2019 INTEGRATED REPORT & FINANCIAL STATEMENTS

Regulated by the Central Bank of Kenya

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About this report

The KCB Group Plc. Integrated Report and Financial Statement 2019 provides a balanced and comprehensive view of the Group's performance as part of our continuous efforts to enhance disclosure and keep our stakeholders well informed.
The Report has been prepared for the period of January 1, 2019 to December 31, 2019 and covers the business activities of the 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 provisions of the 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 commitment to be transparent and accountable to our stakeholders.

Assurance

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

Contents

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

Established in 1896, KCB has evolved to be East Africa's largest commercial bank. Headquartered in Nairobi, it operates in 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 National Bank of Kenya (NBK)— acquired in 2019— KCB Insurance Agency, KCB Capital, KCB Foundation and other associate companies.

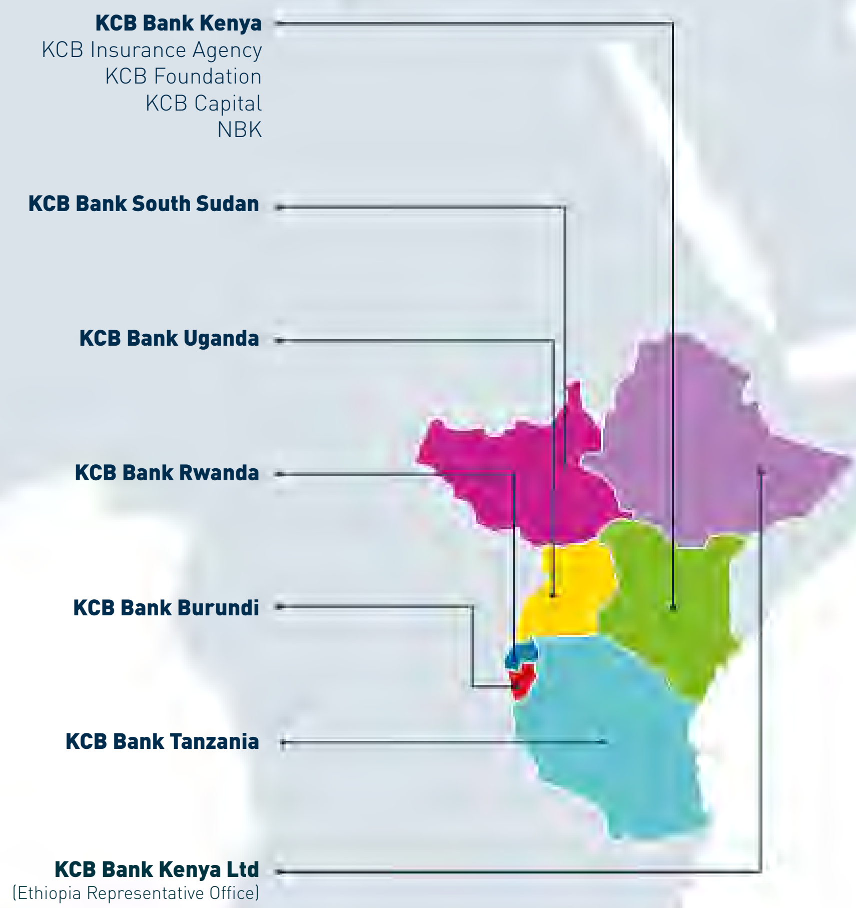
Today, the Group has the largest branch network in the region with 342 branches, 1,055 ATMs, 23,302 point of sale (PoS)/merchants and agents offering banking services on a 24/7 basis. This is complemented by mobile banking and internet banking services with a 24-hour contact center for our 22.8 million customers. The Group also has a wide network of correspondent relationships of over 200 banks across the world, thereby assuring our customers of a seamless facilitation of their international trade requirements wherever they are. Our shares are listed at the Nairobi Securities Exchange (NSE), Dar es Salaam Stock Exchange (DSE), Uganda Securities Exchange (USE), and Rwanda Stock Exchange (RSE).

KCB Group has supported East Africa's economic growth agenda; fulfilling customers' ambitions in the region and linking them to opportunities on the African continent and beyond. Our focus remains on areas where we believe we can make a significant difference in fulfilling customers' ambitions and driving financial inclusion while supporting businesses to grow.

We provide a broad range of financial products and services in retail banking, corporate banking, investment banking and insurance. The Bank also offers mortgages and Shariah-compliant products.

KCB has over the years continually invested in deepening its sustainability agenda that is anchored on building a responsible business for the future with special focus on environmental, social, financial and economic pillars.

Our Regional Presence



342 Branches
1,055 ATMs | 23,302 Agents & POS / Merchants

7,584 Staff
22.8 million customers

KShs. 129,741,108,000
Total Equity

Group Performance Highlights

Financial

	2019	2018
Profit Before Tax (KShs. Million)	36,897	33,859
Net Loans and Advances (KShs. Million)	535,371	455,880
Non Performing Loans (KShs. Million)	63,396	32,692
Customer Deposits (KShs. Million)	686,583	537,460
Dividends (KShs. Million)	11,099	10,731
Total debt / Total equity	16.6%	19.8%
Market Capitalization (KShs. Million)	173,527	114,822
Return on Average Equity	20.7%	22.0%
Cost to Income Ratio	45.9%	48.3%

Non-Financial

	2019	2018
Net Promoter Score	42%	43%
Customer Complaints	980,443	972,439
Total Employee Benefits (KShs. M)	19,459	17,007
Reduction in Greenhouse Gas emissions	7%	23%
Reams of paper used	58,611	60,625
Water use	142M litres	187M litres
Electricity Consumption at Kencom Head Office (Million Kw\h)	3.26	3.35
Female/Male Ratio	44:56	43:57
Number of staff health and safety incidences (in the work place)	4	9

Our Footprint

South Sudan
Branches **11**
ATMs **3**
Agents **25**
Merchant outlets **7**
Staff **117**

Uganda
Branches **15**
ATMs **18**
Agents **522**
Merchant outlets **266**
Staff **330**

Rwanda
Branches **14**
ATMs **25**
Agents **522**
Merchant outlets **211**
Staff **253**

Burundi
Branches **6**
ATMs **7**
Agents **185**
Merchant outlets **33**
Staff **127**

Kenya
Branches **282**
ATMs **454**
Agents **14,493**
Merchant outlets **5,573**
Staff **6,469**

Tanzania
Branches **14**
ATMs **15**
Agents **144**
Merchant outlets **289**
Staff **287**

Ethiopia
(Representative Office)
Staff **1**

Branch vs Non-Branch Transactions

	2017	2018	2019
Branch Transactions	23%	12%	3%
Non-Branch Transactions	77%	88%	97%

Digital Channel Performance

Number of Channel Transactions (millions)

	Agency	Mobile	ATMs	Merchant POS	Branch Teller	Internet
2019	**45.3**	**281.3**	**14.0**	**6.7**	**12.5**	**1.6**
2018	34.7	62.1	15.4	7.9	16.2	1.3
	31%	353%	-9%	-15%	-23%	38%

2015 - 2019 Strategy (Transformative partnerships)

What drives us

Corporate BSC

Financial
- PBT
- Efficiency
- Shareholder Value

Customer Perspective
- Market Share
- Shared Value
- Brand Position

Internal Business Processes
- System Reliability
- Sustainability
- Control Environment

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

Strategy Pillars

Customer Experience

Digital Financial Services

Network Spread

Youth Agenda

New Business

Robust IT Plartform

Strategic Partnerships

Our Purpose

Simplifying your world to enable your progress

Our Vision

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

How we achieve it	2014 Performance	2019 Performance
Our 6 themes Customer Centricity	• Customer Satisfaction Score – 77% • Number of customers – 4.14M • Brand power - 15% • Agents & Merchants - 26,102	• Net Promoter Score – 42* • Customer Satisfaction Score – 83% • Number of customers –22.81M • Brand power - 29% • Agents & Merchants - 23,302
Growth in Digital Financial Services	• Non-Funded Income – 38.0% • Loans Disbursed on Mobile – 0.4B	• Non-Funded Income – 33.4% • Loans Disbursed on Mobile – 212.1B
Business Growth while addressing the Women and Youth agenda	• Net Loans & Advances - Kshs 282.7B • Customer Deposits - Kshs 377.4B • Yield - 12.8%	• Net Loans & Advances - Kshs 535.4B • Customer Deposits - Kshs 686.6B • Yield- 10.9%
Operational Efficiency	• Average loan TAT - 18.3 days • Cost-to-Income Ratio - 50.2% • NPL - 6.3%	• Average loan TAT - 7.3 days • Cost-to-Income Ratio - 45.9% • NPL - 10.9% (7.4% Excl. NBK)
Talent Management	• No. of Staff - 5,532 • Staff cost to income ratio - 24.1% • Revenue/Staff - 10.0M • Social Capital - Kshs 201.2M	• No. of Staff - 7,584 • Staff cost to income ratio - 22.8% • Revenue/Staff - 16.2M • Social Capital - Kshs 479.5M
Drive Shareholder Value	• Dividend per share - Kshs 2.00 • ROE - 24.2% • Inua Jamii Beneficiaries - 450,000	• Dividend per share - Kshs 3.50 • ROE - 20.7% • Inua Jamii Beneficiaries - 563,121

