kairu
Mwenyekiti wa Kundi

GROUP Board OF DIRECTORS

"The board appreciates the ever increasing role KCB plays in the wider environment. To aptly deliver on the responsibility placed upon us by the shareholders, the engagement with the regulators, customers, the community around us and our staff form a significant part of our strategy."

ANDREW WAMBARI KAIRU
Group Chairman

Julius Mutua*

Ngeny Biwott

Adil Khawaja

Tom Ipomai

Georgina Malombe

John Nyerere

Lawrence Mark Njiru

Joshua Oigara
Group Chief Executive Officer and Managing Director

Lawrence Kimathi
Group Chief Finance Officer

Joseph Kania
Group Company Secretary

* Alternate to Cabinet Secretary National Treasury of Kenya

Reflecting on last year, the Group's performance to a large extent mirrors what was happening across the East African region with a general rebound of most economies and the strength witnessed in an otherwise difficult operating environment.

This positive performance is a reflection of the business model that we employed to serve our customers, a highly motivated staff, a visionary Board and continued support from you, our esteemed shareholder.

As you read this report, you will gather more details on our detailed performance. Allow me for a moment to highlight the significant outcomes of this performance: 15% market share in customer deposits and 17% market share on loans and advances. Some call this banking 101. In the context of the basics and fundamentals of banking, we remain the strongest player, able to attract and retain deposits and from this, offer affordable loans to our customers. It therefore follows that our earnings remained strong with approximately 20% market share and a growth of 24%.

Looking back to 2018, the sector encountered significant challenges. The interest rates we are permitted to charge for offering loans in Kenya were reduced twice within the year thus impacting the key revenue lines for the Bank's interest income.

The impact of the tough environment did not spare businesses in other sectors, probably some in which you work for or own. From a financier's point of view, we witnessed a number of businesses going into administration during the year while several others issued profit warnings. This reinforces my earlier observation that the operating environment was quite challenging. Notwithstanding these setbacks, I am glad our business teams across the markets we operate in found ways and means to support our customers.

Gladly, all was not doom and gloom; we witnessed businesses recover and grow in line with, and at times ahead of, the economy's growth trajectory.

Dear Shareholder

Business Operations

You have tasked me and my team to deliver a strong return and grow the capacity of the Group to continually remain at the top. If we take a quick look at how we performed during the year, you will observe the profit after tax grew to KShs 23.9 billion. Our costs were well managed and grew below average rate of inflation while the stock of non-performing loans reduced and the non-performing ratio dropped to 6.9% compared to an industry average of 12% . To fast-track the turnaround of the asset quality, we introduced a special assets unit to address the sticky and large non-performing loans that require a different approach to resolve. Overall and what I believe is of priority, this enabled us to increase the dividend per share by 17% to KShs 3.50.

As a business, we have realized that the only way to remain relevant in a space where the product has become standardized is a renewed focus on customer experience. Our customers are the pillar that have propelled us to become the biggest bank in the region. That is why we have purposed to refocus our efforts in ensuring that we not only retain our customers, but we expand the customer base by engaging them with a bouquet of products that suits their needs.

Our focus is to proactively support our customers to be where growth is, enabling businesses to thrive and economies across the East African region to prosper, and ultimately helping people to fulfil their hopes and realise their financial and investment ambitions.

Regional business with global outlook

A significant part of our shareholder base has remained on the register for decades and will remember when we opened our first subsidiary in Tanzania in 1997. Since then, our regional businesses have been a big part of the plan with the broader East African Community, South Sudan and Ethiopia introduced as part of our grand strategy more recently. The Ethiopian market bodes well for the future considering the growth rate within the market and the size of the addressable population. We are keeping a close eye on the discussion from the regulators and government agencies on the possibility of amending the laws to permit foreign banks to operate within the market.

As of December 2018, the regional businesses grew over 65% year-on-year. Despite this seemingly significant growth, the contribution to earnings remained below 10%. The circumstances for the low contribution are known and the management team is addressing them both from a country level by appointing in place a Group Regional Business Director, whose mandate is to guide the achievement of a 20% contribution to earnings by 2022.

We realise that developments abroad and the global economy will impact our operations. The regional businesses have individually faced numerous challenges ranging from political crises to macro-economic uncertainty. Collectively, the global economies are affected by the actions of the larger economies such as the more recent trade war between the United States and China and the looming deal on Brexit.

15%

Market share of customer deposits in Kenya

17%

Market share of loans and advances in Kenya

6.9%

NPL ratio of the Group against a 12% Industry average

KShs. 23.9B

The Groups' profit after tax for the year 2018

17%

increase in dividend per share to KShs. 3.50

Combating financial crime

KCB Group recognizes the significant role that the financial system plays in tackling financial crime. As a regional bank with a global outlook, we are building a strong reputation for fighting money laundering through ingrained KYC practices.

We continue to strengthen our ability to safeguard customers and ourselves against financial crime. I believe this will be advantageous to our customers as well as enhancing our reputation and relationship with other global partners including correspondent banks.

Despite our efforts, KCB Bank Kenya was penalized by the regulator under the Anti-Money Laundering / Countering the Financing of Terrorism (AML/CFT) framework. We have taken measures to reacquaint our staff on all the regulations and processes to be followed in the event of suspicious transactions. We support the measures aimed at strengthening and securing the financial sector within the region.

Sustainability

Your Group was among the first organisations in the region to integrate sustainability into its operations, a decade ago. Our attitude is hinged on creating a better tomorrow for future generations; there can be no compromise on this. As part of our input, we play a leading role in the Sustainable Finance Initiative, a United Nations effort aimed at shifting banks' focus towards sustainable finance in our operations. Internally, we are pulling all stops to ensure that we are continuously striving to reduce our carbon footprint. In this report, we have gone into some detail demonstrating the activities and outcome of adopting the tenets of sustainability, which can be read on page 68.

To scale our sustainability agenda, we continue to engage our customers and suppliers on the need to operate sustainably. Amongst other initiatives, we held a sensitization workshop for our suppliers, training them on Sustainable Development Goals (SDGs) implementation in their organisations and through the entire value chain. We will continue to help businesses act in a socially responsible way by; supporting businesses as they cut their carbon emissions and make the transition to the green economy; financing innovation and developments in green technology; encouraging businesses to operate in a way that supports local communities, respect human rights and encourages inclusive growth. I believe we are way ahead of the pack in these efforts.

As part of this agenda, KCB has adopted the Environmental Social and Governance (ESG) standards and working with various partners trained and certified over 250 credit staff on the application of the principles and applied ESG screening to over 90% on loans. We publish a Sustainability Report separately and annually where details of our initiatives and outcomes of these activities are provided.

The people that make it possible

To run the Group, we have employed 6,220 staff from different countries, background and experiences. It is through the team that we are able to deliver what I call stellar performance consistently. Our people strategy has remained consistent over the years and this has been tied well with the adoption of technology. On upskilling, our training programmes are both in class and online, with the 2019 requirement for all staff, including myself, comprised of eLearning courses on sustainability, health and safety, ethics, anti-money laundering, business continuity, IT security and additional content available to the job and for personal development.

The demand for new capabilities in the development and maintenance of systems has never been as high as it is today. Competition for the scarce expertise is high yet we have maintained a good balance of developers who have delivered on the products and services enjoyed within the markets we operate in. Additionally, we have invested in people specifically to secure our network and platform from the now common threat of cyber-attacks. The security of our systems and network is pivotal to the protection of customer information. This remains a top priority in our day to day operations as a single event has the potential and capacity to undo years of hard work.

During 2018, there were several senior management changes aligned to the strategy and progression of the bank. At senior management, we appointed a Group Regional Businesses Director as mentioned earlier, and also the Director Corporate Banking. Within 2018, 155 staff were promoted after demonstrating capacity to handle greater responsibilities and the desire to derive the Group's strategy. Recruitment for some key positions is targeted for closure within this year. These include the Group Human Resources Director (previously held by our Group

"KCB is a firm believer in using technology to promote sustainable development, to reduce socioeconomic inequalities, to give everyone access to digital opportunities. That is why we have made digital an integral part of our strategy to help stimulate access to credit."

More than 90% of Loans and Advances screened for ESG Risks.

KShs. 9.9 billion paid in Corporation Tax for 2018 to the Tax Regulator.

KShs. 50 billion committed to entrepreneurship and small-scale enterprises over the next 5 years.

155 Promotions amongst our employees in the year 2018.

22% Return on Investment for our investors.

Regional Businesses Director), Director Operations, Chief Technology Officer, MD KCB insurance Agency, MD KCB Bank South Sudan and MD KCB Bank Uganda.

Employee relations and engagement have proven instrumental in maintaining the balance of motivation and commitment. It is with this in mind that the labour relations case, outstanding from 2017, was approached and resolved. The team further increased the employee engagement penetration to 142% with over 130 staff engagements across the Group including branch manager leadership sessions, women and men in leadership forums, town hall forums and team building and finally concluding the year with the Simba awards ceremony to recognize the exemplary performers across the Group.

Fintech strategy

One of my strong beliefs is the delivery of banking solutions through a simple and accessible platform. I have observed and I am a proponent of using technology to promote sustainable development, reduce socioeconomic inequalities and give everyone access to life changing opportunities, specifically financial services. That is why we have made "digital first and fast" an integral part of our strategy to help stimulate access to credit and enhance our customer experience.

In 2018, our biggest achievement was the launch of a new digital platform. This has enabled us broaden access to financing, while improving customer service and lowering the cost of service delivery to our customers while yielding positive returns to you, our shareholders.

Through the use of technology, we have applied differentiated pricing levels and improved credit scores for customers. This has been made possible by the use of data scientists to accurately model scores and specific limits based on behavior and patterns. I am sure you have used or had some exposure with our mobile lending products. Our average lending is closer to KShs 5,000 per customer, but we have customers with limits in excess of KShs 100,000 – demonstrating the variety of the customer's base and capacity of the platform. The higher limit has revealed the appetite for credit by owners of businesses and the opportunity to score enterprises for similar products as have been delivered on mobile to the individual. These are the first of a series of innovations towards simplifying your world.

In supporting business growth through this model, we are today faced with unprecedented competitors that hitherto did not exist. Our customers have exposure beyond the traditional risk parameters in pricing loan facilities. Price transparency and individual credit scores are increasingly as significant to the speed with which the product or service is delivered to individuals or enterprises. We therefore are relentless with our innovation.

With the constantly shifting environment, future returns are unlikely to all be delivered from existing modes of business. It is our ingenuity and speed to market through alternative channels that will deliver our ambitious target of 40% contribution of total revenues from non-interest income activities.

The opportunity ahead of us

The Government of Kenya has identified four pillars which economic growth will hinge on: affordable housing, universal healthcare, food security and manufacturing. In as much as we have a footprint one way or the other in all these pillars, we are rededicating ourselves to looking at how we can play an expanded role in realizing these goals. Consumer, agriculture/ horticulture, manufacturing and trade will for the foreseeable future remain the growth engines for the region primarily driven by small and medium sized enterprises. In all the markets, our strategy is aligned to the need to support the economic ambitions of each of these countries.

> **"We are committed to explore partnerships with various local and international players and entrepreneurs to support the Big Four Agenda"**

We are committed to explore partnerships with various local and international players to support the sectors and the entrepreneurs including the use of technology to address the issues of pricing and credit scoring.

The closure rate of Group audit issues stood at 95% in 2018.

Our pride remains the traction the mobile lending channel has generated, targeted to disburse over KShs.100 billion annually in small loans across the country and the opportunity to take this regional. Further, we will enhance the capacity of the platform to make payments.

The Group has boldly made steps towards enhancing shareholder value through the proposals leading to the transfer of selected assets of Imperial Bank (IR) and the offer to purchase the National Bank of Kenya (NBK). The benefit of these transactions will be enjoyed for years to come through the strengthening of the combined entity's deposit franchise, competitive pricing and ability to generate transaction revenue from synergies the increased customer base will provide.

Having addressed the milestones, the challenges and the plans we have in place, the common denominator remains the staff using resources to deliver products and services to our customers. I have had an opportunity to interact with numerous staff and met many customers as part of my duties: I wish to thank all our staff and customers for their engagement with the brand. As a fellow shareholder, I'm not only confident but also excited at what the future holds for the Group.

I call upon your continued support to elevate the overall contribution and impact the Group makes.

Joshua Oigara, CBS

Group Chief Executive Officer & Managing Director

Matokeo ya Benki hii kwa kiwango kikubwa ni sawa na hali ilivyokuwa kanda ya Afrika Mashariki ambapo mataifa mengi yalianza kuimarika tena kiuchumi na kuwa na nguvu, licha ya mazingira ya kibiashara kuwa magumu.

Matokeo haya ya kuridhisha ni ishara ya muundo bora wa kibiashara ambao tumekuwa tukiutumia kuwahudumia wateja wetu. Tuna wafanyakazi wenye motisha, Bodi yenye maono na tunapokea uungwaji mkono kutoka kwako, mwenyehisa mpendwa.

Unaposoma ripoti hii, utapata kwa kina hali halisi ya matokeo yetu ya kifedha. Niruhusu nikudokezee mambo makuu kuhusu matokeo haya. Tunashikilia asilimia 15% ya amana, ambazo ni pesa zilizowekwa na wateja kwenye benki sokoni. Tunashikilia pia 17% ya mikopo eneo hili. Baadhi hueleza hili kuwa somo la msingi katika sekta ya benki. Kwa kuangalia mambo ya msingi, tunasalia kuwa benki yenye nguvu Zaidi eneo hili. Tunavutia kwa wingi na kuweka pesa za wateja, jambo ambalo linatuwezesha kutoa mikopo ya bei nafuu kwa wateja pia. Si ajabu kwa hivyo kwamba mapato yetu yalisalia kuwa ya juu. Kwa mapato tulipata 20% ya mapato yoyote sokoni, na ukuaji wa 24%.

Tukiuchambua mwaka 2018, sekta hii ilikumbana na changamoto nyingi. Viwango vya riba tunavyoruhusiwa kutoza vilipunguzwa mara mbili katika mwaka huu. Hii iliathiri sehemu muhimu ya mapato ya benki hii, ambayo ni mapato kutoka kwa riba.

Mazingira magumu ya kibiashara pia yaliathiri biashara katika sekta nyingine, ambazo pengine mwenyewe unafanyia kazi au una hisa. Kwa mtazamo wa mfadhili, tulishuhudia biashara kadha zikiwezwa chini ya mrasimu katika mwaka huo na nyingine zikatoa tahadhari ya kupungua pakubwa kwa faida. Hii inatilia mkazo kauli yangu ya awali kwamba mazingira ya kibiashara yalikuwa magumu kweli. Lakini licha ya changamoto hizi, nina furaha kwamba wafanyakazi wetu katika maeneo tunayoendesha biashara walitafuta njia

Kwa Mwenyehisa Mpendwa

na namna ya kuwasaidia wateja wetu.

Inaridhisha kwamba haikuwa masikitiko kote, tulishuhudia biashara zikijikwamua na hata kukua kwa kiwango sawa au hata zaidi ya ukuaji wa uchumi.

Shughuli za kibiashara

Mmenipa jukumu, mimi na kundi langu, kufanikisha matokeo mazuri na kuimarisha uwezo wa Benki hii kuhakikisha tunasalia kileleni. Ukitazama jinsi matokeo yetu yalivyokuwa mwaka huo, utaona kwamba faida yetu baada ya kulipa ushuru ilipanda na kufikia KShs 23.9 bilioni. Gharama zilidhibitiwa vyema na ziliongezeka kwa kiwango kilichokuwa chini ya kiwango cha mfumko. Kiwango cha mikopo ambayo hailipwi nacho kilishuka na kufikia 6.9% ukilinganisha na kiwango cha wastani katika sekta hii cha 12%. Ili kuharakisha kujikwamua kwa ubora wa mikopo tuliyoitoa, tulianzisha kitengo maalum cha kuangazia mali yetu ambacho kitashughulikia mikopo mikubwa ambayo hailipwi kwa sasa na ambayo inahitaji njia tofauti kuishughulikia. Kwa jumla, na jambo ambalo naamini ni la maana sana, hili lilituwezesha kuongeza mgawo wa faida kwa kila hisa kwa 17% hadi KShs 3.50.

Kama biashara, tumegundua kwamba njia pekee ya kuendelea kuwepo katika biashara ambayo bidhaa zinafanana ni kwa kuangazia huduma bora kwa wateja. Wateja wetu ndio nguzo ambayo imetuwezesha kuwa Benki kubwa zaidi katika kanda hii. Ndio maana tumeamua ni lazima tuelekeze upya juhudi zetu katika kuhakikisha kwamba tunawahifadhi wateja wetu, na pia kuwavutia wengine zaidi, kwa kutoa huduma ambazo zinakidhi mahitaji yao.

Lengo letu ni kuwaelekeza makusudi wateja wetu hadi kwenye maeneo yenye ukuaji, kuwezesha biashara kukua na mataifa ya kanda ya Afrika Mashariki kunawiri kiuchumi. Mwishowe, tutawasaidia watu kutimiza matamanio yao na ndoto zao za kifedha na uwekezaji.

Biashara ya kanda na mtazamo wa kimataifa

Sehemu kubwa ya wenyehisa wetu tumekuwa nao kwa miongo mingi na wanakumbuka tulipofungua kampuni yetu tanzu ya kwanza Tanzania mwaka 1997. Tangu wakati huo, kampuni zetu tanzu katika mataifa ya kanda hii zimekuwa sehemu kubwa ya mpango wetu. Tulijumuisha Jumuiya ya Afrika Mashariki, Sudan na Ethiopia kwenye mkakati wetu mkuu hizi majuzi. Ethiopia inaendana vyema na ndoto zetu za siku za usoni, ukizingatia ukuaji wake kiuchumi na idadi kubwa ya watu. Tunafuatilia kwa karibu mazungumzo yetu na wasimamizi na mamlaka za serikali kuhusu uwezekano wa kufanyia marekebisho sheria kuruhusu benki za nje kuhudumu nchini humo.

Kufikia Desemba 2018, biashara katika kampuni zetu tanzu ilikua kwa zaidi ya 65% mwaka baada ya mwaka. Lakini licha ya ukuaji huu mkubwa, mchango wake ulisalia kuwa chini ya 10% kwa mapato ya jumla ya Kampuni. Sababu za mchango huu wa chini hivi zinafahamika na wasimamizi wanaziangazia katika ngazi ya nchi na kwa uelekezi wa Mkurugenzi wa Biashara za Kanda wa Kampuni ambaye wajibu wake mkuu ni kuhakikisha mchango huu unafikia 20% kufikia 2022.

Tunatambua kwamba matukio nje ya nchi na kimataifa yataathiri biashara zetu. Biashara zetu katika mataifa mengine kadha hii binafsi zimeathirika na changamoto nyingi miongoni mwake mizozo ya kisiasa na misukosuko ya kiuchumi. Kwa pamoja, uchumi wa mataifa huathiriwa pia na matukio katika mataifa yenye nguvu kubwa kiuchumi. Mfano ni vita vya kibiashara vya hivi majuzi kati ya Marekani na Uchina, na kujiondoa kwa Uingereza kutoka kwa Umoja wa Ulaya

Kukabili uhalifu wa kifedha

Kampuni ya KCB inatambua mchango mkubwa unaotekelezwa na mfumo wa kifedha katika kukabiliana na uhalifu wa kifedha. Kama benki yenye mtazamo wa kimataifa, tutajijengea sifa za kukabiliana na utakatishaji na ulanguzi wa fedha kwa kufuata maadili ya kuwafahamu vyema wateja wetu.

Tunaendelea kuimarisha uwezo wetu wa kuwakinga wateja wetu na sisi wenyewe dhidi ya uhalifu wa kifedha. Tunaamini hili litakwua na manufaa kwa wateja wetu pamoja na kuimarisha sifa zetu na uhusiano wetu na washirika wengine kimataifa, zikiwemo benki nyingine.

Licha ya juhudi zetu, Benki ya KCB Kenya iliadhibiwa na serikali chini ya mfumo wa kisheria wa Kukabiliana na Utakatishaji wa Fedha / Kukabiliana na Ufadhili wa Ugaidi (AML/CFT). Tumechukua hatua zaidi kuwakumbusha tena wafanyakazi wetu wote kuhusu kanuni

15%

Kiwango cha pesa zilizowekwa benki Kenya zilizowekwa benki yetu

17%

Kiwango cha mikopo tunayoishikilia sokoni Kenya

6.9%

Kipimo cha NPL cha Kundi dhidi ya kipimo cha wastani sokoni cha 12%

KShs. 23.9B

Faida ya kampuni baada ya kutozwa ushuru mwaka 2018

17%

Ongezeko la mgawo wa faida kwa kila hisa kufikia KShs. 3.50

na taratibu zinazofaa kufuatwa kukitokea shughuli za kibiashara za kutiliwa shaka. Tunaunga mkono juhudi hizi zenye lengo la kuimarisha na kulinda sekta ya kifedha katika kanda hii.

Uendelevu

Benki yako ilikuwa miongoni mwa kampuni za kwanza kanda hii kukumbatia uendelevu kwenye shughuli zake, mwongo mmoja uliopita. Mtazamo wetu unaangazia kuhakikisha mustakabali bora kwa vizazi vijavyo; hatuwezi kubadilisha msimamo huu. Kama sehemu ya mchango wetu, tunatekeleza mchango muhimu na kuwa katika mstari wa mbele katika Mkakati wa Maadili ya Kifedha kuhusu utoaji huduma za Benki kwa Uwajibikaji. Huu ni mkakati wa Umoja wa Mataifa unaolenga kuhakikisha benki zinaangazia uendelevu katika shughuli zake. Tunafanya kila juhudi kuhakikisha kwamba tunapunguza uzalishaji wa gesi zinazochangia ongezeko la joto duniani. Katika ripoti hii, tumeeleza kwa kina baadhi ya shughuli tunazozifanya na matokeo yake katika kuhakikisha uendelevu.

Ili kuendeleza ajenda yetu ya uendelevu, tunaendelea kuwashirikisha wateja wetu na kampuni zinazotuuzia bidhaa na huduma kuhusu haja ya kuendesha shughuli kwa njia endelevu. Miongoni mwa mengine, tuliandaa warsha ya kuwahamasisha wanaotuuzia bidhaa na huduma na kuwafunza kuhusu utekelezaji wa Malengo ya Maendeleo Endelevu (SDGs). Tutaendelea kusaidia kampuni na biashara nyingine kupunguza uzalishaji wa gesi zinazochangia ongezeko la joto duniani na kuhamia katika 'uchumi wa kijani'. Tutafadhili uvumbuzi wa teknolojia za kuhifadhi mazingira, kuhamasisha kampuni kuhudumu katika njia zinazosaidia jamii, kuheshimu haki za kibinadamu na kuangazia maendeleo yanayowajumuisha wote. Ninaamini kwamba tunaongoza katika juhudi hizi.

Kama sehemu ya ajenda hii, KCB imekumbatia viwango vya ubora vya Mazingira, Jamii na Usimamizi (ESG) na kwa ushirikiano na washirika mbalimbali tumetoa mafunzo na vyeti kwa wafanyakazi 250 wa utoaji mikopo kuhusu utekelezaji wa maadili hayo, kuhakikisha wanatumia ESG katika kutathmini zaidi ya 90% ya mikopo. Huwa tunachapisha Ripoti ya Uendelevu kando kila mwaka, ambapo huwa tunaeleza kwa kina miradi yetu na matokeo yake.

Watu wanaofanikisha mambo

Ili kuendesha Benki hii, tumewaajiri wafanyakazi zaidi 6,200 kutoka nchi na asili mbalimbali. Ni kupitia kungi hili ambapo tunaweza kuandikisha matokeo ya kuridhisha mwaka baada ya mwaka. Mkakati wetu wa kuwaangazia wafanyakazi umesalia na kusaidia pakubwa katika kukumbatia kwa teknolojia mpya. Kuhusu kuongeza ujuzi, mafunzo yetu hutolewa darasani na mtandaoni. Mwaka 2019, ni hitaji kwa wafanyakazi wote, nikiwemo, kumaliza kozi za mtandaoni kuhusu uendelevu, afya na usalama, maadili, kukabiliana na utakatishaji wa fedha, uendelevu wa biashara, usalama wa teknolojia ya habari na mawasiliano, na mafumzo mengine muhimu kwa kazi ya kila mfanyakazi na kwa kujiendeleza mwenyewe.

Kuna hitaji kubwa la uwezo mpya katika utengenezaji na usimamizi wa mifumo mpya ya teknolojia na hazina data kwa sasa. Ushindani katika kupata wataalamu wachache waliopo ni wa juu mno lakini tumefanikiwa kuwafihadhi wataalamu ambao wameandaa na kudumisha bidhaa na huduma bora zinazotumiwa na wateja wetu. Kadhalika, tumewekeza katika watu wa kulinda mifumo na mtandao wetu dhidi ya wahalifu wa mtandaoni. Usalama wa mifumo na mtandao wetu ni muhimu sana katika kulinda fedha za wateja wetu. Tutalipa kipaumbele suala hili kwani tukio moja la uvamizi linaweza likaharibu matunda ya juhudi za miaka

> "KCB inaamini sana katika matumizi ya teknolojia kuchochea maendeleo endelevu, kupunguza pengo katika uwezo wa kiuchumi na kijamii na kuhakikisha kila mtu anafikia fursa za kidijitali. Ndio maana tumefanya dijitali kuwa sehemu muhimu ya mkakati wetu wa kurahisisha kupatikana kwa mikopo."

Zaidi ya 90% ya mikopo inatolewa kwa kufuata vigezo vya ESG

Jumla ya KShs. 9.9 bilioni zililipwa na Kundi mwaka 2018

KShs. 50 bilioni zimeahidiwa kuendeleza ujasiriamali na biashara ndogo ndogo katika miaka 5 ijayo

Wafanyakazi 155 wetu walipandishwa ngazi mwaka 2018

Kiwango cha 22% cha mavuno kutoka kwa uwekezaji kwa wawekezaji wetu

mingi.

Katika mwaka huo, kulikuwa na mabadiliko kadha kwenye wasimamizi wa ngazi ya juu yaliyoendana na mkakati wetu na hatua zinazopigwa na benki hii. Katika ngazi ya wasimamizi wakuu, tulimteua Mkurugenzi wa Kampuni wa Biashara za Kanda na pia Mkurugenzi wa Huduma za Benki za Wateja Wakubwa. Katika mwaka 2018, wafanyakazi 155 walipandishwa ngazi na kupewa majukumu mapya baada ya kudhihirisha uwezo wa kufanya makujumu zaidi na hamu ya kuendeleza mkakati wa Kampuni. Shughuli ya kuwatafuta watu wa kujaza nafasi nyingine muhimu inatarajiwa kukamilishwa mwaka huu. Hizi ni pamoja na Mkurugenzi wa Wafanyakazi (nafasi iliyoshikiliwa na Mkurugenzi wa Kampuni wa Biashara za Kanda), Mkurugenzi wa Shughuli, MD (Meneja Mkurugenzi) wa Wakala wa Bima wa KCB, MD wa Benki ya KCB Bank Sudan Kusini na MD wa Benki ya KCB Uganda.

Uhusiano na wafanyakazi umekuwa muhimu sana katika kuhakikisha wana motisha na pia wanajitolea kazini. Ni kwa kutilia maanani jambo hili ambapo kesi katika mahakama ya leba iliyokuwepo tangu 2017 ilitatuliwa. Tuliongeza pia mikutano yetu na wafanyakazi hadi 142% ambapo kulikuwa na mikutano 130 na wafanyakazi, ikiwemo vikao vya mameneja wa matawi, majukwaa ya wanawake na wanaume walio uongozini, mabaraza na hafla ya kuimarisha uhusiano baina ya wafanyakazi wenyewe. Tulihitimisha mwaka kwa sherehe ya Tuzo za Simba ya kuwatuza wafanyakazi bora kote katika kanda hii.

Mkakati wa kutumia teknolojia

Mojawapo ya mambo ninayoyathamini sana ni utoaji wa huduma za benki kupitia njia rahisi na inayofikiwa na wengi. Nimefuatilia na mimi ni muungaji mkono wa matumizi ya teknolojia katika kufanikisha maendeleo endelevu, kupunguza pengo katika uwezo wa kiuchumi na kijamii na kuhakikisha kila mtu anafikia fursa za kumsaidia kuboresha maisha yake, hasa kupitia huduma za kifedha. Ndio maana tumefanya "dijitali kwanza na kwa haraka" kuwa sehemu ya mkakati wetu wa kurahisisha kupatikana kwa mikopo na kuhakikisha wateja wanafurahia utoaji huduma wetu.

Mwaka 2018, mafanikio yetu makuu yalikuwa uzinduzi wa mfumo mpya wa utoaji huduma kidijitali. Hili limetusaidia kupanua na kurahisisha upatikanaji wa mikopo huku tukiboresha ubora wa utoaji huduma kwa wateja. Aidha, tumepunguza gharama ya utoaji huduma kwa wateja wetu na hivyo kuongeza mapato kwako wewe, mwenyehisa wetu.

Kupitia kutumia teknolojia, tumetumia mfumo wa ngazi mbalimbali katika kuamua gharama ya huduma na pia kuimarisha alama za uwezo wa kukopeshwa za wateja wetu. Hili limewezekana kupitia kutumia teknolojia na wanasayansi wa data kukadiria alama za uwezo wa kukopeshwa na kuweka vipimo kwa kuzingatia tabia na uwezo wa wateja. Kiwango chetu cha wastani cha ukopeshaji kinakaribia KShs 5,000 lakini tuna wateja wenye uwezo wa kukopa zaidi ya KShs 100,000 – ishara ya tofauti zilizopo baina ya wateja wetu na uwezo wa mfumo wetu. Kipimo cha juu kimedhihirisha hamu ya kukopa miongoni mwa wamiliki wa biashara, na kutoa fursa ya kutoa alama za uwezo wa kampuni mbalimbali kama ilivyofanyika kwa wateja binafsi. Huu ni mwanzo tu wa msururu wa uvumbuzi unaotarajiwa kurahisisha mambo.

Katika kusaidia ukuaji wa biashara kupitia muundo huu, leo hii tunakabiliwa na changamoto la washindani wetu ambao hawakuwepo zamani. Wateja wetu wana mambo mengi kando ya hatari ya kawaida ambayo awali ilitumiwa kukadiria gharama ya mkopo. Uwazi katika kukadiria gharama ya mkopo na alama za uwezo wa kukopeshwa za mtu binafsi ni muhimu siku hizi sawa na kasi ambayo mkopo unatolewa. Kwa hivyo, hatulegezi juhudi zetu katika uvumbuzi.

Kutokana na mabadiliko yanayoshuhudiwa siku hizi, uwezekano wa mapato siku za usoni kutoka kwa biashara za sasa pekee ni mdogo mno. Ujuzi wetu na kasi katika kutangaza huduma zetu kupitia njia mbadala ndio utakaotupa mapato ya kutuwezesha kutimiza lengo letu la kupata 40% ya mapato ya jumla kutoka kwa shughuli zisizohusiana na riba.

Fursa kuu mbele yetu

Serikali ya Kenya imetaja nguzo nne kuu za kuhakikisha ukuaji wa kiuchumi ambazo ni: makao na nyumba za bei nafuu, huduma bora ya afya kwa wote, kujitosheleza kwa chakula, na viwanda. Ingawa bado tumekuwa tukichangia kwa kiasi Fulani katika kila moja ya nguzo hizi, tunatafakari jinsi ya kutekeleza mchango muhimu zaidi katika kutimiza malengo haya. Watumiaji wa bidhaa, Kilimo / Mboga na Matunda, viwanda na biashara kwa siku zijazo vitakuwa vichocheo vikuu vya ukuaji wa uchumi kanda hii, kupitia Zaidi kampuni ndogo na za wastani. Katika mataifa yote tunayofanyia biashara, mkakati wetu umewekwa mahsusi kusaidia ndoto za kiuchumi za taifa husika. Tumejitolea na tunajiweka sawa kukumbatia ushirika na wadau mbalimbali wa kitaifa na kimataifa kusaidia sekta muhimu na wajasiriamali ikiwemo kupitia matumizi ya teknolojia kutatua masuala ya gharama ya mikopo na utoaji wa alama za uwezo wa kukopeshwa.

> **"Tumejitolea kukumbatia ushirika na wadau mbalimbali wa kitaifa na kimataifa na wajasiriamali kusaidia kutimizwa kwa Ajenda Nne Kuu"**

Kiwango cha kutatuliwa kwa maswali ya ukaguzi wa hesabu kilikuwa 95% mwaka 2018

Fahari yetu imesalia kuwa hatua ambazo huduma yetu ya kukopesha kupitia simu imepiga. Tunalenga kutoa mikopo ya zaidi ya KShs 100B kote nchini, na kuna fursa ya kueneza huduma hii kanda yote. Isitoshe, tutaongeza uwezo wa huduma hii kufanikisha malipo.

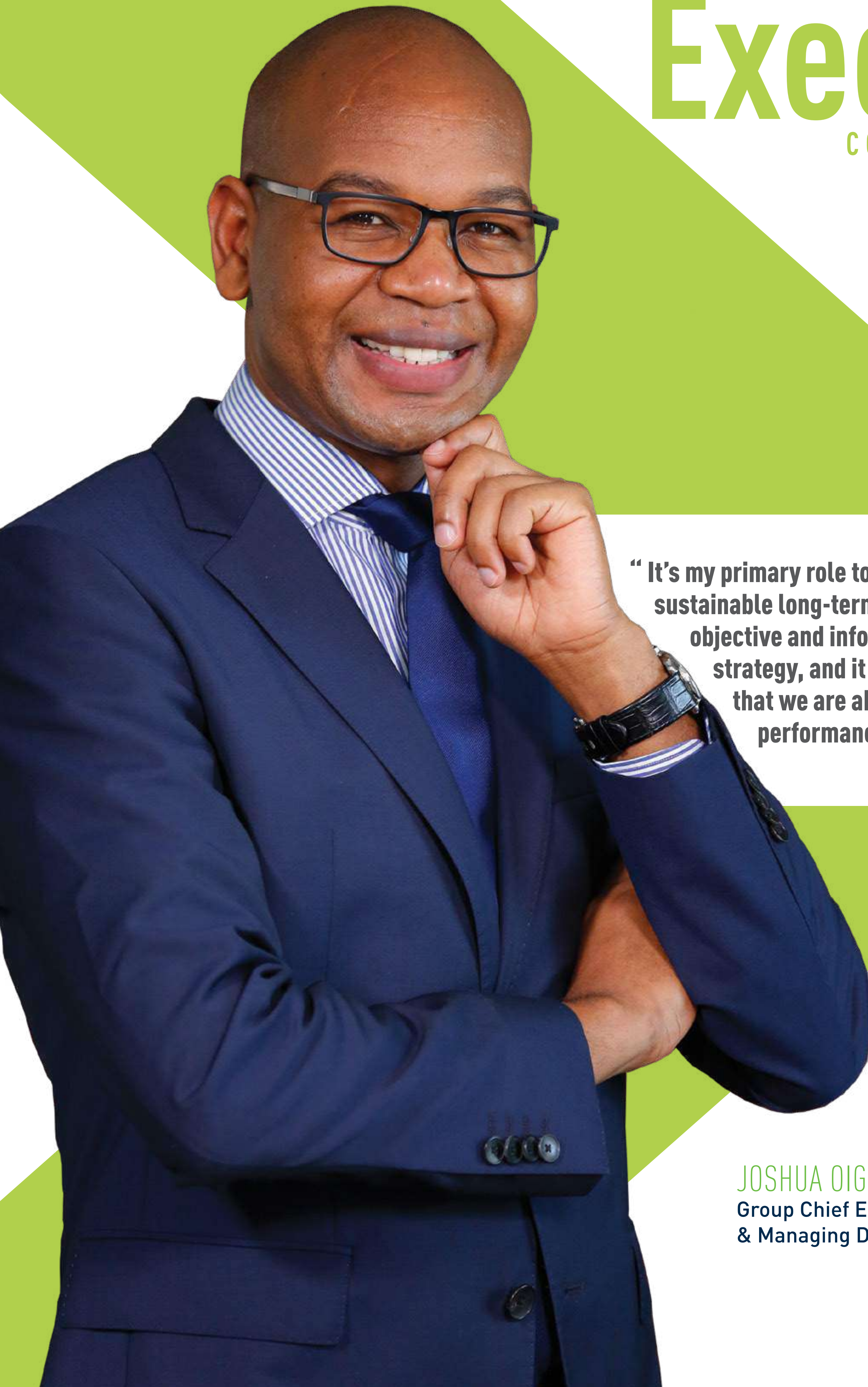
Kampuni hii imechukua hatua jasiri katika kuimarisha thamani kwa wenyehisa kupitia pendekezo la kuhamishwa kwa umiliki wa baadhi ya mali ya Benki ya Imperial (IR) na pia pendekezo la kununua Benki ya National ya Kenya (NBK). Matunda ya hatua hizi mbili yatajivuniwa kwa miaka mingi ijayo kupitia nguvu inayotokana na kuunganishwa kwa fedha zilizowekwa na wateja benki, kuweza kutoa mikopo kwa gharama nafuu na uwezo wa kupata mapato kutoka kwa shughuli za kibiashara za wateja watakaoongezeka.

Baada ya kuangazia mafanikio makuu, changamoto na mipango tuliyonayo, jambo la muhimu zaidi bado ni wafanyakazi wetu kutumia rasilimali tulizo nazo kutoa huduma na bidhaa bora kwa wateja. Nilipata fursa ya kukutana na wafanyakazi na wateja wengi, ambayo ni sehemu ya kazi yangu: Ningependa kuwashukuru wafanyakazi wetu wote na wateja kwa kuendelea kufanya kazi nasi. Nathamini sana uhusiano wetu na asanteni sana kwa kuamua kuitumia benki yetu.

Joshua Oigara, CBS

Afisa Mkuu Mtendaji wa Kundi na Mkurugenzi Mkuu

Executive
COMMITTEE



" It's my primary role to guide the Group towards sustainable long-term success through the exercise of objective and informed judgement in determining strategy, and it is through having the best team that we are able to deliver what I call stellar performance consistently. "

JOSHUA OIGARA, CBS
Group Chief Executive Officer
& Managing Director

Lawrence Kimathi
Group Chief Finance Officer

Samuel Makome
Group Chief Operating Officer

Paul Russo*
Group Regional Businesses Director

Judith Sidi Odhiambo
Group Head Corporate
& Regulatory Affairs

John Mukulu
Chief Risk Officer

Apollo Ongara
Director, Credit

Jane Mwangi
Managing Director
KCB Foundation

Joseph Kania
Group Company Secretary

*previously Group Human Resource Director

Overview of Operating Environment

The Group delivered a strong bottom-line performance on the back of operational efficiency supported by implementation of IFRS 9 (day one adjustments). However, top-line growth was subdued, an indication of the tough business environment we operated in across all our markets. As anticipated, the hangover of 2017's double election in Kenya hit businesses in the first half of 2018 with tight liquidity that pushed up both cost of funds and non-performing loans. The law capping interest rates further exacerbated subdued growth by limiting our ability to pass on cost increases and risk.

It was a mixed bag for our international businesses with sustained reduction in risk free interest rates in both Tanzania and Uganda, stable inflation and GDP growth in all markets except Burundi and South Sudan.

Business performance

Our Kenya business continued to deliver strong growth; total assets were up 12% mostly driven by loans and advances which posted an 8% growth. Customer deposits also performed well with an 8% increase over 2017. Profit after tax closed at KShs.22.4 billion reflecting a growth of 17% primarily due to a 7% reduction in costs. Benefits from our restructuring investment done in 2017 coupled with focused cost management have delivered savings that fueled profit growth. Collectively, international businesses profit before tax (PBT) grew by 64% increasing their contribution to overall Group profits to 7.3% (up from 5.6% in 2017).

KCB Bank Tanzania, Uganda and Burundi had stellar performances in 2018. The fundamentals are in place for all the businesses and we expect them to continue on this growth trajectory.

The Group's total assets grew to KShs. 714.3 billion from KShs. 646.7 billion, driven by growth in the traditional loan book and mobile loans, which grew by 8% to close at KShs. 455.9 billion. Customer deposits were up KShs. 38 billion to KShs.537.5 billion Net interest income grew to KShs. 48.8 billion while non-interest income remained stable at KShs. 23 billion. Operating expenses went down to KShs. 35 billion from KShs.36.4 billion following improved efficiencies across the entire business. Our continued efforts

Report From The Group Chief Finance Officer

to improve asset quality bore fruits with an improvement in non-performing loans of KShs. 4.8 billion.

These results pushed up the Group's after tax profit by 22% to KShs. 24.0 billion compared to the previous year's KShs.19.7 billion.

The Group's capital position closed strongly at 18.1% for core capital and 19.5% for total capital against regulatory targets of 10.5% and 14.5% respectively.

Return on average equity was 22.0%, an improvement over the previous year's performance while dividend per share improved substantially by 17% to KShs. 3.50 per share.

Outlook

We are cautiously optimistic that the operating environment will improve across the markets we do business in. Impact of the prolonged dry spell in Kenya on GDP and inflation is a concern as is the fragile, ongoing peace talks in South Sudan.

Internally we see cyber-security remaining a big challenge for us and for the industry and will therefore continue to be an area we focus our investment.

We expect to continue delivering good profit growth in 2019 anchored on our balance sheet strength and recently launched digital platform.

Lawrence Kimathi
Group Chief Finance Officer

2018 saw us deliver a strong performance against our strategy despite the tough business environment. This robust performance aided in the delivery of key milestones that positions KCB Group well for the future. Our Group performance of last year's strategic themes can be seen in the summary below:

Strategic Themes	Key Performance Indicators	2017	2018	Strategy Status
Digital Financial Services	Non-Funded Income Mobile Loans Advanced (KShs. B)	27.7% 29.6	29.5% 54.4	🟢 🟢
Customer Centricity	Customer Satisfaction Net Promoter Score	74% 42%	83% 43%	🟡 🟡
Business Growth	Customer Deposit Growth Net Loans Growth Net Interest Margin	13.9% 9.6% 8.9%	8.0% 7.3% 8.1%	🔴 🟢 🟡
Operational Efficiency	Cost-to-Income ratio Cost of funds System Uptime	46.8% 2.9% 99.8%	45.1% 3.2% 99.9%	🟡 🟡 🟢
Talent Management	Staff Cost-to-income Ratio % Female Employment	23.6% 42.0%	23.0% 43.0%	🟢 🟡
Shareholder Value	NPL Ratio Return on Assets Return on Equity	8.5% 3.6% 22.6%	6.9% 3.8% 24.0%	🟢 🟢 🟢

Strategy Status Key:
- 🟢 - 2018 performance achievement ahead of strategy target (100%+ achieved)
- 🔴 - 2018 performance behind strategy target (<95% achieved)
- 🟡 - 2018 performance somewhat at par with strategy target (95-100% achieved)

2019 KEY INITIATIVES

- **Simplified Customer Journey**
- **Optimize Balance Sheet and drive Asset quality**
- **Digital first and fast**
- **Sustainability agenda**
- **Operational Efficiency**
- **Maximize on Regional Business**

Five Year Review

Consolidated statement of financial position

	31 Dec 14	31 Dec 15	31 Dec 16	31 Dec 17	31 Dec 18
	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million
	Audited	Audited	Audited	Audited	Audited
Assets					
Government and other securities	97,198	96,948	102,470	109,737	120,070
Loans and advances to customers (net)	283,732	345,969	385,745	422,685	455,880
Property and equipment	8,838	9,028	9,373	10,454	11,007
Other assets	100,570	106,149	97,652	103,792	127,356
Total Assets	**490,338**	**558,094**	**595,240**	**646,668**	**714,313**
Liabilities					
Customer Deposits	377,272	424,391	448,174	499,549	537,460
Lines of Credit	27,030	43,268	36,105	25,934	42,552
Other Liabilities	10,402	9,181	14,395	15,220	20,640
Total Liabilities	**414,704**	**476,840**	**498,674**	**540,703**	**600,652**
Total Equity	**75,634**	**81,254**	**96,566**	**105,965**	**113,661**
TOTAL LIABILITIES AND EQUITY	**490,338**	**558,094**	**595,240**	**646,668**	**714,313**

Consolidated statement of profit and loss

	31 Dec 14	31 Dec 15	31 Dec 16	31 Dec 17	31 Dec 18
	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million
	Audited	Audited	Audited	Audited	Audited
Interest Income	47,478	56,443	62,806	63,673	66,280
Interest Expense	(11,527)	(17,148)	(15,779)	(15,288)	(17,450)
Net Interest Income	**35,951**	**39,295**	**47,027**	**48,385**	**48,830**
Non-Interest Income	19,233	19,732	22,449	23,000	22,973
Operating Income	**55,184**	**59,027**	**69,476**	**71,385**	**71,803**
Operating Expenses	(28,308)	(30,310)	(33,104)	(34,996)	(34,698)
Impairment on Loans and Advances	(3,089)	(2,179)	(3,823)	(5,914)	(2,944)
Total Expenses	(31,397)	(32,489)	(36,927)	(40,910)	(37,642)
Profit Before Tax and Loss on Monetary Position	**23,787**	**26,538**	**32,549**	**30,475**	**34,161**
Loss on Monetary Position	-	-	(3,458)	(1,361)	(302)
Profit Before Tax and Loss on Monetary Position	**23,787**	**26,538**	**29,091**	**29,114**	**33,859**
Income Tax Expense	(6,938)	(6,915)	(9,368)	(9,410)	(9,864)
Profit for the Year	**16,849**	**19,623**	**19,723**	**19,704**	**23,995**

Value Added Statement

	2014		2015		2016		2017		2018	
VALUE ADDED	**KShs. million**		**KShs. million**		**KShs. million**		**KShs. million**		**KShs. million**	
Interest Income,Fees,Commission and Other Revenues	66,771		76,175		85,256		86,673		89,253	
Interest Paid to Depositors and Cost of Other Services	(25,447)		(29,801)		(34,454)		(33,205)		(32,916)	
Interest paid on borrowings	(894)		(1,852)		(1,298)		(2,126)		(1,986)	
Wealth Created	**40,370**		**44,522**		**49,504**		**51,342**		**54,351**	
Distribution of Wealth										
Employees-Salaries, Wages and Other Benefits	13,994	34.7%	15,311	34.4%	17,719	35.8%	19,146	37.3%	17,007	31.3%
Government-Tax	6,939	17.2%	6,915	15.5%	9,369	18.9%	9,410	18.3%	9,864	18.1%
Shareholder's Dividends	6,050	15.0%	6,050	13.6%	9,198	18.6%	9,198	17.9%	10,731	19.7%
Retention to support future Business Growth:										
-Retained Earnings	10,798	26.7%	13,573	30.5%	10,525	21.3%	10,506	20.5%	13,264	24.4%
-Depreciation and Amortization	2,388	5.9%	2,435	5.5%	2,428	4.9%	2,791	5.4%	3,146	5.8%
Social Capital-KCB Foundation	201	0.5%	238	0.5%	265	0.5%	291	0.6%	339	0.7%
Wealth Distributed	**40,370**	**100.0%**	**44,522**	**100.0%**	**49,504**	**100.0%**	**51,342**	**100%**	**54,351**	**100%**

Key Facts

East Africa's No.1 Bank in terms of:

Profitability
Achieved KShs. 24.0 billion in net income through growth in Digital Financial Services and cost efficiencies

Total Assets
KShs. 714.3 billion in total assets, largest amongst regional banks.

Total Deposits
Mobilized KShs. 537.5 billion Customer Deposits, highest in the region.

Revenue
Top among banks in the region with KShs. 71.8 billion in total revenues

Branches
Network of 258 branches across the region, greatest distribution in the region.

A Review of Our Strategic Themes

Our 2018 business strategy was anchored on six themes namely – building a customer centric organization, exponential growth in digital financial services, driving operational efficiency, grow business in key customer segments and unlocking the youth and women agenda, effective talent management and drive shareholder value. The Group has further aligned these business initiatives with our four sustainability pillars– social, environmental, economic and financial stability. We also embarked on mainstreaming our adopted eight Sustainable Development Goals (SDGs) into our strategic themes and monitored these for progress in line with the Global Reporting Initiative (GRI) guidelines.

During the year, we also kicked off the process of adopting the six new UNEP FI – Principles for Responsible Banking, joining 28 other banks around the globe in redefining and affirming the banking industry's role and responsibilities in shaping and financing a sustainable future.

1. Building a Customer Centric Organization

At KCB Group, our desire is to be the provider of choice for financial solutions to our customers to deepen financial inclusion. Due to the ubiquitous nature of the service banks provide, our commitment is to meet customers' expectations by providing a differentiated, affordable and accessible service.

To do this, we demystify banking by integrating technology into our operations thereby easing the customer journey and reducing the pain points. This brings a whole new self-serve sense to banking. Our 360-degree view of customers and their needs enables us to offer personalised experience. This has helped us grow the business and become a pioneer in many customer offerings.

According to a 2018 M-Survey Customer Loyalty Industry Benchmark Report, KCB Group topped the financial sector as the best in customer service, driven by the Bank's uptake of social media in customer experience management. A Hamburg-based firm Digital Scouting ranked KCB Group as one of the world's top lenders in digital banking. KCB Group was listed position 13 in the Top 100 Digital Banks, securing 89 Power Score out of a possible 100.

Over the past few years, KCB Group has transformed from a product centric to a customer centric organization which has helped us entrench enduring customer loyalty. Today the Group boasts of over 17 million customers across East Africa with a growing youthful market segment.

We look at customer experience as a long-term strategy and therefore seek to have a long-term engagement with all our customers. We offer products and services which suits our customers in their life's journey.

Apart from the Group's values that align with great customer experience, we acknowledge that exceptional customer experience starts with preparing employees for the task. We have subsequently trained our employees and instilled in them a culture where they are always ready to provide outstanding service to our customers.

Our employees know that whether they are directly or indirectly in contact with the customer or work in the back office, they have a stake in customer engagement and customer management.

That has been the essence of the training and the culture change that we are driving within the organization.

The introduction of the Electronic Customer Relationship Management system (eCRM) has created a central repository that allows teams across the business to have a view of customer concerns for tracking and resolution. In addition, we have other channels for interacting with our customers including a 24-hour call center and social media platforms. As a result, staff are ultimately responsible for driving customer satisfaction.

We are simplifying our customers' world through digitization to provide a similar or better, personal, instant and seamless experience just as they would find if they stepped into any of our branches. We are empowering people by enabling access and providing financial education through various channels.

Considering that today's customer is more exposed and enlightened, we work to make every touchpoint with the Group end with a positive outcome. This ensures that the customers become our brand ambassadors, because we believe there is a nexus between exceptional customer experience and brand health.

The Net Promoter Score (NPS) is a global business advocacy indicator that we have used to benchmark ourselves on customer excellence. In the period under review, KCB Group's NPS was 43% well above the industry average of 21%.

We receive approximately 17,000 calls a day at the Call Center which is a major point of interaction with our customers.

The bank's Net Promoter Score for customer excellence peaked at 43%, against an industry average of 21% and against our own internal – and quite ambitious – target of 45%.

We strive to offer delightful and memorable experiences to our customers at our various touch points and as such, we have adopted the 4E's model of customer experience excellence, which drives our offering towards simplified customer journeys. The 4Es are:

As part of the Customer Experience compliance checks taking place throughout the year, we will be focusing on quality of case resolution on eCRM, with those unresolved being reactivated for proper quality closure.

These 4Es are critical in our customer experience journey and we will continue to anchor our interactions with customers based on this model. It allows the Group to modernize customer interactions by driving channel optimization, improve customer engagement, and identify the right customers to increase profitability.

We will continue sensitizing the employees on the 4Es and also create a program where we also celebrate those who offer excellent service to customers.

The Group is cognizant of the need to proactively promote consumer rights across markets. As such, KCB Group is compliant on all existing in-market and global consumer protection protocols for the benefit of consumers and to enhance transparency and trust with customers.

Our continuous investment in technology has resulted in an improvement in system uptime to 99.9% in 2018 effectively guaranteeing reliability. Going forward our focus will be on leveraging big data and Artificial Intelligence (AI) to create insights and understand our customers better so that we can continue providing unique propositions to them. In order to evaluate the impact of our business initiatives to the stakeholders, we continuously carry out a social return on investment study focusing on the shared value we create through KCB M-PESA, Inua Jamii and KCB 2jiajiri programme. We believe this will also lead to higher levels of economic activity through technological upgrading and innovation.

According to mSurvey, KCB Bank customers cite friendlier rates and charges as well as overall customer service, which is driven by various components that come together to delight customers. These Include:

Source: mSurvey

2. Exponential Growth in Digital Financial Services

The past decade has been characterized by digital transformation, and in the banking sector particularly, the growth has been significant impacting on customer experience and access to financial products and services.

Customers today use various digital devices to transact – from opening accounts, making payments, borrowing and saving – all without ever setting foot in the branch. The potential for digital technology to reach and meet the financial needs of consumers based on their existing circumstances and aspirations is greater than ever before.

> “ To meet current needs and anticipate future trends of our customers, we are developing innovative products and services aimed at simplifying the customers banking journey.”

To meet current needs and anticipate future trends of our customers, we are developing innovative products and services aimed at simplifying the customers banking journey. We continually seek partnerships to build on this proposition, effectively allowing us to provide banking services to Micro, Small and Medium Enterprises (MSMEs), unbanked and underserved individuals. As a result, we have been able to, among others, serve 717,342 elderly persons, orphans and disabled through use of digital channels under the Inua Jamii programme. This is a state-run social welfare programme where the Bank disburses funds on behalf of the government. Additionally, the Bank’s MobiGrow programme continues to post impressive impact on financial inclusion by boosting credit access to farmers in arid and semi-arid areas in Kenya and Rwanda.

717,342

Elderly persons, orphans and disabled are served through use of digital channels under the Inua Jamii programme.

98.2%

Mobile loans repayment rate

For the past three years, approximately 30% of the Group’s investment in technology has been channeled towards the development and implementation of a Financial Technology (Fintech) platform, which was rolled out in September 2018. The proposition brings agility and efficiency in our financial offering to meet the quickly evolving set of customer expectations.

The performance of our mobile banking products has grown in transaction numbers and volumes with loans of over KShs.54 billion in 2018. After the launch of the platform, our monthly volumes grew substantially peaking at KShs.10.1 billion in December from a low of KShs.2.9 billion in February. Majority of these are micro-loans averaging KShs.5,000. The repayment rate for the mobile loans stands at 98.2%. This platform anchors KCB Mobi and KCB M-PESA that have driven financial inclusion by providing banking services to hitherto underserved populations.

> “Enhanced digital and IT capabilities has enabled the Group to automate processes and boost efficiency thereby reducing costs.”

From a sustainability perspective, the enhanced digital and IT capabilities has enabled the Group to automate processes and boost efficiency thereby reducing costs. This has helped the Group lower its environmental footprint as a result of reduced paper consumption and fewer branches.

To mitigate the inherent risks from digital innovation among them, malware, phishing and scamming, the Group has put in place measures to safeguard our operations. We have tightened our risk management framework and invested in staff training to proactively handle the emerging threats.

We believe this platform is the right response to digital disruptions that will enable us to roll out new and targeted products while growing our market share in the digital payments.

KShs. 54,410,087,538
MOBILE LOANS ADVANCED

Mobile Loans Advanced

February
KShs. 2.9 billion

December
KShs. 10.1 billion

Average amount of loan borrowed on mobile
KShs. 5,084.8

every 24 hours
KShs. 149,068,732

every hour
KShs. 6,211,197

every minute
KShs. 103,519

Number of Mobile loans
In 2018-**10,700,632**
Per day - **29,317**
Per hour - **1, 222**
Per min - **20**

KCB App downloads
2016 - **351,259**
2017- **763,084**
2018 - **1,184,023**

Agency Banking Deposits

2014
KShs. 9.0 billion

2018
KShs. 153.3 billion

Agency Transaction Types
Cash Deposit - **64.6%**
Cash Withdrawal – **14.4%**
School Fees – **12.1%**
*Others– **8.9%**

*Account opening, Balance Enquiry, Bill Payment, mini-statement, load cards and funds transfer

A Review of Our Strategic Themes

3. Driving Operational Efficiency

In the wake of digital disruption, increased corporate conduct scrutiny, tighter regulatory environment and a challenging business environment, the need for efficiency has become ever more important. We are therefore continually improving our processes, upskilling staff and harnessing systems to meet customer expectations and reduce the cost of banking.

During the year under review, the Group updated Credit Quest – an end-to-end solution for managing, reviewing and analyzing credit applications – that speeds up loan processing and provides better tracking and analysis of customer credit history. Additionally, it provides for faster decision making, annual credit renewals and performance of periodic credit reviews.

We also enhanced our procure-to-pay (P2P) process to speed up the procurement cycle, from the onboarding of new suppliers, service delivery, and payment of suppliers. Further, we appraised a majority of our suppliers as part of our annual performance management exercise meant to improve turn-around time.

The Group also rolled out 68 intelligent ATMs (Recyclers and Depositors) in Kenya. These ATMs allow customers to deposit cash into their accounts with real time credits. During the year, KShs.22.5 billion was deposited by customers through these ATMs. Agency banking continues to be a big driver of our non-branch business. In 2018, customers deposited KShs.153 billion via our agency network compared KShs.9 billion four years ago.

The Group also invested in initiatives to enhance system security to guarantee integrity, availability, and confidentiality of our platforms thereby leading to a reduction in the threat of system breach. We implemented a customer data and privacy model where staff can only access information they need when serving customers. The Group monitors all IT systems real-time and conducts random quality checks to ensure consistent service and system integrity.

Employees remain the biggest drivers of efficiency in our business. As such, we continued to invest in programs aimed at enhancing the skillset across the Group through training and retooling.

The drive towards a more efficient Bank is in line with our sustainability agenda. Since the launch of our "Green Agenda" 10 years ago, KCB Group has continuously improved its efficiency in power, water, paper and fuel usage, bringing down resource use and costs. In 2018, the Group's carbon footprint – fuel and power consumption— declined by 23% with a target to be a carbon neutral bank by 2028. We are continually redefining our portfolio and expanding our products to incorporate solutions that address climate change related risks. KCB Group is working with suppliers to further instill responsible production and consumption in their operations as a prerequisite for working with us.

68

Intelligent ATMs rolled out in Kenya.

KShs.22.5 billion

Deposited through intelligent ATMs.

Resource Usage	
17.3%	Water 20.0%
	Fuel 29.0%
	Paper 12.0%
	Electricity 13.2%

As a result of our focus in driving up operational efficiency, the Group's cost-to-income ratio has improved. In 2018, it stood at 48.3% compared to 51.0% in 2017

Going forward, we will align the drive for operational efficiency with our revenue goals to deliver value to customers. As customers migrate to digital platforms, guaranteeing security of transactions and system availability on all platforms will be core in delivery of value. We will continue managing our risks and adhering to all compliance requirements.

Cost to Income Ratio	
270bps	2018 48.3%
	2017 51.0%

As stated earlier, the Group strives to see the realization of financial capital through conversion to other forms of capital. Thus, this realization is reliant on the deployment and flow of financial capital to allow resources towards it. Operational efficiency drives the allocation of resources and informs the effectiveness of the systems, structures upon which we run the bank, including information technology software, systems and structures. The Group's efficiency is key to sustainable business growth in two facets: firstly, the Group's flexibility and resilience in the market is enabled by the efficient use of manufactured capital, allowing it to respond to societal needs, be innovative, and efficiently deliver new products and services to the market. Secondly, manufactured capital and technology can reduce resource use, and system downtime, thus enhancing both operational and cost efficiencies, ensuring sustainable growth.

4. Driving Shareholder Value

In our bid to create long term shareholder value, as opposed to a sole focus on short term profits, the sustainability and shared value agenda forms an integral part of the KCB Group strategy. This is exemplified by mainstreaming and operationalization of the eight SDGs adopted by the Group.

In the past year various initiatives were carried out to internalize the sustainability agenda into the day-to-day business activities. These include staff awareness programmes, social return on investment study, social and environmental due diligence for SMEs, supplier engagements, global engagement fora and the carbon neutrality assessment.

As a continuous driver of change, we embarked on a mission to measure the true value of our social investments, focusing on KCB M-PESA, Inua Jamii, and KCB 2jiajiri programme. The true value report attaches a value on both financial and non-financial outcomes of the three programmes. This enables stakeholders to measure the achievement of social impact on three data points—appropriateness, effectiveness and efficiency. The report is available on the website.

To further bolster the push for a sustainable world, KCB Group joined 28 other global banks in adopting the six UNEP FI Principles for Responsible Banking. The principles—alignment, impact, customers and clients, stakeholders, governance and target setting, and Accountability and transparency—seek to redefine the banking industry's role and responsibility in shaping a sustainable future.

In 2018, we successfully screened loans worth KShs.126.7 billion for Environmental, Social Due Diligence (ESDD) to abate the climate impact risks. To improve on the quality of screening and reporting, we conducted capacity building for staff in the corporate, retail and credit divisions.

KShs. 126.7 billion the value of loans screened for Environmental, Social Due Diligence (ESDD) to abate the climate impact risks.

"As a continuous driver of change, we embarked on a mission to measure the true value of our social investments, focusing on KCB M-PESA, Inua Jamii, and KCB 2jiajiri programme.

In the course of the year, through our procurement department, we hosted suppliers' conferences to create awareness on sustainability and progress made so far. The forums are also used to tap feedback from the partners to enable us serve them better. In distributing work and value to the suppliers, the Group has adopted a new policy meant to bring in equitable allocation. This has mapped out categories such as local and international purchases, youth and women in business allocation, corporate and SME. Moreover, the new policy makes reference to the green agenda and green procurement. The Group has a zero tolerance to all forms of corruption, bribery and unethical business practice at the workplace. It requires all employees and service providers to adhere to the Group Code of Ethical Conduct. As one of the biggest regional bank we support the strengthening of the systems and processes that facilitate and enhance a healthy financial system.

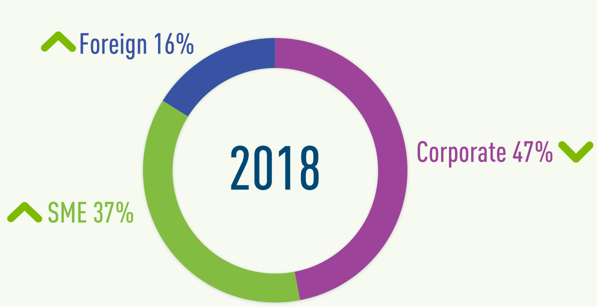
UNEP FINANCE INITIATIVE | PRINCIPLES FOR RESPONSIBLE BANKING

The six UNEP FI Principles for Responsible Banking.

1. **ALIGNMENT**
   Align our business strategy with society's goals as expressed in the SDGs, Paris Climate Agreement and other frameworks
2. **IMPACT**
   Continuously increase our positive impacts while reducing our negative impacts
3. **CLIENTS & CUSTOMERS**
   Work responsibly with our clients and customers to create shared prosperity for current and future generations other frameworks
4. **STAKEHOLDERS**
   Consult, engage and partner with relevant stakeholders to achieve society's goals
5. **GOVERNANCE & TARGET SETTING**
   Implement commitments through effective governance and setting targets for our most significant impacts
6. **TRANSPARENCY & ACCOUNTABILITY**
   Commit to transparency and accountability for our positive and negative impacts, and our contribution to society's goals

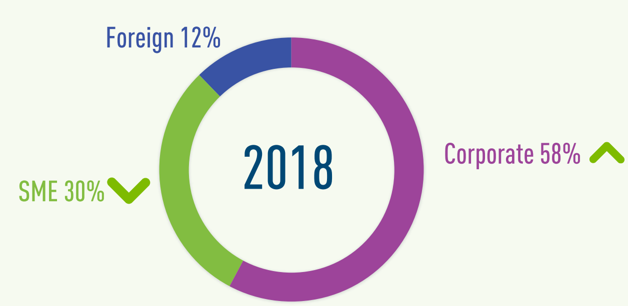
Distribution of work of the top 100 suppliers

2017
Foreign 12%
SME 36%
Corporate 52%



Distribution of the value of work

2017
Foreign 12%
SME 36%
Corporate 52%



A Review of Our Strategic Themes

5. Business Growth

The Group instituted definitive measures designed to drive the business forward while maintaining the prudent fundamentals that have ensured growth is anchored on a solid foundation. These overarching measures have had a positive effect on the bottom line and have helped the Group ride out the macro environment slowdown that has dogged the region over the past couple of years.

Overall, the Group's corporate and retail franchises continued to post impressive returns, helping the Group to ring fence its market share. The performance was underpinned by a strong human resource base, robust risk management, effective compliance and governance framework and sustainable shared value creation.

"The performance was underpinned by a strong human resource base, robust risk management, effective compliance and governance framework and sustainable shared value creation."

The Group's loan book grew from KShs.422.7 billion in 2017 to KShs.455.9 billion this year driven by a higher uptake in the agriculture, manufacturing, household lending, and trade sectors. This was partly supported by 84% growth in mobile lending, stamping the bank's commitment to deepen financial inclusion.

The stock of non-performing loans declined by KShs.4.8 billion improving the non-performing loan ratio to 6.9% against 8.5% in 2017 and the industry average of 12%. We were proactive in instituting stricter controls on the management of the loan book for both new and existing customers.

Deposits grew by 8.0% to KShs.537.5 billion

"The international business was on a resurgence, significantly growing its contribution to the Group's performance."

on the back of higher customer numbers, salaried accounts and optimized value chain.

The Kenyan business remains the strongest contributor to the Group's performance despite the interest rate cap that constrained lending to some segments of the economy. The international business was on a resurgence, significantly growing its contribution to the Group's performance. Profit before tax for the international subsidiaries grew 64%, with a 7.3% contribution to overall Group profits, up from 5.6% in 2017.

The Bank deepened its investments in supporting East Africa's economic growth agenda, with specific focus on key sectors such as infrastructure, hospitality, manufacturing, agriculture, healthcare, housing, transport and communication.

Under our corporate banking arm, the Bank has not only financed big economic projects but also ensured that they are duly screened for environmental and social issues under our sustainability framework. This has seen the Group take a leadership role in increasing its green lending portfolio, targeted to grow 5% annually.

MobiGro

Targeting two specific production areas - pastoralists in arid and semi-arid areas (ASALs) and smallholder crop and dairy farmers in high potential value chains - the programme prioritizes

MobiGro programme continues to post impressive impact on financial inclusion by boosting credit access to farmers in Arid and Semi-Arid areas in Kenya and Rwanda.

the grooming of the next generation of agricultural entrepreneurs.

These accounts are fully mobile meaning that all a farmer needs to open and operate an account is a mobile phone. The account allows farmers to grow their savings, withdraw and transfer cash and also access affordable loans.

So far, the Group has opened 65,429 accounts valued at KShs.80.8 million through MobiGrow.

In conjunction with other partners, KCB Bank Kenya has rolled out an overdraft facility for traders dubbed 'Jaza Duka'. This product— which has so far signed up 30,000 storekeepers— allows them

So far, the bank has opened 65,429 accounts valued at KShs.80.8 million through MobiGro.

to stock goods on credit from the Bank based on a credit score derived from inventory turnover.

Women Segment

In the year under review, the retail business took a special focus on increasing credit to women alongside providing technical and non-financial support. KCB Bank Kenya expanded the accessibility of this product from 5 branches to 23 branches countrywide resulting in deposit mobilization of KShs.3.16 billion and a loan book of KShs.5.16 billion. The repayment rate is 100%. This success is attributed to financial literacy, capacity building and exposure to other markets. The programme is anchored within the Group's sustainability agenda

"The women proposition has led to deposit mobilization of KShs.3.16 billion and a loan book of KShs.5.16 billion. The repayment rate is 100%."

which focusses on reducing inequality and sustaining income growth to the vulnerable groups.

SME

The Group also increased its focus on Micro, Small and Medium Enterprises across the region in light of the realization that the sector is one of the key drivers of economic growth. The Group's MSME loan book stood at KShs.40 billion . As a result, start-ups enterprises are able to access credit facilities at concessionary rates.

The Group has committed KShs.50 billion to be extended to MSMEs in the next five years.

KCB Capital

East Africa's money and capital markets were resilient during the year, offering business opportunities for KCB Capital, a KCB Group subsidiary. The Kenya Shilling gained 1.4% to the US dollar in 2018 and was the best performing African currency in the year.

KCB Capital continued to strengthen its play in the brokerage and advisory space, positioning the Group for a bigger slice of the fast growing market.

Going forward, KCB Capital foresees better prospects from improved activity in the equities market and increased opportunities in the advisory front, emanating from corporate debt restructuring and advisory on state funded projects across East Africa.

The emerging green bonds market in Kenya presents KCB Capital with new opportunities for transaction advisory as this is expected to bring back investor confidence in corporate bond market. Further, the business will tap into new frontiers through digitization, creation of wealth products that focus on capital markets.

Mortgage

In the housing sector, KCB Bank Kenya continued to build its capacity in delivering affordable housing solutions. In the period under review, KCB Bank Kenya through its mortgages business partnered with key stakeholders in the building sector largely government agencies to meet the demand for quality and affordable houses. The Bank has also expressed a shareholding interest in the Kenya Mortgage Refinancing Company (KMRC). The state run agency is mandated to offer long term liquidity to primary mortgage lenders with the aim of addressing affordability and fixed rate mortgage lending to the market.

"The Bank has committed KShs.50 billion to be extended to MSMEs in the next five years."

The mortgage business mobilized 42% more deposits compared to the previous year, while also increasing the volume of the loan book by 3%. This resulted in a 14% increase in the profit before tax under the mortgage portfolio.

Going forward, the Bank sees significant opportunities in serving the underdeveloped medium-to-low income housing market and development of suburban and social amenities. This is in line with the Bank's commitment to drive access and affordable housing. The Bank is also looking at digitising its mortgage operations to simplify the application and appraisal process.

Across its real estate and mortgage portfolio KCB continuously seeks opportunities to finance green building designs as well as supporting the enabling regulatory environment as green building designs has distinct commercial and social advantages and is a means to de-risk the portfolio.

SAHL Banking

2018 marked the fourth year of operations for Sahl banking. The Islamic banking proposition achieved a double digit growth year-on-year in all key financial indicators.

With an asset base of KShs.3 billion, Sahl banking posted a 32% profit growth to KShs. 500 million during the year.

In recognition of our contribution to the growth of Islamic finance in Kenya, KCB Sahl emerged tops in the 'Best African Retail Islamic Banking' category at the African Interest-free Banking & Finance Awards.

SAHL Banking Loan book ^15%	**2018** **KShs.2.8B**
	2017 KShs.2.4B

Total SAHL Customers ^19%	**2018** **28,374**
	2017 23,884

As part of our growth agenda four new Sahl centres will be opened in 2019 in the specific demand driven areas, to enhance access and visibility.

Brand Value

KCB Group recognizes that to achieve sustainable business growth, there is need to build a strong brand that is anchored on trust, believability, favourability, advocacy, awareness and familiarity. To build this, the organization has been making targeted investments to boost brand value through sponsorships, stakeholder engagements and thought leadership. Over the year, KCB Group deepened its sponsorships towards sports to develop and nurture a critical mass of talent to compete in local, regional and international competitions across disciplines—football, golf, rugby, volleyball, chess, motorsports and athletics. Other initiatives aimed at enhancing brand value include the business show Lions' Den that is now on its fourth edition and general sponsorships cutting through different sectors. Under stakeholder engagements, the Bank runs the KCB Power Talks, a quarterly premium corporate banking engagement session, media fora, Biashara Club and Developers Club.

LIONS' DEN

KShs. 372 million, total amount invested by the Lions since the show started.

KShs. 79 million, amount invested in Season 3

A Review of Our Strategic Themes

6. Effective Talent Management

KCB Group is a firm believer in our people, who have been instrumental to the success of the business over the years. The acquisition, onboarding, development, succession and compensation of employees form an integral part of our human capital strategy and future-proofs the business.

For the past year, we rolled out a management trainee programme for upskilling at least 50 staff from across the Group and preparing them for future leadership. We also continued with an annual leadership development training for branch managers and other mid-level managers. Additionally, KCB Group carried out a senior level leadership development programme for the executive committee members, covering areas such as sustainability, business continuity and risk management.

To complement classroom trainings, all employees were required to undertake mandatory online courses on Sustainability, Health & Safety, Ethics, IT Security, Anti-Money Laundering and HR Policies. In 2018, the average learner days target was 5 days and we manged to achieve 7.1 days, primarily driven by the increased uptake of the e-learning platform from 15% to 100% within the year.

To entrench our subsidiary integration model, we enhanced cross border staff exchange programmes during the year, with several senior staff members moving to new stations across the borders in the areas of Credit, Risk, Retail, IT and HR.

In line with the Sustainability agenda on diversity within our workforce, KCB Group has achieved its target of having 50% women in managerial positions ahead of the 2020 goal. This is attributed to the Group's deliberate investment in the Women in Leadership Network (WILN) and the Men's Forum awareness sessions.

26%

Female composition in senior management against a target of 33% by 2020.

The focus is now on senior management roles currently at 26% against a target of 33% by 2020. Subsequently in acknowledging the youth population, the Bank is deliberate in filling new positions to at least 15% of under 30 population.

The KCB UN Gigiri Branch receiving the prize for Best Performing Branch in Kenya under the Large Branches Category at the 2018 KCB Simba Awards.

> **"KCB Group has achieved its target of having 50% women in managerial positions ahead of its 2020 goal."**

KCB Group continued to improve its employee proposition for both unionisable and non-unionisable staff. During the year, we enhanced engagements with the unionisable staff over a number of outstanding issues which were resolved following a year-long court dispute.

The Group Staff Recognition Scheme – the Simba Awards – remains a central cog in staff motivation by rewarding employees for exemplary performance. In 2018, the staff recognition panel reviewed 839 nominations across the Group out of which the panel identified 22 individuals and 8 teams as outstanding. One individual was recognized for her long service award, having served in the organization for 42 years.

Further, to buttress staff engagements, the Group CEO and MD as well as the senior management regularly engage staff through various platforms like the KCB Chat, KCB Cascade Café and Stategy Cascade sessions to better understand their expectations and also receive feedback.

The Group believes in having a healthy workforce to drive productivity. As such, the Group continually enhances its health benefits in the out-patient and in-patient packages. Additionally, the Group carried out an annual medical check-up for all staff and has rolled out a robust wellness programme meant to reduce staff exposure to lifestyle diseases and other complications. Some of the initiatives under this programme are Chronic Disease Programme, KCB Clinic, KCB fitness Centre, KCB Nest (mother-child room), employee assistance programme and health education.

KCB Group's compensation offering is in the 75th percentile in Kenya's

75%

of staff are aged less than 40 years

Noel Wamai (right) receives awards for Unsung Hero and Longest Serving employee at the 2018 KCB Simba Awards.

Labour market, enabling the organisation to attract and retain the right talent mix to drive its growth agenda.

Additionally, we aim at providing a good working environment to improve productivity of our employees.

In compliance with global best practice and transparency within the organisation, the Group has in place a feedback mechanism to address various issues including ethics and integrity, disciplinary and harassment related to staff and service providers.

To move the Group forward, it is important for all staff members to be aligned to the business strategy. As part of this exercise, we ensure that all employees understand the strategy for the year and that there is standardization and consistency across the Group. We continue to maintain zero tolerance to fraud and are happy to report that 2018 posted the lowest number and value of fraud incidences.

Our people are core to our strategy and we will continue to develop the employee value proposition to ensure our workforce enables the Group to achieve its strategic goals.

Metric	2018	2017
Total staff	6,220	6,483
Average Number of Leave Days taken	19.1	18.6
Average Number of Sick Off Days taken	1.65	1.53
Total Number of Interns	199	195
Total Number of Hires	58	86
Total Number of Exits	179	428
Revenue per staff (KShs. Million)	11,544	11,011
Cost per staff (KShs. Million)	2,734	2,953

Staff Cost to Income Ratio %

2017	2018
26.90%	23.70%

Employee Distribution

Male	Female
57.0%	43.0%

Average Tenure (All Staff)

- **Kenya** 8.7yrs
- **Burundi** 3.24 yrs
- **Tanzania** 5.5 yrs
- **Rwanda** 5.2 yrs
- **Uganda** 3.8 yrs
- **South Sudan** 7 yrs

A Decade of KCB Foundation

Over the last 10 years, the KCB Foundation has moved from doing mere philanthropy, where the focus was on relief, into shared value, which is a business management strategy focused on solving societal challenges.

Today, 80 percent of the Foundation's annual budget goes to shared value programmes, 15 percent to CSR and 5 percent to philanthropy. The Foundation's philanthropic work is done when there is a crisis and immediate relief is needed.

The main focus of our CSR initiatives is the high school scholarship programme, which supports 240 students every year and pays for their four years of secondary school. A total of 16 percent of the students are people with disability. Currently about 200 of them are in national and top tier extra-county schools. The secondary school scholarship programme has expanded with the entry of partners such as Tullow Oil Kenya BV where an additional 100 students in Turkana, Garissa, Isiolo, Meru, Samburu, West Pokot and Lamu counties are benefiting.

One of the key achievements under this initiative was the signing of a Memorandum of Agreement with the M-PESA Foundation Academy to admit 40 of the students who have disabilities.

The Foundation's targeted skills training and entrepreneurship development programme for Kenyan youth - 2jiajiri - and livestock value chain development programme - Mifugo Ni Mali - are the main programmes under shared value component. 2jiajiri seeks to prepare youth for self-employment by training them on vocational skills while Mifugo Ni Mali seeks to create value for pastoralists by treating their livestock as assets.

There were two significant achievements under 2jiajiri in 2018: 10,000 beneficiaries graduated from the programme in December, bringing the total to over 23,000. The Foundation also embarked on expanding opportunities for the youth through pilot franchising projects with leading small and medium enterprises (Franchise Champions) for the 2jiajiri beneficiaries. KCBF will leverage the established local SMEs brands in the Beauty and Personal Care; Domestic Services and Automotive sectors. Franchising agreements were reached with four mid corporate companies: Naivas (for the bakery business), Top Quality Motors (carwash), Sheffield (equipment for the bakeries) and Ashleys (beauty and personal care).

Under the franchising agreement, beneficiaries will get opportunities to open businesses under the brands of the four companies while leveraging on the strong brand identity and the standards already established. The Foundation will provide business development services to support the 2jiajiri beneficiaries into developing thriving enterprises. The franchising idea rose out of the challenges most 2jiajiri trainees face with regard to salon management competencies and acquisition of supplies and equipment.

In Mifugo Ni Mali, the big ticket achievement for 2018 was the Radio Frequency Identification Device (RFID), which is used to tag animals, and which comes in handy in the Amaya Triangle – Baringo, Isiolo, Laikipia, Turkana, Samburu and West Pokot – where 40,000 cattle were tagged. The cattle are tagged using different colours per county and the tags are then geo-located, making it possible to track all the cows. The device also helps to track the cattle's productivity and therefore their value, for purposes of credit scoring, which is important for insurance and for access to loans.

The Foundation successfully graduated 90 beneficiaries of the inaugural class of "Igire", its flagship youth wealth and job creation programme in Rwanda. The Foundation through KCB Bank Rwanda and the Rwanda National Youth Council launched a partnership in April 2018 to sponsor the youth for a six-month vocational skills training to prepare them for self-employment. The graduands were trained on Information and Communications Technology, Culinary Art and Domestic Electrical Installation at Integrated Polytechnic Regional Centres in Kigali, Ngoma and Huye.

> **"The Foundation successfully enabled 6,592 beneficiaries to obtain Business Development Services (BDS) support, where they were taken through the steps of setting up a business by a team with a lawyer, an accountant and a marketer."**

In Tanzania, over 1,500 women have benefited from the 2jiajiri women empowerment programme which addresses challenges women face in the course of doing business as well as better their entrepreneurship skills, capacity and opportunities.

In 2019 KCB Foundation will grant the women who have been trained, and who will have viable business proposals, seed capital amounting to TZS 91 million each to bolster their enterprises.

IGIRE

90

Graduands of the inagural class of 2018 "Igire"

The Foundation is looking to establish a programme in Uganda while its work in South Sudan remains limited to the secondary school scholarships. Work in Burundi will require further discussions with the authorities there.

For 2019, the Foundation will pilot a training programme for 259 jua kali artisans. This will be done by giving them access to tools that have been availed by Gearbox, a Kenyan company.

In line with Sustainable Development Goal 17, KCB Foundation continues to reach out to strategic partners within its programmes. 2jiajiri is implemented using a collaborative partnership model that pools both technical and financial resources to facilitate improved access to institutional infrastructure and skills for enterprise development.

Some of the partners who have added great value to the Foundation's programmes include the national government, county governments, technical training institutions and local and international development partners. Our notable global partners include the German International Development Cooperation agency GIZ, and USAID.

KCB Foundation Promoting 'Franchising Model' in Beauty Industry

NANCY MNANGA, 25, always wanted to be a hairdresser. She would spend hours styling her sister's hair and that of other children in Kawangware 46, where she lives. Her mother, a live-in house help in Kileleshwa, could not afford the fees to take her to college. Then one day, her mother's employer - whom Nancy fondly refers to as her second mum - informed her that KCB Foundation was offering scholarships for beauty and personal care training and urged her to apply. That is how Nancy achieved her dream of pursuing hairdressing.

Nancy is one of 203 students trained under a partnership between the KCB Foundation and Ashleys Hair and Beauty Academy since 2016. The partnership is part of the 2jiajiri programme, which aims to create 500,000 youth entrepreneurs and 2.5 million jobs (both direct and indirect) over five years. KCB Foundation invests KShs. 10 billion a year into the 2jiajiri programme along with several partners.

Once Nancy completed her seven-month training, KCB Foundation secured her employment at the Ashleys salon in Lavington, one of 13 branches owned by Terry Mungai, CEO and founder of Ashleys Kenya Limited.

"Even before the partnership with KCB Foundation, we guaranteed jobs to the best four students in a class," says Ms Mungai, who opened Ashleys Hair and Beauty Academy in 2003.

"Under the 2jiajiri partnership, we train students and support them transition into employment; and for those interested in entrepreneurship, we help them start their own salons. KCB Foundation provides the financing," she adds.

Although Nancy dreams of opening her own business, she is not yet ready to take the plunge.

"After 5 years or so I would like to have my own salon and employ other people. I need to first gain experience and learn how to handle clients. The Foundation promised that when I am ready, they will provide me with a loan to start me off," she says.

Nancy's story is similar to those of the over 2,000 2jiajiri beauty and personal care graduates yearning to tap onto the multi-billion beauty sector, but whose potential has been approached haphazardly. It can be tapped onto to create business and opportunities for young people to become self-employed. Further, the industry has immense potential to attract private equity investors interested in social impact investment. However, many of the youth have inadequate salon management competencies and do not have access to capital.

It is for this reason that KCB Foundation partnered with Ashleys Kenya to roll out salon containers through a co-ownership model. Under this partnership 2jiajiri graduates will open salons under the Ashleys brand name. To differentiate these businesses from the existing Ashleys Coiffure and Spas, the new salons will carry the brand name 'Ashleys Mashinani' and will be priced differently. Under this model, 10 new salons will be opened in different counties in 2019 to absorb all 203 students trained under the Ashleys - 2jiajiri partnership.

Ashleys will provide business management, operations support, ensure loan repayment and financial management and reporting and their role shall be to substitute the incubation services provided by the KCB Foundation team with the added advantage of industry knowledge.

"When a customer visits an 'Ashleys Mashinani' salon, they will get the same service but at a subsidised price," says Ms Mungai.

Is she worried that the franchising model will dilute the Ashleys brand?

"No. We will maintain oversight to ensure the salons are managed to the same standard as our other beauty centres," she says.

She says the partnership with KCB Foundation works well for her brand because the two institutions share a similar vision – improving the lives of the youth.

> "Under the 2jiajiri partnership, we train students and support them transition into employment; and for those interested in entrepreneurship, we help them start their own salons. KCB Foundation provides the financing,"

2jiajiri transcends borders

In November 2018, KCB Foundation graduated 90 beneficiaries of the inaugural class of "Igire", its flagship youth wealth and job creation programme in Rwanda.

The Foundation through KCB Bank Rwanda in partnership with Rwanda National Youth Council launched Igire in April 2018 to support 100 youth for six months to equip them with vocational skills to enable self-employment.

The graduands were trained on Information and Communications Technology, Culinary Art and Domestic Electrical Installation at Integrated Polytechnic Regional Centres in Kigali, Ngoma and Huye. The courses were selected according to the general skills gaps in the market and the students' preferences.

Speaking during the graduation of the pioneer class in Kigali, KCB Foundation Managing Director Jane Mwangi said "Igire" is a direct investment in the youth in recognition of their role in building the Rwanda's economy.

"The value of vocational training cannot be gainsaid. By empowering the youth to take charge of their future, we are reducing the need to rely on formal employment to earn a living. The skills students acquire throughout the training are essential for the market, where we all know there is a skills gap," said Ms Mwangi.

The Foundation's vision is to enable the youth be their own leaders within the communities they reside by molding a practical, knowledge-based labour force for the region's sustainable growth and development.

The Rwanda Ministry of Youth Affairs Permanent Secretary Emmanuel Bigenimana hailed KCB Foundation for its collaboration with the Rwanda National Youth Council on the initiative, saying the youth form a key component of Rwanda's work force.

During the colourful graduation, the five best proposals from the graduating class were each awarded Rwf 3,000,000 (KSh. 345,000) seed capital to start their own business projects. The graduands will be linked to the industry through opportunities to work with potential employers and investors.

Graduates with viable business proposals will get a chance to interact with investors known to turn ideas into thriving businesses across East Africa. The five best proposals will be given seed capital to start their own business projects.

"The value of vocational training cannot be gainsaid. By empowering the youth to take charge of their future, we are reducing the need to rely on formal employment to earn a living. The skills students acquire throughout the training are essential for the market, where we all know there is a skills gap,"

"Acquisition of technical skills will not only enable our young people to get into self- employment, but will also promote their contribution to the economy when beneficiaries create jobs for their peers," he said.

KCB Rwanda Managing Director George Odhiambo affirmed the Bank's commitment to continue supporting the youth and thanked the Rwanda National Youth Council for its collaborative efforts in supporting youth empowerment.

The National Youth Council (Rwanda) and KCB Bank Rwanda are working together to ensure the youth empowerment programme maintains the remarkable steps it is already making towards realising the objectives of the initiative.

From hustler to employer

Wilson Adhiambo Opiyo never dreamt of working in a salon. But as fate would have it, he chanced upon a unique career path which he says has accorded him a decent life.

He is now a beautician, a career that he is passionate about. His life has not always been easy.

He dropped out of school in Form Two in 1994 and took up casual jobs at construction sites. He says the pay was not commensurate to the hard work involved.