*tracking started in 2017

Our Mission

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

Our Values

- Inspiring
- Simple
- Friendly

Our Behaviour

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

Our Promise

Go Ahead

Our Value Creation Process

OUR CAPITALS

Financial

- Equity: KShs. 129.7B
- Deposits: KShs. 686.6B
- Borrowings: KShs. 21.5B

Manufactured

- 97% Out of branch transactions

Intellectual

-Innovations in 2019:

- Revamped KCB M-PESA
- Fuliza
- Women Proposition

Human

- Staff Count: 7,584
- Average Tenure: 9.7 Years
- Revenue/Staff: KShs 16.2Million

Social

- 22.8 million Customers
- 438,005 MobiGro Accounts
- Strategic Partnerships

Natural

Carbon-Neutral operations

- Monitored resource usage (water, fuel, power and paper)
- KCB Green Agenda

OUTPUTS

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

OUTCOME

Investors
- Return on Average Equity: 20.7%
- Return on Assets: 3.1%
- Earnings per share: KShs. 8.11
- Dividends per share: KShs. 3.50

Employees
- KShs. 19.5B salaries and benefits paid
- Employee Engagement score: 72%
- 217 promotions in 2019

Regulators
- Continuous streamlining with all required regulations
- Smooth transition into IFRS 9 reporting
- Corporation tax paid in 2019: KShs. 11.7B

Customers
- 361.4M Transactions facilitated across all channels.
- KShs. 79.5B growth in net loans advanced in 2019
- KShs. 149.1B growth in deposits mobilized in 2019

Communities
- Average supplier performance of 88% on all deliverables
- KShs. 15.1B distributed to elderly and disabled
- Reduction of resource usage: water by 24%, fuel by 11% and paper by 3%

Our Capitals

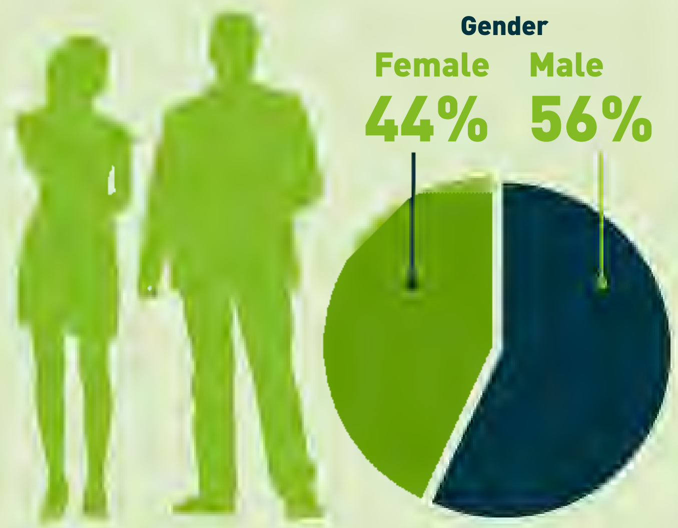
1 Financial Capital

KCB Group has a solid capital base and diversified funding sources that enables us to provide banking solutions competitively across the markets we operate in.

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 form 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 capacity to efficiently create and maximize shareholder value.

2 Human Capital

To deliver on our strategy we have a team of 7,584 engaged employees serving our customers across the business, drawn from diverse backgrounds and nationalities. The Bank is committed to developing an elaborate best-in-class employee value proposition to ensure our staff successfully deliver on the Group strategy. We have continually invested on human resource development focusing on training, staff wellness, staff recognition, competitive remuneration and career growth.



3 Intellectual Capital

As an innovative Bank and to give us a stronger competitive edge, we place emphasis on building our intellectual capital. This is largely by enhancing brand value, developing innovative products, boosting innovation capacity and safeguarding our reputation to drive business growth.

In this regard, the Bank has continued to perform exceptionally well on key parameters around intellectual capital. In 2019, the Bank maintained its brand power score of 29%. Every year, the research arm of the Bank undertakes a review of our brand health, identifying top brand drivers and the stress points with specific remedial actions. Continued innovation has resulted in better customer experience, improved system efficiencies and helped unlock big data potential for product development. The Group's reputation credentials remain solid driven by rigorous stakeholder engagement, strict compliance to regulatory requirements and a robust strategic communications approach.

Social Media Platform (As of 31 Dec. 2019)

Facebook	1,181,153	Followers
Instagram	30,100	Followers
Twitter	357,941	Followers
YouTube	26,929	Followers
LinkedIn	64,776	Followers
WhatsApp	1,000 av.	Interactions per day

4 Manufactured/Infrastructural Capital

KCB sees manufactured capital as material goods, infrastructure and technology, leased or wholly owned and whose value is realized in the delivery of products and services. The Group strives to tap manufactured capital to drive the realization of financial capital.

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, efficient deployment of manufactured capital reduces resource use and system downtime, thus enhancing both operational and cost efficiencies, ensuring sustainable growth.

We have continuously invested in technology platforms to make the business more efficient. As a result, we have rolled out different channels that ease access to banking services, without a customer having to walk into a branch.

5 Social & Relationship Capital

Beyond financial motive, KCB believes that a business should exist to transform communities around it. As such, the Group has adopted a shared value approach in its operations— integrating social programmes into business— in collaboration with other stakeholders, which is the baseline of social and relationship capital.

Through our social investment arm, KCB Foundation, the Group nurtures enterprises across East Africa to enable them scale and enhance their social impact through innovative and sustainable businesses models. We have three key social programmes – KCB 2Jiajijiri (enterprise development), KCB Mifugo-Ni-Mali (livestock value chain programme) and KCB high school scholarship programme. Over the years, these initiatives have impacted thousands of households and businesses across East Africa.

6 Natural Capital

KCB has embedded environmental agenda to its strategy to address concerns on climate change and negative impact arising from business operations. We recognize that we impact the natural environment directly in our operations and indirectly through the activities of our stakeholders such as customers, suppliers and staff amongst others. We have rolled out various initiatives to promote environmental sustainability through internal engagements and external partnerships and commitments.

In 2019, KCB Group joined 28 other global banks in developing and signing the United Nations Environmental Programme Finance Initiative (UNEP FI) six Principles for Responsible Banking. Currently, over 100 financial institutions (who account for a third of the global banking assets) have endorsed and adopted this framework. The Principles set the global standard for what it means to be a responsible bank and will ensure that banks create value for both their shareholders and society.

In addition, the Bank also has in place several frameworks including the KCB Green Agenda, Social and Environmental Management System (SEMS), KCB Group Sustainability Strategy, and adopted nine Sustainable Development Goals (SDGs) to support the implementation of Environmental and Social Governance (ESG) issues.

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

UNEP FINANCE INITIATIVE | PRINCIPLES FOR RESPONSIBLE BANKING

Operating Environment

KENYA

Real GDP is estimated to have expanded by 5.7% in 2019, a slight decrease from the 5.8% growth recorded in 2018. Growth was supported by, among others, expansion in household consumption and agriculture as well as investments in information technology, finance, insurance, transport and storage sectors.

Overall inflation in 2019 averaged 5.2% compared to 4.7% in 2018. The increase was majorly due to higher food prices occasioned by the delay in onset of the long rains. Food inflation in 2019 averaged 2.5% compared to 0.60% during the previous year. Inflation is projected to average 5.8% in 2020 which is well within the target range of between 2.5% and 7.5%. This projection is driven by expected increase in fuel and food prices. International trade and geo-political tensions remain a key risk to performance of the domestic economy.

The Kenyan shilling (KShs.) remained resilient in 2019 to close the year at KShs. 101.3 to the dollar on the back of a narrowing current account deficit. The deficit narrowed to an estimated 4.6 percent of GDP in 2019, from 5.0 percent in 2018 mainly due to lower imports of SGR-related equipment, resilient diaspora remittances and strong receipts from transport and tourism services. Foreign exchange reserves, stood at USD8,475 million an equivalent of 5.2 months of import cover.

The benchmark interest rate (CBR) averaged 8.9% in 2019 compared to an average of 9.3% in 2018. During the year under review, the monetary policy committee reviewed the CBR downwards once in November 2019 by 50 bps to 8.50%. The 91-day Treasury bill averaged 6.9% in 2019 compared to 7.7% in 2018. The period was characterized by declining yields on treasury bills with most auctions being oversubscribed across all the three different tenure bills. Private sector credit grew by 7.1% in the 12 months to December 2019. This was observed mainly in the manufacturing, trade, transport and communication, and consumer durable sectors.

Public debt in Kenya grew by 14.7% year on year to KShs. 6.05 trillion driven by 14.1% growth in external debt, while domestic debt grew 15.4%. External debts accounted for at least 51.4% of the total debt while domestic debt stood at 48.6%. The government increased the public debt cap to KShs. 9 trillion in October 2019 from the previous cap of 50% of GDP providing room for more borrowing.

The country's economic transformation is expected to be bolstered by the prevailing stability in the political and macroeconomic conditions and the implementation of the Big Four projects. These projects touching on food security, health care, housing and manufacturing envisages enhanced structural transformation aimed at accelerating economic growth to at least 7% a year, job creation and alleviation of poverty.

Our performance

KCB Bank Kenya

	2018 KShs. million	2019 KShs. million
Total income	62,870	72,398
Operating expense	(31,485)	(39,214)
PAT	22,411	22,706
Total assets	621,723	674,302

Ratios

	2018	2019
NPL	6.9%	7.3%
CIR	45.1%	42.1%
ROA	3.8%	3.7%
ROE	24%	24.9%

BOARD OF DIRECTORS

Adil Khawaja
Chairman

Eng. Stanley Kamau
Alternate to CS Treasury

Tom Ipomai

Simeon Rono

Njeri Onyango

Caroline Rabar-Okongo

Joseph Muigai

Anne Eriksson

Eunice Nyala

Joshua Oigara
Group CEO and MD

Samuel Makome
Group Chief Operating Officer

Bonnie Okumu
Company Secretary

TANZANIA

GDP growth was estimated at 6.8% in 2019 down from 7.0% reported in 2018. The Construction sector, with projects such as Standard Gauge Railway and Stigler's Gorge recorded the highest growth, with the other main drivers being the Mining, and Information and Telecommunication sectors.

Annual Average Headline Inflation stood at 3.4% in 2019 down from 3.5% recorded in 2018. The decline was mainly attributed to decrease in annual average inflation rate for non-food items to 4.0% from 4.3% in 2018. However, food items annual average inflation rate increased to 4.3% from 3.7% recorded in 2018. Annual average inflation rate which excludes food and energy increased to 3.0% in 2019 from 1.9% recorded in 2018.

The Tanzania Shilling (TZS) maintained its firm levels against the dollar. It depreciated marginally by 0.4% closing the year at TZS 2,300.58 compared to TZS 2,291.29 in December 2018. The current account deficit remained stable at 2.7% of GDP from 3.8% of GDP recorded a year earlier, with the country recording 15.8% increase in exports of goods and services, earning $9.7 billion up from $8.3 billion in 2018.

Foreign exchange reserves remained adequate at $ 5,567.6 million at the end of December 2019 up from $ 5,044.6 million in 2018, an equivalent of 6.4 months of import cover, above the country's benchmark of not less than 4 months. The import cover was also above the EAC and SADC convergence criteria of at least 4.5 months and 6 months, respectively.

Overall Lending rate closed at 16.76% in December 2019 from 16.74% in Dec 2018. The interbank borrowing rates increased from an average of 1.97% in the period ending December 2018 to an average of 4.82% in December 2019. The 364 days Treasury bill rates increased from an average of 7.08% to 8.04% in the same period.

6.8%

GDP Performance

Our performance

	2018 KShs. million	2019 KShs. million
Total income	2,397	2,653
Operating expense	(1,503)	(1,483)
PAT	434	683
Total assets	26,654	28,128

The Bank of Tanzania (BOT) lowered the statutory minimum reserve rate from 8% to 7% with effect from June 2019. Furthermore, amendments regarding the exclusion of investment in computer software in computation of regulatory capital as well as abolishment of the requirement for 1% general provision for loans categorized as unclassified were also introduced by the regulator with effect from 1st July 2019.

The Banking sector also continued to register more consolidation activities through mergers and acquisitions as they look forward to tap more opportunities in the market. Tanzania heads to the polls in October 2020 for the presidential, parliamentary and local elections which are largely expected to be seamless.

BOARD OF DIRECTORS

John Ulanga
Chairman

Fatuma Chillo

Dr. Alex Nguluma

John Nyerere

Georgina Malombe

Santina Benson

Samuel Makome

Cosmas Kimario
Managing Director

Antonia Kilama
Company Secretary

Operating Environment

SOUTH SUDAN

The country's economy is poised for a rebound following the formation of a new government which is anticipated to bring an end to the civil war. The new government, occasioned by the implementation of the Revitalized Agreement on the Resolution of Conflict in the Republic of South Sudan (R-ARCSS) signed in September 2018, is widely expected to lead to security and stability and drive economic growth. Real GDP is estimated to have expanded by 5.8% in 2019.

The country's economic conditions deteriorated rapidly since the eruption of civil conflict in 2014. A combination of internal conflict, weak global oil prices, the closure of oil fields and poor rains constrained growth. The country also witnessed a large exodus of foreign investment due to hyperinflation, which is expected to improve in the coming years. Year on year headline inflation moved to 69% in 2019 from 40.1% a year earlier.

The country still faces a severe shortage of foreign currency and the situation is worsened by the widening of the balance of payment deficit. In 2019, foreign reserves stood at 0.2 months of import cover, way lower than EAC region's convergence criterion of maintaining at least 4.5 months cover. The current account deficit on the other hand, widened to 6.4% of GDP in 2019 from 4.5% a year earlier. This led to the depreciation of the South Sudanese Pound from 227 a year earlier, to 259 to the dollar. The sharp depreciation in the currency placed significant pressure on consumer goods further aggravating inflation.

Economic prospects remain promising in 2020 and beyond following the formation of a new government. Oil production is expected to hit an all-time high of 350,000 barrels a day in 2020.

5.8%

GDP Performance

Our performance

	2018 KShs. million	2019 KShs. million
Total income	1,298	545
Operating expense	(590)	(362)
PAT	428	560
Total assets	14,113	14,585

The country has also entered into agreement with China to develop the dilapidated infrastructure in exchange for crude oil. The government has further supported efforts to power Juba city and this is expected to spur economic growth. Furthermore, the increase in electricity supply is expected to boost manufacturing thus enhancing efforts to diversify the economy. Education is also poised for a resurgence on the back of increased government funding to the sector as well as a return of refugees as the peace deal holds. Mobile money is also expected to register growth. The country has two telecom companies; Zain and MTN, with a total subscriber base of 2.6 million out of a total population of 12.5 million as per the census conducted in 2011.

The country relies heavily on crude oil exports which account for over 95% of exports. This exposes the country to economic shocks in case of slight deterioration in global oil prices. To mitigate against this, the government expects to increase non-oil revenue collection by undertaking reforms to enhance transparency and accountability in public finance as well as a proposed increase in personal and business income taxes. The country also seeks to catalyze the creation of more business and investment opportunities with the introduction of large infrastructural projects.

BOARD OF DIRECTORS

Gen. (Rtd) Joseph Kibwana Chairman

Charity Muya-Ngaruiya

Prof. Festus Abduleziz James

Yacoub Kenyu Leju

Dr. Obuya Bagaka

Lawrence Kimathi

Roba Wago Jaldesa
Managing Director

Mary Oganga
Company Secretary

RWANDA

Rwanda's GDP is estimated to have expanded by 8.7% in 2019 on the back of sustained growth in services, industry and increased public investment in infrastructure. Growth in the third quarter of 2019 averaged 11.9%, slowing slightly from the ten-year high of 12.2% achieved in the second quarter.

Rwanda's rapid growth, coupled with a focus on the business environment, is expected to stimulate growth in private investment. Foreign direct investment averaged 3% of GDP with the 2020 World Bank's ease of doing business report ranking Rwanda second best in Africa. High costs of transport and energy brought about by the country's landlocked position, as well as a decline in aid are some of the challenges that the country seeks to solve in order to unlock its full potential and meet its ambitious economic transformation agenda as well as make further progress in lowering its youth unemployment rate.

Although the average inflation increased slightly by 160bps in 2019, it still remained below the 5% target. To stimulate further increase in domestic demand as well as bank lending to the private sector, the National Bank of Rwanda, having adopted an interest-based monetary policy framework in January, reduced the monetary policy rate by 50 basis points to 5% in May 2019. This resulted in a 90 basis points (bps) increase in domestic credit to the private sector to 21.1% of GDP.

The local currency depreciated against the dollar by 5.0% in 2019 to close the year at RWF 925 to the dollar. This was mainly occasioned by the pressure exerted on the currency by the 350bps widening of the trade deficit to 11.5% of GDP.

8.7%

GDP Performance

Our performance

	2018 KShs. million	2019 KShs. million
Total income	1,842	2,332
Operating expense	(1,498)	(1,267)
PAT	226	763
Total assets	24,001	20,680

This widening, caused by a much faster increase in imports in the face of a slowdown in exports, saw the current account deficit increase from 7.7% to 9.2% of GDP. However, external reserves surged 8% to $1.4 billion, an equivalent of 4.7 months of import cover, thus complying with the EAC region's convergence criterion of maintaining at least 4.5 months cover.

The banking sector witnessed an introduction of initiatives aimed at improving the connectivity and transparency of the industry by the regulatory. Key among these being the electronic data warehousing and consumer protection guidelines which provide for the publication of each bank's pricing structure for products in order to afford customers an avenue to compare and make informed banking decisions.

Rwanda continued to enjoy the political stability that has seen the economy undergo rapid infrastructural development and industrialization. The 2018 parliamentary election also saw 64% of the seats being filled by women. Furthermore, the country is scheduled to host the 2020 Commonwealth Heads of Government Meeting (CHoGM). As a country with no British colonial heritage, hosting this meeting is not only a diplomatic triumph for Rwanda but will also accord her an opportunity to showcase her development progress and market the business opportunities available in the country.