"Being an unskilled worker at a construction site was not only hard, but the pay was low. I therefore quit and used my savings to purchase five bags to sell around Kisumu," recalls the 41-year-old father of four.

After four years, he decided to quit and use his savings to try his hand at hawking bags around estates in Kisumu.

He would walk long distances under the scorching sun, calling out for customers around the estates. It would take days to sell a single bag. A year into his hawking business, a friend advised him to start hawking nail polish to supplement his earnings.

"One of my customers asked me to hawk nail polish. On my first day, three ladies saw me carrying the nail polish and requested me to apply it on their nails. I had never done it before, but I steeled myself and did the job. They paid me KShs.30. It was the easiest money I had earned in my life" he says.

Bouyed by the 'quick' money, he says the following day he bought more bottles of nail polish at KShs.25

"With the help of the BDS officer, I formally registered my business, opened a Facebook page and developed a fundable business plan,"

each, which he hawked alongside his bags. That day, he earned KShs.250 selling nail polish. Wilson also realized that his customers were willing to pay more if he applied the nail polish.

"I lacked expertise in nail polish application and I visited salons to learn the art," he recalls.

After honing his skill, his client base grew and so did his earnings. He decided to concentrate on his beauty business and stopped hawking bags in 2008. He says he would charge clients KShs.30 for every application.

In 2016, a client informed him about KCB Foundation's 2jiajiri programme and he enrolled at YMCA Kisumu to pursue a course in Hairdressing and Beauty. He learnt, among other things, pedicure, manicure, facials, as well as massage.

After graduating, Wilson migrated to Phase II of the 2Jiajiri programme, where he was assigned a Business Development Service (BDS) officer who helped him conceptualize and open a business outlet.

KCB loaned him KShs. 100,000, money which he used open his business and purchase the necessary equipment. "With the help of the BDS officer, I formally registered my business, opened a Facebook page and developed a fundable business plan," he says.

Wilson says 2jiajiri has helped transform his life. "Were it not for KCB Foundation's 2jiajiri programme, I wouldn't be where I am today."

Today, the number of customers at Kodhis Cutex, his salon, has increased threefold; he tends to 40 customers daily with earnings of about KShs. 6,000 per day.

"My business has grown. I have four employees. I purchased land, build a house and moved my family from Obunga slums," Wilson said.

Thanks to the business training from the BDS officer, Wilson was able to clear his first 2jiajiri loan of KShs. 100,000. Consequently, he was transitioned to Phase III of 2jiajiri where he is under the guidance of a KCB Bank Micro Banking officer. He applied for a second loan of KShs. 60,000 and intends to open a second salon in Kisumu.

Starting a garage business

Joseph Kipkorir Mutai, 32, had heard about KCB's 2jiajiri program, but it had never quite occurred to him that he could be a beneficiary.

He, however, knew that he could do more than he was doing at the time — a mechanic training on the job at a garage in the highlands of Kericho.

Mutai had gone to Kericho to stay with his relatives, and while there secured a job as a spanner boy at the garage, and it is while working here that his big break came.

One of their customers was a tea estate manager. They got to know each other well and, in one of their conversations, the manager informed Mutai about the 2jiajiri program.

"He advised me that if I applied and was successful, I would undergo training and then become eligible for a loan to start my business. He also told me that I could earn much more not only from repairing cars, but also selling spare parts," Mutai recalls.

Mutai took a leap of faith and applied for the scholarship. He was successful and enrolled at the Lessos Technical Institute in Nandi for an automotive mechanical course.

He completed his course and opened a garage in Kapsabet. In March this year, he took a Sh206,000 loan from 2jiajiri and invested it in his new business.

Mutai is now a proud owner of a motor vehicle spares business in Kapsabet, Nandi County. He says his earnings are a far cry from what he used to make while working as an apprentice. He has five permanent employees, and three others on contract.

His shop, Ex-Japana Spares, sell spare parts which he buys from Nairobi and Kampala.

After seeing first-hand the benefits of undergoing training under 2jiajiri, he always encourages fellow youth to apply for the same once they become available.

The program seeks to reach 50,000 people, mostly youth and entrepreneurs in the informal sector, in the next five years.

He completed his course and opened a garage in Kapsabet. In March 2018, he took a KShs.206,000 loan from 2jiajiri and invested it in his new business.

KCB Foundation promotes value addition among dairy farmers

Residents of Mumberes in Eldama Ravine Sub-County, Baringo County are reaping the benefits of value addition from the milk they supply to a local farmers' Co-operative. The 3,300-member Mumberes Farmers Cooperative Society has ventured into value addition, thanks to support from KCB Foundation's Mifugo Ni Mali programme. From just supplying milk to processors, the Society is now processing yoghurt and fermented milk, locally known as 'Maziwa Mala'.

Starting off with a handful of members in 1972, Mumberes has grown to become one of the largest cooperative societies in Baringo County. "From 50 litres, we are now collecting over 13,000 litres of milk per day from our members. We pasteurise the milk and supply 80% of the collection to our main processor while we use the remainder to process yoghurt and fermented milk as part of our value addition initiatives," says Mumberes Farmers' Co-operative Society Manager David Kimutai.

In order to scale up value addition, the Society received KCB Foundation's Mifugo Ni Mali discounted loan of Ksh 3.5 million, that it used to purchase a milk pasteuriser and to sink a bore hole.

Given that milk processing is a water-intense activity, the society sunk a 150-litre borehole to help the society meet it's water requirement. The surplus is sold to nearly 200 households in the area as well as in schools and nearby Equator shopping centre along the Nakuru -Eldoret road.

"We were spending a lot on water given the nature of our undertaking. Moreover, there is no permanent river in this area and it gets worse during the dry season. It is for this reason that we decided to invest in a borehole to supply us with water as well as give us some additional income from selling the surplus to the community around," says David. He adds that as a result of water availability, their operational costs have drastically reduced, resulting into more earnings to the members.

The official is grateful to KCB Foundation for extending them the loan facility, saying they look forward to settling the loan this year. "We are determined to clear the loan and apply for another one to enable us expand our investment," he says.

David says the society has immensely benefitted from KCB Foundation's support including capacity building on business development and financial literacy, risk management and insurance, governance, leadership and management, value addition, market development activities and collective bargaining.

"KCB Foundation has been part and parcel of our growth. The dairy farming benchmarking support has widened knowledge of our farmers and we are seeing the results from the high standards our members have set for themselves," says David.

The society's earnings has seen it diversify into other agribusiness investments including operating an agrovet, artificial insemination services and real estate.

> **"KCB Foundation has been part and parcel of our growth. The dairy farming benchmarking support has widened knowledge of our farmers and we are seeing the results from the high standards our members have set for themselves,"**

KCB Foundation Highlights

2jiajiri Beneficiaries

23,059
Beneficiaries

13,953
Agribusiness

2,119
Beauty and Personal Care

1,383
Automotive Engineering

1,145
Domestic Services

4,459
Building and Construction

Mifugo Ni Mali

36,391
Number of cattle tagged using RFID technology

KShs. 55M
Amount of money repaid by Cooperatives in ASAL

36,000
Number of farmers reached through Mifugo Ni mali

KShs. 25M
Amount of money raised for livestock keepers through auction

KShs. 123M
Amount of money disbursed as loans to Cooperatives in ASAL Counties

10
Number of Counties the Mifugo Ni Mali programme is being implemented

2
Number of livestock markets constructed

74
Number of Cooperatives trained on governance, business plan development and credit access

Our Sustainability Agenda

10 Point Action Plan (2015-2020) helps us track and monitor the progress in creating shared value while staying true to our four sustainability pillars. The Plan clearly demonstrates our inclusive progress approach and drives the Group's sustainability efforts moving forward . The Key indicators of the Plan highlights are as follows:

Portfolio reimagining

- **3%** – Percentage of portfolio in lending for affordable housing
- **4.56%** – Percentage of portfolio lending to SMEs

Added-value partnership

- **77,762** – Number of schools operating accounts through KCB
- **1,082** – Number of active local suppliers

Financial Inclusion

- **34.7M** – Agency Banking Transactions
- **717,342** – Inua Jamii Beneficiaries Reached

Environmental footprint

- **12,707** – Electricity consumption (MWh)
- **1,316,958** – Diesel consumption for generators and fleet (l)

Cyber security awareness & fortification

- **4,136** – of KCB Group staff trained on cyber security
- **4.56%** – Critical patches within our networks

OUR FOUR SUSTAINABILITY PILLARS

Social Stability- Our commitment to develop equitable, inclusive products and to support our youth and communities to prosper and thrive, enables us to create shared value.

Environmental Stability- We support responsible finance and consumption, green finance and lowering our Carbon Footprint to protect and enhance the environment on which we depend.

Financial Stability- Transformative partnerships help us provide access to financial products and services that leads to inclusive progress.

Economic Stability- Regulatory compliance, innovative and robust systems, security and ethics are critical components that form the foundation of a stable and prosperous economy in which we operate.

Talent management and diversity

4,582
No. of employees having undergone sustainability awareness training

4.10%
Staff attrition rate

Empowering youth and community

250
No. of scholarships under Scholarship Programme

86%
Proportion spent on local procurement

Product development & Innovation

5
No. of new products launched

We enedeavour to provide banking products and solutions that resonate to the societal needs as expressed in the SDGs framework

Responsible lending

84
No. of social-environmental assessments undertaken

KShs. 126.7B
Value of facilities that have undergone social & Environmental Assessments

Ethics & integrity

10
No. of employee dismissals relating to fraud

319
No. of unsuccessful internal fraud attempts

Corporate Governance Statement

The Board of Directors ("Board") of KCB Group Plc. ("Company ") recognizes that it has responsibilities to its shareholders, customers, employees, business partners as well as to the communities in which the entities it controls ("Group") operates.

The Board has ultimate authority over, and oversight of, the Group and regards corporate governance as a critical element in achieving the Group's objectives. The Group believes that good corporate governance is based on a set of values and behaviours that underpin it's day-to-day activities; provide transparency and fair dealing; and promote financial stability and healthy economic growth that can deliver better outcomes for the Group's stakeholders and help its customers get ahead.

KCB Group regularly reviews its corporate governance arrangements and practices and ensures that the same reflects the developments in regulation, best market practice and stakeholder expectations. The Group continuously embraces the changes and remains at the forefront in adopting best practices in corporate governance and risk management in the rapidly evolving financial markets and business landscape.

The Board and management of the Group continue to comply with the Corporate Governance Guidelines as prescribed by the Central Bank of Kenya being the primary regulatory authority of the Group and KCB Bank Kenya Limited as well as the *Capital Markets Authority Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015.*

This statement details the key corporate governance arrangements and practices of KCB Group Plc. and its affiliate companies (collectively, the "Group"). The statement sets out the key components of KCB Group Plc.'s Corporate Governance Framework, which provides guidance to the Board, management and employees and defines the roles responsibilities and conduct expected of them.

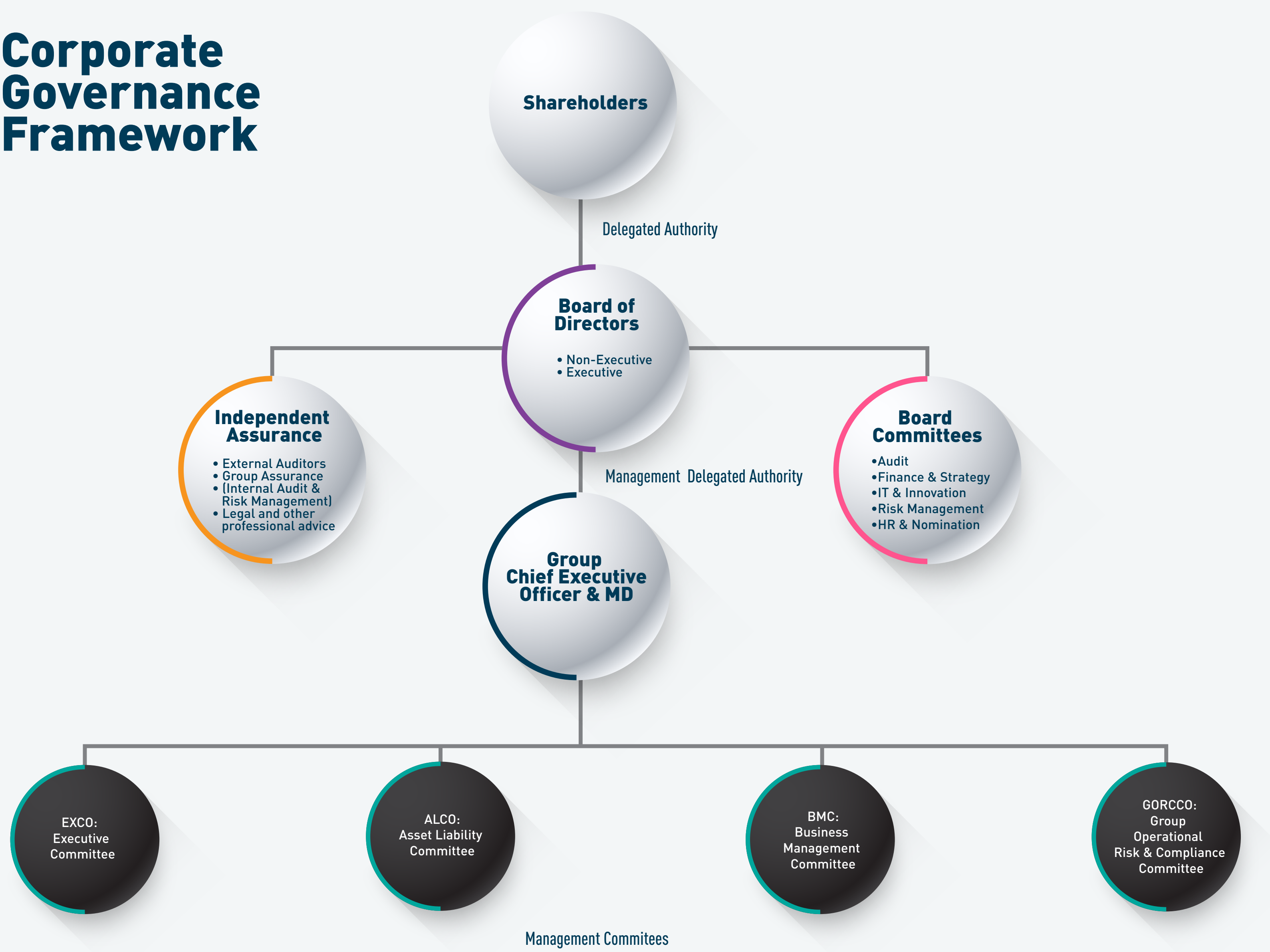
Governance Structure

Governance Framework

The ultimate overall collective responsibility for the stewardship and oversight of the organization is held by the Board. KCB Group operates within a clearly defined governance framework which provides for delegated authority and clear lines of responsibility without abdicating the responsibility of the Board. Through the framework, the Board sets out the strategic direction of the Group while entrusting the day-to-day running of the organization to the executive management led by the Chief Executive Officer & Managing Director, with their performance against set objectives and policies closely monitored. The Board operates through five Committees mandated to review specific areas and assist the Board undertake its duties effectively and efficiently.

The fundamental relationships between the Board, Board Committees and Executive Management is illustrated below:

Corporate Governance Framework



The Board Charter, which has been approved and is regularly reviewed by the Board, provides for a clear definition of the roles and responsibilities of the Group Chairman, directors as well as the Company Secretary. The roles and responsibilities of the Group Chairman and the Group Chief Executive Officer are separate and distinct with a clear division of responsibility between the running of the Board and the executive responsibility of running KCB Group's business.

Key roles & responsibilities

Group Chairman	Chief Executive
• Provide overall leadership to the Board. • Ensures that the board is effective in its duties of setting out and implementing the Group's strategy. • Ensures Board committees are properly structured with appropriate terms of reference. • Ensures directors receive accurate, timely and clear information. • Ensures the development needs of directors are identified and that appropriate training is provided to continuously update their knowledge and skills. • Manage, monitor and evaluate the performance of the directors. • Oversees and ensures there is adequate succession planning. • Maintains sound relationships with shareholders and stakeholders.	• Manage the day-to-day operations of the organization. • Effectively execute the business strategy and plans to deliver shareholder value and ensure sustainability and market share growth in line with the policies set by the Board. • Builds, protects and enhances the Group's brand value. • Consults with the Chairman and Board on matters which may have a material impact on the Group. • Acts as a liaison between the Board and the management. • Provides leadership and direction to the senior management.
The Board	**Company Secretary**
• Contribute to the development of the Group strategy. • Analyse and monitor the performance of management against the set objectives. • Ensure that the Group has in place proper internal controls as well as a robust system of risk management. • Ensure that financial information released to the market and shareholders is accurate. • Actively participate in Board decision-making and constructively challenge proposals presented by Management. • Remain permanently bound by fiduciary duties and duties of care and skill.	• Ensures compliance with all relevant statutory and regulatory requirements. • Ensures good information flows as well as provides comprehensive practical support to the directors. • Facilitates proper induction of directors and provides guidance in terms of their roles and responsibilities. • Develops and circulates the agenda for Board meetings and ensure all relevant information is made available to the directors. • Assists the Chairman in governance processes including Board evaluation.

The Board

KCB Group Plc. is governed by a Board of Directors ("Directors" or "Director") each of whom is, with the exception of the Group Chief Executive Officer and Group Chief Finance Officer, elected by the Company's shareholders.

The Board is accountable to the shareholders for the overall Group performance and is collectively responsible for the long term success of the Group. The Board achieves such success by setting appropriate business strategy and overseeing delivery against the set strategy. It ensures that the Group manages risks effectively and monitors financial performance and reporting.

The Articles of Association of the company provides that the Board shall comprise of a maximum of 11 Directors. The current Board structure comprises of 2 Executive Directors, one as a Non-Executive Director and eight as Independent Non-Executive Directors including the Group Chairman. The Board determines its size and composition, subject to the Company's Articles of Association, Board Charter and applicable law.

As at 31 December, 2018, the Board comprised of ten Directors. Mrs. Josephine Djirackor was appointed as a Director on 3 January, 2018 and resigned on 27 April, 2018. Mr. Andrew W. Kairu was appointed as a director on 4 June, 2018 and Mr. Lawrence Njiru appointed on 7 August, 2018. There is currently one vacancy on the Board to be substantially filled in.

Full details of the current Directors, their qualifications, skills and experience are set out on page 77 of the 2018 Integrated Report.

Role of the Board

The Board appoints the CEO, sets the strategic objectives of the Group with input from management, and oversees management, performance, remuneration and governance frameworks of the Group. In performing this role, the Board:

i. Approves the strategic and financial plans to be implemented by management.

ii. Oversees the Risk Management Framework and its operation by management.

iii. Sets the Group's risk appetite within which management is expected to operate.

iv. Approves capital expenditure for investments and divestments and capital and funding proposals.

v. Reviews succession planning for the management team and makes senior executive appointments, organizational changes and high level remuneration issues.

vi. Provides oversight over performance against targets and objectives.

vii. Provides oversight over reporting to shareholders on the direction, governance and performance of the Group as well as other processes that require reporting and disclosure.

viii. Providing oversight over the activities of the subsidiaries of the Group.

Authority and Delegation

The Board Charter sets out the Board authority and matters reserved for determination and approval by the Board. These include decisions concerning strategy and long term objectives of the Group, the Group's capital, financial planning and financial budgets, significant contracts and various statutory and regulatory approvals. Matters related to the approval of the remuneration policy, resource management, risk management framework and risk appetite are also Board reserve matters. To assist it in discharging these responsibilities, the Board has established Board Committees to give detailed consideration to key issues.

Corporate Governance Statement

Further details of the Board Committees including their respective roles, key responsibilities, composition and membership are provided later in this Statement.

The Group Chairman is responsible for the strategic leadership of the Board and is pivotal in creating conditions for the overall effectiveness of the Board. He promotes an open environment for debate and ensures all Directors are able to speak freely and contribute effectively. The Group Chairman plays a pivotal role in fostering constructive dialogue between shareholders, the Board and management at the Annual General Meeting and other shareholder meetings.

The Board, in the Board Charter, delegates responsibility for the day-to-day management of the business to the Group Chief Executive Officer. The Group Chief Executive Officer in turn delegates aspects of his own authority to members of the Group Executive Committee. The scope of, and limitations to, these delegations are clearly documented and cover areas such as operating expenditure, capital expenditure and investments. These delegations balance effective oversight with appropriate empowerment and accountability of senior executives.

To adequately undertake responsibilities in the day-to-day management of the business, in line with the authority delegated by the Board, management committees have been established. The management committees include the Executive Management Committee (EXCO), the Assets and Liabilities Management Committee (ALCO), the General Management Committee (GMC) and the Group Operational Risk and Compliance Committee (GORCCO).

Board Meetings

The Board has in place an annual work plan that sets out the Board activities in a year. The Board meets at least once every quarter, and additionally when necessary, to consider all matters relating to the overall control, business performance and strategy of the Company and succession planning.

The Group Chairman, in conjunction with the Group Chief Executive Officer and the Group Company Secretary, sets the agenda for each meeting. Typically the Board works to an annual agenda encompassing periodic reviews of the Group operating business units and site visits; approval of strategy, business plans, budgets and financial statements; and review of statutory obligations and other responsibilities identified in the Board Charter.

The notice, agenda and detailed board papers are circulated in advance of the meetings. Directors are entitled to request for additional information where they consider further information is necessary to support informed decision-making.

During the year ending 31 December, 2018, the Board held eight Board meetings. A strategic planning session was held in conjunction with the Board meeting held in November 2018. Details of Directors' attendance at Board and Committee meetings are set out in the table below:

	Board	Audit	Risk	Finance & strategy	HR & Nominations	IT & Innovation	Supply Chain
Number of meetings	**8**	**6**	**4**	**5**	**9**	**4**	**5**
Andrew Kairu[1]	4						
Julius Mutua (Alternate to Henry Rotich)	7	1	4		7		1
Ngeny Biwott	8			1			1
Adil Khawaja	6			3		1	
Tom Ipomai	7				9	4	5
Georgina Malombe	7	6	4			4	5
John Nyerere	6	6	4	4	7		4
Josephine Djirackor[2]	2						
Lawrence Njiru[3]	4	2	1	1			
Joshua Oigara	7		2	1	7	3	2
Lawrence Kimathi [4]	8			4			

(1) Appointed to the board on 4 June, 2018 and appointed as Group Chairman on 24 October, 2018
(2) Appointed on 3 January, 2018. Resigned on 27 April, 2018
(3) Appointed on 7 August, 2018.
(4) Lawrence Kimathi was a permanent attendee of the Finance & Strategy Committee.

Board Evaluation

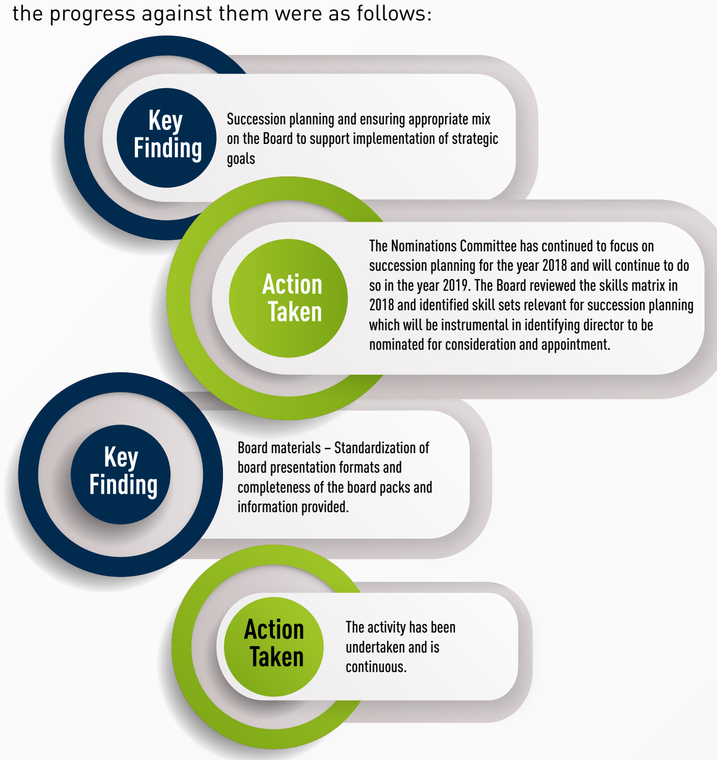
The Board reviews its performance and that of the Board Committees and individual directors annually. Every third year, the review is facilitated by an external consultant.

The review in respect of the 2018 financial year was conducted internally by the Group Chairman through the coordination of the Group Company Secretary. The evaluation process was based on a detailed questionnaire which was distributed to the Directors for their consideration. Results were collated confidentially by the Group Company Secretary and reviewed by the Group Chairman.

The detailed questionnaire examines the balance of the skills of the directors, the operation of the Board in practice, including governance issues, and the content of the Board meetings. Feedback from the process is used to identify opportunities to improve the performance of the Board and the Directors. The questionnaire also included a series of questions for each director to assess their own performance and the performance of each other individual director to identify development opportunities.

The Board evaluation was conducted in February 2019 and the results presented to the Central Bank of Kenya in March 2019 in line with regulatory requirements.

The key findings against the prior year review and the progress against them were as follows:



The Group Company Secretary

The Group Company Secretary is appointed by the Board and is responsible for advising the Board and providing practical support for Directors. The Group Company Secretary places particular emphasis on supporting Non-Executive Directors in maintaining the highest standard of probity and corporate governance.

The Group Company Secretary is responsible for monitoring compliance with the Board's procedures and implementing the governance framework to give practical effect to the Board's decisions. The Group Company Secretary is also responsible for facilitating good information flow within the Board and its Committees and between the Directors and management as well as the induction of new Directors and the ongoing professional development of Directors. Each member of the Board has direct access to the Group Company Secretary.

The performance of the Group Company Secretary is assessed by the Board as part of the annual Board performance evaluation process.

Board Committees

The Board has delegated authority to various Board Committees to be able to effectively and efficiently undertake its mandate. In deciding committee memberships, the Group Chairman endeavours to make the best use of the range of skills across the Board and share responsibility. As well, overlapping memberships take into account instances where matters raised in one committee may have implications for another. Membership is reviewed on an annual basis by the Group Chairman in collaboration with the HR & Nominations Committee.

The Board receives a verbal report from the Chairman of each committee on significant areas of discussion and key decisions at the following Board meeting.

Each committee has in place terms of reference that sets out the roles and responsibilities and the procedural rules that apply to the committee. Under the procedural rules, each committee must be composed of at least three members, a majority of independent directors and an independent Chair. The Audit Committee is made up of only independent non-executive directors in line with the provisions of the Prudential Guidelines issued by the Central Bank of Kenya.

During the year 2018, the Board undertook a review of the existing committees and reduced the overall number of committees from 6 to 5 (effective 1 January 2019). A summary of the role of the current Committees, current members and key activities undertaken during the year 2018 are set out on page 76.

Board Composition – Skills, Experience & Diversity

Having regard to the Group's vision, values and purpose, the individual attributes of each Director are as critical as the skills they bring. There is an expectation that each Director should be able to demonstrate sound business judgment, a strategic view, integrity, preparedness to question, challenge and critique and leadership qualities. At a collective level, the Group looks for a diversity of skills, knowledge and experience to enable the Board to provide the oversight needed to develop and achieve the overall strategy of the Group.

KCB Group seeks to have a Board that has the right mix of individuals with relevant attributes skills, knowledge and experience and who jointly have the overall collective competence to deal with current and emerging issues and effectively guide management in ensuring the highest performance for the Group. The Non-Executive Directors are expected to have a clear understanding of the strategy of the Company as well as knowledge of the industry and markets in which the Group operates.

The aggregate mix of skills and experience of the Directors seeks to challenge management, ensure robust and constructive debate and augments and challenge the strategic thinking of the executives thereby adding value to the Group.

The Board regularly reviews the skills, knowledge and experience represented on the Board against the skills and experience needed to deliver the strategy. From the review in 2018, the Board considered the diversity issues and has determined that effort needed to be placed on diversifying the skill set and gender. The HR & Nominations Committee has been tasked to take this into consideration in its nominations.

The current skills and industry experience represented on the Board can be found below.

DIRECTOR	INDUSTRY EXPERIENCE
Andrew Kairu	Business Management, Corporate Governance
Henry Rotich (Represented by Julius Mutua)	Financial services, Public sector
Ngeny Biwott	Strategy, Risk and crisis management
Adil Khawaja	Legal and Commercial services and Advisory
Tom Ipomai	Information Technology, Audit and Accounting
Georgina Malombe	Audit, Quality Assurance, Accounting and Financial advisory
John Nyerere	Strategy and Economics
Lawrence Njiru	Audit, Quality Assurance, Accounting and Financial advisory
Joshua Oigara	Business management, Financial accounting and Financial Services
Lawrence Kimathi	Financial advisory, Financial accounting, Business management

Board Appointments

Where a vacancy occurs in the Board for any reason, the Articles of Association of the Company provide that the Board of Directors may appoint a new Director to fill in the casual vacancy.

The appointment of new directors to the Board follows a formal, rigorous and transparent procedure. Appointments to the Board are done by the whole Board of Directors only after receiving recommendations from the Nominations Committee.

Board Tenure, Election and Re-election

The Board Charter provides that Non-Executive Directors are normally expected to serve a term not exceeding a total of eight years, subject to re-election by shareholders as required under the Company's Articles of Association, the Board Charter and applicable law. The Group Chairman would normally be expected to serve a maximum term of five years in that capacity.

As provided for in the Articles of Association, at every Annual General Meeting ("AGM"), and as may be applicable, at least one-third of the non-executive Directors retire from the Board. Directors appointed to fill casual vacancies are also expected to stand down for election by shareholders at the first AGM following their appointment.

Independence Of Directors And Conflict Of Interest

The Board recognizes the importance of independent judgement and constructive debate on all issues under consideration. Directors are expected to bring views and judgement to Board deliberations that are independent of management and free of any business relationship or circumstances that would materially interfere with the exercise of objective judgement, having regard to the best interest of the organization and its stakeholders as a whole.

The Board Charter, prepared in line with the Prudential Guidelines issued by the Central Bank of Kenya, provides that a majority of its directors should be independent.

In accordance with the Board Charter, the Board only considers directors to be independent where they are independent of management and free of any business or other relationship that could materially interfere with, or reasonably be perceived to materially interfere with, the directors capacity to bring an independent judgement to bear on issues before the Board and to act in the best interest of the Company or the shareholders generally.

All Directors of the Company must avoid any situation which might give rise to a conflict between their personal interest and that of the Group. The Directors are each responsible to notify the Group Chairman and the Group Company Secretary of any actual or potential conflict of interest situations as soon as they arise. The Articles of Association permit the Board to authorise the conflict, subject to conditions and limitations as the Board may determine.

Any Director who considers that they may have a conflict of interest or a material personal interest in any matter concerning the Company is immediately required to declare the potential conflict of interest for the Board to review. Any Director with a material personal interest in any matter being considered during any Board of Committee meeting will not vote on the matter or be present when the matter is being discussed and considered.

During the year 2018, with the exception of the directorship held by the Cabinet Secretary, Treasury, all other directors of the company were considered independent. No incidences of material conflict of interest were identified for any of the non-executive Directors. During the Board meeting held in quarter one of 2018, in the discussion of one board paper where a director had a personal interest in the matter, his interest was declared, noted and the Director abstained from discussing and voting on the paper.

Access to Information and Independent Advice

The Board is entitled to seek any information it requires from any Group employee or from any other source. Procedures are in place, through the Group Board Chairman and the Group Company Secretary, enabling the Directors to have access, at reasonable times, to all relevant company information and to senior management, to assist them in the discharge of their duties and responsibilities and to enable them to take informed decisions. The Directors are also

Corporate Governance Statement

entitled to obtain independent legal, accounting or other professional advice at the Company's expense.

With the implementation of IFRS 9 coming into force fully with effect from 1 January, 2018, the Directors sought for and obtained independent professional advice on the level of compliance of the Bank with the compliance requirements of the reporting standard.

Directors are expected to strictly observe the provisions of the statutes applicable to the use and confidentiality of information.

Director Induction and Professional Development

Each new Director is provided with a letter of appointment and participates in a comprehensive and tailored induction program. Typical induction programmes consist of a series of meetings with other Directors and senior executives to enable new Directors familiarise themselves with the business. Directors also receive comprehensive guidance from the Group Company Secretary on Directors' duties and liabilities.

Two new directors, Andrew Kairu and Lawrence Njiru joined the Board in 2018 and met with the Group Company Secretary to review an induction pack which provided relevant information to enable the directors understand their role and responsibilities as well as the governance structure of the Group. Andrew and Lawrence, as part of their induction, held meetings with the Company's executives to gain a better understanding of the business.

All Directors are expected to maintain the skills required to carry out their obligations. The Chairman regularly reviews the professional development needs of each Director. The program of continuing education ensures that the Board is kept up to date with developments in the industry both locally and globally. It includes sessions with local and overseas experts in the areas of general corporate governance and also in the particular fields relevant to the Group's operations.

As part of the requirement to continuously develop knowledge and skills, amongst other individual professional development courses, the Board of Directors underwent training sessions in 2018 on corporate governance, emerging areas in audit, block chain and information technology as well as a session on risk management.

Engagement with Shareholders

KCB Group is committed to giving its shareholders appropriate information and facilities to enable them exercise their rights effectively. As a result, the Group seeks to provide shareholders with information that is timely, of high quality and relevant to their investment, and to listen and respond to shareholder feedback. The Board recognizes the importance of maintaining transparency and accountability to its shareholders and works to ensure that all shareholders are treated equitably and their rights are protected.

Communication and Periodic Continuous Disclosure

Key shareholder communication include the Group's Annual Integrated Report, the Group Sustainability Report and full year and half-yearly and quarterly financial results. The Group additionally posts all material information on its website **www.kcbgroup.com**. Shareholders are encouraged to visit the website for general information about the Group and to be able to view annual reports and results briefing presentations.

The Group additionally releases material information to the Capital Markets Authority and the Nairobi Securities Exchange as well as the Central Bank of Kenya in line with all disclosure requirements in the Capital Markets Act, the Banking Act, the Prudential Guidelines as well as all other relevant regulation. Being cross listed in the region, material information is also released to the securities exchanges in Tanzania, Uganda and Rwanda.

Annual General Meetings

The Group recognizes the importance of shareholder participation in meetings. Shareholders are strongly encouraged to attend and participate in the annual general meetings. The AGM provides an opportunity for shareholders to engage with us in person. The Group encourages shareholders to attend and participate in its annual general meeting. As well as attending in person or voting by proxy, shareholders can use direct voting.

The Group makes use of the Annual General Meeting (AGM) as well as the published annual report as an opportunity to communicate with its shareholders. At the meeting, a reasonable opportunity is allowed for shareholders as a whole to ask questions about or make comments on the management of the Group.

Investment Community

Our investor relations program facilitates two-way communication between the organization and its shareholders and fosters participation at shareholder meetings. The program incorporates a number of ways in which the shareholders can access information and provide feedback.

The investor relations team has the primary responsibility for managing and developing the Group's external relationships with existing and potential institutional equity investors. Supported by the Group Chief Executive Officer and the Group Chief Finance Officer, they achieve this through a combination of briefings to analysts and institutional investors (both at results briefings and throughout the year).

Their responsibilities include drafting certain market announcements, providing feedback to management and the Board on market views and perceptions about the Group, liaising with rating agencies, providing assistance to investors, brokers and analysts and coordinating roadshows, including for the half-year and full-year results announcements.

All shareholders queries, application for registration of transfer of shares of the company, immobilization of shares and dividend queries as well as the collection of share certificates and dividend cheques are handled by the company's appointed shares registrar – **Image Registrars Limited**. The registrar can be reached at their offices **5th Floor, Barclays Plaza, Loita Street, P. O. Box 9287-00100, Nairobi** or through their e-mail address **kcbshares@image.co.ke** and also through their telephone numbers **0709 170 000, 0724 699 667, 0735 565 666.**

Policies and Codes of Conduct

KCB Group maintains and has in place policies and codes of conduct that captures not only our legal obligations, but also the reasonable expectations of our stake holders, including our customers. These policies apply to all employees and Directors of the KCB Group, and to anyone working on the Group's behalf, including contractors and consultants. The Group adopts zero tolerance to all forms of corruption, bribery and unethical business practices.

Ethical Conduct

Our Code of Ethical Conduct covers a range of areas including personal conduct, integrity, honesty, transparency, accountability, fairness and prevention of corruption. It emphasizes the importance of making the right decisions and behaving in a manner that builds respect and trust in the organization. The Code sets out clear behavioural requirements and where these are not met, there are consequences.

The Group has in place a suite of policies and practices in place to promote a culture of compliance, honesty and ethical behaviour including in relation to anti-money laundering and counter-terrorism financing, whistle blower protection and conflicts of interest.

Whistle Blowing

KCB Group does not tolerate fraud, corrupt conduct, bribery, unethical behaviour, legal or regulatory non-compliance or questionable accounting or auditing by employees, Directors, customers and contractors. KCB Group is committed to a culture that encourages all people to speak up about issues or conduct that concerns them.

The KCB Group whistle-blower program encourages the reporting of any wrong doing in a way that protects and supports whistle-blowers. The program provides confidential and anonymous communication channels to raise concerns. The confidential and anonymous communications channels are supported and monitored independently by Deloitte details of which are provided below:

Telephone Communication:

Toll free number: 0800 720 990 (Kenya)

Toll free number: 0800 110 025 (Tanzania)

International calls: +27 315 715 795 (Uganda, South Sudan, Rwanda and Burundi)

E-mail Communication: kcb@tip-offs.com

All people are encouraged to raise any issues involving illegal, unacceptable or inappropriate behaviour or any issue that would have a material impact on the organisations customers, reputation, profitability, governance or regulatory compliance.

There is zero tolerance for any actual or threatened act of reprisal against any whistle-blower and the Group takes reasonable steps to protect a person who makes disclosure of any inappropriate behaviour including taking disciplinary action potentially resulting in dismissal for any person taking reprisal against a whistle-blower.

Restrictions on Insider Trading

In line with the approved KCB Group Insider Dealing Policy, directors, employees and contractors (and their associates) are prohibited from dealing with any securities and other financial products if they possess indie information. They are also prohibited from passing on inside information to others who may use the inside information to trade in the company's securities.

KCB Group has closed periods each quarter prior to the release of the Group's financials during which all related persons directors, employees and contractors (and their associates) must not trade in KCB Group securities.

Assurance and Control

The Group develops and maintains a risk management culture that aids in the creation of risk awareness and promotes appropriate behaviour and judgement in connection with risk taking. In the context of corporate governance, the Board supports in ensuring effective risk management, promoting appropriate risk taking and ensures that emerging risks and risk taking activities are identified, assessed, escalated and addressed in a timely manner.

The risk management culture instilled at the Group emphasizes the importance of:

- Risk reward to ensure compensating returns to the organisation for any risk taken;
- Effective system controls;
- Monitoring violation of risk appetite limits; and
- Cultivating integrity.

Financial Reporting

The integrity of financial reporting to Shareholders is protected through the following elements:

- Board oversight and responsibility
- Oversight from the Audit Committee
- External Auditor

Board

The Directors are responsible for assessing whether the financial statements and notes are in accordance with the Companies Act, 2015, comply with accounting standards and give a true and fair view of the financial position and performance of the Group. A Directors' declaration to this effect is included in the annual financial report

Audit Committee

The Audit Committee assists the Board by providing oversight of the Group's financial reporting responsibilities including external audit independence and performance.

The Audit Committee responsibilities include the following:

- Reviewing the half-year and full-year statutory financial reports for recommendation to the Board.
- Reviewing significant accounting estimates and judgments used for the preparation of the financial reports.
- Reviewing and approving any new or proposed changes in Group accounting policies
- Monitoring developments in statutory reporting and accounting and disclosure requirements

External Auditor

The audit or review by the external auditor provides a further level of protection of the integrity of the financial statements. The Audit Committee oversees the external audit function. This includes reviewing and approving the external audit plan and engagement, and assessing the performance of the external auditor.

Whereas the directors are responsible for preparing the accounts and for presenting a balanced and fair view of the financial position of the Company, the external auditor examines and gives their opinion on the reasonableness of the financial statements. Independence of the external auditor is important to the integrity of the audit function. The external auditor is invited to meetings with the Audit Committee from time to time without management or others being present. The external auditor report independently and directly to the Board at the end year Board meetings.

Risk Management and Assurance

The Group is exposed to both financial and non-financial risks and is committed to having risk management policies, processes and practices that support a high standard of governance. This enables management to undertake prudent risk-taking activities. The Group's risk management is based on the 'three line of defence' model. These act as the foundation for effective risk management across the Group.

Risk Management Framework

The Group's risk management function has designed and oversees a Risk Management Framework to allow the Group identify, measure and manage risks within a Board-approved risk appetite.

The Risk Management Framework covers all systems, structures, policies, processes and people that identify, measure, evaluate, monitor, report and control or mitigate both internal and external sources of material risk. The Risk Management Framework is regularly reviewed in light of emerging risks arising from the changing business environment, better practice approaches and regulatory expectations. The Risk Management Framework is overseen by the Board with the assistance of the Risk Management Committee. The Risk Management Committee monitors the Group's risk profile and risk appetite. More on this can be found on page 24-29.

Directors Remuneration

The Human Resources & Nominations Committee of the Board is responsible for setting and administering the Non-executive Directors remuneration policy.

The aggregate amount of emoluments paid to Directors for services rendered during the Year 2018 is disclosed in Note A to the Financial Statements on page 83.

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, under which Directors acquired benefits by means of acquisition of the Company's shares.

Additional details are provided in the Directors' Remuneration Report at page 83 of the Integrated Report

Financial Crime Compliance

The Group is committed to strictly uphold and comply with all rules and standard as well as any other provisions which by law applies to the operations of the organization with regard to bank-customer relationship, anti-money laundering and terrorism financing.

The Group continues to make significant investment on AML/CFT compliance, including upgrading and enhancing our AML/CFT technology, updating our process documentation, investing in further resourcing and strengthening training of our staff.

The Group continues to work towards strengthening financial crime capabilities and is heavily investing in this recognizing the crucial role that it plays including through increased coverage across all aspects of financial crime (including AML/CFT sanctions, anti-bribery and corruption) and across all business units. The increasing focus on financial crime has seen a lot of work done towards uplifting processes for monitoring, managing, reporting and controlling financial crime across all its operations to ensure increased confidence in the managing of this area of risk. Adherence and compliance to the Group KYC/AML policies is the responsibility of all employees. Within this framework, the Group requires employees to adhere to high standards and to ensure stringent compliance with regulatory requirements. It is the policy of the Group to take appropriate steps to prevent persons engaged in money laundering, terrorism financing, fraud or other financial crimes from exploiting the Group's network, products or services.

Every year, the Board of the Bank in Kenya undertakes a Money Laundering & Terrorism Financing (ML/TF) risk assessment to review the adequacy of the controls in place relative to internal and external factors affecting the Bank. During the year 2018, the Bank's inherent risk profile was found to be high while the internal controls were considered to be 'efficient' or 'adequate'. The internal environment is moderated by external factors that were together combined to re-adjust the residual overall ML/FT risk profiles assessed as 'Medium'. The risk assessment was presented to the Central Bank of Kenya in November 2018.