BOARD OF DIRECTORS

John Bosco Birungi
Chairman

Spèciose Ayinkamiye

Molly Rwigamba

Tom Ipomai

Antonia Mutoro

Timothy Kariuki Mwai

Joachim Steuerwald

George Odhiambo
Managing Director

Brice Manzi
Company Secretary

Operating Environment

UGANDA

The Ugandan economy remained strong with a GDP growth rate of 6.1% in 2019 achieved despite the early indications of economic moderation during the year. This growth was mainly driven by services and industrial sectors which grew by 7.6% and 6.2% respectively. The agriculture sector which forms the bulk of the GDP contribution registered a subdued growth of 3.8%. Growth projections in outer years suggest growth average of about 6.0% in 2020 – 2024, lower than the earlier projection of 6.5% in part due to the effects of global developments and the delay in the final investment decision in the oil sector. There are a number of risks related to the growth projection including the increase in global uncertainty coupled with the deceleration of world growth and trade frictions. In addition, the slowdown in private sector credit, contracting exports, capital and raw material imports, and unpredictable weather conditions could put downward pressure on growth.

Inflation remained subdued at 3.4% in the year to December 2019 on account of benign domestic demand conditions, favorable weather conditions, weak global demand conditions and a relatively stronger exchange rate. External reserves stood at 4.4 months of imports cover further bolstering the stability of the currency, with the Ugandan Shilling averaging 3,727 to the dollar. This came in the wake of a widening trade deficit estimated at 9.4% of GDP in 2019 up from 8.3% a year earlier. Annual core inflation and headline inflation are projected to remain below 5.0% in the near term. Several downside risks associated with this forecast include a decline in global inflationary pressures and low commodity prices. However, worsening weather conditions, higher fiscal deficit and uncertainty during the electioneering period in the second half of 2020 constitute elevated upside risks to inflation outlook.

6.1%

GDP Performance

Our performance

	2018 KShs. million	2019 KShs. million
Total income	1,825	1,650
Operating expense	(1,379)	(1,363)
PAT	317	(487)
Total assets	18,770	23,256

The Central Bank Rate (CBR) averaged 9.7% in 2019 compared to 9.3% in 2018. During the year under review, the monetary policy committee reviewed the CBR downwards once by 100 basis points (bps) in October 2019 to close the year at 9.0%.

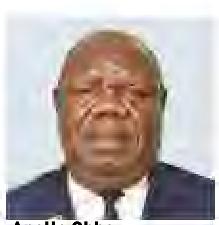
Despite this reduction in the CBR, the commercial banks' average lending rate increased to 20.2% during 2019 from 19.8% in 2018 on account of the increase in the cost of funding as reflected in the increase in the average yield on the 91-day treasury bill to 10.1% in 2019 compared to 9.9% in 2018.

Growth in private sector credit remained robust with the year on year growth averaging 12.6% largely on account of growth in shilling denominated facilities. Strong growth was observed mainly in the agriculture, manufacturing, trade and business services sectors.

The economic growth strategy for Uganda in 2020 will be premised on accelerating the pace of industrialization for viable agricultural and mineral commodities for exports, import substitution and jobs; investment in productive infrastructure; and speeding up the pace of demographic transition through continued investment in human capital development, key of which being skilling the youthful population.

BOARD OF DIRECTORS

Aga Sekalala Jr.
Chairman



Apollo Obbo

Getrude Karugaba

Edgar Omoto

Paul Russo

Edgar Byamah
Managing Director

Brenda Magoba
Company Secretary

BURUNDI

The country recorded a growth in real GDP of 3.3% in 2019 driven by increase in public investment, coffee exports and agricultural production. Agriculture accounts for over 40% of GDP and employs more than 90% of the population. Burundi has been able to attract foreign direct investments to its coffee and tea industries which are further expected to drive growth in this sector. The Mining sector also continued to pick up attaining 50% of the exports mainly for gold and rare earth. Rare earth development has enabled the mining sector to surpass coffee and tea exports' foreign exchange contribution.

Inflation picked up to a two-year high of 4.9% in December 2019 from 3.6% in the prior month. Main upward pressure came from a spike in prices of food & non-alcoholic beverages as well as recreation & culture which increased by 8.8% and 10.3% respectively. An increase in consumer price indices was also registered in clothing & footwear as well as restaurants & hotels.

Public debt is expected to reach 63.5% in 2019 from 58.4% in 2018. This increase is mainly due to increase in domestic borrowing as the country's access to international funding continue to be constrained by sanctions borne out of the 2015 political crisis. Interest rate on government bonds were stable averaging 10.99%. The Government has increased the appetite for bonds with long term maturities from 6 to 10 years with average interest rates of 12%.

Fiscal deficit increased to 4.2% in 2019 from 3.3% a year earlier mainly due to an increase in recurrent expenditures.

The exchange rate faced strains due lack of adequate foreign exchange reserves to fund the country's import bill. In 2019, official reserves stood at less than one month of import cover down from 1.1 months in 2018. In September

2019, the Bank of the Republic of Burundi (BRB) sought to clear up illegal forex dealings to stop the sale of dollars at twice the official rate. This saw the revision of the exchange regulations that were operational since June 2010 with the following changes being instituted:

i) The right to exchange currencies by hotels was withdrawn.
ii) Travelers have to declare amount above $10,000 and equivalent as well as amount above BIF 200,000.
iii) Exchange in cash without supporting documents lowered to a daily maximum of $500 from $3,000 and the monthly maximum capped at $3,000.
iv) Imports in cash lowered to $5,000 from $40,000 and $10,000 on credit card.
v) Forex bureaus have to join an association and their margin fixed at 15% of the official exchange rate.

Aside from the shortage of foreign exchange reserves, a succession of adverse events, including suspension of financial aid by major donors, imports price fluctuation and declining investment further continues to pose a challenge on the economy. Burundi goes to the polls in May 2020 with the incumbent President opting not to run for another term.

3.3%

GDP Performance

Our performance

	2018 KShs. million	2019 KShs. million
Total income	813	926
Operating expense	(566)	(577)
PAT	224	270
Total assets	7,279	8,347

BOARD OF DIRECTORS

Joseph Muigai
Chairman

Adrien Sibomana

Margaret Kositany

Lawrence Njiru

Japheth Achola

Gloria Nyambok
Managing Director

Herbert Fyiroko
Company Secretary

NBK - A natural fit

The acquisition of NBK by the KCB Group was one of the year's highlights in East Africa's corporate scene, marking the first time a listed lender was been acquired by another public entity. NBK became the tenth subsidiary of KCB Group and is expected to play a major role in driving business expansion. This acquisition bolstered the Group's aspiration to achieve and surpass the KShs. 1 trillion balance sheet by 2022. It will deliver better value to shareholders, customers, staff and other stakeholders through creation of meaningful synergies from business lines by tapping into the Group operating structure.

This acquisition was effected through a share swap of one KCB share for every ten NBK shares, which resulted in the listing of 147.7 million additional KCB shares at the Nairobi Securities Exchange (NSE). This transaction was in line with KCB's expansion strategy and now gives it a stronger edge to play a bigger role in driving the financial inclusion agenda in the East African region.

The Group sees this acquisition as an enrichment of the banking heritage that we have created in the country in our more than 120 years of existence. For NBK, the acquisition will lead to an improved capital base, cost reduction through leveraging synergies and economies of scale, enhanced corporate governance and stability. This is expected to translate into a significant improvement of customer experience and return to the shareholder.

With the acquisition, the Group put in place measures to fast track the turnaround strategy for NBK. Subsequently, the Group Board reconstituted the NBK Board to provide oversight and steer the process of integration into KCB. The new board is headed by Mr. John Nyerere, a member of the KCB Group Board and will work with Mr. Paul Russo, the Group Regional Businesses Director, who was appointed as the Managing Director of NBK to spearhead the transformation.

Towards the end of 2019, NBK received KSh5 billion capital injection, from KCB, in order to strengthen its balance sheet and shore up the capital position. The additional capital increased the capacity for NBK's operations and onward lending to customers.

NBK has renewed its focus to aggressively deliver business growth by tapping new and existing opportunities while stepping up loan recovery efforts. Significant progress was made on recoveries in the fourth quarter of 2019, with more expected in 2020 to drive down non-performing loans.

Going forward, NBK set its sights on the public sector and the micro, small and medium-sized enterprises (MSME) segments, in which it already had a significant presence. The approach is to strike partnerships to deliver enhanced value to MSME customers. This includes the recently signed asset financing deal with some of the leading motor vehicle sellers in the region, offering affordable financing for customers acquiring trucks and buses.

In order to enhance customer experience at all touchpoints, NBK is revamping its digital banking proposition in line with the Group's

KShs. 5B

Capital injection from KCB to strengthen NBK's balance sheet and shore up it's capital position.

1:10

The NBK acquisition was effected through a share swap of one KCB share for every ten NBK shares, which resulted in the listing of 147.7 million additional KCB shares at the Nairobi Securities Exchange (NSE).

BOARD OF DIRECTORS


John Nyerere
Chairman


Eng. Stanley Kamau


Jones Makau Nzomo


Linnet Mirehane (Ms.)


Gen (Rtd) Dr. Julius Waweru Karangi


Joshua Oigara
Group CEO and MD


Paul Russo
Managing Director


Joseph Kania
Company Secretary

NBK Journey

KCB Group completed the take-over of NBK in 2019 marking a turning point for the bank. It marked the first time in the history of Kenya where one listed bank has been acquired by another.