CBK Target Inspection

During the year 2018, the Central Bank of Kenya (CBK) undertook a targeted inspection to assess compliance by KCB Bank of the requirements of Kenya's Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) laws and regulations.

KCB Bank fully cooperated with the CBK as the regulator during the target inspection period and submitted to the regulator a detailed response to the issues raised in the target inspection report within the 14 days as required. The regulator proceeded to impose a penalty of KShs.149.5 million on the Bank.

We wish to reiterate that as a regulated entity, KCB Bank fully adheres to the relevant Kenyan laws and applicable guidelines issued by the Financial Reporting Centre and Central Bank of Kenya to prevent money laundering.

KCB Bank has in place a robust AML/KYC framework, well-documented and established policy documents and accompanying manuals to ensure that compliance is always at the forefront of the business done by the Bank.

BOARD COMMITTEES

Audit

Chairman: Lawrence Njiru

Profile:

In accordance with regulatory requirements, the Committee comprises of only non-executive members of the Board who are independent of the day-to-day management of the Company's operations. It takes a largely backward-looking view, focused on financial reporting and control issues, including overseeing any control issue remediation plans.

2018 Activities:

In line with its mandate, the Committee reviewed the unaudited and audited financial statements for the full year 2018 and ensure that the same was ultimately approved by the Board. The Committee further reviewed the internal audit reports presented by the Internal Auditor for audits undertaken during the year in line with the approved audit plan.

Members:

Georgina Malombe
John Nyerere

Risk Management

Chairman: Tom Ipomai

Profile:

The Committee oversees the enterprise-wide view of risks and controls and brings together the overall risk appetite and risk profile of the business. It meets quarterly to advise the business on all matters pertaining to credit, market, operations, legal, environmental, compliance and other risks. Business continuity issues are also discussed by this Committee.

2018 Activities:

During the year 2018, the Risk Management Committee reviewed the emerging AML/CFT risk across the Group and ensured all subsidiaries undertook AML/CFT assessment. The Committee further reviewed the model risks policy that provides overriding guidance and linkages for all risk model implemented by the Group. The Committee further reviewed ICAAP for the entire Group ensuring all business risk were identified and the Group had sufficient capital to cover the identified risks.

Members:

Julius Mutua
Ngeny Biwott
Lawrence Kimathi

Group Board

Chairman: Andrew Wambari Kairu

The Board achieves such success by setting appropriate business strategy and overseeing delivery against the set strategy. It ensures that the Group manages risks effectively and monitors financial performance and reporting. To assist it in discharging these responsibilities, the Board has established Board Committees to give detailed consideration to key issues.

Finance & Strategy

Chairman: John Nyerere

Profile:

The Committee reviews and recommends to the Board for approval matters pertaining to: business strategic plans including its implementation and monitoring process; new markets expansion; significant investment and divestment decisions; annual business and financial plans and budgets and sustainability.

2018 Activities:

The Committee reviewed the performance of the Group against the set strategy. The Committee further reviewed the proposed 2019 strategic initiatives, financial plans and budgets proposed by management.

Members:

Julius Mutua
Adil Khawaja
Joshua Oigara

HR & Nomination Committee

Chairman: Adil Khawaja

Profile:

This Committee reviews human resource policies and makes suitable recommendations to the Board on senior management appointments. This Committee also oversees the nomination functions and senior management performance reviews. The Committee keeps under review the structure, size and composition of the Board as well as succession planning for Directors. It leads the process for identifying, nominating for approval by the Board, candidates to fill Board vacancies.

2018 Activities:

During the year, the Committee made recommendations to the Board for the appointment of both non-executive directors as well as senior management. New non-executive directors were appointed to the board and the Group Regional Business Director (a senior management role) was filled.

In line with its mandate, the Committee reviewed the senior management performance for the year. The Committee further undertook an evaluation of jobs for senior management and reviewed the Board succession plans.

Members:

Tom Ipomai
Lawrence Njiru
Joshua Oigara

IT & Innovation

Chairman: Julius Mutua

Profile:

The Committee reviews the scope and the effectiveness of IT operations and provide direction on enhancing the utility of IT resources through clearly laid down processes, procedures and time frames.

2018 Activities:

The Committee reviewed the IT operations over the year and provided guidance on proposed It related projects.

The Committee received a report on an audit undertaken in respect of the IT systems and operations to ensure overall compliance with set policies and procedures.

Members:

Georgina Malombe
Ngeny Biwott
Lawrence Kimathi

BOARD OF DIRECTORS' PROFILES

Board Member	Profile/ Experience
NAME: **ANDREW WAMBARI KAIRU (61 years)** DESIGNATION: **GROUP CHAIRMAN** **DATE OF APPOINTMENT TO DESIGNATION:** Appointed Group Chairman in October 2018 **DATE OF APPOINTMENT TO BOARD:** June 2018	**EDUCATION AND PROFESSIONAL BACKGROUND:** Andrew holds a Bachelor of Commerce degree from University of Nairobi. He has also attended executive programs in Executive Development at the Wharton School, University of Pennsylvania and in Corporate Governance at Harvard Business School, Harvard University. His banking career spans over 30 years and includes stints at Commercial Bank of Africa, Standard Chartered Bank and Citibank N.A culminating in his posting to London to head Citibank's Emerging Markets Financial institution Business. In 2004, he joined Ghana International Bank PLC London as the Chief Operating Officer and Executive Director, a position he held for over 10 years. Prior to his appointment as Group Chairman, he served as a Non-Executive Director of KCB Bank Kenya from November 2016 and was Chair of the Risk Management and Audit Committees and a member of the HR Committee. **OTHER DIRECTORSHIPS:** Andrew is a non-executive director of Dalberg Research Limited, a member of the audit committee of the Commonwealth Secretariat, London and is also a Trustee of the Citizens Advice Bureau of Caterham and Warlingham, United Kingdom.
NAME: **HENRY ROTICH (50 years)** DESIGNATION: **DIRECTOR** DATE OF APPOINTMENT TO BOARD: **The office of the Cabinet Secretary of the National Treasury is an institutional director of KCB Group Plc.**	**EDUCATION AND PROFESSIONAL BACKGROUND:** Henry Rotich is Kenya's Cabinet Secretary for the National Treasury. He holds a Master's Degree in Public Administration (MPA) from the Harvard Kennedy School, Harvard University. In addition, he holds a Master's degree in Economics and a Bachelor's degree in Economics (First Class Honours), both from the University of Nairobi. **ALTERNATE APPOINTED:** Julius Mutua (48 years) serves as alternate on the Board (Appointed September 2014). He is the Chairman of KCB Bank Burundi Limited and also a member of the Boards of KCB Bank Kenya Limited and KCB Capital Limited and is a trustee of KCB Foundation.
NAME: **NGENY BIWOTT (67 years)** DESIGNATION: **DIRECTOR** **DATE OF APPOINTMENT TO BOARD:** June 2011	**EDUCATION AND PROFESSIONAL BACKGROUND:** Ngeny Biwott has over 39 years' experience in the aviation industry and holds an MSc Degree in Civil Emergency, Risk and Crisis Management from University of Hertfordshire. In addition, he obtained specialised certification in risk and strategy from Cranfield University, the University of Southern California, and the Langley NASA Research Centre College. **OTHER DIRECTORSHIPS:** Ngeny is a member of the board of the Unclaimed Financial Assets Authority.
NAME: **ADIL KHAWAJA (48 years)** DESIGNATION: **DIRECTOR** **DATE OF APPOINTMENT TO BOARD:** June 2012	**EDUCATION AND PROFESSIONAL BACKGROUND:** Adil Khawaja holds an LLB (Hons.) degree from the University of Sheffield England, a diploma in Law from the Kenya School of Law and is a Certified Public Secretary of Kenya (CPSK). He is a member of the London Court of International Arbitration (LCIA) and is currently the Managing Partner of law firm, Hamilton Harrison and Mathews, Advocates. **SOCIETY/MEMBERSHIP:** Adil serves as trustee of Kenya Wildlife Services (KWS). He also serves as Chairman of the KCB Bank Kenya Limited Board and is also the Chairman of KCB Insurance Agency Limited.
NAME: **TOM IPOMAI (46 years)** DESIGNATION: **DIRECTOR** **DATE OF APPOINTMENT TO BOARD:** July 2013	**EDUCATION AND PROFESSIONAL BACKGROUND:** Tom Ipomai is a corporate finance specialist. He holds a degree in Computer Science from the University of Nairobi (1st Class Honours) and a Master of Philosophy (MPhil) in Management Studies from the University of Cambridge (Jesus College). He is a Certified Chartered Accountant (ACCA). Previously, Tom worked for the Central Bank of Kenya, Barclays Bank in the UK, Kenya and Zambia and with Deloitte in its Corporate Finance Advisory division. Tom runs a boutique consulting firm. He also serves as a member of the KCB Bank Kenya Limited Board and is Chairman of KCB Bank Rwanda Board.

Board Member	Profile/ Experience
NAME: **: GEORGINA MALOMBE (44 years)** DESIGNATION: **DIRECTOR** **DATE OF APPOINTMENT TO BOARD:** June 2014	**EDUCATION AND PROFESSIONAL BACKGROUND:** Georgina Malombe is an audit professional. She holds a Bachelors degree in Agribusiness Management from Egerton University and a Master of Business Administration, Finance Option from the University of Nairobi. She is a Certified Public Accountant (CPA (K)) and professional trainer. She also holds a Certificate in Arbitration. Her key technical competencies include Audit Quality Assurance, Auditing, Accounting, Finance and Financial Reporting. Previously, she worked for The Registration of Accountants Board as the Executive Officer, The Institute of Certified Public Accountants of Kenya (ICPAK) as Manager, Public Policy and Governance as well as the Head of Compliance and Regulatory Affairs. Malombe is currently the Managing Partner of audit firm, Gemal and Company. **OTHER DIRECTORSHIPS:** Georgina currently serves in the Board of the Association of Women Accountants of Kenya (AWAK) as the Vice Chairperson. She is also a member of Professional Trainers Association of Kenya (PTAK). She is also a member of Professional Trainers Association of Kenya (PTAK).
NAME: **JOHN NYERERE (57 years)** DESIGNATION: **DIRECTOR** **DATE OF APPOINTMENT TO BOARD:** June 2014	**EDUCATION AND PROFESSIONAL BACKGROUND:** John Nyerere is a HHH (Fulbright) fellow and holds an MBA, Bachelor of Arts (Hons.) Economics, MBA General Management and Bachelor of Arts Economics and Sociology. He lectures on business management at the United States International University. He has experience in corporate planning, operations management and transformation leadership and his key technical competencies include strategy development and economics. He also serves as a member of KCB Bank Tanzania Limited and KCB Foundation Boards and is the Chairman of KCB Capital Limited.
NAME: **LAWRENCE NJIRU (47 years)** DESIGNATION: **DIRECTOR** **DATE OF APPOINTMENT TO BOARD:** August 2018	**EDUCATION AND PROFESSIONAL BACKGROUND:** Lawrence holds a Bachelor of Commerce (Accounting) degree from Kenyatta University and is a member of the Institute of Certified Public Accountants of Kenya (CPA-K). He has over 20 year's senior management experience in business strategy, finance, commercial, audit and accounting. He worked at Standard Media Group Kenya Limited as Assistant Group Commercial Director and also served as Group Financial Controller in the same Group. Prior to this, he worked as a senior auditor at KPMG East Africa. **OTHER DIRECTORSHIPS:** Lawrence is a non-executive director of Kenya Seed Company Limited where he chairs the Audit committee. He also serves as the Chairman of Simlaw Seeds Company Limited.
NAME: **JOSHUA OIGARA (44 years)** DESIGNATION: **CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR** **DATE OF APPOINTMENT TO BOARD:** January 2013	**EDUCATION AND PROFESSIONAL BACKGROUND:** Joshua Oigara holds a Masters degree in Business Administration with a distinction in International Business Management from Edith Cowan University, Australia, a Bachelor of Commerce Degree, Accounting Option, from the University of Nairobi and is an Advanced Management Program Graduate from INSEAD, Fontainebleau, France. He is a graduate of the Program for Management Development (JuMP), Fuqua School of Business, Duke University, North Carolina, USA as well as a Certified Public Accountant of Kenya, CPA (K), having studied at the School of Accountancy, Strathmore University, Kenya. **OTHER BOARD/SOCIETY/MEMBERSHIP:** Joshua serves in the board of KCB Bank Kenya Limited and is a trustee of the KCB Foundation and also as the Chairman of the Energy Regulatory Commission as well as the Chairman of the Kenya Bankers Association Governing Council. He is a member of the Vision 2030 Board and also serves as a board member of YALI (Young Africa Leaders Initiative).
NAME: **LAWRENCE KIMATHI (49 years)** DESIGNATION: **GROUP CHIEF FINANCE OFFICER** **DATE OF APPOINTMENT TO BOARD:** May 2015	**EDUCATION AND PROFESSIONAL BACKGROUND:** Lawrence joined KCB Group in May 2015 as the Chief Finance Officer. He has over 20 years senior leadership experience having worked in a number of multinational organization which include BAT, AIG and East Africa Breweries both in Kenya and UK. Lawrence holds a Bachelor of Science degree from the United States International University - Africa (USIU) majoring in accounting. He is a qualified Certified Public Accountant of Kenya (CPAK), a member of Institute of Certified Public Accountants of Kenya (ICPAK) and Institute of Directors. Lawrence is currently writing his MBA thesis at Warwick Business School (UK). Lawrence also serves as a trustee of the KCB Staff Pension Fund (Defined Benefit Scheme). He is a member of the KCB Bank South Sudan Limited Board and also serves as a trustee of the KCB Staff Pension Fund (Defined Benefit Scheme). **OTHER DIRECTORSHIPS:** Lawrence is a non-executive director in Pozin Investments Limited and Westacres Limited
NAME: **JOSEPH KANIA (53 years)** DESIGNATION: **GROUP COMPANY SECRETARY** **DATE OF APPOINTMENT:** June 2013	**EDUCATION AND PROFESSIONAL BACKGROUND:** Joseph has over 25 years' experience as an Advocate of the High Court and 10 years' experience as a Company Secretary. He holds an LLB degree from the University of Nairobi and is an Advocate of the High Court of Kenya. He is a Notary Public, Commissioner of Oaths as well as a Certified Public Secretary of Kenya. He previously served as Company Secretary at Housing Finance Limited. Other roles held include Senior Legal Officer at the Industrial and Commercial Development Corporation and the Legal Officer at Senator Cards/Southern Credit Corporation.

SHAREHOLDING

The Company files monthly investor returns to meet the continuing obligations as prescribed by the Capital Markets Authority and the Nairobi Securities Exchange.

DIRECTORS' INTERESTS AS AT 31ST DECEMBER, 2018

Name of Director	Number of Shares	% Shareholding
Permanent Secretary to the Treasury of Kenya	537,378,947	17.53
Mr. Adil A. Khawaja	38,500	-
Mr. Joshua Nyamweya Oigara	35,157	-
Mr. J.O.A. Nyerere	10,455	-
Mr. Ngeny Biwott	1,537	-
Mr. Andrew Wambari Kairu	0	-
Mr. Tom Ipomai	0	-
Ms. Georgina M. Malombe	0	-
Mr. Lawrence Mark Njiru	0	-
Mr. Lawrence Kimathi Kiambi	0	-
Mr. Joseph Kania	0	-

Shareholders' Profile as at 31st December, 2018	Number of Sharesholders	Number of Shares Held	% Shareholding
Kenyan Individual Investors	147,554	842,712,245	27.49
Kenyan Institutional Investors	5,237	1,409,511,673	45.97
East African Individual Investors	224	4,561,509	0.15
East African Institutional Investors	64	113,371,894	3.70
Foreign Individual Investors	530	42,742,507	1.39
Foreign Institutional Investors	131	653,163,659	21.30
	153,740	**3,066,063,487**	**100.00**

Summary of Totals

Shares Range	Shareholders	Number of Shares	% Shareholding
1 to 5,000	125,072	200,153,731	6.53
5,001 to 50,000	26,666	280,001,951	9.13
50,001 to 100,000	779	53,485,447	1.74
100,001 to 1,000,000	923	274,721,730	8.96
1,000,001 to 10,000,000	265	778,935,933	25.41
10,000,001 & above	35	1,478,764,695	48.23
	153,740	**3,066,063,487**	**100.00**

Major Shareholders

Major Shareholders	Number of Shares Held	% Shareholding
Permanent Secretary to the Treasury of Kenya	537,378,947	17.53
National Social Security Fund	187,634,448	6.12
Stanbic Nominees Ltd NR3530153-1	85,000,000	2.77
Standard Chartered Nomunees Non Resd. A/C 9069	56,920,595	1.86
Standard Chartered Nominees Non Resd. A/C 9867	48,276,780	1.57
Standard Chartered Kenya Nominee A/C 9688	45,778,323	1.49
Standard Chartered Kenya Nominees Ltd a/c KE002382	33,067,087	1.08
Standard Chartered Nominees Ltd a/c 9687	31,680,986	1.03
Standard Chartered Nominees a/c KE17682	30,290,760	0.99
Sandip Kana Sinh Babla & Alka Sandip Babla	28,728,500	0.94
	1,144,120,355	**35.38**

FINANCIAL STATEMENTS & NOTES

FOR THE YEAR ENDED
31 DECEMBER 2018

TABLE OF **CONTENT**

DIRECTORS AND STATUTORY INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2018

DIRECTORS

Mr. Andrew Wambari Kairu (Chairman)	- Appointed 4th June 2018
Mr. Joshua. N. Oigara	- Chief Executive Officer & Managing Director
Mr. Henry K Rotich	- Alternate Mr. Julius Mutua
Mr. Ngeny Biwott	
Mr. Adil A. Khawaja	
Mr. Tom D. Ipomai	
Mr. John Okoth A. Nyerere	
Ms. Georgina M. Malombe	
Mr. Lawrence Mark Njiru	- Appointed 7th August 2018
Mr. Lawrence Kimathi	- Group Chief Finance Officer
Ms. Josephine T. Djirackor	- Appointed 3 January 2018 and resigned on 27 April 2018

SECRETARY

Mr. Joseph Kania
P.O. Box 48400 – 00100
Nairobi, Kenya

AUDITORS

KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
ABC Place, Waiyaki Way
P.O. Box 40612 – 00100
Nairobi, Kenya

REGISTERED OFFICES AND PRINCIPAL PLACES OF BUSINESS

KCB Group PLC
Kencom House
Moi Avenue
P.O. Box 48400 - 00100
Nairobi, Kenya
Phone: :+254 (711) 087 001
Email: contactcentre@kcbgroup.com

KCB Bank Tanzania Limited
Harambee Plaza
Ali Hassan Mwinyi Road/Kaunda Road Junction
P.O. Box 804
Dar es Salaam, Tanzania
Phone: +255 788 805 050
Email: customercare@tz.kcbbankgroup.com

KCB Bank South Sudan Limited
KCB Plaza
Ministry Road
P.O. Box 47
Juba, South Sudan
Phone: +254 (20) 2287 000
Email: kcbsouthsudan@kcb.com
kcbssretail@kcbgroup.com

KCB Bank Uganda Limited
Commercial Plaza
7 Kampala Road
P.O. Box 7399
Kampala, Uganda
Phone: +256 (20) 0508 220
Email: ContactCenterUG@kcbgroup.com

KCB Bank Rwanda Limited
Avenue de la Paix
P.O. Box 5620
Kigali, Rwanda
Phone: +250 788 140 000
Email: contactus@rw.kcbbankgroup.com

KCB Bank Burundi Limited
Boulevard Patrice Lumumba
P.O. Box 6119
Bujumbura, Burundi
Phone: +257 750 522 06
Email: serviceclientele@bi.kcbbankgroup.com

KCB Bank Kenya Ltd (Ethiopia Representative Office)
Morning Star Mall 4th floor
Bole Medhanialem
Addis Ababa, Ethiopia
Phone: +254 (732) 187 000
Email: contactcentre@kcbgroup.com

SOLICITORS

Various. A list is available at the Company

KCB GROUP PLC REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2018

The Directors submit their report together with the audited financial statements for the year ended 31 December 2018, in accordance with the Kenyan Companies Act, 2015 which disclose the state of affairs of KCB Group PLC (the "Group") and its subsidiaries.

1. Principal activities

The company is licensed as a non-operating holding company under the Banking Act (Cap 488).

The principal activities of its main subsidiaries is provision of corporate, investment and retail banking services.

2. Results

The results of the Group and the Company are set out on pages 92 to 93 and 95 to 96 respectively.

3. Dividend

An interim dividend of KShs. 3,066 million was approved and paid during the year (2017 – 3,066). The Directors recommend a final dividend of KShs. 7,665 million, this together with the interim dividend brings total dividend to KShs. 10,731 million. (2017: KShs. 9,198 million) which represents KShs. 3.50 per share in respect of the year ended 31 December 2018 (2017 – KShs. 3.00 per share).

4. Directors

The Directors who served during the year and up to the date of this report are set out on page 81.

All the Directors are non-executive other than the Chief Executive Officer and the Chief Finance Officer.

5. Business overview

The Group Consolidation includes the results of the entities owned by 'KCB Group PLC'. The entities operate in Kenya, Tanzania, South Sudan, Rwanda, Uganda and Burundi mainly in the Banking Business.
The Profit before Tax increased by 16% from KES 29.1B to KES 33.9B mainly attributable to management of staff costs which declined by 13% coupled with the increase in funded income by 1%.

The year 2018 saw IFRS 9 come into effect. The major impact of the implementation has been the increase in provisions on loans and advances which was mitigated by the excess regulatory provisions that the bank had in its books pending the implementation.

Total Operating expenses were down 1% from KShs. 35 billion to KShs. 34.7 billion mainly attributable to the staff rationalization undertaken in 2017. Customer deposits were up 7% from KShs. 500 billion to KShs. 537 billion attributable to customer number growth and improved customer confidence with the KCB brand.

Loans and advances improved by 8% from KShs. 423 billion to KShs. 456 billion. The Group will continue to innovate products to satisfy its customers ever changing needs. Going forward the focus is to improve the non-funded income ratio through alternative channels and technology.

The Group's activities exposes it to a variety of financial risks, including credit risk, liquidity risk, market risks and operational risks. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors of the Group has established various committees including Credit, Audit, Risk, Human Resources, Procurement and Information Technology committees, which are tasked with developing and continuous monitoring of the Group risk management policies in their specified areas. The detailed description and analysis of the key risks is set out on note 4 of the financial statements.

6. Relevant audit information

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

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

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

7. Auditors

The auditors of the Company, KPMG Kenya, have indicated their willingness to continue in office in accordance with Section 721 of the Kenyan Companies Act, 2015.

8. Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 5 March 2019.

BY ORDER OF THE BOARD

Mr. Joseph Kania
GROUP COMPANY SECRETARY

Date: 5 March 2019

KCB GROUP PLC DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

The KCB Group Plc. approach towards reward and recognition is to ensure that individuals are adequately compensated and recognized for their role towards the overall success of the Groups' business.

KCB Group Plc. presents the Director's Remuneration report for the year ended 31 December, 2018 in line with The Capital Markets Authority Code of Corporate Governance Practices for Issuers of Securities to the Public, 2015 which provides guidelines on Director's remuneration and in line with the provisions of The Companies Act, 2015.

During the year ended 31 December, 2018, the Board of Directors consisted of:

a) Two Executive Directors:
(i). Joshua Oigara – Group Chief Executive Officer & Managing Director
(ii). Lawrence Kimathi – Group Chief Finance Officer

b) One Non-executive Director:
(i).Henry Rotich (Cabinet Secretary - National Treasury) (Alternate: Julius Mutua)

c) Maximum of eight independent Non-Executive Directors:
(i).Andrew Kairu (appointed 4 June, 2018)
(ii).Ngeny Biwott.
(iii).Adil Khawaja
(iv).Tom Ipomai
(v).Georgina Malombe
(vi).John Nyerere
(vii).Josephine Djirackor (appointed 3 January, 2018; resigned 27 April, 2018)
(viii).Lawrence Njiru (appointed 7 August, 2018)

A. Directors' Emoluments

For the financial year ended 31 December, 2018, the total Non-executive Directors remuneration was KShs. 72 million (2017 - KShs. 85 million).

The total amount of emoluments paid to Directors for services rendered during the Year 2018 is disclosed in Note 18 and 38 to the Financial Statements.

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, under which Directors acquired benefits by means of acquisition of the Company's shares.

B. Non-Executive Directors' Remuneration and Privileges Policy

The Group has put in place a policy that adequately defines the remuneration and related privileges received by the Non-Executive Directors of the Company.

All the remuneration and privileges accorded to the Non-executive Directors and enumerated under the policy are competitive and reviewed according to the prevailing market trends for companies of a similar size and complexity of the Company.

The Board has in place a formal process of reviewing its performance and that of its committees and individual directors. Evaluation of the board is externally facilitated after every two years. Each director completes a detailed questionnaire designed to obtain feedback on the board's performance on the following areas:

- Strategic objectives.
- Risk governance.
- Board composition and skills.
- Board meetings and preparation.
- Board interaction and support.
- Performance of governance functions.
- Performance of Chairman, respective committees and individual directors.

Each Non-executive Director serves for a total non-renewable period of 8 years from the date of appointment. However, in accordance with the Articles of Association of the Company, one-third of the Non-executive Directors are required to resign and may offer themselves for reappointment to continue serving on the Board. No Director is entitled to any compensation upon the termination or end of their tenure as a member of the board.

The details of the tenure of the current Non-executive Directors is provided in the following table:

Name	Appointment Date	Retirement Date
Mr. Andrew Kairu (Chairman)	4 June, 2018	3 June, 2026
Mr. Henry Rotich (Alt. Mr. Julius Mutua)	24 September 2014	-
Mr. Ngeny Biwott	15 June, 2011	15 June, 2019
Mr. Adil Khawaja	14 June 2012	14 June, 2020
Mr. Tom Ipomai	8 July, 2013	8 July, 2021
Ms. Georgina Malombe	16 June, 2014	16 June, 2022
Mr. John Nyerere	13 June, 2014	13 June, 2022
Mr. Lawrence Njiru	7 August, 2018	6 August, 2026

The Human Resources & Nominations Committee of the Board is responsible for setting and administering the Non-executive Directors remuneration policy.

During the year 2018, the Human Resources & Nominations Committee reviewed the entitlement under the Remuneration Policy following a benchmarking exercise undertaken by an external consultant and considered that the remuneration as set was sufficient and in line with prevailing market rates. No adjustments were therefore recommended or effected.

The Human Resources & Nominations Committee continuously reviews the entitlements under the policy to ensure these are aligned to the market.

The following components are provided to the Non-executive Directors:

Monthly Fees
These are paid to the Non-Executive Directors taking into account their responsibility as a Director of the Company. These are paid monthly

Sitting Allowance
A sitting allowance is paid to each Non-Executive Directors for attending a duly convened and constituted meeting of the Board or of any of the Committees.

Duty Travel-day(s) Allowance
An allowance is paid to a Non-Executive Director for any day of travel away from (and back to) his regular station in order to attend to duties of the Company.

Duty Day Allowance
An allowance paid to a Non-Executive Director for any day away his regular station in order to attend to duties of the Company.

Telephone Allowance
Non-Executive Directors are entitled to a telephone allowance paid monthly.
Club Membership
Non-Executive Directors are entitled to paid membership to a social or fitness club.

Medical Insurance Cover
Provided to all Non-Executive Directors for their individual medical requirements covering both out-patient and in-patient requirements.

Professional Indemnity Cover
This is provided in line with best market practice to provide protection for the Non-Executive Directors in undertaking their duties in such capacity.

C. EXECUTIVE DIRECTORS' REMUNERATION

The remuneration for Executive Directors is as per the negotiated employment contracts. Each Executive Director is employed on a fixed term basis. The fixed term contracts run for a period not exceeding 5 years. The contracts are renewable.

The details of the contracts for the Executive Directors are as follows:

Name	Commencement Date	Duration	Unexpired term*	Termination Notice
Joshua Oigara	1 January 2018	4 years	3 years	3 months
Lawrence Kimathi	1 January 2016	5 years	2 years	3 months

Executive Directors performance is measured on the basis of a Balanced Score Card. Annual business performance targets are derived from the KCB Group five year (2015-2019) strategic plan. The key initiatives under the strategic plan include:

- Building a customer centric organization;
- Exponential growth in digital financial services;
- Excellence in operational efficiency;
- Business growth;
- Effective talent management; and,
- Driving shareholder value.

Key performance measures under the Balances Score Card cover areas around:
- Financial performance;
- Customer and stakeholder satisfaction;
- Human capital, culture, learning and growth; and,
- Efficiency in internal business processes.

Executive Directors are entitled to the following remuneration:

Consolidated Basic Pay
This is the consolidated base salary paid to the Executive Director that includes an element of housing.

Bonus
Executive Directors are entitled to a performance based bonus pay. The bonus is paid in full on an annual basis.

Allowances
Allowances paid include a house allowance, a car allowance, a telephone allowance and an allowances related to loan benefit adjustment.

Gratuity
This is paid to Executive Directors at the rate of 20% of the annual consolidated basic salary. The total gratuity earned is paid at the end of the contract term. During the year 2018, the Human Resources & Nominations Committee reviewed the entitlement of gratuity and adjusted the same to 30% (effective 1 January 2019)

Club Membership
Executive Directors are entitled to paid membership to a social or fitness club.

Medical Insurance Cover
As provided to all employees, Executive Directors are entitled to medical insurance cover for their individual and family medical requirements covering both out-patient and in-patient requirements.

Professional Indemnity Cover
This is provided in line with best market practice to provide protection for the Executive Directors in undertaking their duties in such capacity.

During the year 2018, there was a 5% adjustment to the basic pay of the two Executive Directors sitting on the board with effect from 1 January, 2018.

KCB GROUP PLC DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

i. NON-EXECUTIVE DIRECTORS' FEES, ALLOWANCES AND OTHER BENEFITS FOR THE YEAR ENDED 31 DECEMBER, 2018

Director's Name	DIRECTORS' FEES KShs. million	SITTING ALLOWANCE KShs. million	OTHER ALLOWANCES[1] KShs. million	NON CASH BENEFIT[2] KShs. million	TOTAL KShs. million
Mr. Andrew Wambari Kairu - Chairman[3]	3	2	2		7
CS National Treasury	3	-	-	-	3
Mr. Julius Mutua (Alt. to CS)[4]	3	7	4	-	14
Mr. Ngeny Biwott	3	1	2	-	6
Mr. Adil Khawaja	4	2	1	-	7
Mr. Tom Ipomai	5	5	4	-	14
Ms. Georgina Malombe	3	3	2	-	8
Mr. John Nyerere	3	5	2	-	10
Mrs. Josephine Djirackor [5]	1	1	-	-	2
Mr. Lawrence Njiru [6]	1	-	-	-	1
GRAND TOTAL [7]					**72**

Notes:

1. Other allowances includes the telephone allowance, a meal allowance and the duty day travel and duty day allowance.
2. Non-cash benefits includes medical insurance cover cost, club membership and professional indemnity cover cost.
3. Appointed 4 June 2018. Appointed as Chairman on 24 October 2018.
4. Earns a sitting allowance for KCB Group PLC, KCB Bank Kenya Limited, and KCB Foundation and earns both a monthly and sitting allowance for KCB Bank Burundi Limited.
5. Appointed 3 January 2018. Resigned 27 April 2018.
6. Appointed 7 August 2018
7. The amount includes fees, allowances and other benefits in respect of KCB Bank Kenya Limited, KCB Bank Tanzania Limited, KCB Bank South Sudan Limited, KCB Bank Uganda Limited, KCB Bank Rwanda Limited, KCB Bank Burundi Limited, KCB Capital Limited, KCB Insurance Agency Limited and KCB Foundation. The Group Board nominates at least 2 of its members to sit on each subsidiary board.

KCB GROUP PLC DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

ii.NON-EXECUTIVE DIRECTORS' FEES, ALLOWANCES AND OTHER BENEFITS FOR THE YEAR ENDED 31 DECEMBER, 2017

Director's Name	DIRECTORS' FEES KShs. million	SITTING ALLOWANCE KShs. million	OTHER ALLOWANCES[1] KShs. million	NON CASH BENEFIT[2] KShs. million	TOTAL KShs. million
Mr. Ngeny Biwott – Chairman	6	2	4	1	13
CS National Treasury	3	-	-	-	3
Mr. Julius Mutua (Alt. to CS)[3]	1	7	2	-	10
Mr. Adil Khawaja	4	1	1	-	6
Mr. Tom Ipomai	6	5	3	-	14
Ms. Georgina Malombe	3	3	2	-	8
Mr. John Nyerere	3	5	2	-	10
Mrs. Charity Muya-Ngaruiya [4]	2	4	1	-	7
Gen. (Rtd.) Joseph Kibwana [5]	3	3	1	-	7
Mrs. Catherine Kola [6]	3	1	1	-	5
Dr. Nancy A. Onyango [7]	1	1	-	-	2
GRAND TOTAL [8]					**85**

Notes:

(1) Other allowances includes the telephone allowance, a meal allowance and the duty travel-day and duty day allowance.

(2) Non-cash benefits includes medical insurance cover cost, club membership and professional indemnity cover cost.

(3) Earns a sitting allowance for KCB Group PLC, KCB Bank Kenya Limited, KCB Foundation and earns both a monthly and sitting allowance for KCB Bank Burundi Limited.

(4) Retired from KCB Group PLC on 21 April, 2017. She continues to serve as a director of KCB Bank South Sudan Limited.

(5) Retired from KCB Group PLC on 21 April, 2017. He continues to serve as a director of KCB Bank South Sudan Limited.

(6) Retired from KCB Group PLC on 1 June, 2017.

(7) Appointed 7 August, 2017. Resigned 3 January, 2018.

(8) The amount includes fees, allowances and other benefits in respect of KCB Bank Kenya Limited, KCB Bank Tanzania Limited, KCB Bank South Sudan Limited, KCB Bank Uganda Limited, KCB Bank Rwanda Limited, KCB Bank Burundi Limited, KCB Capital Limited, KCB Insurance Agency Limited and KCB Foundation. The Group Board nominates at least 2 of its members to sit on each subsidiary board.

iii. EXECUTIVE DIRECTORS' REMUNERATION FOR THE YEAR ENDED 31 DECEMBER, 2018

Director's Name	SALARY KShs. million	BONUS KShs. million	ALLOWANCES KShs. million	GRATUITY KShs. million	NON CASH BENEFIT[1] KShs. million	TOTAL KShs. million
Mr. Joshua Oigara	68	180	10	14	1	**273**
Mr. Lawrence Kimathi	32	43	-	6	1	**82**

Note:

1. Non-cash benefits includes medical insurance cover, club membership and professional indemnity cover.

KCB GROUP PLC DIRECTORS' REMUNERATION REPORT FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

iv. EXECUTIVE DIRECTORS' REMUNERATION FOR THE YEAR ENDED 31 DECEMBER, 2017

	SALARY	BONUS	ALLOWANCES	GRATUITY	NON CASH BENEFIT[1]	TOTAL
Director's Name	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million
Mr. Joshua Oigara	65	147	30	13	1	**256**
Mr. Lawrence Kimathi	29	23	-	6	1	**59**

Note:
1. (1) Non-cash benefits includes medical insurance cover, club membership and professional indemnity cover.

By order of the Board

Mr. Joseph Kania
GROUP COMPANY SECRETARY

Date: 5 March 2019

KCB GROUP PLC STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 31 DECEMBER 2018

The Directors are responsible for the preparation and presentation of the consolidated and separate financial statements of KCB Group PLC set out on pages 92 to 176 which comprise the consolidated and company statements of financial position at 31 December 2018, consolidated and company statements of profit or loss and consolidated and company statements of other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements including a summary of significant accounting policies and other explanatory information.

The Directors' responsibilities include: determining that the basis of accounting described in note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the Directors determine is necessary to enable the preparation of financial sttements that are free from material misstatements, whether due to fraud or error.

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

The Directors accept responsibility for the annual consolidated and separate financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and the company and of its operating results.

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

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

Approval of the financial statements

The financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on 5 March 2019.

Andrew Wambari Kairu
Chairman

Joshua N. Oigara
Chief Executive Officer and Managing Director

Lawrence Mark Njiru
Director

Joseph Kania
Secretary

Date: 5 March 2019

KPMG

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF KCB GROUP PLC

Report on the audit of the consolidated and separate financial statements

Opinion

We have audited the consolidated and separate financial statements of KCB Group PLC (the "Group and Company") set out on pages 92 to 176, which comprise the consolidated and company statements of financial position as at 31 December 2018, the consolidated and company statements of profit or loss, statements of other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated and separate financial statements give a true and fair view of the consolidated and separate financial position of KCB Group PLC as at 31 December 2018, and the 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 Kenyan Companies Act, 2015.

Basis for opinion

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated and separate financial statements of the current period. 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.

Impairment allowances on loans and advances at amortised cost, including off-balance sheet elements of the allowance

See accounting policy note 3 (f) - Significant accounting policies and disclosure note 27 – Loans and advances to customers (Net).

The Key audit matter	How the matter was addressed in our audit
The Group implemented IFRS 9 on 1 January 2018. This new and complex standard requires the Group to recognise expected credit losses ('ECL') on financial instruments, which involves significant judgement and estimates and resulted in an increase in credit loss provisions. During the year, credit loss provisions increased from KShs 15,958 million as at 31 December 2017 to KShs 20,649 million as at 31 December 2018, out of which KShs 10,207 million was recorded through opening retained earnings. The key areas where we identified greater levels of management judgement and therefore increased levels of audit focus in the Group's implementation of IFRS 9 are: **- Economic scenarios** – IFRS 9 requires the Group to measure ECLs on a forward-looking basis reflecting a range of future economic conditions. Significant management judgement is applied to determining the economic scenarios used and the probability weightings applied to them especially for the corporate portfolio. **- Significant Increase in Credit Risk ('SICR')** – The criteria selected to identify a significant increase in credit risk is a key area of judgement within the Group's ECL calculation as these criteria determine whether a 12 month or lifetime provision is recorded. **- Model estimations –** Inherently judgemental modelling is used to estimate ECLs which involves determining Probabilities of Default ('PD'), Loss Given Default ('LGD'), and Exposures at Default ('EAD'). The PD and LGD models used are the key drivers of the Group's ECL results and are therefore most significant judgemental aspect of the Group's ECL modelling approach. The effect of these matters is that, as part of our risk assessment, we determined that the impairment of loans and advances to customers has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. **Disclosure quality** The disclosures regarding the Group's initial application of IFRS 9 are key to understanding the change from IAS 39 as well as explaining the key judgements and material inputs to the IFRS 9 ECL results.	Our audit procedures in this area included, among others: • Involving our own financial risk modelling and data analytics specialists in evaluating the appropriateness of the Group's IFRS 9 impairment methodologies and independently assessing probability of default, loss given default and exposure at default assumptions. Testing on a sample basis the key inputs and assumptions impacting ECL calculations to assess the reasonableness of economic forecasts, weights, and PD assumptions applied; • Evaluating the appropriateness of the significant increase in credit risk criteria used by the Group for the different loan categories; • Performing credit assessment on stage 3 facilities for the corporate segment to ascertain the reasonableness of the forecast of recoverable cash flows, realisation of collateral, and other sources of repayment for defaulted loans; and • Assessing whether the disclosures appropriately disclose the judgements which exists when determining the expected credit losses. As a part of this, assessing whether the disclosure of the key judgements and assumptions made was sufficiently clear.

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF KCB GROUP PLC

Report on the audit of the consolidated and separate financial statements (Continued)

The Key audit matter (continued)
Hyperinflation

See accounting policy note 3 (c) (ii) – Significant accounting policies; disclosure note 19 – Loss on monetary position and disclosure note 48 –Hyperinflation.

The Key audit matter	How the matter was addressed in our audit
The Group has applied hyperinflationary accounting during the year. The directors evaluated and determined that the economy of South Sudan continues to be hyperinflationary. As a result of this, KCB Bank South Sudan Limited, a significant foreign subsidiary of the Group has complied with the requirements of IAS 29 *Financial Reporting in Hyperinflationary Economies* on the individual financial statements for the year ended 31 December 2018. Hyperinflation is a key audit matter due to the significance of the subsidiary affected by hyperinflation and complexity and subjectivity over the application of hyperinflationary reporting. hyperinflationary reporting requires significant judgments to be made by Directors considering guidelines provided in IAS 29.	Our audit procedures in this area included, among others: • Assessing and testing for the indicators of hyperinflation on the South Sudan economy; • Assessing the trends in the economic environment of South Sudan, considering their likely impact on the entity and using this information to focus our testing on the key risk areas; • Testing the computations including evaluating the rationale for the economic indicators included (such as the inflation rate, cumulative inflation rate, consumer price indices from various sources), testing and validating key assumptions and the parameters used among others. Comparing the assumptions used to selected externally available industry, financial and economic data; • Challenging the judgments and assumptions made by the Directors in the application of hyperinflation accounting requirements; and • Assessing whether disclosures in the financial statements appropriately reflect the effects of hyperinflation accounting

Information Technology (IT) systems and controls

The key audit matter	How the matter was addressed in our audit
The Group's financial accounting and reporting processes are highly dependent on the automated controls over the information systems such that there exists a risk that gaps in the IT control environment could result in the financial accounting and reporting records being materially misstated. For example interfaces between the operating systems and financial reporting systems, or automated controls that prevent or detect inaccurate or incomplete transfers of financial information. If these systems or controls fail, a significant risk of error in reported financial information can arise from the failure to transfer data appropriately between systems or inappropriate changes being made to financial data or systems. Our audit effort focused on key systems used by the Group. This is an area requiring particular audit attention in our audit due to the complexity of the IT infrastructure.	Our audit procedures in this area included, among others: • Testing general IT controls around system access and testing controls over computer operations within specific applications which are required to be operating correctly to mitigate the risk of misstatement in the financial statements; • With the support of our IT specialists assessing whether appropriate restrictions were placed on access to core systems through reviewing the permissions and responsibilities of those given that access; and • Where we identify the need to perform additional procedures, placing reliance on manual compensating controls, such as reconciliations between systems and other information sources or performing additional testing, such as extending the size of our sample sizes, to obtain sufficient appropriate audit evidence over the financial statement balances that were impacted.

Other information

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

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

In connection with our audit of the 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, 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.

KPMG

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF KCB GROUP PLC

Report on the audit of the consolidated and separate financial statements (Continued)

Directors' responsibilities for the consolidated and separate financial statements

As stated on page 88, the directors are responsible for the preparation of consolidated and separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards, and in the manner required by the Kenyan Companies Act, 2015, and for such internal control as the Directors determine is necessary to enable the preparation of 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, directors are responsible for assessing the Group's and Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group and/or Company or to cease operations, or have no realistic alternative but to do so.

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

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

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

- Identify and assess the risks of material misstatement of the 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's and Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of 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's and Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Group and/or Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the 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 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Report on other legal and regulatory requirements

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

(i) In our opinion, the information given in the report of the directors on page 82 is consistent with the financial statements;

(ii) In our opinion, the auditable part of the directors' remuneration report on pages 83 to 87 has been properly prepared in accordance with the Kenyan Companies Act, 2015; and

(iii) Our opinion on the annual financial statements is unqualified.

The *Signing* Partner responsible for the audit resulting in this independent auditors' report is CPA Joseph Kariuki-P/2102.