With the acquisition, the Group put in place measures to fast track the turnaround strategy for NBK. Subsequently, the Group Board reconstituted the NBK Board to provide oversight and steer the process of integration into KCB.

strategic objective of becoming a digital leader. This is aimed at delivering competitive financial solutions as well as meeting the changing needs of customers who are increasingly using the digital platform. In this regard, renewed focus is being laid on mobile banking, internet banking, and agency banking channels. This is in addition to optimizing the branch network bolstered by the opening of four new branches post acquisition, as guided by an ongoing mapping and audit exercise.

Our performance

	Q4 2018 KShs. million	Q4 2019 KShs. million
Total income	2,387	2,711
Operating expense	(1,983)	(1,730)
PAT	(15)	1,200
Total assets	114,849	109,337

Risk Management

Risk Report

As a large financial institution, the Board and management of the Group understand that effective risk management is important to the financial wellbeing of our customers and the broader economy. Risk management is about understanding the uncertainties facing our organisation, and developing strategies to benefit from them, or minimise their impact on the achievement of our purpose and strategy. With factors such as the advancement of new emerging technologies, shifting societal expectations, elevated regulatory oversight, uncertain macroeconomic conditions, changing environment and competitive landscape, banks are increasingly exposed to greater levels of uncertainty and therefore require innovative and robust risk management practices. The risks of the Group have traditionally been well managed. We proactively manage the credit quality of our portfolios and maintain a strong liquidity and capital position to deliver strong and sustainable returns for our shareholders.

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 Group 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.

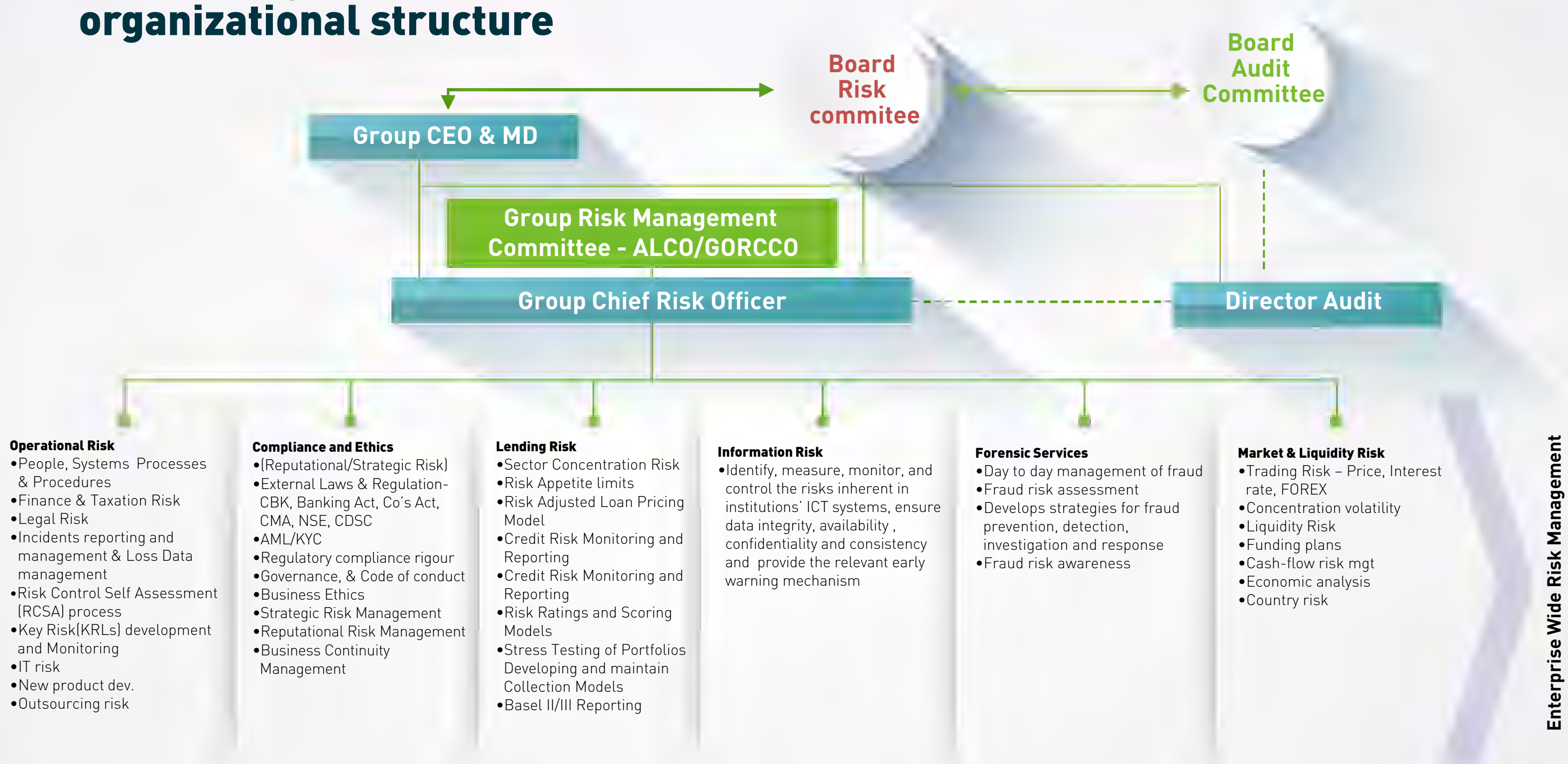
The risk-management strategy of the Group is designed to support the achievement of the strategic objectives of the Group as a whole, while identifying and quantifying risks, establishing risk ownership, and maximizing business value, taking into consideration costs in terms of risk, by every responsible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

Risk Management System Structure and Organization

Risk management is performed based on a global view of the Bank's activity in the Region, with due attention to the activity of subsidiaries with exposure significant for the Group. Risks are managed separately by each subsidiary in the Group, according to policy formulated by each company's board of directors and presented to the Board of Directors of the Bank. Risk control and the assessment of financial risks and operational risks are performed based on a uniform methodology at the Group level, under the direction of the Group Risk Management function, taking into account the unique characteristics of the activity of each subsidiary.

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:

Risk management organizational structure



Group Internal Audit
Subsidiary Head of Risk - Tanzania, Uganda, South Sudan, Burundi, Rwanda, KCB Foundation & KCB Capital

1. **The first line of defense** includes the business units within the Areas, including supporting and operational units, that create or take risks, as well as the internal control units within the Areas that provide internal control over the risk creators and risk takers. The management of the business line bears the primary responsibility for routine risk management, aimed at managing risks while striving to achieve strategic goals and business objectives, within the established risk appetite and in accordance with the internal risk regulations and regulatory directives. Controls in the first line of defense are formalized in working procedures.

2. **The second line of defense** consists of the control units within the Risk Management Function, which is independent of the business Areas. This line is also responsible for presenting an overview of risks; formulating methodologies for risk assessment and for economic capital allocation; independent risk assessment; analyzing the congruence of products and activities with the risk appetite and risk capacity limits established by the Board of Directors; and validating models. The second line of defense contains additional independent control functions, such as accountancy, legal counsel units, the secretariat of the Bank, and human resources.

3. **The third line of defense** consists of Internal Audit, which operates independently and objectively. Its goals include assisting the organization in achieving its goals through supervision and through ensuring that the instructions of the Board of Management and of the Board of Directors are implemented, and making recommendations for the reduction of risks through improved controls.

The Board of Directors of the Bank is responsible for delineating the overarching risk strategy and supervising the risk management framework of the Group, directly or through the Risk Management Committee. Main duties of the Board Risk Management Committee:

- Establishing the risk appetite and risk capacity framework of the Group.
- Approving a risk management policy consistent with the risk appetite framework, including the establishment of risk limits in the various areas of activity and main risk areas.
- Approving the control concept framework for the Group and ensuring that it meets risk management needs.
- Examining the Bank's risk profile
- Examining the processes and actions to be implemented by the Bank in order to comply with all regulatory directives concerning risk management.

The Board of Directors' Committee on Risk Management receive reports on risks and on the execution of approved policies at least once each quarter.

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

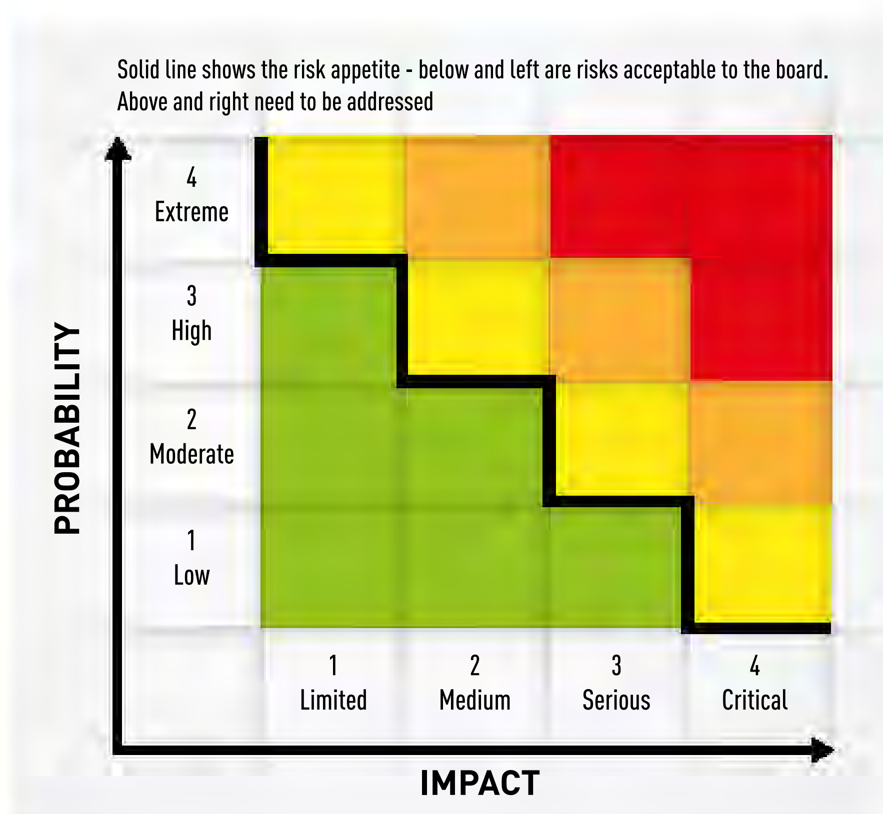
The risk-appetite framework includes a statement of risk appetite and risk capacity, risk limits, and descriptions of the roles and responsibilities of those charged with the implementation and control of the risk-appetite framework. The risk-appetite framework refers to the material risks to the Group, 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 Group 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 Group'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 Group

Risk Management Culture

The Board and the Executive Leadership Team recognize their crucial role in setting the cultural tone of the Group. This includes leading a strong risk culture



which the Group defines as being those beliefs, values and practices within the organisation that determine how our people identify, measure, govern and act upon risks. A key priority of the Board and management is to ensure our risk culture is one of accountability, empowerment, constructive challenge, reflection and striving for best practice risk management. This will drive decisions that are lawful, ethical and lead to better customer and risk outcomes. We know that community confidence in us depends on this. Over the last year the Executive Leadership Team have taken the time to better understand the drivers of our risk culture and have developed a methodology to formally and consistently assess this across the Group. This has allowed us to identify areas of development and establish a number of priority initiatives aimed at cascading the right tone from the top, connecting better with our customers and reinforcing our purpose and values.

The material principles of the Group's risk management culture are also expressed in the implementation of the following guidelines:

- The Board and Executive Leadership Team delineate the core values of the Bank and the expectations for its risk management culture, and their conduct reflects the values that have been adopted: integrity, and rapidly addressing any instances of non-compliance that come to light.
- The Board and Executive Leadership Team develop and apply an effective framework of risk appetite, backed by a clear declaration of risk appetite which is the cornerstone of the Group's risk management strategy and is integrated with its overall business strategy.

Stress Scenarios

In order to understand the possible consequences of various shocks for the financial robustness of the Bank, given both the existing balance sheet and the materialization of work plans and other business intentions, a process of stress testing is carried out. Three types of scenarios are examined at the Bank for this purpose: general systemic scenarios, single-factor scenarios, and reverse scenarios. The Bank adapts the range and characteristics of the scenarios to financial, political, and environmental developments in Kenya and globally.

Goals of analysis of stress scenarios:

- Identification of risk concentrations and potential weaknesses in the Bank's portfolio;
- Examination of the effect of strategic decisions of the Bank;
- Integration in the planning process and examination of the effects of the business plan on potential exposures;
- Examination of the financial robustness of the Bank and evaluation of the potential damage that may be caused by extreme events of various types;
- Analysis of the sensitivity of the Bank to shocks or exceptional but possible events;
- Assessment of the materiality of the various risks;
- Examination of the Bank's compliance with its risk appetite and risk capacity, and breakdown of risk appetite by Area;
- Support for the business units in understanding the risk map of the various areas of activity and sectors;
- Support for the ICAAP and for the formulation of contingency plans in order to minimize the damage of extreme events.

Some of the scenarios are examined on a monthly or quarterly basis, while others are examined annually. Assumptions, methodology, and results are discussed and approved by the Board Risk Management Committee.

The Group believes that every employee needs to be a risk manager, and that the front line business is accountable for understanding and managing the risks of their business, to ensure conscious risk versus return decisions.

Capital management takes the results of various stress scenarios into consideration, in several ways: first, the capital target of the Bank is determined in view of the risk capacity, which establishes the minimum capital adequacy that the Bank is willing to reach in the event of a stress scenario. Second, capital planning includes contingency plans which the Bank can activate if a stress scenario materializes, in order to improve its capital adequacy. In addition, stress scenarios are tested for each planning year, given the capital targets and expected capital ratio, in order to ascertain that the capital planning ensures compliance with the risk capacity throughout the years of the plan. The Bank also examines the effect of a moderate stress scenario, primarily consisting of changes in the financial markets, including changes in interest rates, spreads, exchange rates, and more, on the capital-adequacy ratio, in order to measure and limit the potential erosion of the capital-adequacy ratio. In liquidity management, the Bank examines internal liquidity scenarios.

Reinforcing Business Ownership of Risk Outcomes

The Group believes that every employee needs to be a risk manager, and that the front line business is accountable for understanding and managing the risks of their business, to ensure conscious risk versus return decisions. To support business owners in taking greater accountability for the risks that they originate we have increased the risk awareness and capability and focused on clarifying the differing risk accountabilities of business owners and risk specialists. We are also improving the processes used to manage risk across the Group. This includes improving risk controls and building capability to analyse the root causes of issues and incidents that have a negative impact on customers.

Capital Adequacy

Implementation of Pillar 2 and the Group's approach to the assessment of its capital adequacy

Within the second pillar, the Bank is required to carry out an internal process to assess capital adequacy and establish strategy for ensuring capital adequacy: the Internal Capital Adequacy Assessment Process (hereinafter: "ICAAP"). This process is aimed at ensuring an adequate level of capital in order to support all risks inherent in the Bank's activity, in accordance with the risk appetite policy established and approved by the Board of Directors, and in accordance with future plans for development and growth, while developing and applying appropriate risk management processes

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. The Group submitted its ICAAP document for 2018 to the Central Bank of Kenya at the end of April 2019. In this document, the Bank evaluated risks and the potential effect of its asset mix on its risk profile, and set internal capital objectives based on these evaluations, taking into consideration the supervisory requirements. Considering the risk profile and operating environment of KCB, the material risks to which the Group is exposed to are mentioned in the table below:

S.N.	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	Herfindahl-Hirschman 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

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

Credit Risk

Credit risk is the risk that a borrower or debtor may default on obligations to the Bank 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 Bank, such as credit and mortgages to the public, credit to banks, deposits with banks and credit to governments.
- **Off-balance sheet exposures –** Potential (unrealized) liabilities to the Bank, such as guarantees, unutilized commitments to grant credit and unutilized credit facilities.

The goal of credit risk management is to ensure the Group operates within the risk appetite defined in accordance with the policies and strategic objectives in the area of credit

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 ensure the Group operates within the risk appetite defined in accordance with the policies and strategic objectives in the area of credit, from a single transaction to credit portfolio level.

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

The policy and practice 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 processes identify, monitor, mitigate and report to the responsible manager/function 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 Board of Directors of the Group approves the credit policies, which are examined and updated regularly, according to changes in the financial markets and in the economy. The policies and procedures include various limits on the credit portfolio in accordance with the risk appetite of the Group, including exposure limits by economic sector, country, financial institution or as a function of the risk level assessed by the Group. Limits are also imposed on the maximum exposure to a single borrower or a group of borrowers according to the credit rating assigned to the borrower, which reflects the borrower's risk level.
- **Controls and risk identification –** The process of reviewing and identifying credit risks is conducted by the three lines of defense. In the first and second lines of defense, controls are applied from an individual credit item to the portfolio level 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, 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 Bank 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.

Customers identified for close monitoring and existing watch list customers are discussed quarterly in the Management Credit Risk Committee. These borrowers are supervised and monitored more closely, and the Bank works to reduce its exposure to them by redeeming credit from the borrowers' resources.

Problematic debts and borrowers in distress

The policy for debt classifications and allowances includes indicators for the identification of customers who, according to the Bank's assessment, may default on their obligations to the Bank. The Credit, Retail, Mortgage and Corporate Banking Departments determine, in the opinions they prepare regarding the various borrowers, whether the specific customer should be included in the Bank's watch list, whether the customer's rating requires re-classification, and whether an allowance for credit losses is necessary. Customers identified for close monitoring and existing watch list customers are discussed quarterly in the Management Credit Risk Committee. These borrowers are supervised and monitored more closely, and the Bank works to reduce its exposure to them by redeeming credit from the borrowers' resources. In certain cases, customers are transferred to a division specializing in monitoring and restructuring of customers' debt, or to the debt collection unit.

Management of Operational Risks

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 reputation risk. The Group 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

Operational risk management strategy is aimed at supporting the achievement of the Group's strategic objectives and maximizing business value, while taking into consideration the costs in terms of risk, by all responsible parties at all levels of the organization. The managerial process is oriented towards execution based on the designation of risk ownership. The goal is for communication and rational treatment of operational risks to contribute to managerial decision making, based on considerations of business value versus cost in terms of risk, both at the level of the management of the organization and at the level of the various units.