Certified Public Accountants
PO Box 40612, 00100
Nairobi

5 March 2019

KCB GROUP PLC CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 KShs.'million	2017 KShs.'million
Interest income	9	66,280	63,673
Interest expense	9	(17,450)	(15,288)
Net interest income		**48,830**	**48,385**
Fees and commission income	10	15,046	15,151
Fees and commission expense	10	(808)	(457)
Net fees and commission income		**14,238**	**14,694**
Net foreign exchange income	11	4,374	4,666
Other operating income	13	4,361	3,640
Total income		**71,803**	**71,385**
Loss allowance on financial assets	14	(2,944)	(5,914)
Net operating income		**68,859**	**65,471**
Employee benefits	15	(17,007)	(19,146)
Depreciation and amortization	16	(3,146)	(2,791)
Other operating expenses	17	(14,545)	(13,059)
Profit before tax and loss on monetary position	18	**34,161**	**30,475**
Loss on monetary position on hyperinflation	19	(302)	(1,361)
Profit before income tax		33,859	29,114
Income tax expense	20	(9,864)	(9,410)
Profit for the year		**23,995**	**19,704**
Attributable to:			
Owners of the parent		**23,995**	**19,704**
Earnings per share (KShs.)			
Basic earnings per share	21	**7.83**	**6.43**
Diluted earnings per share	21	**7.83**	**6.43**
Dividends (KShs. millions)			
Interim dividend declared and paid	42	3,066	3,066
Proposed final	42	7,665	6,132
Total dividends		**10,731**	**9,198**

The notes set out on pages 104 to 176 form an integral part of these financial statements.

KCB GROUP PLC STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 KShs.'million	2017 KShs.'million
Profit for the year		23,995	19,704
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss			
Re-measurement of defined benefit pension fund	46	(486)	100
Financial assets at FVOCI (equity investments)		1,316	46
Related tax at 30%	33	(249)	(30)
		581	70
Hyperinflation translation		**664**	**2,080**
Items that are or may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		**(1,967)**	**(1,474)**
Fair value through other comprehensive income financial assets (2017-AFS) :			
- Unrealized gain arising from			
measurement at fair value		1,094	1,833
Related tax at 30% - current year	33	(328)	(550)
		766	**1,283**
Other comprehensive income for the year,			
net of income tax		**44**	**1,959**
Total comprehensive income for the year		**24,039**	**21,663**
Attributable to:			
Owners of parent		**24,039**	**21,663**

The notes set out on pages 104 to 176 form an integral part of these financial statements.

KCB GROUP PLC CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	2018 KShs.'million	2017 KShs.'million
ASSETS			
Cash and balances with Central Banks	22	50,101	50,714
Loans and advances to banks	23	32,017	21,711
Financial assets at fair value through OCI (2017-AFS)	24	83,805	71,743
Clearing house	25	1,217	1,222
Other assets and prepayments	26	30,646	20,006
Loans and advances to customers (Net)	27	455,880	422,685
Financial assets at amortized cost (2017-HTM)	28	37,174	38,264
Tax recoverable	20	-	524
Property and equipment	29	11,007	10,454
Intangible assets	30	3,003	3,371
Prepaid operating lease rentals	31	129	132
Retirement benefit asset	46	658	1,018
Deferred tax asset	33	8,676	4,824
TOTAL ASSETS		**714,313**	**646,668**
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks	34	20,105	11,039
Deposits from customers	35	537,460	499,549
Bills payable	36	5,514	6,141
Other liabilities and accrued expenses	37	14,817	8,653
Deferred tax liability	33	-	160
Tax payable	20	309	266
Borrowings	39	22,447	14,895
Total liabilities		**600,652**	**540,703**
Equity			
Share capital	40	3,066	3,066
Share premium	41	21,647	21,647
Statutory credit risk reserve	41	1,222	11,233
Other reserves	41	(4,995)	(5,039)
Retained earnings	41	85,056	68,926
Proposed dividend	42	7,665	6,132
Total equity		**113,661**	**105,965**
TOTAL LIABILITIES AND EQUITY		**714,313**	**646,668**

The financial statements set out on pages 92 to 176 were approved and authorised for issue by the Board of Directors on 5 March 2019

Andrew Wambari Kairu
Chairman

Joshua N. Oigara
Chief Executive Officer & Managing Director

Lawrence Mark Njiru
Director

Joseph Kania
Secretary

The notes set out on pages 104 to 176 form an integral part of these financial statements.

COMPANY STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 KShs.'million	2017 KShs.'million
Interest income	9	317	580
Interest expense	9	(272)	(527)
Net interest income		**45**	**53**
Net foreign exchange (loss) /gain	11	(14)	6
Dividend income	12	16,864	12,417
Other operating income	13	105	116
Total income		**17,000**	**12,592**
Net operating income		**17,000**	**12,592**
Employee benefits	15	(91)	(47)
Depreciation and amortization	16	(4)	(3)
Other operating expenses	17	(399)	(256)
Profit before income tax	18	**16,506**	**12,286**
Income tax credit / (expense)	20	104	(37)
Profit for the year		**16,610**	**12,249**
Attributable to:			
Owners of the parent		**16,610**	**12,249**
Earnings per share (KShs.)			
Basic	21	**5.42**	**4.00**
Diluted	21	**5.42**	**4.00**
Dividends (KShs. millions)			
Interim dividend declared and paid	42	3,066	3,066
Proposed final	42	7,665	6,132
Total dividends		**10,731**	**9,198**

The notes set out on pages 104 to 176 form an integral part of these financial statements.

COMPANY STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 KShs.'million	2017 KShs.'million
Profit for the year		16,610	12,249
Other comprehensive income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss			
Fair value through other comprehensive income financial assets (2017-AFS)			
- Unrealized (loss)/gain arising from measurement at fair value		(27)	(6)
Related tax at 30% - current year	33	8	2
		(19)	(4)
Other comprehensive income for the year, net of income tax		**(19)**	**(4)**
Total comprehensive income for the year		**16,591**	**12,245**
Attributable to:			
Owners of the parent		**16,591**	**12,245**

The notes set out on pages 104 to 176 form an integral part of these financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2018

	Note	2018 KShs.'million	2017 KShs.'million
ASSETS			
Cash and bank balances	22	899	888
Financial assets at fair value through OCI (2017-AFS)	24	34	53
Other assets and prepayments	26	-	20
Property and equipment	29	649	561
Balances due from related companies	38	7,105	8,569
Investment in subsidiaries	32	68,036	67,649
Tax receivable	20	69	69
Deferred tax asset	33	102	-
TOTAL ASSETS		**76,894**	**77,809**
LIABILITIES AND EQUITY			
Liabilities			
Bills payable	36	-	1,267
Balances due to related companies	38	731	70
Other liabilities	37	55	-
Deferred tax liability	33	-	2
Borrowings	39	-	7,755
Total liabilities		**786**	**9,094**
Equity			
Share capital	40	3,066	3,066
Share premium	41	21,647	21,647
Other reserves	41	(43)	(24)
Retained earnings	41	43,773	37,894
Proposed dividend	42	7,665	6,132
Total equity		**76,108**	**68,715**
TOTAL LIABILITIES AND EQUITY		**76,894**	**77,809**

The financial statements set out on pages 92 to 176 were approved and authorised for issue by the Board of Directors on 5 March 2019.

Andrew Wambari Kairu
Chairman

Joshua N. Oigara
Chief Executive Officer & Managing Director

Lawrence Mark Njiru
Director

Joseph Kania
Secretary

The notes set out on pages 104 to 176 form an integral part of these financial statements.

KCB GROUP PLC CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2018

	Note	Share capital	Share premium	Statutory credit risk reserve	Proposed Dividend	Foreign Currency translation reserve	Fair value reserve	Retained earnings	Defined benefit reserve	Hyper-inflation reserve	Total
		KShs. Millions	KShs. Millions	KShs. Millions	KShs. Millions	KShs. Millions	KShs. Millions	KShs. Millions	KShs. Millions	KShs. Millions	KShs. Millions
At 1 January 2018		3,066	21,647	11,233	6,132	(7,877)	134	68,926	384	2,320	105,965
Adjustment on initial application of IFRS 9, net of taxes	3 a (i)	-	-	-	-	-	-	(7,145)	-	-	(7,145)
Restated Balance as at 1 January 2018		**3,066**	**21,647**	**11,233**	**6,132**	**(7,877)**	**134**	**61,781**	**384**	**2,320**	**98,820**
Profit for the year		-	-	-	-	-	-	23,995	-	-	23,995
Other comprehensive income (net of taxes)											
Foreign currency translation differences for foreign operations		-	-	-	-	(1,967)	-	-	-	-	(1,967)
Change in fair value of Fair value through other comprehensive income investments (2017-AFS) (net of tax)		-	-	-	-	-	1,687	-			1,687
Transfer from statutory credit risk reserve		-	-	(10,011)	-	-	-	10,011	-	-	-
Hyperinflationary impact		-	-	-	-	-	-	-	-	664	664
Re-measurement of defined benefit asset/liability (net of taxes)	46	-	-	-	-	-	-	-	(340)	-	(340)
Total comprehensive income		**-**	**-**	**(10,011)**	**-**	**(1,967)**	**1,687**	**34,006**	**(340)**	**664**	**24,039**
Transactions with owners recorded directly in equity											
Dividend paid – 2017	42	-	-	-	(6,132)	-	-	-	-	-	(6,132)
Interim dividend paid - 2018		-	-	-		-	-	(3,066)	-	-	(3,066)
Dividend proposed – 2018	42	-	-	-	7,665	-	-	(7,665)	-	-	-
Total contributions and distributions		**-**	**-**	**-**	**1,533**	**-**	**-**	**(10,731)**	**-**	**-**	**(9,198)**
At 31 December 2018		**3,066**	**21,647**	**1,222**	**7,665**	**(9,844)**	**1,821**	**85,056**	**44**	**2,984**	**113,661**

The notes set out on pages 104 to 176 form an integral part of these financial statements.

KCB GROUP PLC CONSOLIDATED STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2017

	Note	Share capital	Share premium	Statutory credit risk reserve	Proposed Dividend	Foreign currency translation reserve	Fair value reserve	Retained earnings	Defined benefit reserve	Hyper-inflation reserve	Total
		KShs. Millions	KShs. Millions	KShs. Millions	KShs. Millions	KShs. Millions	KShs. Millions	KShs. Millions	KShs. Millions	KShs. Millions	KShs. Millions
At 1 January 2017		3,066	21,647	10,240	9,198	(6,403)	(1,149)	59,413	314	240	96,566
Profit for the year		-	-	-	-	-	-	19,704	-	-	19,704
Other comprehensive income (net of taxes)											
Foreign currency translation differences for foreign operations		-	-	-	-	(1,474)	-	-	-	-	(1,474)
Change in fair value of FVTOCI increments (net of tax)		-	-	-	-	-	1,283	-			1,283
Transfer to statutory credit risk reserve		-	-	993	-	-	-	(993)	-	-	-
Re-measurement of defined benefit asset/liability (net of taxes)	46	-	-	-	-	-	-	-	70	-	70
Hyperinflationary impact		-	-	-	-	-	-	-	-	2,080	2,080
Total comprehensive income		**-**	**-**	**993**	**-**	**(1,474)**	**1,283**	**18,711**	**70**	**2,080**	**21,663**
Transactions with owners recorded directly in equity											
Dividend paid – 2016		-	-	-	(9,198)	-	-	-	-	-	(9,198)
Interim dividend – 2017	42	-	-	-		-	-	(3,066)	-	-	(3,066)
Dividend proposed – 2017	42	-	-	-	6,132	-	-	(6,132)	-	-	-
Total contributions and distributions		**-**	**-**	**-**	**(3,066)**	**-**	**-**	**(9,198)**	**-**	**-**	**(12,264)**
At 31 December 2017		**3,066**	**21,647**	**11,233**	**6,132**	**(7,877)**	**134**	**68,926**	**384**	**2,320**	**105,965**

The notes set out on pages 104 to 176 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY AS AT 31 DECEMBER 2018

		Share capital	Share premium	Proposed Dividend	Fair value reserve	Retained earnings	Total
	Note	KShs. Millions	KShs. Millions	KShs. Millions	KShs. Millions	KShs. Millions	KShs. Millions
At 1 January 2018		3,066	21,647	6,132	(24)	37,894	68,715
Profit for the year		-	-	-	-	16,610	16,610
Other comprehensive income (net of taxes)							-
Change in fair value of Fair value through other comprehensive income increments (net of taxes)		-	-	-	(19)	-	**(19)**
Total comprehensive income		**-**	**-**	**-**	**(19)**	**16,610**	**16,591**
Transactions with owners recorded directly in equity							
Dividend paid – 2017	42	-	-	(6,132)	-	-	(6,132)
Interim dividend paid - 2017		-	-	-	-	(3,066)	(3,066)
Dividend proposed 2018	42	-	-	7,665	-	(7,665)	-
Total contributions and distributions		**-**	**-**	**1,533**	**-**	**(10,731)**	**(9,198)**
At 31 December 2018		**3,066**	**21,647**	**7,665**	**(43)**	**43,773**	**76,108**

The notes set out on pages 104 to 176 form an integral part of these financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY
AS AT 31 DECEMBER 2017

	Note	Share capital KShs. Millions	Share premium KShs. Millions	Proposed Dividend KShs. Millions	Fair value reserve KShs. Millions	Retained earnings KShs. Millions	Total KShs. Millions
At 1 January 2017		3,066	21,647	9,198	(20)	34,843	68,734
Profit for the year		-	-	-	-	12,249	12,249
Other comprehensive income (net of taxes)							-
Change in fair value of Fair value through other comprehensive income increments (net of taxes)		-	-	-	(4)	-	**(4)**
Total comprehensive income		**-**	**-**	**-**	**(4)**	**12,249**	**12,245**
Transactions with owners recorded directly in equity							
Dividend paid – 2016		-	-	(9,198)		-	(9,198)
Interim dividend paid -2017	42	-	-		-	(3,066)	(3,066)
Dividend proposed 2017		-	-	6,132	-	(6,132)	-
Total contributions and distributions	**42**	**-**	**-**	**(3,066)**	**-**	**(9,198)**	**(12,264)**
At 31 December 2017		**3,066**	**21,647**	**6,132**	**(24)**	**37,894**	**68,715**

The notes set out on pages 104 to 176 form an integral part of these financial statements.

KCB GROUP PLC CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 KShs.'million	2017 KShs.'million
Net cash flows generated from operating activities	43(b)	**7,908**	**20,158**
Investing activities			
Proceeds from disposal of property and equipment		17	14
Purchase of intangible assets	30	(921)	(1,244)
Purchase of property and equipment	29(a)	(2,959)	(2,496)
Effects of exchange rate changes on translation of foreign operation		882	(1,625)
Net cash flows used in investing activities		**(2,981)**	**(5,351)**
Financing activities			
Net movement in borrowings	39	7,426	(8,087)
Dividends paid	42	(9,198)	(12,264)
Net cash flows used in financing activities		**(1,772)**	**(20,351)**
Decrease in cash and cash equivalents		3,155	(5,544)
Cash and cash equivalents at the beginning of the year		47,474	53,018
Cash and cash equivalents at the end of the year	43(b)	**50,629**	**47,474**

The notes set out on pages 104 to 176 form an integral part of these financial statements.

COMPANY STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 KShs.'million	2017 KShs.'million
Net cash flows generated from operating activities	43(b)	**17,443**	**12,720**
Investing activities			
Purchase of property and equipment	29	(92)	-
Investment in subsidiaries	32	(387)	(519)
Net cash flows used in investing activities		**(479)**	**(519)**
Financing activities			
Net movement in borrowings	39	(7,755)	-
Dividends paid	42	(9,198)	(12,264)
Net cash flows used in financing activities	**44**	**(16,953)**	**(12,264)**
(Decrease)/increase in cash and cash equivalents		11	(63)
Cash and cash equivalents at the beginning of the year		888	951
Cash and cash equivalents at the end of the year	**43(c)**	**899**	**888**

The notes set out on pages 104 to 176 form an integral part of these financial statements.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

1. GENERAL INFORMATION

On 1 January 2016, KCB Group PLC, transferred certain assets and liabilities to KCB Bank Kenya Limited at book values in exchange for equity in KCB Group PLC. KCB Group PLC is now the parent company to KCB Bank Kenya Limited.

The Group is incorporated in Kenya under the Kenyan Companies Act, 2015 and has subsidiaries in Kenya, South Sudan, Tanzania, Uganda, Rwanda and Burundi. The consolidated financial statements of the Company as at and for the year ended 31 December 2018 comprise the Group and its subsidiaries (together referred to as the "Group" and individually referred to as the "Company") and the Group's interest in associates. The address of its registered office is as follows:

Kencom House
Moi Avenue
PO Box 48400 - 00100
Nairobi, Kenya

The Company has a 100% ownership in KCB Bank Kenya Limited, Kenya Commercial Finance Company Limited, Savings & Loan Kenya Limited, Kenya Commercial Bank Nominees Limited, Kencom House Limited, KCB Bank Tanzania Limited, KCB Bank South Sudan Limited, KCB Bank Rwanda Limited, KCB Bank Uganda Limited, KCB Bank Burundi Limited, KCB Insurance Agency Limited, KCB Capital Limited and a 45% ownership in United Finance Limited.

The shares of the Company are listed on the Nairobi Securities Exchange, Uganda Securities Exchange, Dar-es-Salaam Stock Exchange and Rwanda Stock Exchange.

2. BASIS OF PREPARATION

a. Statement of compliance

The consolidated financial statements of the Company and its subsidiaries as well as the separate financial statements of the Company, together referred to as "the financial statements", have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and in the manner required by the Kenyan Companies Act, 2015.

For the Kenyan Companies Act, 2015 reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss in these financial statements.

Details of significant accounting policies are included in note 3.

b. Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- Financial instruments at fair value through profit or loss are measured at fair value;
- Financial assets at FVTOCI 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 cost and unrecognised actuarial losses.
- KCB Bank South Sudan Limited's financial statements were stated in terms of the measuring unit current at 31 December 2018 before they were consolidated.

c. Functional and presentation currency

The financial statements are presented in Kenya Shillings (KShs.), which is the functional currency of the parent company and Kenyan subsidiaries. Except as otherwise indicated, financial information presentation in Kenya shillings has been rounded to the nearest million (KShs.'million). Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured

d. Use of estimates and judgements

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented on these financial statements and have been applied consistently by the Group.

(a) New standards, amendments and interpretations

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

A number of new standards are also effective from 1 January 2018 but they do not have a material effect on the Group's financial statements. Due to the transition method chosen by the Group in applying IFRS 9, comparative information throughout these financial statements has not generally been restated to reflect its requirements.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Group. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets;
- additional disclosures related to IFRS 9; and
- Additional disclosures related to IFRS 15

Except for changes noted below, the Group has consistently applied the accounting policies to all periods presented in these financial statements

- IFRS 15 Revenue from Contracts with Customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when the Company will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

The Company applied IFRS 15 on 1 January 2018 using the modified retrospective approach in which the cumulative effect of initially applying this Standard is recognised at the date of initial application as an adjustment to the opening

(a) New standards, amendments and interpretations (continued)

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

balance of retained earnings as at 1 January 2018 without restating comparative periods.

There was no material impact of application of IFRS 15 and no adjustment to retained earnings was required.

IFRS 9: Financial Instruments (2014)
On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in Note 4a).

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018.

The Group's accounting policies on the classification of financial instruments under IFRS 9 are set out in above. The application of these policies resulted in the reclassifications set out in the table above and explained below.

- Certain debt securities are held by the Group Central Treasury in a separate portfolio for long-term yield. These securities may be sold, but such sales are not expected to be more than infrequent. The Group considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows. These assets are classified as measured at amortised cost under IFRS 9.
- Certain debt securities are held by the Group Central Treasury in separate portfolios to meet everyday liquidity needs. The Group Central Treasury seeks to minimise the costs of managing these liquidity needs and therefore actively manages the return on the portfolio. That return consists of collecting contractual payments as well as gains and losses from the sale of financial assets. The investment strategy often results in sales activity that is significant in value. The Group considers that under IFRS 9 these securities are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
- Certain non-trading debt securities are held by the Group Central Treasury in separate portfolios and are managed with an objective of realising cash flows through sale. The Group primarily focuses on fair value information and uses that information to assess the securities' performance and to make decisions. In addition, certain asset-backed securities have contractual cash flows that are not SPPI. These assets are therefore measured at FVTPL under IFRS 9.
- Certain equity investments held by the Group for strategic purposes have been designated under IFRS 9 as at FVOCI. Before the adoption of IFRS 9, these securities were measured at FVTOCI assets.

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 – continued
The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	IAS 39 Carrying amount 31 December 2017 KShs. million	Reclassification KShs. million	Remeasurement KShs. million	IFRS 9 Carrying amount 1 January 2018 KShs. million
Financial assets				
Loans and advance				
Opening balance	422,685	-	-	422,685
Remeasurement	-	-	(10,207)	(10,207)
Closing balance	422,685	-	(10,207)	412,478

Financial assets and financial liabilities

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9
The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Group's financial assets and financial liabilities as at 1 January 2018.

	Note	Classification Under IAS 39	Classification Under IFRS 9	Original Carrying Amount Millions	New Carrying Amount Millions
FINANCIAL ASSETS					
Cash and balances with Central Banks	22	Loans & Receivables	Amortised Cost	50,714	50.714
Loans and advances to banks	23	Loans & Receivables	Amortised Cost	21,711	21,711
Financial assets available-for-sale	24	Available For Sale	FVOCI	71,743	71,743
Clearing house	25	Loans & Receivables	Amortised Cost	1,222	1,222
Other assets and prepayments	26	Loans & Receivables	Amortised Cost	20,006	20,006
Loans and advances to customers	27	Loans & Receivables	Amortised Cost	422,685	412,478
Financial assets held to maturity	28	Held to maturity	Amortised Cost	38,264	38,264
FINANCIAL LIABILITIES					
Liabilities					
Deposits from banks	34	Amortised Cost	Amortised Cost	11,039	11,039
Deposits from customers	35	Amortised Cost	Amortised Cost	499,549	499,549
Bills payable	36	Amortised Cost	Amortised Cost	6,141	6,141
Other liabilities and accrued expenses	37	Amortised Cost	Amortised Cost	8,653	8,653
Borrowings	39	Amortised Cost	Amortised Cost	14,895	14,895

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets and financial liabilities as at 1 January 2018.

	Note	Classification Under IAS 39	Classification Under IFRS 9	Original Carrying Amount Millions	New Carrying Amount Millions
FINANCIAL ASSETS					
Cash and balances with Central Banks	22	Loans & Receivables	Amortised Cost	888	888
Financial assets available-for-sale	24	Available For Sale	FVOCI	53	53
Other assets and prepayments	26	Loans & Receivables	Amortised Cost	20	20
Balances due from related companies	38	Loans & Receivables	Amortised Cost	8,569	8,569
FINANCIAL LIABILITIES					
Liabilities					
Bills Payable	34	Amortised Cost	Amortised Cost	1,267	1,267
Balances due to related companies	38	Amortised Cost	Amortised Cost	70	70
Borrowings	39	Amortised Cost	Amortised Cost	7,755	7,755

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

a. New standards, amendments and interpretations (continued)

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

IFRS 9: Financial Instruments (2014)

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9 – continued

The following table summarises the impact of transition to IFRS 9 on the opening balance of the liability credit reserve, retained earnings and NCI. There is no impact on other components of equity.

In KShs. millions	Impact of adopting IFRS 9 at 1 January 2018
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	68,926
Recognition of expected credit losses under IFRS 9 (including lease receivables, loan commitments and financial guarantee contracts)	(7,145)
Opening balance under IFRS 9 (1 January 2018)	61,781

The table below shows the reconciliations from the opening to the closing balance of the loss allowance by class of financial instruments. Comparative amounts for 2017 represent the allowance for credit losses and reflect the measurements basis under IAS 39.

Restatement of the prior year			2018			2017	
	Stage 1 KShs.m	Stage 2 KShs.m	Stage 3 KShs.m	Total KShs.m	Collective KShs.m	Individual KShs.m	Total KShs.m
Loans and advances to customers at amortised cost Corporate & Retail Loss allowance as at 31 December	295	858	14,805	**15,958**	1,173	11,708	**12,881**
Restatement of the prior year	4,590	2,176	3,441	**10,207**	**-**	-	**-**
Loss allowance as at 1 January	4,885	3,034	18,246	**26,165**	1,173	11,708	**12,881**
Changes in the loss allowance				**-**			
– Transfer to stage 1	996	(336)	(660)	**-**	-	-	**-**
– Transfer to stage 2	(109)	618	(509)	**-**	-	-	**-**
– Transfer to stage 3	(132)	(230)	362	**-**	**-**	-	**-**
– Write-offs	-	-	(8,367)	**(8,367)**	**-**	(2,837)	**(2,837)**
– Changes due to modifications that did not result in derecognition	168	942	1,915	**3,025**	-	-	**-**
New financial assets originated or purchased	12,236	9,323	10,451	**32,010**	-	15,436	**15,436**
Financial assets that have been derecognised	(14,019)	(9,935)	(7,920)	**(31,784)**	(18)	(9,479)	**(9,497)**
Changes in models/risk parameters	-	-	-	**-**	-	-	**-**
Foreign exchange and other movements	-	28	(428)	**(400)**	(2)	(23)	**(25)**
Loss allowance as at 31 December	**4,115**	**3,444**	**13,090**	**20,649**	**1,153**	**14,805**	**15,958**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. New standards, amendments and interpretations (continued)

(ii) New standards, amendments and interpretations issued but not adopted

The Company does not plan to adopt these standards early. These are summarised below;

New Standard or amendments	Effective for annual periods beginning on or after
IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
IAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019
IFRS 16 Leases	1 January 2019
IFRIC 23 Uncertainty over income tax treatments	1 January 2019
IFRS 17 Insurance contracts	1 January 2022
Annual improvements cycle (2015-2017)	1 January 2019
Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined
IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019
IFRS 3 Definition of a Business	1 January 2020
Amendments to references to the Conceptual Framework in IFRS Standards	1 January 2020
Amendments to IAS 1 and IAS 8 Definition of Material	1 January 2020

All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the entity). Of those standards that are not yet effective, IFRS 16, IAS 19, amendmentss to IAS 1 and IAS 8 and IFRIC 23 are expected to have a significant effect on the Group's financial statements in the period of initial application.

IFRS 16: Leases

On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration.

A Company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases.

Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise: assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A Company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a Company also recognises a financial liability representing its obligation to make future lease payments.

(a) depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and

(b) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a Company to recognise assets and liabilities for:

(a) short-term leases (i.e. leases of 12 months or less) and;

(b) leases of low-value assets

The new standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

a. New standards, amendments and interpretations (continued)

(ii) New standards, amendments and interpretations issued but not adopted

The Group is still assessing the potential impact on the amounts and disclosures of the Group's financial statements.

IFRIC 23 Clarification on accounting for Income tax exposures

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.

IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

The entity is required to measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

The entity will also need to provide disclosures, under existing disclosure requirements, about

(a) judgments made;

(b) assumptions and other estimates used; and

(c) potential impact of uncertainties not reflected.

The new Standard is effective for annual periods beginning on or after 1 January 2019.

The Group is assessing the potential impact on its financial statements resulting from the application of IFRIC 23.

— IAS 19 Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

The amendments clarify that:

- on amendment, curtailment or settlement of a defined benefit plan, a Company now uses updated actuarial assumptions to determine its current service cost and net interest for the period; and
- the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).
- Consistent with the calculation of a gain or loss on a plan amendment, entities will now use updated actuarial assumptions to determine the current service cost and net interest for the period. Previously, entities would not have updated the calculation of these costs until the year-end.
- Further, if a defined benefit plan is settled, any asset ceiling would be disregarded when determining the plan assets as part of the calculation of gain or loss on settlement.
- The amendments apply for plan amendments, curtailments or settlements that occur on or after 1 January 2019, or the date on which the amendments are first applied. Earlier application is permitted.
- The Group is asssesssing the impact on the financial statements

IAS 1 and IAS 8 Definition of Material

The amendment refines the definition of Material to make it easier to understand and aligning the definition across IFRS Standards and the Conceptual Framework.

The amendment includes the concept of 'obscuring' to the definition, alongside the existing references to 'omitting' and 'misstating'. Additionally, the amendment also adds the increased threshold of 'could influence' to 'could reasonably be expected to influence' as below.

"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."

However, the amendment has also removed the definition of material omissions or misstatements from IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors.

The amendments are effective from 1 January 2020 but may be applied earlier.

The Group is assessing the potential impact on its financial statements resulting from the application of the refined definition of materiality.

Other Standards

The following amended standards are not expected to have a significant impact on the financial statements of the Group.

- Annual improvement cycle (2015 – 2017) – various standards
- Long-term Interests in Associates and Joint Ventures (Amendment to IAS 28)
- IFRS 3 Definition of a Business
- Amendments to References to the Conceptual Framework in IFRS Standards
- IFRS 17 Insurance Contracts

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Basis of consolidation

(i) Subsidiaries

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2018. The subsidiaries are shown in Note 32.

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained. Subsequently, it is accounted as an equity accounted investee or as an FVTOCI financial asset depending on the level of influence retained; and
- Recognises any surplus or deficit in profit or loss.

(ii) Associate

The Group has an investment in an associate which is dormant.

Associates are entities in which the Group has significant influence, but not control, over the financial and operational policies. The Group's investment in its associate is accounted for using the equity method and is recognized initially at cost.

The cost of the investment includes transaction costs. Subsequent to initial recognition, the financial statement includes the Group's share of the profit or loss and other comprehensive income of equity accounted investee until the date in which significant influence ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of the investment including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

The Group's investment in associate is accounted for at cost in its separate financial statements.

(iii) Loss of control

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interest and other components of equity.

Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) Foreign currency translation

(i) Transactions and balances

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized as profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income or costs". All other foreign exchange gains and losses are presented in the statement of profit or loss for the year within "other gains/losses-net".

Changes in the fair value of monetary securities denominated in foreign currency classified as FVTOCI are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security.

Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

Translation differences on non-monetary financial assets, such as equities classified as FVTOCI, are included in other comprehensive income.

(ii) Group Companies

The results and financial position of all the group entities (one of which has the currency of a hyper-inflationary economy as at 31 December 2018) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities of foreign subsidiaries are translated into Kenya Shillings at the rate of exchange ruling at the reporting date;

(ii) income and expenses for each statement of comprehensive income are translated at the weighted average exchange rates for the period; and

(iii) exchange differences arising on translation are recognised in other comprehensive income and accumulated in equity in the translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is reclassified from equity to profit or loss when the gain or loss on disposal is recognised.

The financial statements for KCB Bank South Sudan Limited have been presented in line with IAS 29 for hyperinflationary economies. Judgment has been used in the various assumptions used such as the consumer price indices for the various years due to limitation of data available. Refer to Note 48.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Recognition of income

Policy applicable after 1 January 2018

(i) Interest income and expenses

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted effective interest rate is calculated using estimated future cash flows including ECL.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest. The effective interest rate is also revised for fair value hedge adjustments at the date amortisation of the hedge adjustment begins.

However, 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.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

For information on when financial assets are credit-impaired, see Note 4

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.
- Other interest income presented in the statement of profit or loss and OCI includes interest income on finance leases
- Interest expense presented in the statement of profit or loss and OCI includes:
- financial liabilities measured at amortised cost; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense.

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

Interest income and expense on other financial assets and financial liabilities at FVTPL are presented in net income from other financial instruments at FVTPL

Policy applicable before 1 January 2018

Effective interest rate

Interest income and expense were recognised in profit or loss using the effective interest method. The effective interest rate was the rate that exactly discounted the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimated future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate included transaction costs and fees and points paid or received that were an integral part of the effective interest rate. Transaction costs included incremental costs that were directly attributable to the acquisition or issue of a financial asset or financial liability.

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in fair value hedges of interest rate risk.

Other interest income presented in the statement of profit or loss and OCI includes interest income on finance leases.

Interest expense presented in the statement of profit or loss and OCI includes:

- financial liabilities measured at amortised cost; and
- the effective portion of fair value changes in qualifying hedging derivatives designated in cash flow hedges of variability in interest cash flows, in the same period as the hedged cash flows affect interest income/expense.

(i) Dividend income

Dividend income is recognised when the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Policy applicable before 1 January 2018 (continued)

Effective interest rate (continued)

(ii) Fees and commission income

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

Other fee and commission income – including account servicing fees, investment management fees, sales commission, placement fees and syndication fees – is recognised as the related services are performed. If a loan commitment is not expected to result in the draw-down of a loan, then the related loan commitment fee is recognised on a straight-line basis over the commitment period

A contract with a customer that results in a recognised financial instrument in the Group's financial statements may be partially in the scope of IFRS 9 and partially in the scope of IFRS 15. If this is the case, then the Group first applies IFRS 9 to separate and measure the part of the contract that is in the scope of IFRS 9 and then applies IFRS 15 to the residual.

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

(iii) Rental income

Rental income in respect of operating leases is accounted for on a straight-line basis over the lease terms on ongoing leases.

(iv) Net trading income

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

(e) Income tax

Income tax expense comprises current tax and change in deferred tax. Income tax expense is recognized in profit or loss except to the extent that it related to items recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years. The amount of tax payable or recoverable if the best estimate of the tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any.

Deferred tax is recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities in a transaction that is not a business combination and which affects neither accounting nor taxable profit. It is also not recognised for temporary differences related to investments in subsidiaries and associates to the extent that it is probable that they will not reverse in the foreseeable future and the investor is able to control the timing of the reversal of the temporary difference.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realized simultaneously.

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

(f) Financial assets and liabilities

Policy applicable from 1 January 2018

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Group has adopted consequential amendments to IAS 1.

Presentation of Financial Statements, which require separate presentation in the statement of profit or loss and OCI of interest revenue calculated using the effective interest method. Previously, the Group disclosed this amount in the notes to the financial statements.

Additionally, the Group has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures about 2018, but have not been applied to the comparative information.

The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in Note 4(a).

Recognition and measurement

Financial assets and financial liabilities are recognised in the Groups's statement of financial position sheet when the Group becomes a party to the contractual provisions of the instrument.

Recognised financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

If the transaction price differs from fair value at initial recognition, the Group will account for such difference as follows:

- if fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets, then the difference is recognised in profit or loss on initial recognition (i.e. day 1 profit or loss);
- in all other cases, the fair value will be adjusted to bring it in line with the transaction price (i.e. day 1 profit or loss will be deferred by including it in the initial carrying amount of the asset or liability).

After initial recognition, the deferred gain or loss will be released to profit or loss on a rational basis, only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and liabilities (continued)

Policy applicable from 1 January 2018 (continued)
Recognition and measurement (continued)

Classification and measurement of financial instruments

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss. For all financial assets the amount presented on the statement of financial position represent all amounts receivable including interest accruals.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The standard eliminates the previous IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification.

IFRS 9 specifically requires:

- debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;
- debt instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at Fair Value Through Other Comprehensive Income (FVTOCI);
- all other debt instruments (e.g. debt instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL.
- However, the Group may make the following irrevocable election / designation at initial recognition of a financial asset on an asset- by-asset basis:

(i) the Group may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in OCI; and

(ii) the Group may irrevocably designate a debt instrument that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

Debt instruments at amortised cost or at FVTOCI

The Group assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Group's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are SPPI.

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are repayments of principal). Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic lending arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An originated or an acquired financial asset can be a basic lending arrangement irrespective of whether it is a loan in its legal form.

An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Group determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Group has more than one business model for managing its financial instruments which reflect how the Group manages its financial assets in order to generate cash flows. The Group's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

The Group considers all relevant information available when making the business model assessment. However this assessment is not performed on the basis of scenarios that the Group does not reasonably expect to occur, such as so-called 'worst case' or 'stress case' scenarios. The Group takes into account all relevant evidence available such as:

- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way in which those risks are managed; and
- how managers of the business are compensated (e.g. whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

At initial recognition of a financial asset, the Group determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Group reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Group has not identified a change in its business models.

When a debt instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and financial liabilities (continued)

Policy applicable after 1 January 2018 (continued)

loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Debt instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment. See note 4.

Non-recourse loans

In some cases, loans made by the Group that are secured by collateral of the borrower limit the Group's claim to cash flows of the underlying collateral (non-recourse loans). The Group applies judgment in assessing whether the non-recourse loans meet the SPPI criterion. The Group typically considers the following information when making this judgement:

- whether the contractual arrangement specifically defines the amounts and dates of the cash payments of the loan;
- the fair value of the collateral relative to the amount of the secured financial asset;
- the ability and willingness of the borrower to make contractual payments, notwithstanding a decline in the value of collateral;
- whether the borrower is an individual or a substantive operating entity or is a special-purpose entity;
- the Group's risk of loss on the asset relative to a full-recourse loan;
- the extent to which the collateral represents all or a substantial portion of the borrower's assets; and
- whether the Group will benefit from any upside from the underlying assets.

Financial assets at FVTPL

Financial assets at FVTPL are:
- assets with contractual cash flows that are not SPPI; or/and
- assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
- assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss. Fair value is determined in the manner described in note 6- Fair value of financial instruments.

Reclassifications

If the business model under which the Group holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Group's financial assets. During the current financial year and previous accounting period there was no change in the business model under which the Group holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on Modification and derecognition of financial assets described below.

Impairment of financial assets

The Group recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- loans and advances to banks;
- loans and advances to customers;
- debt investment securities;
- lease receivables;
- loan commitments issued; and
- financial guarantee contracts issued.

No impairment loss is recognised on equity investments.

With the exception of Purchased Originated Credit Impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:
- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).
- A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL. More details on the determination of a significant increase in credit risk are provided in note 4.

The Group's policy is always to measure loss allowances for lease receivables as lifetime ECL.

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EIR.

- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

Policy applicable after 1 January 2018 (continued)

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EIR, regardless of whether it is measured on an individual basis or a collective basis.

Credit impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Financial assets and financial liabilities (continued)

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the lender of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession that the lender would not otherwise consider;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a back- stop if amounts are overdue for 90 days or more.

Purchased or originated credit impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Group considers the following as constituting an event of default:

- the borrower is past due more than 90 days on any material credit obligation to the Group; or
- the borrower is unlikely to pay its credit obligations to the Group in full.
- This definition of default is used by the Group for accounting purposes as well as for internal credit risk management purposes and is broadly aligned to the regulatory definition of default. The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Overdrafts are considered as being past due once the customer has breached an advised limit or has been advised of a limit smaller than the current amount outstanding.

When assessing if the borrower is unlikely to pay its credit obligation, the Group takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate lending a qualitative indicator used is the breach of covenants, which is not relevant for retail lending. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Group uses a variety of sources of information to assess default which are either developed internally or obtained from external sources. As noted in the definition of credit impaired financial assets above, default is evidence that an asset is credit impaired. Therefore credit impaired assets will include defaulted assets, but will also include other non-defaulted given the definition of credit impaired is broader than the definition of default.

Significant increase in credit risk

The Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL. The Group's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result the Group monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognised. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Group's historical experience and expert credit assessment including forward-looking information.

Multiple economic scenarios form the basis of determining the probability of default at initial recognition and at subsequent reporting dates. Different economic scenarios will lead to a different probability of default. It is the weighting of these different scenarios that forms the basis of a weighted average probability of default that is used to determine whether credit risk has significantly increased.

For corporate lending, forward-looking information includes the future prospects of the industries in which the Group's counterparties operate, obtained from economic expert reports, financial analysts, governmental bodies, relevant think-tanks and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, lending forward-looking information includes the same economic forecasts as corporate lending with additional forecasts of local economic indicators, particularly for regions with a concentration to certain industries, as well as internally generated information of customer payment behaviour. The Group allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The quantitative information is a primary indicator of significant increase in credit risk and is based on the change in lifetime PD by comparing:

- the remaining lifetime PD at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated based on facts and circumstances at the time of initial recognition of the exposure.

The PDs used are forward-looking and the Group uses the same methodologies and data used to measure the loss allowance for ECL (please refer to note 4).

The qualitative factors that indicate significant increase in credit risk are reflected

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f.) Financial assets and financial liabilities (continued)

Significant increase in credit risk (continued)

in PD models on a timely basis. However the Group still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate lending there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated. For retail lending the Group considers the expectation of forbearance and payment holidays, credit scores and events such as unemployment, bankruptcy, divorce or death.

Given that a significant increase in credit risk since initial recognition is a relative measure, a given change, in absolute terms, in the PD will be more significant for a financial instrument with a lower initial PD than compared to a financial instrument with a higher PD.

As a back-stop when an asset becomes 30 days past due, the Group considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL. In addition loans that are individually assessed and are included on a watch list are in stage 2 of the impairment model. As noted if there is evidence of credit-impairment the assets are at stage 3 of the impairment model.

More information about significant increase in credit risk is provided in note 4.

Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing loan would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the interest rate that arises when covenants are breached).

The Group renegotiates loans to customers in financial difficulty to maximise collection and minimise the risk of default. A loan forbearance is granted in cases where although the borrower made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the borrower is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the loan, changes to the timing of the cash flows of the loan (principal and interest repayment), reduction in the amount of cash flows due (principal and interest forgiveness) and amendments to covenants. The Group has an established forbearance policy which applies for corporate and retail lending.

When a financial asset is modified the Group assesses whether this modification results in derecognition. In accordance with the Group's policy a modification results in derecognition when it gives rise to substantially different terms. To determine if the modified terms are substantially different from the original contractual terms the Group considers the following:

- Qualitative factors, such as contractual cash flows after modification are no longer SPPI, change in currency or when rights to cash flows between the original counterparties expire because a new debtor replaces the original debtor (unless both debtors are under common control), the extent of change in interest rates, and maturity. If these do not clearly indicate a substantial modification, then;
- A quantitative assessment is performed to compare the present value of the remaining contractual cash flows under the original terms with the contractual cash flows under the revised terms, both amounts discounted at the original effective interest. If the difference in present value is greater than 10% the Group deems the arrangement is substantially different leading to derecognition. When performing a quantitative assessment of a modification or renegotiation of a credit-impaired financial asset or a purchased or originated credit-impaired financial asset that was subject to a write-off, the Group considers the expected (rather than the contractual) cash flows before modification or renegotiation and compares those with the contractual cash flows after modification or renegotiation.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new loan is considered to be originated- credit impaired. This applies only in the case where the fair value of the new loan is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Group monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the borrower is in past due status under the new terms.

When the contractual terms of a financial asset are modified and the modification does not result in derecognition, the Group determines if the financial asset's credit risk has increased significantly since initial recognition by comparing:

- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms; with
- the remaining lifetime PD at the reporting date based on the modified terms.

For financial assets modified as part of the Group's forbearance policy, where modification did not result in derecognition, the estimate of PD reflects the Groups's ability to collect the modified cash flows taking into account the Group's previous experience of similar forbearance action, as well as various behavioural indicators, including the borrower's payment performance against the modified contractual terms. If the credit risk remains significantly higher than what was expected at initial recognition the loss allowance will continue to be measured at an amount equal to lifetime ECL.

If a forborne loan is credit impaired due to the existence of evidence of credit impairment (see above), the Group performs an ongoing assessment to ascertain if the problems of the exposure are cured, to determine if the loan is no longer credit-impaired. The loss allowance on forborne loans will generally only be measured based on 12-month ECL when there is evidence of the borrower's improved repayment behaviour following modification leading to a reversal of the previous significant increase in credit risk.