The goals of operational risk management are:

- To ensure effective supervision and management of operational risks in all units of the Group, including risk ownership and decision making based on cost-benefit considerations.
- To ensure effective identification and communication of operational risks in all substantial business operations of the

Group and the supporting units, with the aim of establishing operational risk appetite congruent with the approved strategic objectives of each unit in the Group.

- To establish an internal control structure promoting appropriate values of a culture of awareness, transparency, and efficiency with respect to operational risks within the Group.
- To optimally manage and allocate regulatory capital for operational risks.

Responsibility for routine management of operational risk and for activities aimed at mitigating the risk lies with the functional managers and the Managing Directors of subsidiaries in the Group. These activities are overseen by the Operational Risk Department within Risk Division.

Operational risk management activity is supervised and directed by three forums:
- The Board Risk Management Committee;
- The Management Committee on Operational Risk Management and Compliance, headed by the Group CEO;

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.

Cyber risk is the risk of damage, including disruption, disturbance, shut down 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 Divisional/ Subsidiary Operational Risk Management and Compliance Committee.

The Group has an operational risk management policy that has been approved by the Board of Directors. The policy document serves as a framework for operational risk management within the Group, in accordance with uniform principles and reporting duties aimed at complying with the Basel standards on Sound Practices. The Group allocates capital in respect of operational risk, on the basis of a standardized model defined by the Group. Reports on compliance with risk appetite limits are submitted on a quarterly basis, within the consolidated risk document.

Routine procedures are performed to identify, map, and assess operational risks and controls at the units of the Group, including mapping of the risk of embezzlement and fraud. This activity is conducted based on a uniform methodology in line with the requirements of the Basel Committee and the directives of the regulators. A comprehensive mapping process of operational risks in all units of the Group is performed regularly.

The goal of this activity is to identify material risk areas, define risk ownership, assess risks (average and extreme), assess the existing controls, and differentiate low risks from material risks that require additional examination and action, based on cost-benefit considerations, according to the following main ways of coping with risks:

- Minimization of the risk through the application of additional controls;
- Transfer of the risk to a third party (e.g. insurance, outsourcing);
- Absorption of the risk, with quantification thereof;
- Reduction of the activity that creates the risk.

Additional related activities:
- An operational risk management system has been implemented in all units of the Group The system operates in the areas of collection of information regarding operational events, mapping and assessment of risks and controls, collection of KRIs (key risk indicators), action items, lessons learned, and reports.
- A comprehensive framework of principles and standards has been formulated for the Implementation of a uniform control concept within the Group. Within this framework, committees convene and a periodic process is conducted to evaluate the effectiveness of controls.
- Launches of new products or activities, in accordance with the defined policy for the launch of a new product in the Group, are accompanied by assessment of the relevant operational risks involved in the product or activity.

Information Risks

The Group is dependent upon IT systems and infrastructures 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 impacts 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 also has Board 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, shut down 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.

The Group developed a Cybersecurity Incident Response Plan in 2019 that ensures that KCB is prepared to manage cyber incidents in an effective and efficient manner. The Plan establishes incident handling, incident response and incident recovery capabilities. It determines the appropriate response for cybersecurity incidents that arise, and is applicable to all staff, management and third parties such as consultants, contractors and service providers. The plan also covers all supporting applications, processes and systems and any other cyber facing assets and information as well as establishing a team and methodology to handle such incidents.

The key objectives of the plan include: -

- Determining the potential threats and vulnerabilities emanating from the Bank's cybersecurity ecosystem;
- Ensuring decisions to handle cybersecurity incidents in a more effective and appropriate manner are made as fast as possible;
- Eliminate cyber security threats in a secure and timely manner;
- Coordinating dissemination of relevant information to relevant stakeholders through appropriate channels;
- Foster leadership and collaboration in relation to initiatives that would safeguard the banking information systems;

Emergency Preparedness

The Bank maintains and implements a continuous plan for emergency preparedness and business continuity (BCMP – business continuity management plan). The Bank'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 Bank regularly conducts a review of Business Continuity Management Framework, define reference scenarios, map and analyzes critical processes and the resources required for the recovery of such processes during an emergency (BIA), and updates its action plans based on the prevalent methodologies globally.

Strategic Risk

Strategic risk is material present or future risk to profits, capital, reputation, or status that may be caused by changes in the business environment; faulty business decisions; improper implementation of strategy or business decisions; or failure to respond to changes in the industry (e.g. competitors' actions), the economy, or technology. Strategic risk is a function of the congruence of the organization's strategic objectives with its environment, adaptation of the business

All Stakeholders of the Group have a responsibility in respect to the fight against fraud and other illegal acts. It is everybody's responsibility to prevent and report fraud, misappropriations, and other inappropriate conduct within their knowledge and ability.

plans that it develops to achieve these objectives, resource allocation, and quality of implementation.

The strategic plan of the Group is a three-year plan approved by the Board of Directors, and examined and adjusted annually to changes in the business environment in the Region and globally, changes in the Bank's competitive environment, and changes in the Bank's objectives.

The process of formulating the strategic plan encompasses a general examination of the corporation's business and the relevant strategic risks, and a comprehensive planning process.

The annual process of managing and assessing strategic risk is an important part of the annual strategic planning process. The annual strategic planning process consists of three main stages, each of which addresses a different aspect of strategic risk management and assessment:

Stage 1 – Identification of the strategic risks to the Bank in its competitive environment – examination of the factors influencing the Bank's competitive ability and future growth potential, including an examination of global and local trends and the current situation at the Bank.

Stage 2 – Formulation of objectives and of a high-level work plan, adapted to the business environment and to the strategic trajectory.

Stage 3 – Construction of detailed plans for all Areas, examination of scenarios, and establishment of risk indicators.

This stage involves determining the themes, strategic focus areas of the Bank, and strategic maps for the realization of each theme. In addition, strategic maps are created for the Areas, in congruence with the themes, and strategic risk indicators are established – goals and metrics are established for each map (at the process level and at the level of business results), derived from the strategy. This allows strategy to be translated into measurable steps for the various units, making it possible to identify the extent of the Bank's exposure to strategic risk.

Fraud Risk Management

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.

The Group has Board approved Fraud Risk Framework/ policy which covers both internal and external 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.

Fraud Risk Framework applies to the prevention, detection and response to any fraud, or suspected fraud, involving staff of the 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 have a responsibility in respect to the fight against fraud and other illegal acts. It is everybody's responsibility to prevent and report fraud, misappropriations, and other inappropriate conduct within their knowledge and ability. Hence, the employees are trained on fraud awareness in their respective areas of work.

We 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.

The Group implemented an automated Fraud Management System in 2019 to aid in minimizing losses by detecting fraud on a timely basis across banking channels, processing large volumes of data at high speeds, being able to identify and act on new unusual behavior and increase operational efficiency by augmenting fraud investigation efforts.

Market Risk

Market Risk is the risk of loss arising from potential adverse changes in the value of the Bank'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 Bank 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 Chief Risk Officer. 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.

All employees are required to adhere to the AML/CFT policies and program, which provide that no customer relationship is worth compromising the Groups commitment to AML/CFT.

The Group continues to keep abreast with the constantly changing regulatory environment across the region. Local and international Regulations and guidelines with significant impact are monitored, and guidance issued to business on interpretation and adoption to ensure that the Group remains in compliance with the requirements.

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.

Compliance Risk

KCB Group minimizes compliance uncertainty by ensuring that the activities of the Group and its staff are conducted in accordance with all laws, regulations, codes of conduct and standards of good practice applicable in all the jurisdictions it operates in, as well as conforming to internal policies and standards of operation, and with the highest ethical standard. This is achieved through a compliance and ethics framework that supports a robust compliance culture which is based on the highest standards of ethical business practice. Business growth and sustainability is supported by adequately identifying, assessing, mitigating and monitoring compliance and business continuity risks. The compliance framework defines the compliance universe and has deployed various tools and processes for assessing key compliance risks, and the necessary mitigation.

The Group values its good reputation and protects its Brand through monitoring Reputational risks and their drivers, as well as through continuous media monitoring. All staff and other parties working for or on behalf of the Group are called upon to uphold Ethical business conduct in all their business dealings. The Group provides annual ethics training to all staff, and employees are encouraged to freely raise any ethical concerns through established channels, either internally, or anonymously through external channels

Regulatory Compliance

The Group continues to keep abreast with the constantly changing regulatory environment across the region. Local and international Regulations and guidelines with significant impact are monitored, and guidance issued to business on interpretation and adoption to ensure that the Group remains in compliance with the requirements. The Group shall continually adapt to the rapidly changing regulatory environment and ensure compliance while reducing exposure to regulatory risk.

AML /CFT Compliance

The Group remains committed to strictly upholding and complying with all rules and standards as well as any other provisions which, apply to the Group with regard to Anti-Money Laundering (AML) and Counter-Terror Financing (CFT). The Group through its AML, KYC and Sanctions policies has implemented a robust AML and CFT compliance program aligned to international best-practice which applies to its branches and subsidiaries.

All employees are required to adhere to the AML/CFT policies and program, which provide that no customer relationship is worth compromising the Groups commitment to AML/CFT. The Group has put in place robust IT systems, processes and procedures 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 carried out review of the AML/CFT Program in 2019 to benchmark the program to international best practice. The review was carried out by independent AML experts. A few areas were highlighted for continuous Improvement.