Where a modification does not lead to derecognition the Group calculates the modification loss by comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Modification losses for financial assets are included in the profit or loss account in 'Losses on modification of financial assets'. Then the Group measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Group derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f.) Financial assets and financial liabilities (continued)

Modification and derecognition of financial assets (continued)

pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain/loss allocated to it that had been recognised in OCI is recognised in profit or loss.

A cumulative gain/loss that had been recognised in OCI is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts. This does not apply for equity investments designated as measured at FVTOCI, as the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

Write off

Loans and debt securities are written off when the Group has no reasonable expectations of recovering the financial asset (either in its entirety or a portion of it). This is the case when the Group determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. A write-off constitutes a derecognition event. The Group may apply enforcement activities to financial assets written off. Recoveries resulting from the Group's enforcement activities will result in impairment gains, which will be presented in 'net impairment loss on financial assets' in the statement of profit or loss.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- for financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognised in the statement of financial position as the carrying amount is at fair value. However, the loss allowance is included as part of the revaluation amount in the investments revaluation reserve (see note 41);
- for loan commitments and financial guarantee contracts: as a provision; and
- where a financial instrument includes both a drawn and an undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Group presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision.

Financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, although under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Group classifies financial liabilities under IFRS 9, see below:

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'. For all financial liabilities the amount presented on the statement of financial position represent all amounts payable including interest accruals.

Financial liabilities are classified as at FVTPL when the financial liability is (i) held for trading, or (ii) it is designated as at FVTPL. A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading or contingent consideration that may be paid by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a Group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the banking is provided internally on that basis; or
- it forms part of a hybrid (combined) contract, containing one or more embedded derivatives that significantly modifies the cash flows of the contract, or it is clear with little or no analysis that separation of the embedded derivative is not prohibited.

Financial liabilities at FVTPL are stated at fair value, with any gains/losses arising on remeasurement recognised in profit or loss to the extent that they are not part of a designated hedging relationship. The net gain/loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'net income from other financial instruments at FVTPL' line item in the profit or loss account.

However, for non-derivative financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in OCI, unless the recognition of the effects of changes in the liability's credit risk in OCI would create

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f.) Financial assets and financial liabilities (continued)

Financial liabilities (continued)

or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained earnings upon derecognition of the financial liability.

For issued loan commitments and financial guarantee contracts that are designated as at FVTPL all gains and losses are recognised in profit or loss.

In making the determination of whether recognising changes in the liability's credit risk in OCI will create or enlarge an accounting mismatch in profit or loss, the Group assesses whether it expects that the effects of changes in the liability's credit risk will be offset in profit or loss by a change in the fair value of another financial instrument measured at FVTPL. This determination is made at initial recognition. Such financial liabilities are detailed in note 4.

Fair value is determined in the manner described in note 6.

Other financial liabilities

Other financial liabilities, including deposits and borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The EIR is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. For details on EIR see the "net interest income section" above.

Modification and derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

When the Group exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Group accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. To determine if the modified terms of a liability are substantially different to the original terms a similar process with modification of financial assets is followed. The modification is assessed at first on a qualitative basis, factors such as a change in currency or the introduction of a non-closely related embedded derivative that significantly modifies the cash flows are regarded as substantially different. If it is not clear from the qualitative assessment that a modification has resulted in a substantial change in a financial liability, a quantitative assessment is applied. It is assumed that the terms of the financial liability are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification is not substantial, the Group recalculates the amortised cost of the modified financial liability by discounting the modified contractual cash flows using the original effective interest rate. The Group recognises any adjustment to the amortised cost of the financial liability in profit or loss as income or expense at the date of the modification. The financial liability modification gain/loss is not significant for the Group. Modification gains are presented in 'other income' and modification losses are presented in 'other expenses' in the profit or loss account.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

> Comparative periods generally have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.

The Group used the exemption not to restate comparative periods but considering that the amendments made by IFRS 9 to IAS 1 introduced the requirement to present 'interest income calculated using the effective interest rate' as a separate line item in the statement of profit or loss and OCI, the Group has reclassified comparative interest income on finance leases to 'other interest income' and changed the description of the line item from 'interest income' reported in 2017 to 'interest income calculated using the effective interest method'.

- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.
- For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Group has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see note 4.

(i) Recognition

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

A financial asset or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue. Subsequent to initial recognition, financial liabilities (deposits and debt securities) are measured at their amortized cost using the effective interest method except where the Group designates liabilities at fair value through profit and loss.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f.) Financial assets and financial liabilities (continued)

Policy applicable before 1 January 2018 (continued)

(ii) Classification and measurement

The Group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen on the table below as follows:

Category (as defined by IAS 39)		Class (as determined by the Group)		Subclasses
Financial assets	Financial assets at fair value through profit or loss Loans and receivables	Financial assets held for trading	Debt Securities	
		Loans and advances to banks		
Financial assets	Loans and receivables	Loans and advances to banks		
		Loans and advances to customers	Loans to individuals (retail)	Overdrafts Credit cards Term loans Mortgages
			Loans to corporate entities	Large corporate customers SMEs Others
		Investment securities – debt instruments		Listed Unlisted

Category (as defined by IAS 39)		Class (as determined by the Group)		Subclasses
Financial assets	Held to maturity investments	Investment securities – debt securities		Listed Unlisted
	Available for sale financial assets	Investment securities – debt securities		Listed
		Investment securities – equity securities		Listed Unlisted
Financial Liabilities		Deposits from banks		
		Customers deposits Borrowings	Retail customers Large corporate customers SMEs	
Off- balance sheet financial instruments	Loan commitments			
	Guarantees, acceptances and other financial facilities			

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f.) Financial assets and financial liabilities (continued)

Policy applicable before 1 January 2018 (continued)

(iii) Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Investments held for trading are those which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit-taking exists. Investments held for trading are subsequently re-measured at fair value based on quoted bid prices or dealer price quotations, without any deduction for transaction costs. All related realized and unrealized gains and losses are included in profit or loss. Interest earned whilst holding held for trading investments is reported as interest income.

Foreign exchange forward and spot contracts are classified as held for trading. They are marked to market and are carried at their fair value. Fair values are obtained from discounted cash flow models which are used in the determination of the foreign exchange forward and spot contract rates. Gains and losses on foreign exchange forward and spot contracts are included in foreign exchange income as they arise.

Loans, advances and receivables

Loans and advances to customers and trade receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money directly to a debtor with no intention of trading the receivable. Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortized cost using the effective interest method.

Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. A sale or reclassification of more than an insignificant amount of held to maturity investments would result in the reclassification of the entire category as available for sale. Held to maturity investments includes treasury bills and bonds. They are subsequently measured at amortized cost using the effective interest method.

Available for sale

Available for sale financial investments are those non derivative financial assets that are designated as available for sale or are not classified as any other category of financial assets. Available for sale financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in other comprehensive income and presented in the available for sale fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is re-classified to profit or loss.

(iv) Financial Liabilities

Financial liabilities are recognised when the Group enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is normally the consideration received, net or directly attributable transaction costs incurred. Subsequent measurements of financial liabilities is at amortised cost incurred. Subsequent measurements of financial liabilities is at amortised cost using effective interest rate method. Financial liabilities will include deposits from banks or customers, trade payables from the brokerage and lines of credit for which the fair value option is not applied.

(v) Identification and measurement of impairment of financial assets

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

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

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would otherwise not consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group.

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

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

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

Amounts classified as available for sale

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit and loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Policy applicable before 1 January 2018 (continued)

If in subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise any increase in fair value is recognised through Other Comprehensive Income (OCI). Any subsequent recovery in the fair value of an impaired available for sale equity security is always recognised in OCI.

(vi) De-recognition

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

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

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 (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) cumulative gain or loss that had been recognised in OCI is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognised as a separate asset or liability.

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

(vii) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in 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 realize the asset and settle the liability simultaneously.

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

(viii) Restructured loans

Restructured troubled loans and advances are loans and advances for which the Group has granted a concession to the borrower due to a deterioration of the borrower's financial condition. The restructuring may include:

- A modification of terms, e.g., a reduction in the interest from that originally agreed or a reduction in the principal amount; and
- The transfer from the borrower to the Group of real estate, receivables from third parties, other assets, or equity interest in the borrower in full or partial satisfaction of the loan.

Such restructured loans and advances whose terms have been renegotiated are no longer considered to be past due but are treated as new loans after the minimum number of payments under the new arrangement have been received.

(ix) Fair value of financial assets and financial liabilities

Fair value of financial assets and financial liabilities is the price that would be received to sell an asset or paid to transfer a liability respectively in an orderly transaction between market participants at the measurement date.

(x) Amortized cost measurement

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

(g) Impairment for non-financial assets

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

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in the profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

(h) Cash and cash equivalents

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

Cash and cash equivalents are measured at amortized cost using effective interest method in the statement of financial position.

(i) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses. Costs include expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses arising on disposal of an item of property and equipment are determined by comparing the net proceeds from disposal with the carrying amount of the item and are recognised net within 'other operating income' in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Property and equipment (continued)

(ii) Depreciation

Depreciation is recognised in profit or loss on a straight line basis over the estimated useful lives of each part of property and equipment. The annual depreciation rates in use are:

Freehold land improvements	Leasehold Rates based on the shorter of the lease term or estimated useful lives
Motor vehicles	25%
Furniture and fittings	10%
Office equipment	20%
Computers	20%

The residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date. Changes in the expected useful life, residual values or methods of depreciation are accounted for as changes in accounting estimates.

(iii) Subsequent costs

Subsequent expenditure is capitalized only when it is probable that future economic benefits of the expenditure will flow to the Group. Recurrence repairs and maintenance are expensed as incurred.

(j) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are measured at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

Intangible assets with finite lives are amortized on a straight-line basis in profit or loss over their estimated useful economic lives, from the date that they are available for use.

The amortization method, useful life and the residual value are reviewed at each reporting date and adjusted if appropriate. Changes in the expected useful life, residual value or amortization method are accounted for as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

The useful lives of intangible assets are assessed to be either finite or indefinite. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. However, expenditure that enhances or extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortized using the straight-line method over a period of five years.

There are no intangible assets with indefinite useful lives.

(k) Leases

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

Where the Group is a lessor, it presents assets subject to operating leases in Statement of Financial Position according to the nature of the asset. Lease income from operating leases is recognised in income on a straight line basis over the lease term. Costs, including depreciation, incurred in earning the lease income are recognised as an expense.

Leases where substantially all the risks and rewards of ownership of an asset are transferred to the lessee are classified as finance leases. Upon recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset as follows:

(i) Operating lease

The total payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(ii) Finance lease

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

(l) Employee benefits

The Group operates both a defined contribution plan and defined benefit plan.

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as staff costs in profit or loss in the periods during which related services are rendered. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The Group also contributes to the statutory defined contribution in the various countries in which it operates. The Group's contribution to these schemes are charged to the income statement.

(ii) Defined benefit plans

The Group's net obligation in respect of defined benefit plan is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets. The calculation of defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of the economic benefits available in the form of any refunds from the plan or deductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which compromise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest) are recognised immediately in other comprehensive income. The Group determines the net interest (income) on the net defined benefit liability (asset) for the period by applying the discount rate

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Employee benefits (continued)

used to measure the defined obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during a period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plans are recognised in profit or loss.(ii) Defined benefit plans - continued

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that employees have earned in return for their service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on settlement of a defined benefit plan when the settlement occurs.

(iii) Other long term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the periods in which they arise.

(iv) Short-term benefits

Short-term benefits consist of salaries, bonuses and any non-monetary benefits such as medical aid contributions and free services. They exclude equity based benefits and termination benefits. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans 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.

(v) 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 end of the reporting period, then they are discounted.

(m) Fiduciary assets

When the Group acts in a fiduciary capacity such as a nominee or agent, assets and income arising thereon with related undertakings to return such assets to customers are excluded from these financial statements.

(n) Contingent liabilities

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

(o) Earnings per share

Basic and diluted earnings per share (EPS) data for ordinary shares are presented in the financial statements. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

(p) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(q) Sale and repurchase agreements

Securities sold under sale and repurchase agreements (Repos) are retained in the financial statements with the counterparty liability included in amounts due to banking institutions.

Securities purchased from the Central Bank of Kenya under agreement to resell (reverse Repos), are disclosed as treasury bills as they are held at amortised cost after which they are repurchased and are not negotiable or discounted during the tenure.

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

(r) Related parties

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

(s) Operating segments

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

(t) Share capital and reserve

Ordinary shares are classified as share capital in equity. Any premium received over and above the par value of the shares is classified as share premium.

4. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, including credit risk, liquidity risk, market risks and operational risks. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors of the Group has established the Credit, Audit, Risk, Human Resources and Procurement and Information Technology committees, which are responsible for developing and monitoring the Group risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Risk Committee is responsible for monitoring compliance with the Group's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

The Committee is assisted in these functions by a Risk and Compliance department which undertake reviews of risk management controls and procedures, the results of which are reported to the Risk Committee.

(a) Credit risk

Credit risk is the risk that a customer or counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group's main income generating activity is lending to customers and therefore credit risk is a principal risk. Credit risk mainly arises from loans and advances to customers and other banks (including related commitments to lend such as loan or credit card facilities), investments in debt securities and derivatives that are an asset position. The Group considers all elements of credit risk exposure such as counterparty default risk, geographical risk and sector risk for risk management purposes. The Group's credit committee is responsible for managing the Group's credit risk by:

- Ensuring that the Group has appropriate credit risk practices, including an effective system of internal control, to consistently determine adequate allowances in accordance with the Group's stated policies and procedures, IFRS and relevant supervisory guidance.
- Identifying, assessing and measuring credit risk across the Group, from an individual instrument to a portfolio level.
- Creating credit policies to protect the Group against the identified risks including the requirements to obtain collateral from borrowers, to perform robust ongoing credit assessment of borrowers and to continually monitor exposures against internal risk limits.
- Limiting concentrations of exposure by type of asset, counterparties, industry, credit rating, geographic location etc.
- Establishing a robust control framework regarding the authorisation structure for the approval and renewal of credit facilities.
- Developing and maintaining the Group's risk grading to categorise exposures according to the degree of risk of default. Risk grades are subject to regular reviews.
- Developing and maintaining the Group's processes for measuring ECL including monitoring of credit risk, incorporation of forward looking information and the method used to measure ECL.
- Ensuring that the Group has policies and procedures in place to appropriately maintain and validate models used to assess and measure ECL.
- Establishing a sound credit risk accounting assessment and measurement process that provides it with a strong basis for common systems, tools and data to assess credit risk and to account for ECL. Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk.

Significant increase in credit risk

As explained in note 1 the Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

Internal credit risk ratings

In order to minimise credit risk, the Group has tasked its credit management committee to develop and maintain the Group's credit risk grading to categorise exposures according to their degree of risk of default. The Group's credit risk grading framework comprises five categories. The credit rating information is based on a range of data that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default.

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure. The following data are typically used to monitor the Group's exposures:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral

The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed. The table below provides a mapping of the Group's internal credit risk grades.

Group's credit riskgrades	Description
1	Normal risk
2	Watch risk
3	Substandard risk
4	Doubtful risk
5	Loss

The Group analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as GDP growth, unemployment, benchmark interest rates and house prices. The Group generates a 'base case' scenario of the future direction of relevant economic variables for each region as well as a representative range of other possible forecast scenarios. The Group then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs.

The Group uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative. The table below summarises per type of asset the range above which an increase in lifetime PD is determined to be significant, as well as some indicative qualitative indicators assessed.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Corporate exposures	Retail exposures	All exposures
• Information obtained during periodic review of customer files – e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes. • Data from credit reference agencies, press articles, changes in external credit ratings. • Quoted bond and credit default swap (CDS) prices for the borrower where available. • Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.	• Internally collected data on customer behaviour – e.g. utilisation of credit card facilities. • Affordability metrics. • External data from credit reference agencies, including industry-standard credit scores.	• Payment record – this includes overdue status as well as a range of variables about payment ratios. • Utilisation of the granted limit. • Requests for and granting of forbearance. • Existing and forecast changes in business, financial and economic conditions.

Significant increase in credit risk

The table below provides an indicative mapping of how the Group's internal credit risk grades relate to PD and, for the wholesale portfolio, to external credit ratings of Moody's and S&P.

Corporate

The corporate portfolio of the Group is comprised of loans and advances to banks, public sector entities, sovereigns, corporates and other businesses.

Grading	12-month weighted-average PD	External rating
Stage 1	0.0185%	AAA to A
Stage 2	6.7583%	BBB to C
Stage 3	100%	Default

Retail

The retail portfolios are comprised of mortgage lending, personal loans and credit cards.

Grading	12-month weighted-average PD
Stage 1	5.8%
Stage 2	38.8%
Stage 3	100%

Loan commitments are assessed along with the category of loan the Group is committed to provide, i.e. commitments to provide mortgages are assessed using similar criteria to mortgage loans, while commitments to provide a corporate loan are assessed using similar criteria to corporate loans.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group has monitoring procedures in place to make sure that the criteria used to identify significant increases in credit are effective, meaning that significant increase in credit risk is identified before the exposure is defaulted or when the asset becomes 30 days past due. The Group performs periodic back-testing of its ratings to consider whether the drivers of credit risk that led to default were accurately reflected in the rating in a timely manner.

Incorporation of forward looking information

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Group employs experts who use external and internal information to generate a 'base case' scenario of future forecast of relevant economic variables along with a representative range of other possible forecast scenarios. The external information used includes economic data and forecasts published by governmental bodies and monetary authorities.

The Group applies probabilities to the forecast scenarios identified. The base case scenario is the single most-likely outcome and consists of information used by the Group for strategic planning and budgeting. The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using a statistical analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses. The Group has not made changes in the estimation techniques or significant assumptions made during the reporting period.

The table below summarises the principal macroeconomic indicators included in the economic scenarios used at 31 December 2018 for the years 2019 to 2023, for Kenya, Tanzania, Uganda, Rwanda, South Sudan and Burundi which are the countries where the Group operates and therefore is the country that has a material impact in ECLs.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

	2019	2020	2021	2022	2023
Inflation					
- Base scenario	0.80	0.80	0.80	0.80	0.80
- Range of upside scenarios	0.05	0.05	0.05	0.05	0.05
- Range of downside scenarios	0.15	0.15	0.15	0.15	0.15
Exchange rates					
- Base scenario	0.80	0.80	0.80	0.80	0.80
- Range of upside scenarios	0.10	0.10	0.10	0.10	0.10
- Range of downside scenarios	0.10	0.10	0.10	0.10	0.10
Benchmark interest rates					
- Base scenario	0.80	0.80	0.80	0.80	0.80
- Range of upside scenarios	0.05	0.05	0.05	0.05	0.05
- Range of downside scenarios	0.15	0.15	0.15	0.15	0.15
Reserves					
- Base scenario	0.80	0.80	0.80	0.80	0.80
- Range of upside scenarios	0.15	0.15	0.15	0.15	0.15
- Range of downside scenarios	0.05	0.05	0.05	0.05	0.05

Incorporation of forward looking information - continued

Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 10 years.

Measurement of ECL

The key inputs used for measuring ECL are:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

As explained above these figures are generally derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures.

These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realisation of collateral, cross- collateralisation and seniority of claim, cost of realisation of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortisation profiles, early repayment or overpayment, changes in utilisation of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

The Group measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contact extension or renewal is common business practice. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Group's contractual ability to

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period. For such financial instruments the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Group does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are cancelled only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment.

The ECL calculation for accounting purposes is different to the ECL calculation for regulatory purposes, although many inputs used are similar. The Group has ensured that the appropriate methodology is used when calculating ECL for both accounting and regulatory purposes. The main differences between the methodologies used to measure ECL in accordance with IFRS 9 versus the ones applied for regulatory purposes are:

- Incorporation of recovery and cure rates in accounting ECL
- Discounting applied to collateral is prescribed in regulatory ECL
- Average PD's used in regulatory ECL

The measurement of ECL is based on probability weighted average credit loss. As a result, the measurement of the loss allowance should be the same regardless of whether it is measured on an individual basis or a collective basis (although measurement on a collective basis is more practical for large portfolios of items). In relation to the assessment of whether there has been a significant increase in credit risk it can be necessary to perform the assessment on a collective basis as noted below.

Rankings based on shared risks characteristics

When ECL are measured on a collective basis, the financial instruments are banked on the basis of shared risk characteristics, such as:

- instrument type;
- credit risk grade;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- the value of collateral relative to the financial asset if it has an impact on the probability of a default occurring (loan-to-value (LTV) ratios).

The rankings are reviewed on a regular basis to ensure that each bank is comprised of homogenous exposures.

The Group uses external benchmark information for portfolios with limited historical data. The table below depicts the portfolios for which external benchmark information represents a significant input into measurement of ECL.

	Exposure (millions)	External benchmark PD	External benchmark LGD
Cash and balances with CBK	50,101	Sovereign	S& P ratings
Financial assets held through FVOCI	83,805	Sovereign	S& P ratings
Financial assets held at amortized costs	37,174	Sovereign	S& P ratings
Loans and advances to banks	32,017	Corporate	S& P ratings
Clearing house	1,217	Corporate	S& P ratings
Other Assets	30,646	Corporate	S& P ratings
Off balance sheet	13,428	Corporate	S& P ratings

Credit quality

The Group monitors credit risk per class of financial instrument. The table below outlines the classes identified, as well as the financial statement line item and the note that provides an analysis of the items included in the financial statement line for each class of financial instrument.

Class of financial instrument	Financial statement line	Note
Cash and balances with CBK	Cash and balances with CBK	Note 22
Clearing house	Clearing house	Note 25
Loans and advances to banks at amortised cost	Loans and advances to banks	Note 23
Loans and advances to customers at amortised cost	Loans and advances to customers	Note 27
Financial Assets at amortised cost	Investment securities	Note 28
Financial Assets at FVTOCI	Investment securities	Note 24
Loan commitments and financial guarantee contracts	None	Note 45
Other financial assets	Other financial assets	Note 26

An analysis of the Group's credit risk concentrations per class of financial asset is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Credit quality (continued)

Loan Commitments Concentration by region	Kenya	Tanzania	Uganda	Sudan	Rwanda	Burundi	Total
Loans and advances at amortised cost	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million
31-Dec-18	417,230	16,559	6,220	688	12,799	2,384	455,880
31-Dec-17	387,943	13,695	6,777	965	11,902	1,403	422,685

Concentration by sector	Corporate	Retail	Total
Loans and advances at amortised cost	KShs. million	KShs. million	KShs. million
31-Dec-18	209,707	246,173	455,880
31-Dec-17	189,828	232,857	422,685

An analysis of the Group's **credit risk exposure per class of financial asset, internal rating and "stage"** without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Total Corporate & Retail

	Year ended 2018					Year ended 2017
Loans and advances to customers at amortised cost	Stage 1 -month ECL KShs. million	Stage 2 Lifetime ECL KShs. million	Stage 3 Lifetime ECL KShs. million	POCI KShs. million	Total KShs.million	Total KShs. million
Grade 1: Normal	365,412	15,140	1,577	-	**382,129**	354,765
Grade 2: Watch	18,595	16,382	28,607	-	**63,584**	46,382
Grade 3: Substandard	384	1,092	4,417	-	**5,893**	5,935
Grade 4: Doubtful	40	64	5,026	-	**5,130**	12,001
Grade 5: Loss	69	31	19,693	-	**19,793**	19,560
Total gross carrying amount	**384,500**	**32,709**	**59,320**	**-**	**476,529**	**438,643**
Loss allowance	(4,115)	(2,594)	(13,940)	-	(20,649)	(15,958)
Carrying amount	**380,385**	**30,115**	**45,380**	**-**	**455,880**	**422,685**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Credit quality (continued)

Retail

Loans and advances to Retail customers at amortised cost	Year ended 2018					Year ended 2017
	Stage 1 12-month ECL KShs. million	Stage 2 Lifetime ECL KShs. million	Stage 3 Lifetime ECL KShs. million	POCI KShs. million	Total KShs. million	Total KShs. million
Grade 1: Normal	195,072	8,176	852	-	**204,099**	195,440
Grade 2: Watch	10,041	8,846	15,448	-	**34,335**	25,552
Grade 3: Substandard	207	590	2,385	-	**3,182**	3,270
Grade 4: Doubtful	22	34	2,714	-	**2,770**	6,611
Grade 5: Loss	37	16	10,634	-	**10,688**	10,776
Total gross carrying amount	**205,379**	**17,662**	**32,033**	**-**	**255,074**	**241,649**
Loss allowance	(3,875)	(246)	(4,780)	-	(8,901)	(8,791)
Carrying amount	**201,504**	**17,416**	**27,253**	**-**	**246,173**	**232,858**

Corporate

Loans and advances to Corporate customers at amortised cost	Year ended 2018					Year ended 2017
	Stage 1 12-month ECL KShs. million	Stage 2 Lifetime ECL KShs. million	Stage 3 Lifetime ECL KShs. million	POCI KShs. million	Total KShs. million	Total KShs. million
Grade 1: Normal	170,340	6,964	725	-	**178,030**	159,325
Grade 2: Watch	8,554	7,536	13,159	-	**29,249**	20,830
Grade 3: Substandard	177	502	2,032	-	**2,711**	2,665
Grade 4: Doubtful	18	29	2,312	-	**2,360**	5,390
Grade 5: Loss	32	14	9,059	-	**9,105**	8,784
Total gross carrying amount	**179,121**	**15,045**	**27,287**	**-**	**221,453**	**196,994**
Loss allowance	(241)	(2,347)	(9,160)	-	(11,748)	(7,167)
Carrying amount	**178,880**	**12,698**	**18,127**	**-**	**209,705**	**189,827**

Letters of Credit and guarantees	Year ended 2018					Year ended 2017
	Stage 1 12-month ECL KShs. million	Stage 2 Lifetime ECL KShs. million	Stage 3 Lifetime ECL KShs. million	POCI KShs. million	Total KShs. million	Total KShs. million
Grade 1: AAA	845	-	-	-	845	-
Grade 2: AA	2,271	-	-	-	2,271	23,124
Grade 3: A	1,323	1,019	-	-	2,342	5,268
Grade 4: BBB	568	-	-	-	568	420
Grade 5: BB	4,276	1,464	4,372	-	10,111	973
Grade 6: B	560	205	47	-	813	4,582
Grade 7: CCC	276	5,125	-	-	5,401	604
Grade 8: D	-	-	673	-	673	767
Grade 9: U	163	-	-	-	163	2,462
Total gross carrying amount	**10,283**	**7,813**	**5,092**	**-**	**23,188**	**38,200**
Loss allowance	**-**	**-**	**-**		-	-
Carrying amount	**10,283**	**7,813**	**5,092**	**-**	**23,188**	**38,200**

No loss allowance is recognised in the statement of financial position for debt instruments measured at FVTOCI as the carrying amount is at fair value.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Credit quality (continued)

The tables below analyse the movement of the loss allowance during the year per class of assets.

Corporate & Retail	Stage 1 12-month ECL KShs. million	Stage 2 Lifetime ECL KShs. million	Stage 3 Lifetime ECL KShs. million	POCI KShs. million	Total KShs. million
Loss allowance as at 31 December 2017	295	858	14,805	-	**15,958**
Re measurement	4,590	2,176	3,441	-	**10,207**
Loss allowance as at 1 January 2018	**4,885**	**3,034**	**18,246**	**-**	**26,165**
Changes in the loss allowance					**-**
– Transfer to stage 1	996	(336)	(660)	-	**-**
– Transfer to stage 2	(109)	618	(509)	-	**-**
– Transfer to stage 3	(132)	(230)	362	-	**-**
– Write-offs	-	-	(8,367)	-	**(8,367)**
– Changes due to modifications that did not result in derecognition	168	942	1,915	-	**3,025**
New financial assets originated or purchased	12,236	9,323	10,451	-	**32,010**
Financial assets that have been derecognised	(13,929)	(9,935)	(7,920)	-	**(31,784)**
Changes in models/risk parameters	-	-	-	-	**-**
Foreign exchange and other movements	-	28	(428)	-	**(400)**
Loss allowance as at 31 December 2018	**4,115**	**3,444**	**13,090**	-	**20,649**

Retail	Stage 1 12-month ECL KShs. million	Stage 2 Lifetime ECL KShs. million	Stage 3 Lifetime ECL KShs. million	POCI KShs. million	Total KShs. million
Loss allowance as at 31 December 2017	163	473	8,156	-	**8,792**
Re measurement	4,482	138	1,172	-	**5,792**
Loss allowance as at 1 January 2018	**4,645**	**611**	**9,328**	-	**14,584**
Changes in the loss allowance					**-**
– Transfer to stage 1	549	(185)	(364)	-	**-**
– Transfer to stage 2	(60)	340	(280)	-	**-**
– Transfer to stage 3	(72)	(127)	199	-	**-**
– Write-offs	-	-	(5,262)	-	**(5,262)**
– Changes due to modifications that did not result in derecognition	93	519	1,055	-	**1,667**
New financial assets originated or purchased	2,287	140	6,792	-	**9,219**
Financial assets that have been derecognised	(3,566)	(1,052)	(6,688)	-	**(11,306)**
Changes in models/risk parameters	-	-	-	-	**-**
Foreign exchange and other movements	-	-	-	-	**-**
Loss allowance as at 31 December 2018	**3,875**	**246**	**4,780**	**-**	**8,902**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Credit quality (continued)

Corporate	Stage 1 12-month ECL KShs. million	Stage 2 Lifetime ECL KShs. million	Stage 3 Lifetime ECL KShs. million	POCI KShs. million	Total KShs. million
Loss allowance as at 31 December 2017	132	385	6,649	-	**7,166**
Re measurement	109	2,037	2,270	-	**4,416**
Loss allowance as at 1 January 2018	**241**	**2,422**	**8,919**	**-**	**11,582**
Changes in the loss allowance	–	–	–		**-**
– Transfer to stage 1	447	(151)	(296)	-	**-**
– Transfer to stage 2	(49)	278	(229)	-	**-**
– Transfer to stage 3	(60)	(103)	163	-	**-**
– Write-offs	-	-	(3,105)	-	**(3,105)**
– Changes due to modifications that did not result in derecognition	75	423	860	-	**1,358**
New financial assets originated or purchased	9,949	9,183	3,659	-	**22,791**
Financial assets that have been derecognised	(10,363)	(8,883)	(1,233)	-	**(20,479)**
Changes in models/risk parameters	-	-	-	-	**-**
Foreign exchange and other movements	-	28	(428)	-	**(400)**
Loss allowance as at 31 December 2018	**241**	**3,197**	**8,310**	-	**11,747**

Loss allowance – Loans and advances to customers at amortised cost Letters of Credit, Guarantees and Other Financial Assets	Stage 1 12-month ECL KShs. million	Stage 2 Lifetime ECL KShs. million	Stage 3 Lifetime ECL KShs. million	POCI KShs. million	Total KShs. million
Loss allowance as at 31 December 2017	95	81	122		**298**
Re measurement	-	-	-	-	**-**
Loss allowance as at 1 January 2018	**95**	**81**	**122**	-	**298**
Changes in the loss allowance	–	–	–	–	**-**
– Transfer to stage 1	-	-	-	-	**-**
– Transfer to stage 2	-	-	-	-	**-**
– Transfer to stage 3	-	-	-	-	**-**
– Write-offs	-	-	-	-	**-**
– Changes due to modifications that did not result in derecognition	1	208	140	-	**349**
New financial assets originated or purchased	(72)	(81)	(136)	-	**(289)**
Financial assets that have been derecognised	-	-	-	-	**-**
Changes in models/risk parameters	-	-	-	-	**-**
Foreign exchange and other movements	(9)	-	-	-	**(9)**
Loss allowance as at 31 December 2018	**15**	**208**	**126**	**-**	**349**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Credit quality (continued)

More information about the significant changes in the gross carrying amount of financial assets during the period that contributed to the changes in the loss allowance, is provided at the table below:

Loans to banks

Loans and advances to banks at amortised cost	Stage 1 12-month ECL KShs. million	Stage 2 Lifetime ECL KShs. million	Stage 3 Lifetime ECL KShs. million	POCI KShs. million	Total KShs. million
Gross carrying amount as at 31 December 2017	21,711	-	-	-	**21,711**
Restatement of the prior year	-	-	-	-	**-**
Gross carrying amount as at 1 January 2018	21,711	-	-	-	**21,711**
Changes in the loss allowance					
– Transfer to stage 1	-	-	-	-	**-**
– Transfer to stage 2	-	-	-	-	**-**
– Transfer to stage 3	-	-	-	-	**-**
– Write-offs	-	-	-	-	**-**
New financial assets originated or purchased	10,306	-	-	-	**10,306**
Financial assets that have been derecognised	-	-	-	-	**-**
Other changes	-	-	-	-	**-**
Gross carrying amount as at 31 December 2018	**32,017**	**-**	**-**	**-**	**32,017**

No loss allowance is recognised in the statement of financial position for debt instruments measured at FVTOCI as the carrying amount is at fair value

As discussed above in the significant increase in credit risk section, under the Group's monitoring procedures a significant increase in credit risk is identified before the exposure has defaulted, and at the latest when the exposure becomes 30 days past due. This is the case mainly for loans and advances to customers and more specifically for retail lending exposures because for corporate lending and other exposures there is more borrower specific information available which is used to identify significant increase in credit risk. The table below provides an analysis of the gross carrying amount of loans and advances to customers by past due status.

	Year ended 2018		Year ended 2017	
Loans and advances to customers	Gross carrying amount KShs. million	Loss allowance KShs. million	Gross carrying amount KShs. million	Loss allowance KShs. million
0-29 days	384,500	4,115	354,765	19
30-59 days	32,709	2,594	46,382	1,134
60-89 days	59,320	13,940	37,496	14,805
Total	**476,529**	**20,649**	**438,643**	**15,958**

Modified financial assets

As a result of the Group's forbearance activities financial assets might be modified. The following tables refer to modified financial assets where modification does not result in derecognition.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

Credit quality (continued)

Financial assets (with loss allowance based on lifetime ECL) modified during the period	Year ended 2018 KShs. million	Year ended 2017 KShs. million
Gross carrying amount before modification	24,552	14,769
Loss allowance before modification	(306)	(838)
Net amortised cost before modification	24,246	13,931
Net modification gain/(loss)	(149)	110
Net amortised cost after modification	24,097	14,041

Financial assets modified since initial recognition at a time when loss allowance was based on lifetime ECL	Year ended 2018 KShs. million	Year ended 2017 KShs. million
Gross carrying amount of financial assets for which loss allowance has changed in the period from lifetime to 12-month ECL basis after modification	179	110

Collateral held as security and other credit enhancements

The Group holds collateral or other credit enhancements to mitigate credit risk associated with financial assets. The main types of collateral and the types of assets these are associated with are listed in the table below. The collateral presented relates to instruments that are measured at FVTOCI, amortised cost and at FVTPL.

	Percentage of Exposure that is subject to collateral requirements		
	31 December 2018	31 December 2017	Type of Collateral held
Mortgage lending	95%	95%	Property
Personal lending	31%	32%	Property & equipment
Corporate lending	88%	93%	Property & equipment, Stock

In addition to the collateral included in the table above, the Group holds other types of collateral and credit enhancements, such as second charges and floating charges for which specific values are not generally available.

The Group did not hold any financial instrument for which no loss allowance is recognised because of collateral at 31 December 2018. There was no change in the Group's collateral policy during the year. More details with regards to collateral held for certain classes of financial assets can be found below.

Derivatives and loans and advances to banks (reverse sale and repurchase agreements and securities borrowing)

The Group does not hold any derivatives.

Mortgage lending

The Group holds residential properties as collateral for the mortgage loans it grants to its customers. The Group monitors its exposure to retail mortgage lending using the LTV ratio, which is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is typically based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals. The tables below show the exposures from mortgage loans by ranges of LTV.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

Mortgage lending - continued

	Year ended 2018		Year ended 2017	
Mortgage lending LTV ratio	Gross carrying amount KShs. million	Loss allowance KShs. million	Gross carrying amount KShs. million	Loss allowance KShs. million
Less than 50%	343	99	776	201
51-70%	518	136	880	170
71-90%	4,129	291	4,266	302
91-100%	10,154	153	9,988	188
More than 100%	48,612	122	48,221	268
Total	**63,756**	**801**	**64,131**	**1,129**

	Year ended 2018		Year ended 2017	
Credit impaired – mortgage lending LTV ratio	Gross carrying KShs. million	Loss allowance KShs. million	Gross carrying KShs. million	Loss allowance KShs. million
Less than 50%	140	87	243	123
51-70%	280	116	349	99
71-90%	877	221	755	229
91-100%	257	84	588	139
More than 100%	4,162	58	14,721	218
Total	**5,716**	**566**	**16,656**	**808**

Personal lending

The Group's personal lending portfolio consists of unsecured loans and credit cards.

Corporate lending

The Group requests collateral and guarantees for corporate lending. The most relevant indicator of corporate customers' creditworthiness is an analysis of their financial performance and their liquidity, leverage, management effectiveness and growth ratios. For this reason the valuation of collateral held against corporate lending is not routinely updated. The valuation of such collateral is updated if the loan is put on "watch-list" and is therefore monitored more closely.

For credit-impaired loans the Group obtains appraisals of collateral to inform its credit risk management actions. At 31 December 2018 the net carrying amount of loans and advances to corporate customers was KShs. 190m (2017: KShs.173m) and the value of the respective collateral was KShs. 1,896m (2017: KShs. 1,776m).

Investment securities

The Group holds investment securities measured at amortised cost with a carrying amount of KShs.27,348m and at FVTOCI with a carrying amount of KShs.74,350m. The investment securities held by the Group are sovereign bonds and corporate bonds, which are not collateralised, as well as asset backed securities, which are secured by financial assets.

Lease receivables

The Group does not have any lease receivables.

Assets obtained by taking possession of collateral

The Group has not obtained any financial and non-financial assets during the year by taking possession of collateral held as security against loans and advances and held at the year end. The Group's policy is to realise collateral on a timely basis. The Group does not use non-cash collateral for its operations.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)
(a) Credit risk (continued)

(i) Past due but not impaired loans and advances

Past due but not impaired loans and advances are those for which contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of stage of collection of amounts owed to the Group. As at 31 December, the ageing analysis of past due but not impaired loans and advances was as follows:

	GROUP		COMPANY	
	2018 KShs. million	2017 KShs. million	2018 KShs. million	2017 KShs. million
Less than 60 days	48,983	33,902	-	-
Between 60 and 120 days	12,475	10,528	-	-
Greater than 120 days	17,668	3,479	-	-
	79,126	**47,909**	**-**	**-**

(ii) Credit related commitment risk

The Group makes available to its customers guarantees which may require the Group to make payments on their behalf and enters into commitments to extend lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to similar risks to loans and are mitigated by the same control processes and policies.

(iii) Write-off policy

The Group writes off a loan balance as and when the Credit Committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure.

(iv) Collateral on loans and advances

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property and other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired.

(v) Concentration of credit risk

The Group focuses on the diversification of its lending portfolio by setting industry sector limits based on forecasts spanning a one-year horizon to ensure that its performance is not negatively impacted by a large sectoral exposure default. Additionally, regular stress tests are performed on the portfolio to ensure that the Group holds sufficient capital to withstand any loss arising from significant exposure to a sector, single customer and group of closely related customers.

Overall, it is the policy of the Group to limit credit risk exposures and concentrations within the constraints of its capital base. An analysis of concentrations of credit risk at the reporting date is shown below:

	GROUP	COMPANY	GROUP	COMPANY
	2018 KShs. million	2017 KShs. million	2018 KShs. million	2017 KShs. million
Construction	117,754	-	83,417	-
Micro credit	105,372	-	105,272	-
Agriculture	13,003	-	12,042	-
Small & Medium Enterprises	17,407	-	**43,594**	-
Corporate	222,993	-	**194,318**	-
	476,529	**-**	**438,643**	**-**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Credit risk (continued)

(vi) Fair value of collateral held

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

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

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 2018 and 2017. An estimate of fair values of collaterals held against loans and advances to customers at the end of the year was as follows:

	GROUP		COMPANY	
	2018 KShs. million	2017 KShs. million	2018 KShs. million	2017 KShs. million
Less than 60 days	15,125	14,348	-	-
Between 60 and 120 days	1,931,585	1,801,051	-	-
	1,946,710	**1,815,399**	-	-

The Group believes that the balances that are past due and not impaired are recoverable in full.

(b) Liquidity risk

Liquidity risk is the risk that the Group, though solvent either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due or can secure them only at excessive costs.

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Group's treasury maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions.

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers.

Details of the reported Group's ratio of net liquid assets to deposits from customers at the reporting date and during the reporting year were as follows:

	GROUP	GROUP
	2018 KShs. million	2017 KShs. million
At close of the year	33.3%	37.5%
Average for the year	34.1%	38.9%
Maximum for the year	35.3%	42.8%
Minimum for the year	33.3%	36.8%

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Liquidity risk (continued)

The table below summarizes the Group's liquidity risk as at 31 December 2018, categorized into relevant maturity groupings based on the earlier of the remaining contractual maturities.

As at 31 December 2018	Up to 1 month KShs. million	1 - 3 months KShs. million	3 - 12 months KShs. million	1 - 5 years KShs. million	Over 5 years KShs. million	Total KShs. million
Cash and balances with Central Banks	50,101	-	-	-	-	50,101
Loans and advances to Banks	30,160	1,244	104	509	-	32,017
Financial Assets Fair value through other comprehensive income	10,850	413	40,542	12,502	19,498	83,805
Financial Assets held at amortized cost	460	3,437	5,561	7,243	20,473	37,174
Loans and advances to customers	34,842	27,121	38,005	166,953	188,959	455,880
Clearing house	1,128	16	14	-	59	1,217
Other Assets	11,004	-	-	-	-	11,004
Total financial assets	**138,545**	**32,231**	**84,226**	**187,207**	**228,989**	**671,198**
Deposits from banks	11,350	7,384	1,371	-	-	20,105
Deposits from customers	362,473	90,878	76,747	7,362	-	537,460
Bills payable	5,514	-	-	-	-	5,514
Borrowings	232	-	2,248	9,495	10,472	22,447
Other Liabilities	4,140	-	-	-	-	4,140
Total financial liabilities	**383,709**	**98,262**	**80,366**	**16,857**	**10,472**	**589,666**
	(245,164)	**(66,031)**	**3,860**	**170,350**	**217,608**	**80,623**

As at 31 December 2017	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million
Cash and balances with Central Banks	50,714	-	-	-	-	50,714
Loans and advances to Banks	17,873	1,565	756	1,517	-	21,711
Financial Assets Fair value through other comprehensive income	85	820	24,551	26,569	19,718	71,743
Financial Assets held at amortized cost	1,973	4,894	1,978	14,719	14,700	38,264
Loans and advances to customers	54,512	8,708	22,622	166,144	170,699	422,685
Clearing house	1,222	-	-	-	-	1,222
Other Assets	6,428	-	-	-	-	6,428
Total financial assets	**132,807**	**15,987**	**49,907**	**208,949**	**205,117**	**612,767**
Deposits from banks	6,531	1,819	1,690	999	-	11,039
Deposits from customers	404,718	61,698	30,845	2,288	-	499,549
Bills payable	6,141	-	-	-	-	6,141
Borrowings	1,689	199	367	5,008	7,632	14,895
Other Liabilities	1,124	-	-	-	-	1,124
Total financial liabilities	**420,203**	**63,716**	**32,902**	**8,295**	**7,632**	**532,748**
	(287,396)	**(47,729)**	**17,005**	**200,654**	**197,485**	**80,019**

The amounts in the tables above have been compiled based on undiscounted cash flows, which include estimated interest payments.
The company is not significantly exposed to liquidity risk as the borrowings were paid in the current year.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk

(i) Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions which are monitored daily and hedging strategies used to ensure that positions are maintained within the established limits. Foreign exchange risk arises from our non trading asset and liability positions, denominated in currencies other than the functional currency of the respective entity.

Transactions in foreign currency are recorded at the rate in effect at the date of the transaction. The Group translates monetary assets and liabilities denominated in foreign currencies at the rate of exchange in effect at the reporting date. The Group records all gains or losses on changes in currency exchange rates in profit or loss.

The table below summarizes the foreign currency exposure as at 31 December 2018 and 31 December 2017:

	GROUP		COMPANY	
	2018 KShs. million	2017 KShs. million	2018 KShs. million	2017 KShs. million
Assets in foreign currencies	287,214	126,226	486	494
Liabilities in foreign currencies	(301,548)	(114,860)	-	(7,755)
Net foreign currency exposure at the end of the year	**(14,334)**	**11,366**	**486**	**(7,261)**

Group 31 December 2018	USD KShs. million	GBP KShs. million	EURO KShs. million	Other KShs. million	Total KShs. million
ASSETS					
Cash and balances with Central Banks	11,235	240	37	19	**11,531**
Placements with Banks	13,965	929	1,190	473	**16,557**
Loans and advances to customers	72,404	50	1,514	4	**73,972**
Other assets	171,928	468	8,190	4,568	**185,154**
At 31 December 2018	**269,532**	**1,687**	**10,931**	**5,064**	**287,214**
LIABILITIES					
Deposits from banks	6,624	28	65	3,481	**10,198**
Deposits from customers	69,645	1,048	2,341	9,823	**82,857**
Other liabilities	194,943	559	8,690	4,301	**208,493**
At 31 December 2018	**271,212**	**1,635**	**11,096**	**17,605**	**301,548**
Net statement of financial position exposure	**(1,680)**	**52**	**(165)**	**(12,541)**	**(14,334)**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(i) Currency risk (continued)

31 December 2017	USD KShs. million	GBP KShs. million	EURO KShs. million	Other KShs. million	Total
ASSETS					
Cash and balances with Central Banks	24,506		1,067	549	26,275
Placements with banks	8,257	752	2,244	281	11,534
Loans and advances to customers	83,671	52	1,564	-	85,287
Other assets	2,639	30	267	194	3,130
At 31 December 2017	**119,073**	**987**	**5,142**	**1,024**	**126,226**
LIABILITIES					
Deposits from banks	6,796	15	100	20	6,931
Deposits from customers	73,621	783	5,399	580	80,383
Other liabilities	26,973	29	246	298	27,546
At 31 December 2017	**107,390**	**827**	**5,745**	**898**	**114,860**
Net statement of financial position exposure	**11,683**	**160**	**(603)**	**126**	**11,366**

The following table demonstrates the sensitivity to a reasonably possible change in the below mentioned exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	At 31 December 2018			At 31 December 2017		
'Million'	Currency Carrying Amount	10% Depreciation	10% Appreciation	Currency Carrying Amount	10% Depreciation	10% Appreciation
ASSETS						
USD	269,532	(26,953)	26,953	119,073	(11,907)	11,907
GBP	1,687	(169)	169	987	(99)	99
Euro	10,931	(1,093)	1,093	5,142	(514)	514
Other	5,064	(506)	506	1,024	(102)	102
		(28,721)	**28,721**		**(12,622)**	**12,622**
LIABILITIES						
USD	271,212	27,121	(27,121)	107,390	10,739	(10,739)
GBP	1,635	164	(164)	827	83	(83)
Euro	11,096	1,110	(1,110)	5,745	575	(575)
Others	17,605	1,761	(1,761)	898	90	(90)
	419,079	**30,156**	**(30,156)**		**11,487**	**(11,487)**
Total (decrease)/increase		**1,435**	**(1,435)**		**(1,135)**	**1,135**
Tax charge at 30%		431	(431)		(341)	341
Effect on net profit		1,004	(1,004)		(794)	794
Percentage of net profit		4.18%	-4.18%		-4.03%	4.03%

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

i) Currency risk – continued

At 31 December 2018 if the shilling had weakened/strengthened by 10% against the major trading currencies, with all other variables held constant, net profit would have been KShs. 1,004 million (2017: KShs. 794 million) lower/higher.

(ii) Interest rate risk

Interest rate is the risk that the future cash flows of financial instruments will fluctuate because of changes in the market interest rates. Interest margin may decrease as a result of such changes but may increase losses in the event that unexpected movement arises.

The Group closely monitors interest rate movements and seeks to limit its exposure by managing the interest rate and maturity structure of assets and liabilities carried on the statement of financial position. Assets and Liabilities Committee monitors compliance with the set interest rate gaps.

The table below shows interest rate sensitivity position of the Group at 31 December based on the earlier of maturity or re-pricing dates. Items not recognized on the statement of financial position do not pose any significant interest rate risk to the Group.

As at 31 December 2018	Weighted interest rates	Up to 1 month KShs. million	1 - 3 months KShs. million	3 - 12 months KShs. million	1 - 5 years KShs. million	Over 5 years KShs. million	Non-interest bearing KShs. million	Total KShs. million
Cash and balances with Central Banks	-	-	-	-	-	-	50,101	50,101
Loans and advances to banks	7.8%	30,160	1,244	104	509	-	-	32,017
Financial assets FVTOCI	-	10,850	413	40,542	12,502	19,498	-	83,805
Clearing house	-	1,217	-	-	-	-	-	1,217
Loans and advances to customers	13.5%	34,842	27,121	38,005	166,953	188,959	-	455,880
Financial assets held at amortised cost	10.6%	460	3,437	5,561	7,243	20,473	-	37,174
Other Assets	-	11,004	-	-	-	-	-	11,004
Total assets		**88,533**	**32,215**	**84,212**	**187,207**	**228,930**	**50,101**	**671,198**
Deposits from banks	8.2%	11,350	7,384	1,371	-	-	-	20,105
Deposits from customers	7.4%	362,473	90,878	76,747	7,362	-	-	537,460
Bills payable	-	5,514	-	-	-	-	-	5,514
Borrowings	3.8%	232	-	2,248	9,495	10,472	-	22,447
Other Liabilities	-	4,140	-	-	-	-	-	4,140
Total liabilities and equity		**383,709**	**98,262**	**80,366**	**16,857**	**10,472**	**-**	**589,666**
Interest rate sensitivity gap		**(295,176)**	**(66,047)**	**3,846**	**170,350**	**217,549**	**50,101**	**80,623**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

(ii) Interest rate risk - continued

As at 31 December 2017	Weighted interest rates	Up to 1 month KShs. million	1 - 3 months KShs. million	3 - 12 months KShs. million	1 - 5 years KShs. million	Over 5 years KShs. million	Non-interest bearing KShs. million	Total KShs. million
Cash and balances with Central Banks	-	-	-	-	-	-	50,714	50,714
Loans and advances to banks	7.8%	16,072	1,565	756	3,318	-		21,711
Financial assets FVTOCI	-	85	820	24,551	26,569	19,718		71,743
Clearing house	-	1,973	4,894	1,978	14,719	14,700		38,264
Loans and advances to customers	12.5%	54,512	8,708	22,622	166,144	170,699		422,685
Financial assets held at amortised cost	12.8%	1,222	-	-	-	-		1,222
Other Assets		6,428	-	-	-	-		6,428
Total assets		**80,292**	**15,987**	**49,907**	**210,750**	**205,117**	**50,714**	**612,767**
Deposits from banks	8.2%	6,531	1,819	1,690	999	-		11,039
Deposits from customers	7.4%	384,118	61,698	30,845	22,888	-		499,549
Bills payable	-	6,141	-	-	-	-		6,141
Borrowings	3.8%	1,689	199	367	5,008	7,632	-	14,895
Other Liabilities	-	1,124	-	-	-	-	-	1,124
Total liabilities and equity		**399,603**	**63,716**	**32,902**	**28,895**	**7,632**	**-**	**532,748**
Interest rate sensitivity gap		**(325,814)**	**(47,729)**	**17,005**	**181,855**	**197,485**	**50,714**	**80,019**

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(c) Market risk (continued)

ii) Interest rate risk - continued

An analysis of the Group's sensitivity to an increase or decrease in market interest rates assuming no asymmetrical movement in yield curves and a constant financial position is as follows on profit or loss (balances in millions):

			2018			2017
GROUP	Carrying amount	10% Increase	10% Decrease	Carrying amount	10% Increase	10% Decrease
Cash and balances with Central Banks	50,101		-	50,714	-	-
Loans and advances to banks	32,017	(320)	320	21,711	(199)	199
Financial assets FVTOCI	82,896	(829)	829	71,743	(717)	717
Clearing house	1,217	(12)	12	1,222	(12)	12
Other assets	11,004	(1,100)	1,100	6,428	(643)	643
Loans and advances to customers (Net)	455,880	(4,559)	4,559	422,685	(4,227)	4,227
Financial assets held at amortised cost	37,174	**(372)**	**372**	**38,264**	**(383)**	**383**
	670,289			**612,767**		
LIABILITIES & EQUITY						
Deposits from banks	20,105	201	(201)	11,039	110	(110)
Deposits from customers	537,460	5,375	(5,375)	499,549	4,995	(4,995)
Bills payable	5,514	-	-	6,141	-	-
Other liabilities and accrued expenses	4,140	-	-	1,124	-	-
Borrowings	22,447	224	(224)	14,895	149	(149)
	589,666			**532,748**		
Net interest income Increase/(decrease)		**(1,392)**	**1,392**		**(927)**	**927**
Tax Charge @ 30%	**-**	418	(418)	-	278	(278)
Impact on profit after tax	**-**	**(975)**	**975**	**-**	**(649)**	**649**

(d) Operational risk management

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

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions.
- Requirements for the reconciliation and monitoring of transactions.
- Compliance with regulatory and other legal requirements.
- Documentation of controls and procedures.
- Requirements for the yearly assessment of operational risks faced

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Operational risk management (continued)

and the adequacy of controls and procedures to address the risks identified.

- Requirements for the reporting of operational losses and proposed remedial action.
- Development of contingency plans.
- Training and professional development.
- Ethical and business standards.
- Risk mitigation, including insurance where this is effective.

Compliance with Group's standards is supported by a program of regular reviews undertaken by both the Internal Audit and Compliance department. The results of internal audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and the underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

(a) Judgments

The following are the critical judgements, apart from those involving estimations (which are dealt with separately below), that the directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

- The Directors have made judgements in the process of applying accounting policies that would have significant effects on the amounts recognized in the consolidated financial statements. Judgement was made in determining whether the economy of South Sudan in which KCB Bank South Sudan Limited operates was hyper inflationary as at 31 December 2018 (See Note 19 and Note 48)
- Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test (please see financial assets sections of note 1). The Group determines the business model at a level that reflects how banks of financial assets are managed together to achieve a particular business objective. This assessment includes judgement reflecting all relevant evidence including how the performance of the assets is evaluated and their performance is measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.
- Significant increase of credit risk: As explained in note 1, ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information. Refer to note 3(a) for more details.
- Establishing banks of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are banked on the basis of shared risk characteristics. Refer to note 3 for details of the characteristics considered in this judgment. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that bank of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.
- Models and assumptions used: The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk. See note 1 and note 4 for more details on ECL and note 6 for more details on fair value measurement.

(b) Assumptions and estimation uncertainties

The information relating to assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment in the financial statements are set out below.

(i) Impairment losses on loans and advances

Estimates applied before 1 January 2018

The estimation of potential credit losses is inherently uncertain and depends upon many factors, including general economic conditions, changes in individual customers' circumstances, structural changes within industries that alter competitive positions and other external factors such as legal and regulatory requirements.

Impairment is measured for all accounts that are identified as non-performing. All relevant considerations that have a bearing on the expected future cash flows are taken into account which include but not limited to future business prospects for the customer, realizable value of securities, the Group's position relative to other claimants and the existence of any court injunctions placed by the borrower. Subjective judgments are made in this process of cash flow determination both in value and timing and may vary from one person to another and team to team. Judgments may also change with time as new information becomes available.

The Group reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recognized in profit or loss. In

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

(i) Impairment losses on loans and advances (continued)
Estimates applied before 1 January 2018 (continued)

particular, judgment by the Directors is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on the assumptions about a number of factors and actual results may differ, resulting in future changes in the allowance.

The Group also makes a collective impairment measurement for exposures which, although not specifically identified as non-performing, have an inherent risk of default. The portfolio constitutes a large number of loan and advances account cutting across various industries. Assets with similar risk characteristics are banked together for the purpose of determining the collective impairment in the Group.

Estimates applied after 1 January 2018

The following are key estimations that the directors have used in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward-looking information relevant to each scenario: When measuring ECL the Group uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other. Refer to note 3 for more details, including analysis of the sensitivity of the reported ECL to changes in estimated forward-looking information.

Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions. See note 3 for more details, including analysis of the sensitivity of the reported EC

Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements. See note 3 for more details, including analysis of the sensitivity of the reported ECL to changes in LGD resulting from changes in economic drivers.

Fair value measurement and valuation process: In estimating the fair value of a financial asset or a liability, the Group uses market-observable data to the extent it is available. Where such Level 1 inputs are not available the Group uses valuation models to determine the fair value of its financial instruments. Refer to note 7 for more details on fair value measurement.

L to changes in PD resulting from changes in economic drivers.

(ii) Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in orderly transaction between market participants at the measurement date.

All financial instruments are initially recognized at fair value, which is normally the transaction price. Subsequent to initial recognition, some of the Group's financial instruments are carried at fair value. The fair values of quoted financial instruments in active markets are based on current prices with no subjective judgments. If the market for a financial instrument does not exist or is not active including for unlisted securities, the Group establishes fair value by using valuation techniques.

These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market data.

The fair value for the majority of the Group's financial instruments is based on observable market prices or derived from observable market parameters. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(iii) Retirement benefits

The cost of the defined benefit pension plan is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty and a change in any of the assumptions will alter the carrying amount of pension obligations.

The assumptions used in determining the net cost (income) for pensions include the discount rate. The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations.

In determining the appropriate discount rate, the Group considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions.

(iv) Property and equipment

Property and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programs are taken into account which involves extensive subjective judgment. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. The rates used are set out on accounting policy 2.3(ii).

(v) Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax balances and deferred tax provisions in the period in which such determination is made

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

6. FAIR VALUE OF FINANCIAL INSTRUMENTS

a) Accounting classification and fair values

The tables below show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

			Carrying amount					Fair value
2018 - Group	Held for trading KShs.' million	Amortised cost KShs.' million	Fair value through other comprehensive income KShs.' million	Total carrying amount KShs.' million	Level 1 KShs.' million	Level 2 KShs.' million	Level 3 KShs.' million	Fair value KShs.' million
Assets								
Financial assets								
Cash and balances with Central Banks	-	50,101	-	50,101	-	-	-	-
Due from other banks	-	32,017	-	32,017	-	-	-	-
Financial assets held at amortised cost	-	37,174	-	37,174	-	-	-	-
Financial assets Fair value through other comprehensive income	-	-	83,805	83,805	83,805	-	-	**83,805**
Loans and advances to customers	-	455,880	-	455,880	-	-	-	-
Clearing house	-	1,217	-	1,217	-	-	-	-
Other assets	-	11,004	-	11,004	-	-	-	
Total financial assets	**-**	**587,393**	**83,805**	**671,198**	**83,805**	-	**-**	**83,805**
Liabilities								
Due to other banks	-	20,105	-	20,105	-	-	-	-
Deposits from customers	-	537,460	-	537,460	-	-	-	-
Bills payable	-	5,514	-	5,514	-	-	-	-
Other liabities	-	4,140	-	4,140	-	-	-	-
Long term debt	-	22,447	-	22,447	-	-	-	-
Total financial liabilities	**-**	**589,666**	**-**	**589,666**	**-**	-	-	-

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(a) Accounting classification and fair values (continued)

				Carrying amount						Fair value
2017 - Group	Held for trading KShs.' million	Held to maturity KShs.' million	Loans and receivables KShs.' million	Available for sale KShs.' million	At amortized cost KShs.' million	Total carrying amount KShs.' million	Level 1 KShs.' million	Level 2 KShs.' million	Level 3 KShs.' million	Fair value KShs.' million
Assets										
Financial assets										
Cash and balances with Central Banks	-	-	50,714	-	-	50,714	-	-	-	-
Due from other banks	-	-	21,711	-	-	21,711	-	-	-	-
Financial assets held at amortised cost	-	38,264	-	-	-	38,264	-	-	-	-
Financial assets Fair value through other comprehensive income	-	-	-	71,743	-	71,743	71,743	-	-	71,743
Loans and advances to customers	-	-	422,685	-	-	422,685	-	-	-	-
Clearing house	-	-	1,222	-	-	1,222	-	-	-	-
Other assets	-	-	6,428	-	-	6,428	-	-	-	-
Total financial assets	**-**	**38,264**	**502,760**	**71,743**	**-**	**612,767**	**71,743**	-	**-**	**71,743**
Liabilities	-									
Due to other banks	-	-	-	-	11,039	11,039	-	-	-	-
Deposits from customers	-	-	-	-	499,549	499,549	-	499,549	-	499,549
Bills payable	-	-	-	-	6,141	6,141	-	-	-	-
Other liabilities	-	-	-	-	1,124	1,124	-	-	-	-
Long term debt	-	-	-	-	14,895	14,895	-	-	-	-
Total financial liabilities	-	**-**	**-**	**-**	**532,748**	**532,748**	**-**	**499,549**	-	**499,549**

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(a) Accounting classification and fair values (continued)

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

When applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. 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.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The following sets out the Group's basis of establishing fair values of financial instruments:

Investment securities with observable market prices including equity securities are fair valued using that information. Investment securities that do not have observable market data are fair valued either using discounted cash flow method or quoted market prices for securities with similar yield characteristics. Loans and advances to customers are net of allowance for impairment. The estimated fair value of loans and advances represents the discounted amount of future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. A substantial proportion of loans and advances are on floating rates and re-price within 12 months, hence their fair value approximates their carrying amounts.

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. 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 maturities and interest rates. A substantial proportion of deposits mature within 12 months and hence the fair value approximates their carrying amounts.

Cash and balances with Central Banks are measured at amortized cost and their fair value approximates their carrying amount.

(b) Valuation hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

	Level 1	Level 2	Level 3
Fair value determined using;	Unadjusted quoted prices in active markets for identical assets or liabilities;	Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;	Valuation models using significant non-market observable inputs.
Types of financial assets	Actively traded government and other agency securities. Listed derivative instruments. Listed equities.	Corporate and other government bonds and loans. Over-the-counter (OTC) derivatives.	Corporate bonds in illiquid markets. Highly structured OTC derivatives with unobservable parameters.
Types of financial liabilities	Listed derivative instruments.	Over-the-counter (OTC) derivatives.	Highly structured OTC derivatives with unobservable parameters.

The fair value hierarchy of financial assets and liabilities has been disclosed in note 6(a).

7. MANAGEMENT OF CAPITAL

Regulatory capital – Kenya

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
- promotes public confidence in the bank.

In implementing current capital requirements, the Central Bank of Kenya requires banks to maintain a prescribed ratio of total capital to total risk-weighted assets. Banks are expected to assess the Credit risk, Market risk and the Operational risk of the risk weighted assets to derive the ratios. The Capital adequacy and use of regulatory capital are monitored regularly by management employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank of Kenya for supervisory purposes.

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

- hold the minimum level of regulatory capital of KShs. 1 billion.
- Total risk weighted assets, plus risk weighted off- balance sheet assets at above the required minimum of 10.5%.
- Maintain a ratio of total regulatory capital; to
- a core capital of not less than 8% of its total deposit liabilities
- a total capital of not less than 14.5% of its total risk weighted assets, plus risk weighted off-balance sheet items.

The bank's regulatory capital is analysed into two tiers:

— Tier 1 capital. This includes ordinary share capital, share premium, retained earnings and after deduction of investment in subsidiaries, goodwill, other intangible assets and other regulatory adjustments relating to items that are included in equity which are treated differently for capital adequacy purposes.

— Tier 2 capital. This includes 25% of revaluation reserves of property, subordinated debt not exceeding 50% of core capital, collective impairment allowances and any other approved reserves.

The regulatory capital position for the Group's banking subsidiaries was as follows:

Regulatory Capital - KCB Bank Kenya Limited	2018 KShs.' million	2017 KShs.'million
Core Capital (Tier 1):		
Ordinary share capital	53,986	53,986
Retained earnings	33,927	19,147
Other reserves	44	384
Deferred tax	-	(1,548)
Total Core Capital	**87,957**	**71,969**
Supplementary Capital (Tier 2):	7,639	6,050
Total regulatory capital	**95,596**	**78,019**
Risk weighted assets	**537,573**	**483,986**
Capital ratios: Total regulatory capital expressed as a percentage of total risk-weighted assets	**17.8%**	**16.1%**
Total tier 1 capital expressed as a percentage of total risk-weighted assets	**16.4%**	**14.9%**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

7. MANAGEMENT OF CAPITAL (CONTINUED)

Regulatory capital – Tanzania

KCB Bank Tanzania had the following capital adequacy ratios:-

	2018	2017
Tier I (Minimum required 10%)	15.0%	13.9%
Tier I + Tier II (Minimum required 12%)	15.7%	14.5%
Regulatory capital – Rwanda		
KCB Bank Rwanda had the following capital adequacy ratios:-		
	2018	**2017**
Tier I (Minimum required 10%)	15.8%	14.3%
Tier I + Tier II (Minimum required 15%)	15.8%	17.0%
Regulatory capital – South Sudan		
KCB Bank South Sudan had the following capital adequacy ratios:-		
	2018	**2017**
Tier I (Minimum required 10%)	96.0%	85.0%
Tier I + Tier II (Minimum required 12%)	124.0%	102.0%
Regulatory capital – Burundi		
KCB Bank Burundi had the following capital adequacy ratios:-		
	2018	**2017**
Tier I (Minimum required 12.5%)	26.2%	28.2%
Tier I + Tier II (Minimum required 14.5%)	29.0%	29.4%
Regulatory capital – Uganda		
KCB Bank Uganda had the following capital adequacy ratios:-		
	2018	**2017**
Tier I (Minimum required 10%)	17.7%	20.1%
Tier I + Tier II (Minimum required 12%)	18.3%	20.8%

8. SEGMENT REPORTING

Reportable segments

The Group's main business comprises of the following reportable segments and their respective products and services:

Retail banking – incorporating banking services such as customer current accounts, savings and fixed deposits to individuals. Retail lending are mainly consumer loans and mortgages based lending.

Corporate banking – incorporating banking services such as current accounts, fixed deposits, overdrafts, loans and other credit facilities both in local and foreign currencies.

Mortgages – incorporating the provision of mortgage finance.

Treasury – operates the Group's funds management activities

Other Group's operations comprise of trade finance and forex business. The Group also participates in investments in Treasury Bills and Bonds from the Central Banks.

The table below analyses the breakdown of segmental assets, liabilities, income and expenses;

	Corporate banking	Retail banking	Treasury	Mortgages	Other	Total
For the year ended 31 December 2018	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million
Interest income	19,975	17,398	12,818	13,729	2,360	66,280
Interest expense	(10,237)	(4,019)	(1,302)	(919)	(973)	(17,450)
Net interest income	9,738	13,379	11,516	12,810	1,387	48,830
Net fees and commission income	5,203	10,196	2,901	192	(4,254)	14,238
Other income	115	2,074	908	-	5,638	8,735
Depreciation and amortization	(4)	(2,569)	(1)	-	(572)	(3,146)
Impairment	(1,493)	(1,381)	-	(70)	-	(2,944)
Operating expenses	(1,225)	(13,134)	(391)	(208)	(16,594)	(31,552)
Profit before monetary items	12,334	8,565	14,933	12,724	(14,395)	34,161
Loss on monetary items	-	-	(1)	-	(301)	(302)
Profit before tax	12,334	8,565	14,932	12,724	(14,696)	33,859
Tax expense	(3,350)	(4,650)	(3,971)	(1,793)	3,900	(9,864)
Profit after tax	**8,984**	**3,915**	**10,961**	**10,931**	**(10,796)**	**23,995**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

8. SEGMENT REPORTING (CONTINUED)

	Corporate banking	Retail banking	Treasury	Mortgages	Other	Total
	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million
For the year ended 31 December 2017						
Interest income	21,044	21,651	12,351	7,753	874	63,673
Interest expense	(8,245)	(3,568)	(1,544)	(539)	(1,392)	(15,288)
Net interest income	12,799	18,083	10,807	7,214	(518)	48,385
Net fees and commission income	3,591	9,647	29	348	1,079	14,694
Other income	197	298	4,120	-	3,691	8,306
Depreciation and amortization	(64)	(2,538)	(134)	(16)	(39)	(2,791)
Impairment	(4,788)	(974)	-	(152)	-	(5,914)
Operating expenses	(2,130)	(12,439)	(942)	(230)	(16,464)	(32,205)
Profit before monetary items	9,605	12,077	13,880	7,164	(12,251)	30,475
Loss on monetary items	-	-	-	-	(1,361)	(1,361)
Profit before tax	9,605	12,077	13,880	7,164	(13,612)	29,114
Tax expense	(3,105)	(3,903)	(4,486)	(2,315)	4,399	(9,410)
Profit after tax	**6,500**	**8,174**	**9,394**	**4,849**	**(9,213)**	**19,704**
Financial position As at 31 December 2018						
Short term funds	-	30,000	123,926	-	49,479	203,405
Loans and advances	197,930	193,208	-	64,742	-	455,880
Other assets	-	-	7,452	-	47,576	55,028
Total assets	**197,930**	**223,208**	**131,378**	**64,742**	**97,055**	**714,313**
Customer deposits	229,511	274,092	11,844	22,013	-	537,460
Borrowed funds	-	-		-	22,447	22,447
Other liabilities	-	-	6,345	-	34,400	40,745
Shareholders' funds	-	-	-	-	113,661	113,661
Total liabilities and shareholders' funds	**229,511**	**274,092**	**18,189**	**22,013**	**170,508**	**714,313**
Financial position As at 31 December 2017						
Short term funds	8,844	32,469	122,543	-	27,855	191,711
Loans and advances	189,658	168,082	-	64,945	-	422,685
Other assets	-	-	121	-	32,151	32,272
Total assets	**198,502**	**200,551**	**122,664**	**64,945**	**60,006**	**646,668**
Customer deposits	246,416	223,090	14,056	15,987	-	499,549
Borrowed funds	-	-	-	-	14,895	14,895
Other liabilities	-	1,153	11,467	102	13,537	26,259
Shareholders' funds	-	-	-	-	105,965	105,965
Total liabilities and shareholders' funds	**246,416**	**224,243**	**25,523**	**16,089**	**134,397**	**646,668**

8. SEGMENT REPORTING (Continued)
Geographical information

Major Customers

The Group does not have major customers contributing to 10% or more of the Group's income.

Geographical information

Five of the Group companies, KCB Bank Tanzania Limited, KCB South Sudan Limited, KCB Bank Uganda Limited, KCB Bank Rwanda Limited and KCB Bank Burundi Limited operate outside the domestic financial market. The following table analyses the regional segments in which the Group operates.

Income Statement

	Kenya	Tanzania	South Sudan	Uganda	Rwanda	Burundi	Group Elimination	Total
	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million
For the year ended 31-Dec-18								
Interest income	59,688	2,523	38	1,718	2,094	567	(348)	**66,280**
Interest expense	(15,282)	(846)	(63)	(580)	(919)	(108)	348	**(17,450)**
Net interest income	44,406	1,677	(25)	1,138	1,175	459	-	**48,830**
Net fees and commission income	12,293	416	293	499	487	250	-	**14,238**
Other income	6,928	304	1,030	188	181	104	-	**8,735**
Impairment	(3,136)	(118)	258	-	79	(27)	-	**(2,944)**
Depreciation and amortization	(2,754)	(98)	(55)	(92)	(98)	(49)	-	**(3,146)**
Operating expenses	(26,411)	(1,404)	(534)	(1,287)	(1,400)	(516)	-	**(31,552)**
Profit before tax and monetary loss	31,326	777	967	446	424	221	-	**34,161**
Loss on monetary position	-	-	(302)	-	-	-	-	**(302)**
Profit before income tax	31,326	777	665	446	424	221	-	**33,859**
Tax	(8,960)	(343)	(237)	(129)	(198)	3	-	**(9,864)**
Profit after tax	**22,366**	**434**	**428**	**317**	**226**	**224**	**-**	**23,995**
For the year ended 31-Dec-17								
Interest income	56,945	2,406	188	1,721	1,943	470	-	**63,673**
Interest expense	(12,718)	(1,019)	(10)	(745)	(709)	(87)	-	**(15,288)**
Net interest income	44,227	1,387	178	976	1,234	383	-	**48,385**
Net fees and commission income	11,093	412	1,957	528	496	208	-	**14,694**
Other income	6,475	314	1,039	189	149	140	-	**8,306**
Impairment	(4,978)	(578)	(188)	(68)	(62)	(40)	-	**(5,914)**
Depreciation and amortization	(2,390)	(101)	(37)	(89)	(113)	(59)	-	**(2,789)**
Operating expenses	(26,855)	(1,417)	(1,020)	(1,254)	(1,138)	(523)	-	**(32,207)**
Profit before tax and monetary loss	27,572	17	1,929	282	566	109	-	**30,475**
Loss on monetary position	-	-	(1,361)	-	-	-	-	**(1,361)**
Profit before income tax	27,572	17	568	282	566	109	-	**29,114**
Tax	(8,855)	(9)	(557)	35	(191)	(40)	207	**(9,410)**
Profit after tax	**18,717**	**8**	**11**	**317**	**375**	**69**	**207**	**19,704**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

8. SEGMENT REPORTING (CONTINUED)
Geographical information (CONTINUED)

Statement of financial position

	Kenya	Tanzania	South Sudan	Uganda	Rwanda	Burundi	Group Elimination	Total
	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million
31-Dec-18								
Cash and short term funds	80,753	7,750	11,162	6,008	10,480	4,563	(1,424)	**119,292**
Loans and advances	417,233	16,465	735	6,274	12,776	2,397	-	**455,880**
Other assets	194,779	2,439	2,216	6,488	745	319	(67,845)	**139,141**
Total assets	**692,765**	**26,654**	**14,113**	**18,770**	**24,001**	**7,279**	**(69,269)**	**714,313**
Customer deposits	475,396	15,003	8,954	13,583	20,051	5,897	(1,424)	**537,460**
Borrowed funds	18,933	1,402	-	1,554	558	-	-	**22,447**
Other liabilities	29,868	6,849	1,854	993	952	96	133	**40,745**
Shareholders' funds	168,568	3,400	3,305	2,640	2,440	1,286	(67,978)	**113,661**
Total liabilities and shareholders' funds	**692,765**	**26,654**	**14,113**	**18,770**	**24,001**	**7,279**	**(69,269)**	**714,313**
31-Dec-17								
Cash and short term funds	146,565	8,145	15,066	11,659	6,266	5,403	(1,393)	**191,711**
Loans and advances	387,944	14,283	379	6,777	11,899	1,403	-	**422,685**
Other assets	106,559	1,012	3,623	2,649	858	354	(82,783)	**32,272**
Total assets	**641,068**	**23,440**	**19,068**	**21,085**	**19,023**	**7,160**	**(84,176)**	**646,668**
Customer deposits	440,165	14,717	12,602	15,130	12,557	5,771	(1,393)	**499,549**
Borrowed funds	18,333	1,558	-	1,802	1,165	-	(7,963)	**14,895**
Other liabilities	22,858	3,611	2,314	1,157	3,212	278	(7,171)	**26,259**
Shareholders' funds	159,712	3,554	4,152	2,996	2,089	1,111	(67,649)	**105,965**
Total liabilities and shareholders' funds	**641,068**	**23,440**	**19,068**	**21,085**	**19,023**	**7,160**	**(84,176)**	**646,668**

9. INTEREST INCOME AND EXPENSE

	GROUP		COMPANY	
	2018	2017	2018	2017
	KShs. million	KShs. million	KShs. million	KShs. million
INTEREST INCOME				**-**
Interest on loans and advances	52,706	51,389	295	-
Fair value through other comprehensive income investment securities	5,863	6,088	-	-
Amortised cost investment securities	7,120	5,697	-	-
Interest on impaired loans and advances	6	-	-	-
Interest on placements and bank balances	585	499	22	580
	66,280	**63,673**	**317**	**580**
INTEREST EXPENSE				-
Interest on deposits	15,464	13,162	-	-
Interest on borrowed funds	1,986	2,126	272	527
	17,450	**15,288**	**272**	**527**
NET INTEREST INCOME	**48,830**	**48,385**	**45**	**53**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

10. FEES AND COMMISSIONS INCOME

	GROUP		COMPANY	
	2018	2017	2018	2017
	KShs. million	KShs. million	KShs. million	KShs. million
Retail and corporate fee income	7,415	6,785	-	-
Commission income	7,441	8,197	-	-
Custodian fee income	190	169	-	-
	15,046	**15,151**	**-**	**-**
Commission expense	(808)	(457)	-	-
	14,238	**14,694**	**-**	**-**

11. FOREIGN EXCHANGE GAINS / (LOSSES)

Foreign currency dealings	3,683	4,095	(14)	6
Translation gains	691	571	-	-
	4,374	**4,666**	**(14)**	**6**

12. DIVIDEND INCOME

Dividend income from subsidiaries	-	-	16,864	12,417
	-	**-**	**16,864**	**12,417**

13. OTHER OPERATING INCOME

Rent income	202	214	**-**	**-**
(Loss) /Profit on disposal of property and equipment	(21)	12	-	-
Management fees	250	200	-	-
Profit/(loss) on disposal of securities	712	337	-	-
Risk premium	2,410	1,850	-	-
Miscellaneous income	808	1,027	105	116
	4,361	**3,640**	**105**	**116**

14. NET IMPAIRMENT

Losses on financial assets				
Stage 3 allowance (Note 27(b))	8,576	9,479	-	-
Stage 1 & 2 allowance (Note 27(c))	(326)	(18)	-	-
Bad debts recovered during the year (Note 27(b)	(4,906)	(2,923)	-	-
Effects of movement in exchange rates (Note 27(b) & 27 (c)	(400)	(624)	-	-
	2,944	**5,914**	**-**	**-**

15. EMPLOYEE BENEFITS

Salaries and wages	14,182	14,604	84	40
Medical expenses	880	782	2	1
Pension costs – defined benefit scheme	656	595	5	4
Pension costs – defined contribution scheme	184	251	-	2
Social security contributions	124	128	-	-
Fringe benefits	611	612	-	-
Restructuring costs	175	2,016	-	-
Others *	195	158	-	-
	17,007	**19,146**	**91**	**47**

*Other costs relate to staff insurance, health and safety programs, recognition schemes, recruitment and other incidental costs.

The number of employees of the Group as at 31 December 2018 was 6,217 (31 December 2017 – 7,192).

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

16. DEPRECIATION AND AMORTIZATION

	GROUP		COMPANY	
	2018	2017	2018	2017
	KShs. million	KShs. million	KShs. million	KShs. million
Depreciation of property and equipment (Note 29)	1,855	1,729	4	3
Amortization of intangible assets (Note 30)	1,288	1,060	-	-
Amortization of prepaid operating lease rentals (Note 31)	3	2	-	-
	3,146	**2,791**	**4**	**3**

17. OTHER OPERATING EXPENSES

Business stationery expenses	351	286	2	-
Business subscriptions	168	159	-	1
Card expenses	761	586	95	47
Corporate social responsibility	464	344	-	-
Depositor's protection fund premiums	675	619	7	1
Guard services	1,037	884	16	5
Insurance	148	159	-	-
Leases	2,340	2,370	-	-
Other administrative expenses	4,300	2,803	28	11
Rent expense	2,021	2,039	1	1
Staff development cost	1,423	1,636	4	1
Water and power	857	1,174	246	189
	14,545	**13,059**	**399**	**256**

18. PROFIT BEFORE INCOME TAX

Profit before tax is arrived at after charging/ (crediting):				
Depreciation of property and equipment	1,855	1,729	4	3
Amortization of intangible assets	1288	1060	-	-
Directors' emoluments – fees	29	35	-	-
– others	398	365	43	40
Auditors remuneration	45	42	-	1
Amortization of prepaid lease rentals	3	2	-	-
Net loss/(profit) on sale of property and equipment	21	(12)	-	-

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

19. LOSS ON MONETARY POSITION

	GROUP		COMPANY	
	2018	2017	2018	2017
	KShs. million	KShs. million	KShs. million	KShs. million
Loss on monetary position on hyperinflation	302	1,361	-	-

Loss on monetary position is as a result of the South Sudan economy being declared a hyper-inflationary economy in 2016. The financial statements for KCB Bank South Sudan Limited have been adjusted for hyperinflation which resulted in a loss on monetary position of KShs. 302 million. (2017: - KShs. 1,361 million)

2018	1-Jan-18	Net change in monetary items	31-Dec-18
Monetary Items	KShs. million	KShs. million	KShs. million
Cash and balances with Bank of South Sudan	14,909	(4,009)	10,900
Placements and balances with other banking institutions	157	261	418
Amounts due from related companies	405	(304)	101
Loans and advances to customers	379	125	504
Other assets	828	(598)	230
Customer deposits	(12,602)	4,151	(8,451)
Tax payable	(124)	184	60
Other liabilities	(1,135)	1,026	(109)
Amounts due to related companies	(887)	(733)	(1,620)
Net monetary assets	1,930	103	2,033
Expressed in purchasing power at 31 Dec 2018	(3,291)	956	(2,335)
Loss on net monetary position	**(1,361)**	**1,059**	**(302)**

2017	1-Jan-17	Net change in monetary items	31-Dec-17
Monetary Items	KShs. million	KShs. million	KShs. million
Cash and balances with Bank of South Sudan	22,917	(8,008)	14,909
Investment in government securities	1,262	(1,262)	-
Placements and balances with other banking institutions	458	(301)	157
Amounts due from related companies	656	(251)	405
Loans and advances to customers	723	(344)	379
Other assets	965	(137)	828
Customer deposits	(21,571)	8,969	(12,602)
Balances due to other banks	-	-	-
Tax payable	(133)	9	(124)
Other liabilities	(1,471)	336	(1,135)
Amounts due to related companies	(1,015)	128	(887)
Net monetary assets	2,791	(861)	1,930
Expressed in purchasing power at 31 Dec 2017	(6,560)	3,269	(3,291)
Loss on net monetary position	**(3,769)**	**2,408**	**(1,361)**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

20. INCOME TAX

(a) Income statement	GROUP		COMPANY	
	2018	2017	2018	2017
	KShs. million	KShs. million	KShs. million	KShs. million
Income tax expense/ (credit)				
Current tax expense	11,276	10,143	-	37
Deferred tax movement (Note 33)	(1,412)	(733)	(104)	-
	9,864	9,410	(104)	37
Reconciliation of effective tax				
Accounting profit before tax	33,859	29,114	16,506	12,286
Tax calculated using applicable tax rates based on respective income tax laws	10,158	8,734	4,952	3,686
Effects of hyperinflation adjustment	204	566	-	-
Effects of non-allowable expenses	223	497	107	78
Effects of non-taxable income	(721)	(387)	(5,163)	(3,727)
	9,864	**9,410**	**(104)**	**37**
(b) Statement of financial position				
At 1 January	(258)	(653)	69	(36)
Effects of Hyperinflation adjustments	800	(827)	-	-
Tax paid during the year	11,043	11,365	-	142
Tax charge for the year	(11,276)	(10,143)	-	(37)
At 31 December	**309**	**(258)**	**69**	**69**
Comprising:				
Tax recoverable	-	524	69	69
Tax payable	(309)	(266)	-	-
	(309)	**258**	**69**	**69**

The Group does not have a potential tax liability out of payment of dividends

21. EARNINGS PER SHARE

Income statement	GROUP		COMPANY	
Basic earnings per share	7.83	6.43	5.42	4.00
Diluted earnings per share	7.83	6.43	5.42	4.00

Group: Basic and diluted earnings per share is calculated on the profit attributable to ordinary shareholders of KShs. 23,995 million (2017: 19,704 million) and on the weighted average number of ordinary shares during the year of 3,066 million (2017: 3,066 million shares).

Company: Basic and diluted earnings per share is calculated on the profit attributable to ordinary shareholders of KShs. 16,610 million (2017: 12,249 million) and on the weighted average number of ordinary shares during the year of 3,066 million (2017: 3,066 million shares).

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

22. CASH AND BALANCES WITH CENTRAL BANKS

	GROUP		COMPANY	
	2018 KShs.' million	2017 KShs. million	2018 KShs. million	2017 KShs. million
Cash on hand	11,063	5,633	-	-
Bank balances	-	-	899	888
Cash reserve ratio	35,386	30,017	-	-
Other current accounts	3,652	15,064	-	-
	50,101	**50,714**	**899**	**888**

Cash held with Central Banks represent cash ratio and other non-interest earning current accounts and is based on the value of deposits as adjusted for Central Banks' requirements. Mandatory cash reserve ratio is not available for use in the Group's day-to-day operations.

23. LOANS AND ADVANCES TO BANKS

	GROUP		COMPANY	
	2018 KShs.' million	2017 KShs. million	2018 KShs. million	2017 KShs. million
Balances in nostro accounts*	8,273	9,720	-	-
Placements with other banks	23,744	11,991	-	-
	32,017	**21,711**	**-**	**-**

The Group participates in the inter-bank market for the generation of revenue. Regularly, the counterparties are assessed for creditworthiness in line with the Group credit policies. The weighted average effective interest rate on balances due from other banks at 31 December 2018 was 7.8% (2017 – 7.9%).

*Nostro accounts are accounts held in other banks in a foreign country.

24. FINANCIAL ASSETS AT FAIR VALUE THOUGH OCI (2017-AFS)

	GROUP		COMPANY	
	2018 KShs.' million	2017 KShs. million	2018 KShs. million	2017 KShs. million
Quoted investments	3,392	2,531	23	42
Unquoted equity investments	141	100	11	11
Corporate bonds	-	-	-	-
Treasury bonds	79,363	69,112	-	-
	82,896	**71,743**	**34**	**53**

25. CLEARING HOUSE

Un-cleared effects	**1,217**	**1,222**	**-**	**-**

The clearing house balance consists of items in transit to/from other banks through the Central Banks of various countries' clearing systems. These items generally clear by end of the next business day.

26. OTHER ASSETS AND PREPAYMENTS

	GROUP		COMPANY	
	2018 KShs.' million	2017 KShs. million	2018 KShs. million	2017 KShs. million
Other receivables	24,842	11,938	-	20
Prepayments	5,804	8,068	-	-
	30,646	**20,006**	**-**	**20**

Other receivables are current and non-interest bearing and are generally between 30 to 90 days credit terms.

27. LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers	GROUP		COMPANY	
	2018 KShs.' million	2017 KShs. million	2018 KShs. million	2017 KShs. million
Gross loans and advances to customers	476,529	438,643	-	-
Stage 3 impairment allowance (Note 27(b))	(13,090)	(14,805)	-	-
Stage 1 and 2 impairment allowance (Note 27(c))	(7,559)	(1,153)	-	-
	455,880	**422,685**	**-**	**-**
(b) Stage 3 impairment allowance (2017 - Specific impairment allowance)				
At 1 January	14,805	11,708	-	-
IFRS 9 transition adjustment	3,410	-	-	-
Allowance made during the year (Note 14)	8,576	9,479	-	-
Recoveries/allowances released during the year (Note 14)	(4,906)	(2,923)	-	-
Write downs/write offs during the year	(8,367)	(2,837)	-	-
Effects of movements in exchange rates (Note 14)	(428)	(622)	-	-
At 31 December	**13,090**	**14,805**	**-**	**-**
(c) Stage 1 and 2 impairment allowance (2017 - Collective impairment allowance)				
At 1 January	1,153	1,173	-	-
IFRS 9 transition adjustment	6,704	-	-	-
Allowance made during the year (Note 14)	(326)	(18)	-	-
Effects of movements in exchanges rates (Note 14)	28	(2)	-	-
At 31 December	**7,559**	**1,153**	**-**	**-**
d) Maturity analysis of gross loans and advancesto customers:				
Maturing within 1 month	34,842	38,847	-	-
Maturing after 1 month but before 3 months	27,121	13,382	-	-
Maturing after 3 months, but within 1 year	38,005	36,449	-	-
Maturing after 1 year, but within 5 years	166,953	155,319	-	-
Maturing after 5 years	209,608	194,646	-	-
	476,529	**438,643**	**-**	**-**
(e) Sectorial analysis of gross loans and advances to customers:				
Private sector and individuals	449,678	413,510	-	-
Government and parastatals	26,851	25,133	-	-
	476,529	**438,643**	**-**	**-**

The weighted average effective interest rate on loans and advances as at 31 December 2018 was 12.5% (2017: 13.5%).

28. FINANCIAL ASSETS HELD AT AMORTIZED COST (2017-HTM)

Treasury bonds	GROUP		COMPANY	
Maturing as follows:-	2018 KShs.' million	2017 KShs. million	2018 KShs. million	2017 KShs. million
Maturing within 1 month	460	1,973	-	-
Maturing between 1-3 months	3,437	4,894	-	-
Maturing between 3-6 months	4,307	1,239	-	-
Maturing between 6-12 months	1,254	739	-	-
Maturing between 1-5 years	10,405	14,719	-	-
Maturing after 5 years	17,311	14,700	-	-
	37,174	**38,264**	**-**	**-**

Treasury bonds are debt securities issued by the Government of the Republic of Kenya, Government of Uganda, Government of the Republic of Rwanda, United Republic of Tanzania and Government of the Republic of Burundi. The bills and bonds are categorized as amounts held at amortised cost (2017-HTM) and carried at amortized cost.

The weighted average effective interest rates on Government securities as at 31 December 2018 was 12.8% (31 December 2017 – 10.6%).

29. PROPERTY AND EQUIPMENT

a) GROUP	Leasehold premises	Leasehold improvements	Freehold and furniture and equipment	
As at 31 December 2018:	KShs.' million	KShs.' million	KShs.' million	Total
COST:				
At 1 January 2018	1,808	3,955	19,635	25,398
Additions	-	40	2,919	2,959
Disposals	-	(50)	(230)	(280)
Translation differences	-	(883)	(470)	(1,353)
Hyperinflationary change	-	380	193	573
At 31 December 2018	**1,808**	**3,442**	**22,047**	**27,297**
DEPRECIATION				
At 1 January 2018	368	1,655	12,921	14,944
Charge for the year	18	145	1,692	1,855
Disposals	-	(30)	(212)	(242)
Translation differences	-	(242)	(220)	(462)
Hyperinflationary change	-	102	93	195
At 31 December 2018	**386**	**1,630**	**14,274**	**16,290**
CARRYING AMOUNT	**1,422**	**1,812**	**7,773**	**11,007**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

29. PROPERTY AND EQUIPMENT (Continued)

As at 31 December	Leasehold premises	Leasehold improvements	Freehold and furniture and equipment	
2017:	**KShs.' million**	**KShs.' million**	**KShs.' million**	**Total**
COST:				
At 1 January 2017	1,808	2,886	17,856	22,550
Additions	-	738	1,758	2,496
Disposals	-	(19)	(121)	(140)
Translation Difference	-	(457)	(333)	(790)
Hyperinflationary change	-	807	475	1,282
At 31 December 2017	**1,808**	**3,955**	**19,635**	**25,398**
DEPRECIATION:				
At 1 January 2017	351	1,414	11,412	13,177
Charge for the year	17	135	1,577	1,729
Disposals	-	(19)	(119)	(138)
Translation differences	-	(178)	(167)	(345)
Hyperinflationary change	-	303	218	521
At 31 December 2017	**368**	**1,655**	**12,921**	**14,944**
CARRYING AMOUNT	**1,440**	**2,300**	**6,714**	**10,454**

Included in property and equipment are fully depreciated assets amounting to KShs. 8,119 Million (31 December 2017: KShs. 6,985 Million) which would have a notional depreciation of KShs. 1,737 Million (31 December 2017: KShs. 1,245 Million)

(b) COMPANY	Leasehold premises	Leasehold improvements	Freehold and furniture and equipment	
As at 31 December 2018:	**KShs.' million**	**KShs.' million**	**KShs.' million**	**Total**
COST:				
At 1 January 2018	585	-	-	585
At 31 December 2018	**585**	**-**	**91**	**676**
DEPRECIATION				
At 1 January 2018	23	-	-	23
Charge for the year	3	-	1	4
At 31 December 2018	**26**	**-**	**1**	**27**
CARRYING AMOUNT At 31 December 2018	**559**	**-**	**90**	**649**
COST:				
At 1 January 2017	585	-	-	585
At 31 December 2017	**585**	**-**	**-**	**585**
DEPRECIATION			-	
At 1 January 2017	21	-	-	21
Charge for the year	3	-	-	3
At 31 December 2017	**24**	**-**	**-**	**24**
CARRYING AMOUNT At 31 December 2017	**561**	**-**	**-**	**561**

Included in property and equipment are fully depreciated assets amounting to KShs. 10.5 Million which would have a notional depreciation of KShs. 1.1 Million.

30. INTANGIBLE ASSETS

	GROUP		COMPANY	
	2018 KShs.' million	2017 KShs. million	2018 KShs. million	2017 KShs. million
COST				
At 1 January	8,550	7,290	-	-
Additions	921	1,244	-	-
Transfer to KCB Bank Kenya Limited	-	20	-	-
Translation differences	(2)	(4)	-	-
At 31 December	**9,469**	**8,550**	**-**	**-**
AMORTISATION				
At 1 January	5,179	4,123	-	-
Amortization for the year	1,288	1,060	-	-
Translation differences	(1)	(4)	-	-
At 31 December	**6,466**	**5,179**	**-**	**-**
CARRYING AMOUNT At 31 December	**3,003**	**3,371**	**-**	**-**

Included in intangible assets are fully depreciated assets amounting to KShs. 3,632 Million (31 December 2017: 2,806 Million) which would have a notional amortisation of KShs. 561 Million (31 December 2017: 526 Million)

The intangible assets are in respect of computer software purchase costs.

31. PREPAID OPERATING LEASE RENTALS

	GROUP		COMPANY	
	2018 KShs.' million	2017 KShs. million	2018 KShs. million	2017 KShs. million
COST				
At 1 January	223	223	-	-
At 31 December	**223**	**223**	**-**	**-**
AMORTISATION				
At 1 January	91	89	-	-
Charge for the year	3	2	-	-
At 31 December	**94**	**91**	-	-
CARRYING AMOUNT At 31 December	**129**	**132**	-	-

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

32. INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES

Investments in subsidiaries: Incorporated in Kenya:				
Company	**Activity**	**Beneficial ownership**	**2018 KShs.' million**	**2017 KShs.' million**
KCB Bank Kenya Limited	Commercial Banking	100	53,986	53,986
Kenya Commercial Finance Company Limited	Dormant	100	150	150
KCB Capital Limited	Investment	100	400	400
Savings & Loan Kenya Limited	Dormant	100	500	500
KCB Foundation	Corporate Social Responsibility	100	-	-
Kenya Commercial	Nominee			-
Bank Nominees Limited	Shareholders	100	-	
Kencom House Limited	Property Ownership & Management	100	749	749
KCB Insurance Agency Limited	Insurance Brokerage	100	-	-
Incorporated outside Kenya:				
KCB Bank Tanzania Limited	Commercial Banking	100	3,546	3,027
KCB Bank South Sudan Limited	Commercial Banking		2,354	2,354
KCB Bank Rwanda Limited	Commercial Banking	100	2,269	1,883
KCB Bank Burundi Limited	Commercial Banking	100	936	936
KCB Bank Uganda Limited	Commercial Banking	100	3,145	3,145
Investment in associates:				
United Finance Limited*	Dormant	45	-	-
			68,036	**67,649**

*Investment in United Finance is at KShs. 125,000

Movement in investment in subsidiaries		
Balance at 1 January	67,649	67,130
Additional investment in KCB Bank Uganda Limited	-	-
Additional investment in KCB Bank Tanzania Limited	-	519
Additional investment in KCB Bank Rwanda Limited	387	-
Additional investment in KCB Bank Kenya Limited	-	-
Additional investment in KCB Capital Limited	-	-
Total additional investment in subsidiaries	387	519
Balance at 31 December	**68,036**	**67,649**

The significant risks for the various subsidiaries have been documented in Note 4.

Significant restrictions

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios.

33. DEFERRED TAX

(a) Deferred tax asset	GROUP		COMPANY	
	2018 KShs.' million	2017 KShs. million	2018 KShs. million	2017 KShs. million
At 1 January	4,664	3,566	(2)	-
IFRS 9 initial application adjustment	3,062	-	-	-
Recognized in profit or loss	1,412	733	104	(2)
Retirement Benefit Scheme – through other comprehensive income	146	30	-	-
AFS Reserve – through OCI	(723)	(550)	-	-
Hyperinflation adjustment	166	520	-	-
Translation difference	(51)	365	-	-
At 31 December	**8,676**	**4,664**	**102**	**(2)**
The net deferred tax asset is attributable to the following items:	**-**			
Depreciation over tax allowances	535	661	94	-
Provisions	8,313	3,842	-	-
Retirement Benefit Scheme – remeasurement	205	(165)	-	-
Fair value reserve movement	(817)	(61)	8	(2)
Tax losses carried forward	440	387	-	-
	8,676	4,664	102	(2)
Comprising:	-			
Deferred tax asset	8,676	4,824	102	-
Deferred tax liability	-	(160)	-	(2)
	8,676	**4,664**	**102**	**(2)**

Recognition of deferred tax asset of KShs. 8,676 million (2017: KShs. 4,824 million) is based on management's profit forecasts (which are based on the available evidence, including historical levels of profitability), which indicates that it is probable that the group's entities will have future taxable profits against which these assets can be used.

34. DEPOSITS FROM BANKS

	GROUP		COMPANY	
	2018 KShs.' million	2017 KShs. million	2018 KShs. million	2017 KShs. million
Deposits and balances from other banks maturing as follows:	20,105	11,039	-	-
Payable within 1 month	11,350	6,531	-	-
Payable after 1 month, but within 3 months	7,384	1,819	-	-
Payable after 3 months, but within 1 year	1,371	2,689	-	-
	20,105	**11,039**	**-**	**-**

35. DEPOSITS FROM CUSTOMERS

	GROUP		COMPANY	
	2018 KShs.' million	2017 KShs. million	2018 KShs. million	2017 KShs. million
(a) From government and parastatals:				
Payable within 1 month	129,379	95,886	-	-
Payable after 1 month, but within 3 months	30,544	20,989	-	-
Payable after 3 months, but within 1 year	13,948	4,523	-	-
Payable after 1 year, but within 5 years	-	-	-	-
	173,871	**121,398**	-	-
(b) From private sector and individuals:				
Payable within 1 month	233,094	308,832	**-**	**-**
Payable within 1 month but within 3 months	60,334	40,709	-	-
Payable after 3 months, but within 1 year	62,799	26,322	-	-
Payable after 1 year, but within 5 years	7,362	2,288	-	-
	363,589	**378,151**	-	-
	537,460	**499,549**	**-**	**-**
Total other customer deposits				
Maturing as follows:				
Payable within 1 month	362,473	404,718	-	-
Payable after 1 month but within 3 months	90,878	61,698	-	-
Payable after 3 months but within 1 year	76,747	30,845	**-**	**-**
Payable after 1 year but within 5 years	7,362	2,288	-	-
	537,460	**499,549**	**-**	**-**

The weighted average effective interest rates on interest bearing customer deposits as at At 31 December 2018 was 7.4% (At 31 December 2017 – 7.4%).

36. BILLS PAYABLE

	GROUP		COMPANY	
	2018 KShs.' million	2017 KShs. million	2018 KShs. million	2017 KShs. million
Bills payable	**5,514**	**6,141**	**-**	**1,267**

37. OTHER LIABILITIES

	GROUP		COMPANY	
	2018 KShs.' million	2017 KShs. million	2018 KShs. million	2017 KShs. million
Accruals	4,814	4,868	-	-
Other payables	10,003	3,785	55	-
	14,817	**8,653**	**55**	**-**

38. RELATED PARTY TRANSACTIONS

A number of transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. The volumes of related party transactions, outstanding balances at the end of the year and the related expenses and income for the year are as follows:

(a) Balances due from group companies	COMPANY	
	2018 KShs.' million	2017 KShs. million
KCB Bank Rwanda Limited	-	256
KCB Bank Kenya Limited	7,105	8,313
	7,105	**8,569**
(b) Balances due to group companies		
KCB Bank South Sudan Limited	731	70
Net balances due to group companies	731	70
	6,374	**8,499**

Balances due from and due to group companies are non-interest bearing and are generally on 30 to 90 day credit terms. The balances relate to transactions entered into with the subsidiary companies at arm's length in the ordinary course of business.

	GROUP		COMPANY	
	2018 KShs.' million	2017 KShs. million	2018 KShs. million	2017 KShs. million
(i) Loans				
Government of Kenya	1,685	548	-	-
Directors - Executive	45	49	-	-
-Non Executive	44	47	-	-
Senior management	371	513	-	-
	2,145	**1,157**	**-**	**-**
(Movement in loans to Directors and senior management				
At 1 January	609	572	-	-
Loans issued during the year	362	127	-	-
Loans repayments during the year	(511)	(90)	-	-
At 31 December	**460**	**609**	-	-
Interest income earned	**32**	**15**	**-**	**-**
(ii) Deposits				
Government of Kenya	89,761	84,418	-	-
Directors	47	86	-	-
Senior management	74	39	-	-
At 31 December	**89,882**	**84,543**	**-**	**-**
Movement in deposits by Directors and senior management			-	-
At 1 January	35	90	-	-
Deposits received during the year	1,292	1,313	-	-
Deposits withdrawn during the year	(1,206)	(1,278)	-	-
At 31 December	**121**	**125**	**-**	**-**
Interest expense	**71**	**1**	**-**	**-**

38. RELATED PARTY TRANSACTIONS (Continued)

Interest rates charged on balances outstanding from related parties are approximately half of the rates that would be charged in an arm's length transaction. The interest charged on balances outstanding from related parties amounted to KShs. 32 million (2017: Shs 15 million). The interest paid on balances outstanding to related parties amounted to KShs. 71 million (2017: 1 million). The mortgages and secured loans granted are secured over property of the respective borrowers. Other balances are not secured and no guarantees have been obtained.

No impairment losses have been recorded against balances outstanding during the period with key management personnel and no specific allowance has been made for impairment losses on balances with key management personnel at the reporting date.

	GROUP		COMPANY	
	2018 KShs.' million	2017 KShs. million	2018 KShs. million	2017 KShs. million
(iii) Senior management personnel compensation (Included under personnel costs - Note 15)				
Short term employee benefits	**291**	**391**	**-**	**-**

(iv) Directors' remuneration during the year amounted to KShs. 427 million (2017: KShs. 400 million).

39. BORROWINGS

	GROUP		COMPANY	
	2018 KShs.' million	2017 KShs. million	2018 KShs. million	2017 KShs. million
Maturing within one year	1,506	2,255	-	-
Maturing after one year, but within five years	10,756	5,008	-	-
Maturing after 5 years	10,185	7,632	-	7,755
	22,447	**14,895**	**-**	**7,755**

Reconciliation of the movement in the long term debt		
	2018 KShs.' million	2017 KShs. million
At 1 January	14,895	22,982
Funds received - International Finance Corporation	-	1,065
Funds received - European Investment Bank	-	1,557
Payments on principal and interest	(2,759)	(10,876)
Funds received - African Development Bank	10,185	-
Translation differences	126	167
Net movement in borrowings	7,552	(8,087)
At 31 December	**22,447**	**14,895**
Company		
At 1 January	7,755	-
Borrowings transferred to KCB Bank Kenya Limited	(7,755)	-
Recognition of International Finance Corporation loan surbordinated to KCB Bank Kenya Limited	-	7,755
Net movement in borrowings	(7,755)	7,755
At 31 December	**-**	**7,755**

39. BORROWINGS (Continued)

The long term debt includes: -

(a) A 7 year loan obtained from African Development Bank (ADB) in 2018 of USD 100 million by KCB Bank Kenya at interest terms of Libor+2.70 p.a.%.

(b) A 6 year loan obtained from International Finance Corporation in 2016 of USD 40 million by KCB Bank Kenya at interest terms of Libor +3.5 p.a.%.

(c) A 7 year loan obtained from International Finance Corporation (IFC) in 2016 of USD 75 million by KCB Group PLC ,KCB Bank Kenya being Co-borrower at interest terms of Libor+5.3 p.a.%.

(d) A six year loan obtained by KCB Bank Rwanda in 2012 from IFC of RWF 2,200,700,000, it's effective interest rate is 5.4 p.a.%

(e) A 5 year loan of RWF 4,412 million obtained by KCB Bank Rwanda from European Investment Bank , it's effective interest rate is 8.04 p.a.%

(f) A 5 year loan obtained from International Finance Corporation by KCB Bank Uganda

in 2016 of USD 10 million at interest terms of Libor +3.5 p.a. %. ok

(g) A 7 year loan obtained from European Investment Bank by KCB Bank Uganda

in 2017 of UGX 33 billion at interest terms of 11.66 p.a. % ok

(h) A 7 year loan obtained from European Investment Bank (EIB) by KCB Bank Tanzania in 2017 of TZS 27.9 billion at interest terms of 9.72% p.a.

(i) A 3 year loan obtained from Tanzania Mortgage Refinance Company (TMRC) by KCB Bank Tanzania in 2017 of TZS 5.0 billion at interest terms of 12.5% p.a.

(j) A 3 year loan obtained from Tanzania Mortgage Refinance Company (TMRC) by KCB Bank Tanzania in 2018 of TZS 5.0 billion at interest terms of 10.0% p.a.

40. SHARE CAPITAL

GROUP AND COMPANY		
(a) Share capital	**2018 KShs.' million**	**2017 KShs. million**
Authorised:		
As at 1 January and 31 December 2018: 4,500,000,000 (2017: 4,500,000,000) ordinary shares of KShs. 1 each	**4,500**	**4,500**
Issued and fully paid:		
As at 1 January and 31 December 2018: 3,066,063,487 (2017: 3,066,063,487) ordinary shares of KShs. 1 each	**3,066**	**3,066**

All ordinary shares rank equally with regards to the Company's residual assets, entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the company.

(b) Shareholding

The top ten largest shareholders of the Company as at 31 December 2018 were:

Shareholder	No. of shares	%
Permanent Secretary to the Treasury of Kenya	537,378,947	17.53
National Social Security Fund	187,634,448	6.12
Stanbic Nominees Ltd A/C NR3530153-1	85,000,000	2.77
Standard Chartered Nominees Non-Resd. A/C 9069	56,920,595	1.86
Standard Chartered Nominees Non-Resd. A/C 9867	48,276,780	1.57
Standard Chartered Nominees A/C 9688	45,778,323	1.49
Standard Chartered Kenya Nominees Ltd A/C KE002382	33,067,087	1.08
Standard Chartered Nominees A/C 9687	31,680,986	1.03
Standard Chartered Nominee Account KE17682	30,290,760	0.99
Sandip Kana Sinh Babla & Alka Sandip Babla	28,728,500	0.94
Total shares	**1,084,756,426**	**35.38**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

40. SHARE CAPITAL (Continued)

The distribution of shareholders as at 31 December 2018 was as follows:

Share range	No. of shareholders	Shares held	%
1 to 5000	125,072	200,153,731	6.53
5,001-50,000	26,666	280,001,951	9.13
50,001-100,000	779	53,485,447	1.74
100,001-1,000,000	923	274,721,730	8.96
1,000,001 and above	300	2,257,700,628	73.64
	153,740	**3,066,063,487**	**100.00**

The distribution of shareholders as at 31 December 2018 was as follows:

Share range	No. of shareholders	Shares held	%
1 to 5000	125,072	200,153,731	6.53
5,001-50,000	26,666	280,001,951	9.13
50,001-100,000	779	53,485,447	1.74
100,001-1,000,000	923	274,721,730	8.96
1,000,001 and above	300	2,257,700,628	73.64
	153,740	**3,066,063,487**	**100.00**

41. RESERVES

The distribution of shareholders as at 31 December 2018 was as follows:

	GROUP		COMPANY	
	2018 KShs.' million	2017 KShs. million	2018 KShs. million	2017 KShs. million
Retained earnings	85,056	68,926	43,773	37,894
Share Premium	21,647	21,647	21,647	21,647
Proposed dividend	7,665	6,132	7,665	6,132
Statutory credit risk reserve	1,222	11,233	-	-
Other reserves:				
-Fair value reserve	1,821	134	(43)	(24)
- Defined benefit reserve	44	384	-	-
- Hyperinflation reserve	2,984	2,320	-	-
- Translation reserve	(9,844)	(7,877)	-	-
	(4,995)	(5,039)	(43)	(24)
	110,595	**102,899**	**73,042**	**65,649**

41. RESERVES (Continued)

The *share premium* arises from issue of shares at a price higher than the par value of the shares. This amount is not available for distribution.

The *fair value reserve* arises from marking to market of investment securities classified under FVTOCI (2017-AFS) category. The reserves are recognized in income statement once the underlying asset has been derecognized. This amount is not available for distribution.

Statutory credit risk reserve represents an amount set aside to cover additional provision for loan losses required to comply with the requirements of Central Banks Prudential guidelines. This amount is not available for distribution.

The *foreign currency translation reserve* arises from translation of the net investment in foreign subsidiaries to Kenya Shillings. This amount is not available for distribution.

Defined benefit reserve arises from changes in the fair value of the net assets held by the pension fund. The reserves are recognized in profit or loss once the underlying asset has been derecognized and is not available for distribution.

Hyperinflation reserve relates to changes in equity of the foreign operation as a result of adjusting non-monetary assets and liabilities and equity balances for hyperinflation under IAS 29. The hyperinflation adjustment has been presented as an adjustment to equity in the statement of changes in equity.

42. DIVIDEND PER SHARE

Dividends are recognized as a liability in the period in which they are declared. At the Annual General Meeting to be held on 30 May 2019, a final dividend in respect of the year ended 31 December 2018 of KShs. 7,665 million (2017 – 6,132 million) for every ordinary share of KShs. 2.5 is to be proposed. An interim dividend of KShs. 1 i.e. KShs. 3,066 Million, (2017 – KShs. 3,066) was declared and paid during the year making in all KShs. 3.5 per share (KShs. 10,731). Payment of dividends is subject to withholding tax at the rate of 5% for residents and 10% for non-resident shareholders.

GROUP AND COMPANY		
	2018 KShs.' million	**2017 KShs. million**
Dividends per share (KShs.)	3.50	3.00
At 1 January	640	3,706
Interim dividend declared and paid	3,066	3,066
Final dividend proposed	7,665	6,132
Dividend paid	(9,198)	(12,264)
At 31 December	**2,173**	**640**

43. NOTES TO THE STATEMENT OF CASH FLOWS

	GROUP		COMPANY	
	2018 KShs.' million	2017 KShs. million	2018 KShs. million	2017 KShs. million
(a) Cash flows from operating activities				
This has been derived as follows:- Profit before tax	33,859	29,114	16,506	12,286
Adjustments for:				
Depreciation of property and equipment	1,855	1,729	4	3
Amortization of prepaid operating lease rentals	3	2	-	-
Amortization of intangible assets	1,288	1,060	-	-
Net interest income	(48,831)	(48,385)	(45)	(53)
Dividend income	-	-	(16,864)	(12,417)
Hyperinflation adjustments	120	1,361	-	-
Retirement benefit expense	(126)	(107)	-	-
Profit/(loss) on disposal of property and equipment	21	(12)	-	-
Operating profit before movements in operating assets and liabilities	**(11,811)**	**(15,238)**	**(399)**	**(181)**
(b) Cash flows from operating activities				
Cash reserve ratio	(5,369)	(6,940)	-	-
Financial assets FVTOCI	(11,098)	(7,942)	-	-
Financial assets held at amortised cost	(1,880)	5,948	-	-
Loans and advances	(43,402)	(36,940)	-	-
Related parties balance	-	-	2,125	66
Other assets	(8,834)	(4,675)	20	(20)
Deposits from banks	9,066	(3,885)	-	-
Other customer deposits	37,911	51,375	-	-
Other liabilities	5,537	1,435	(1,212)	527
	(29,880)	**(16,862)**	**534**	**392**
Interest received	66,281	63,674	317	580
Dividend received	-	-	16,864	12,417
Interest paid	(17,450)	(15,288)	(272)	(527)
Income taxes paid	(11,403)	(11,366)	-	(142)
Net cash flows from operating activities	**7,908**	**20,158**	**17,443**	**12,720**
(c) Analysis of cash and cash equivalents				
Balances with Central Banks	3,652	15,064	-	-
Cash on hand	11,063	5,633	-	-
Bank balances	-	-	899	888
Financial assets held at amortised cost	3,897	6,867	-	-
Advances to banks	32,017	19,910	-	-
	50,629	**47,474**	**899**	**888**

43. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months to maturity from the date of acquisition. Cash and cash equivalents excludes, KShs. 33,277 million (2017 - KShs. 31,397 million) being the cash reserve requirement held with the Central Banks which is not available for use by the Group.

The cash and cash equivalent components disclosed above are same amounts included in the statement of financial position except held at amortised cost investments, whose reconciliation is as follows:

	GROUP		COMPANY	
	2018 KShs.' million	2017 KShs. million	2018 KShs. million	2017 KShs. million
Balance as per statement of cash flows	3,897	6,867	-	-
Balances with more than three months maturity from the acquisition date	33,277	31,397	-	-
Balance as per statement of financial position	**37,174**	**38,264**	**-**	**-**

44. COMMITMENTS

To meet the financial needs of the customers, the Group enters into various irrevocable commitments. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

	GROUP		COMPANY	
	2018 KShs.' million	2017 KShs. million	2018 KShs. million	2017 KShs. million
Capital commitments contracted for at year end	2,199	89	-	-
Loans committed but not disbursed at year end	46,718	16,753	-	-
Foreign currency commitments	1,456	7	-	-

Commitments to extend credit represent contractual commitments to make loans and other credit facilities to counterparties who, as per the Group credit risk rating model, are rated as either normal or watch. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

45. CONTINGENT LIABILITIES

To meet the financial needs of the customers, the Group enters into various irrevocable commitments. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

	GROUP		COMPANY	
	2018 KShs.'000	2017 KShs.'000	2018 KShs.'000	2017 KShs.'000
Letters of credit, acceptances, guarantees, indemnities and other engagements entered into on behalf of customers at year end	**94,585**	**93,534**	**-**	**-**

Letters of credit, guarantees and acceptances commit the Company and its subsidiary companies to make payments on behalf of the customers in the event of a specific act, generally relating to the import and export of goods. Guarantees and letters of credit carry the same credit risk as loans.

In addition to this, litigation is a common occurrence in the banking industry due to the nature of the business. The Group and its subsidiary companies have established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claim may have on its financial standing.

At year end, the Group had several unresolved legal and tax claims. However, the Group believes, based on the information currently available, that the ultimate resolution of these legal proceedings and tax claims would not likely have a material effect on its operations.

46. RETIREMENT BENEFIT OBLIGATIONS

KCB Pension Fund and Staff Retirement Benefit Scheme

KCB Bank Kenya Limited, a subsidiary of the Group operates a funded defined benefit plan.

KCB Pension Fund and Staff Retirement Benefit Scheme

The Bank operates a funded defined benefit plan. The Fund closed to new entrants effective 1 June 2006. The Fund is non-contributory with the Bank responsible for the cost of benefits accruing. The Fund is established under trust. The Fund assets are invested in a variety of asset classes comprising Government securities, corporate bonds, call and term deposits, investment properties, shares and off shore investments. Old Mutual Asset Managers and Pine Bridge Investments (East Africa) limited are responsible for the investment of assets.

Characteristics and risks of the Fund

The Fund is registered under irrevocable trust with the Retirement Benefits Authority. The Retirement Benefits Act, 1997 ("the Act") and the Regulations under the Act require the Fund to maintain a funding level of 100%. Where the funding level is below, such deficits are required to be amortized over a period not exceeding 6 years.

- The Fund is managed by a Board of Trustees. The Board is responsible for the overall operation of the Fund including making sure benefits are paid to beneficiaries on time.
- 44.5% of the Fund assets are invested in property assets. The exposure is a concentration risk to the property market for the Fund and, by extension, the Company.
- Following the closing of the Fund as at 1 June 2006, some active in-service members opted to transfer their accrued benefits under the Fund to the new Defined Contribution Plan established by the Company. The Fund therefore comprises mainly of pensioners and deferred pensioners, although some in-service members remain in the Fund. Some of the main risks relating to the benefits under the Fund are the rates of pension increases and the rates of return earned on the Fund assets. For the in-service members, rates of salary escalation will also have a direct bearing on the benefits paid under the Fund. In addition, the pension benefits are payable for the duration of the life of the pensioners. Therefore, the Fund's post-retirement mortality experience with respect to the pensioners will also have an impact on the liabilities under the Fund.

The information below summarizes the scheme assets and liabilities:

Composition of fund assets based on the Investment Manager's reports as at 31 December 2018.

Asset Class	2018		2017	
	KShs. Million	Percentage	KShs. Million	Percentage
Property	3,885	47.53%	4,126	48.1%
Government securities	2,263	27.69%	2,196	25.6%
Fixed and term deposits	387	4.74%	229	2.7%
Quoted equities	1,404	17.18%	1,610	18.8%
Corporate bonds	309	3.78%	315	3.7%
Cash and demand deposits	-	0.00%	101	1.2%
Net current liability	(75)	-0.92%	-	0.0%
Total	**8,173**	**100%**	**8,577**	**100%**

Changes in the present value of the defined benefit obligation over the year:

	2018 KShs. Million	2017 KShs. Million
At start of year	7,019	6,622
Current service cost (net of employer contributions)	-	66
Interest cost	62	902
Actuarial gain/(loss)-due to experience	893	(110)
Actuarial gain/(loss)-due to changes in assumptions	212	408
Benefits paid	**(877)**	**(869)**
At end of year	**7,309**	**7,019**

	2018 KShs. Million	2017 KShs. Million
At start of year	8,577	7,788
Interest income on plan assets	1,102	1,070
Employer contributions	52	56
Actuarial gains/(loss)	(681)	532
Benefits paid	(877)	(869)
At end of year	**8,173**	**8,577**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

46. RETIREMENT BENEFIT OBLIGATIONS (Continued)

Changes in the fair value of plan assets over the year:

	2018 KShs.'000	2017 KShs.'000
Present value of fund obligations	(7,309)	(7,019)
Fair value of plan assets	8,173	8,577
Effect of asset ceiling at end of period	(206)	(540)
Asset recognized in the statement of financial position	**658**	**1,018**

Reconciliation of asset in the statement of financial position:

	2018 KShs.'000	2017 KShs.'000
At start of year	1,018	811
Net expense recognised in statement of profit and loss	74	51
Employer contribution	52	56
Amount recognised in other comprehensive income	(486)	100
At end of year	**658**	**1,018**

The amount recognised in profit and loss for the year are as follows:

Service Cost	2018 KShs.'000	2017 KShs.'000
Current service cost (employer)	62	66
Total Service Cost	**62**	**66**
Interest Cost		
Interest cost on defined benefit obligation	893	902
Interest income on plan assets	(1,102)	(1,070)
Interest on the effect of the asset ceiling	73	51
Net interest cost on Balance Sheet liability	**(136)**	**(117)**
Net included in profit and loss in respect of the scheme	**(74)**	**(51)**
Re-measurement (Other comprehensive income)		
Actuarial loss – obligation	212	298
Return on plan assets (excluding amount in interest cost)	(681)	(532)
Change in effect of asset ceiling (excluding amount in interest cost)	407	134
Amount recognized in other comprehensive income	**(486)**	**(100)**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

46. RETIREMENT BENEFIT OBLIGATIONS (Continued)

The principal actuarial assumptions used are as follows:

Actuarial Assumptions	2018	2017
Discount Rate (% p.a.)	13.00%	13.5%
Future salary increases (% p.a.)	6.00%	6%
Future pension increases (% p.a.)		0.0%
Mortality (pre-retirement)	A1949-1952	A1949-1952
Mortality (post-retirement)	a(55) ultimate	a(55) ultimate
Withdrawals (voluntary)	At rates consistent with similar arrangements	At rates consistent with similar arrangements
Retirement age	55 years	55 years

Sensitivity Analysis

The results of the actuarial valuation will be more sensitive to changes in the financial assumptions than changes in the demographic assumptions. In preparing the sensitivity analysis of the results to the discount rate used, we have relied on our calculations of the duration of the liability. Based on this methodology, the results of our sensitivity analysis are summarized in the table below:

	Current discount rate KShs.'million	Discount rate +1% KShs.'million
Present Value of Obligation	7,309	7,019

Given a large portion of the liability is in respect of inactive members, the sensitivity of the liability to a change in the salary escalation assumption will not be as significant as a change to the discount rate as it affects only in-service members.

47. OPERATING LEASE COMMITMENTS

	2018 KShs.'million	2017 KShs.'million
Within 1 year	832	739
After 1 year but less than 5 years	5,805	2,337
After 5 years	715	2,664
	7,352	**5,740**
Operating leases – Group as lessor		
Within 1 year	108	690
After 1 year but less than 5 years	218	173
After 5 years	-	7
	326	**870**

The Group leases a number of branch and office premises under operating leases. The leases typically run for a year up to ten years, with an option to renew the lease upon expiry. Lease rentals are increased accordingly to reflect market rentals.

48. HYPERINFLATION

The Directors considered the following factors in determining and concluding that the South Sudan economy was hyperinflationary:

(a) The population's preference to keep wealth in non-monetary assets or a relatively stable foreign currency;

(b) Prices for credit transactions being set at levels to compensate for expected loss of purchasing power during the credit period;

(c) Interest rates and wages are frequently adjusted to compensate the loss of purchasing power; and

(d) The cumulative inflation rate over the past three years exceeding 100%.

The cumulative three years inflation rate was approximately 1,285.30% as at 31 December 2018 in South Sudan. The data below represents the Consumer Price Indexes (CPI) used in 2016 and prior year restatements in the KCB Bank South Sudan individual financial statements for the year ending 31 December 2018. The source of the price indexes used was the International Monetary Fund (IMF).

CPI as at 31 December 2016	2,780.51
CPI as at 31 December 2017	5,392.80
CPI as at 31 December 2018	6,916.73
Average CPI in 2016	1,592.32
Average CPI in 2017	4,384.19
Average CPI in 2018	6,975.10

49. EVENTS AFTER THE REPORTING PERIOD

KCB Bank Kenya, a susidiary, received approval from the Central Bank of Kenya and Kenya Deposit Insurance Corporation (KDIC) to enter into a part transfer of assets and liabilities of Imperial Bank Limited (in receivership) -IBLR. The verification exercise is expected to be concluded in the first half of 2019 with the actual transfer of the selected assets to the KCB Bank Kenya books.

NOTES

NOTICE OF THE 48TH ANNUAL GENERAL MEETING

KCB GROUP PLC.
(Incorporated in Kenya under the Companies Act, 2015, Laws of Kenya)
(Registration Number C 9/88)

NOTICE IS HEREBY GIVEN that the **48TH ANNUAL GENERAL MEETING** of the shareholders of **KCB GROUP PLC** will be held in the **Kasarani Indoor Sports Arena, Nairobi,** on **Thursday, 30 May, 2019** at **10:00 a.m.** when the following business will be transacted, namely:

AGENDA

1. **Constitution of the Meeting**
   To read the notice convening the meeting and determine if a quorum is present.

2. **Ordinary Business**

   a. **Report and Financial Statements for the Year ended 31 December, 2018**
   To receive, consider and, if thought fit, adopt the Audited Consolidated Financial Statements for the year ended 31 December, 2018 together with the reports of the Directors, the Group Chairman, the Group Chief Executive Officer and the Auditor thereon.

   b. **Dividend**
   To confirm the interim dividend of KShs. 1.00 per ordinary share paid on 30 November, 2018 and to declare a final dividend of KShs. 2.50 per ordinary share, payable, net of withholding tax, on or before 30 July, 2019 to shareholders on the Register of Members at the close of business on 29 April, 2019. The dividend for the full year will be KShs. 3.50 per share.

   c. **Election of Directors**
   (a) Rotation of Directors
   In accordance with Articles 94 and 95 of the Company's Articles of Association, the following Directors retire by rotation, and being eligible, offer themselves for re-election:

   i) Mr. Adil Khawaja
   ii) Mr. John Nyerere
   iii) The Cabinet Secretary – National Treasury

   (b) Retirement of Directors
   In accordance with Article 93 Ms. Faith Bett-Boinett ceased to be a director.

   (c) Audit Committee
   In accordance with the provisions of Section 769 of the Companies Act, 2015, the following directors, being members of the Board Audit Committee be elected to continue to serve as members of the said Committee:

   i) Mr. Lawrence Mark Njiru
   ii) Ms. Georgina Malombe
   iii) Mr. John Nyerere

   d. **Remuneration of Directors**
   To receive, consider and, if thought fit, approve the Directors' Remuneration Report and to authorize the Board to fix the remuneration of Directors.

   e. **Appointment of Auditors**
   To re-appoint Messrs. KPMG Kenya, Certified Public Accountants, as the Auditors of the Company until conclusion of the next Annual General Meeting.

   f. **Remuneration of the Auditors**
   To authorize Directors to fix the remuneration of the Auditors.

3. **Special Business**
   Proposed Acquisition of 100% Shares in National Bank of Kenya Limited
   To consider and, if deemed appropriate to pass the following resolutions, noting that the completion of the proposed acquisition is subject to, and conditional upon fulfilment (or waiver to the extent legally capable of waiver) or receipt, as the case may be, of the various conditions, approvals and exemptions (as may be applicable) in form and substance acceptable to the Company:

A. Ordinary Resolution

a) **THAT** the proposed acquisition of 100% of the issued ordinary shares of National Bank of Kenya Limited (the **Take-Over Scheme**) in accordance with the terms set out in the take-over offer document (the **Offer Document**) issued to the shareholders of National Bank of Kenya Limited (**NBK**) pursuant to Regulation 7 of The Capital Markets (Take-Overs and Mergers) Regulations, 2002, which will on successful completion result in the shareholders of NBK who accept the offer becoming shareholders of the Company, and NBK becoming a subsidiary of the Company, be and is hereby approved.

b) **THAT** subject to fulfilment (or waiver at the sole discretion of KCB where such condition is legally capable of waiver) of the conditions of the Take-Over Scheme, the issuance of up to a maximum of 147,378,120 ordinary shares of the Company with a nominal value of Kes 1.00 each (the Swap Shares) to the shareholders of NBK who accept the take-over offer in consideration for the transfer of their shares in NBK to the Company, be and is hereby approved.

c) **THAT** subject to receipt of the Capital Market Authority's approval, the listing of the Swap Shares so issued on the Main Investment Market Segment of the Nairobi Securities Exchange be and is hereby approved.

d) **THAT** the Directors be and are hereby authorised to do all such things as are necessary to effect the Take-Over Scheme.

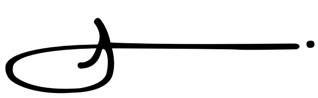
B. Special Resolution

THAT subject to the passing of resolution (b) above, the Directors be and are hereby authorised to allot and issue the Swap Shares to the shareholders of NBK who accept the offer without first offering them to existing shareholders of the Company on the basis of their pre-emption rights, as if Section 338 of the Companies Act did not apply to such issuance.

4. Any Other Business

To transact any other business of the Company for which due notice has been received

BY ORDER OF THE BOARD



JOSEPH KANIA
GROUP COMPANY SECRETARY
8 May, 2019

Note:

1. A member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company. To be valid, a proxy form, which is provided by the Company, must be completed and signed by the member and must be lodged at the offices of Company's share registrar, **Image Registrars Limited**, 5th Floor, Barclays Plaza, Loita Street, P.O. Box 9287, GPO 00100, Nairobi, to arrive not later than **10:00 a.m.** on **28 May, 2019** i.e. 48 hours before the meeting or any adjournment thereof.

   If the appointer is a body corporate, the instrument appointing the proxy shall be given under its common seal or under the hand of an officer or duly authorized attorney of such corporation or Government office.
2. In accordance with Article 129, a copy of this Notice, Proxy Form and the entire Annual Report & Accounts may be viewed on and downloaded from the Company's website at **www.kcbgroup.com**.
3. Registration of members and proxies for the Annual General Meeting will commence at 8:00 a.m. on 30 May, 2019. Members and proxies should carry their national ID cards and a copy of the relevant Central Depository and Settlement Corporation (CDSC) account statement for ease of registration process.
4. Transport will be provided to Shareholders from Kencom House to the Kasarani Indoor Sports Arena, from **6:30 a.m**. to **10:00 a.m**. and back to Kencom House at the close of the meeting.

NOTES

NOTES

PROXY FORM

THE GROUP COMPANY SECRETARY,
KCB GROUP PLC.,
KENCOM HOUSE, MOI AVENUE,
P. O. BOX 48400 – 00100,
NAIROBI, KENYA

I/We ____

holder of ID/Passport No. ____

and of P. O. Box ____

Being a Member/Members of KCB Group Plc., hereby appoint

____

ID/Passport No. ____

or failing him, the duly appointed Chairman of the meeting to be my/our proxy, to vote on my/our behalf at the 48th Annual General Meeting to be held on 30 May, 2019 at 10.00 am or at any adjournment.

Signed this ________________________ day of ____________________, 2019

Signature(s) ____

____

Note:

1. If a member is unable to attend personally, this Proxy Form should be completed and returned to reach the Company's share registrar, Image Registrars Limited, 5th Floor, Barclays Plaza, Loita Street, P.O. Box 9287, GPO 00100, Nairobi, to arrive not later than 10:00 a.m. on 28 May, 2019 i.e. 48 hours before the meeting or any adjournment thereof.

2. A person appointed as a proxy need not be a member of the Company

3. In case of a member being a corporate body, the Proxy Form must be under its common seal or under the hand of an officer or duly authorized attorney of such corporate body.


KCB M-PESA
NEW &
IMPROVED
NEED TO SAVE?
WEKA WEKA
NA KCB M-PESA
GO TO M-PESA MENU >> LOANS AND SAVINGS
KCB M-PESA >> OPEN TARGET SAVINGS ACCOUNT
Earn over 6% p.a interest. The more you save, the more you can borrow.
Regulated by the Central Bank of Kenya.
KCB BANK
The strength to grow
Safaricom
Twaweza


8
27