The Group has put in place robust IT systems, processes and procedures 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.

Reputational Risk

Reputation risk is the risk that an action, inaction, transaction, investment or event will reduce trust in KCB's integrity and competence by clients, counterparties, investors, regulators, employees or the public. Reputation risk arises where there are differences between these stakeholders' current and emerging perceptions, beliefs and expectations relative to our current and planned activities, performance and behaviours.

We have a Framework in place covering the way we manage reputation risk as one of our key risks across the Group, including the setting of risk appetite and roles and responsibilities for risk identification, measurement and management, monitoring and reporting.

2020 outlook

The Group proactively manages risk and continually identifies emerging issues that could pose an impact to its businesses in the future. The Risk Map below shows the key risk drivers that could affect the Group in 2020 (over a one-year horizon) along the dimensions of probability and impact. The risk drivers are not to be seen in isolation as they may trigger or reinforce each other.

KCB Group Chairman Statement

Dear Shareholders,

I write this letter with a sense of delight and pride as I look at what we have been able to achieve over the past year. Beyond the financial results, we have a lot more to show, from our support to communities to our drive to deepen financial inclusion to our contribution in transforming the East Africa's economic agenda.

This remarkable progress has been as a result of immeasurable support which we have received from you our devoted shareholders as well as stakeholders made up of among others our customers, regulators and partners across all the countries where we operate.

Business Environment

Over the past year, KCB Group made significant strides to drive growth across all its businesses, relooking at every facet of its operations in all the markets. We continued to accelerate investments in products, services and technology to deliver on our sole mandate of simplifying the lives of everyone we come into contact with to enable their progress.

Nonetheless, the year came with its fair share of challenges, some of which have permeated into 2020. Geopolitical uncertainties and varying macro-economic headwinds created tougher financial market conditions within our region of operation and which was also not immune to others imported from further afield. However, exceptional as the year was, the business remained resilient.

Performance: A new Chapter

The Group continued to deepen and broaden its relationships with stakeholders through enhanced customer experience and improved shareholder value, effectively sustaining the Bank on a path of growth and profitability. This was on the back of substantial headway on the digital transformation journey and concerted efforts to drive sustainability as a core feature of a new business norm.

We have written another impressive chapter in the history of the Group and of the region with our performance and contribution. The Kenya business remains the largest of our subsidiaries and was instrumental in the 9% profit growth and 26% balance sheet growth posted for the year. All the subsidiaries, except for Uganda, delivered a strong annual growth to charge the collective contribution to 10% and keep us on track towards the 20% target.

Our overall growth story has seen the Group maintain its market leadership position. In 2019, KCB Group was ranked at position 717 in The Banker's Top 1,000 World Banks ranking, climbing nearly 100 places, on the back of steady growth and a strong balance sheet. The improvement from position 809 in 2018 has also seen the Bank emerge 21 in Africa and number 1 in Eastern Africa. KCB was Africa's highest mover in the ranking which tracks the health and wealth of the global banking sector.

NBK Acquisition: Enriching out Banking heritage

Without a doubt, the highlight of the year was the acquisition of the National Bank of Kenya (NBK). This historic acquisition is a crucial milestone for KCB Group as is for NBK. It gives NBK a new lifeline as a business and fits well within KCB expansion strategy. We see this friendly takeover as an enrichment of the banking heritage that we have created in the country in our more than 120 years of existence.

Reimagining Banking: Our New Strategy (2020-2022)

The year marked the expiry of our five-year strategy, giving way for the creation of a new three-year plan, which we have dubbed Beyond Banking, to drive the business going forward.

The shortened horizon of our strategic plan is in line with the rapid change witnessed globally due to digitization and innovation. Our new strategy is therefore aligned to the shift from traditional banking into digital banking and the attendant market developments in order to empower us to meet the current and future needs of our customers. Each subsidiary has customized and aligned its aspirations to the Group strategic plan to ensure full ownership. Each subsidiary Board, therefore, takes full responsibility for the implementation of the strategy within their respective jurisdiction.

Digital Leader and Digital to the Core

At KCB Group, we are alive to the need to always keep up with modern trends in as far as running the business is concerned. A key pillar of our strategy is the enhancement of the digitalization process within the Bank by being digital first and fast. This is borne out of customer expectation that we are at the forefront of the technological advances that are transforming banking, and their financial lives.

To this end, we have made progress across the countries to harmonize all the digital product offering and the platforms which we run, through leveraging technologies in big data analytics and artificial intelligence while tapping partnerships.

Responsible Business Practices

In the fast changing business environment, it is important for KCB Group to remain focused and consistent in driving a business that cares not only about profitability but also about people and the planet. In this regard, over the past decade, we have been deliberate in running our business within a well-structured sustainability agenda.

Among other initiatives, we have integrated our environmental and social obligations into our strategy and signed onto various global frameworks, including the UN Sustainable Development Goals (SDG) and the UN Principles of Responsible Banking.

The Bank subscribes to the philosophy of integrity, accountability, and transparency in its manner of doing business, dealing fairly with our customers, investors, shareholders, the communities, and other stakeholders who are directly or indirectly impacted by our activities.

Converging Regional Regulations

We believe that the strength, stability and resilience of East Africa's banking industry is as a result of an elaborate regulatory environment. We saw a year of noteworthy regulatory changes across countries which directly affect our business.

While regulation is good not only for banks but for consumers and the economy as a whole, the heterogeneity of the regulatory framework across Africa has remained a limiting factor to cross-border business. Over the past five years, we have witnessed a move by the regional regulators towards an alignment of the requirements within the financial sector as part of the efforts to support globalization and as a mechanism for signaling to international investors.

While we are cognizant that operating a harmonious regulatory framework is multifaceted, we believe that with increased innovations and technology, regulatory convergence should be possible in the coming years.

Corporate governance

One of the critical responsibilities of banks is to safeguard shareholders' funds and customers' deposits. This can only be through a rigorous and disciplined governance structure which KCB religiously subscribes to. Our governance standards are cognizant of the regional and international best practices and continue to promote strong culture in Kenya and across the subsidiaries.

Governed by our Charter that sets out a maximum term on the Board, and the steps to ensure a seamless succession, changes to the membership have been seamless and timely.

In 2019, as part of the Board renewal process, we had changes at the Group Board which brought in two members with a wealth of experience and a robust mix of skills. These changes saw the National Treasury appoint Eng. Stanley Kamau to replace Mr. Julius Mutua as the alternate to the Cabinet Secretary. We also on boarded Mrs. Anne Eriksson to replace Mr. Ng'eny Biwott who retired from the Board. I would like to express our gratitude to Julius and Ng'eny for their diligent and passionate service as well as for their invaluable contribution over the years.

Further to the Group appointments, we made various changes in the subsidiary Boards, appointing a diverse group of new members to refresh the dynamism and help elevate corporate governance. We have also brought in representation from the Group Executive committee to provide support to the different businesses in the achievement the new strategy. The particulars of the composition of the Boards are detailed within this report.

Our People

The Board firmly believes in the people that work for KCB and is focused on not only creating a conducive environment but also investing in the individuals to keep them abreast with emerging trends. It is the Board's vision to advance KCB into the most preferred place to work in the region. Over and above providing stimulating work assignments and competitive remuneration, the Board is keen on ensuring the physical and mental wellness is monitored and managed.

Connecting with the Community

Just as we care for our people's development, we care for the progress of the communities in the markets where we operate. We demonstrate this through the KCB Foundation, which focuses on shared value, strategic CSR and philanthropy through programmes such as 2jiajiri, Mifugo ni Mali and the high school education programme. The Group will continue to invest more resources into the social investment agenda to transform the lives of people across markets we operate.

Outlook

Looking into the future, we foresee strong growth in an improved macroeconomic environment, especially in Kenya, and expect enhanced investor confidence in South Sudan on the back of the implementation of the peace agreement. I take this opportunity to thank all our stakeholders, and particularly our shareholders, for standing with the Board in 2019 as we made a bid for and acquired NBK.

On behalf of the Group Board of Directors, I would like to thank the management and staff for successfully executing the strategy and long-term goals of the Group, while also protecting and enhancing our brand. It is because of these efforts, and with the full support of the Group Board, that we are well-positioned to face the future with confidence.

Andrew W. Kairu
KCB Group Plc. Chairman

Taarifa ya Mwenyekiti wa Kundi la KCB

Wenyehisa wapendwa

Ninawaandikia barua hii nikiwa na furaha na fahari kuu nikitazama mambo tuliyoweza kuyatimiza katika mwaka uliopita. Kando na matokeo ya kifedha, tuna mengi sana ya kujivunia, kuanzia kwa usaidizi wetu kwa jamii hadi kwa juhudi zetu za kuhakikisha wengi wanafikiwa na huduma za kifedha. Pia, mchango wetu wa kuboresha mwelekeo wa kiuchumi hapa Afrika Mashariki.

Ufanisi huu umetokana na ushirikiano tulioupokea kutoka kwenu wenyehisa na pia wadau wetu ambao ni pamoja na wateja, serikali na washirika katika mataifa tunayofanya biashara.

Mazingira ya kibiashara

Katika mwaka uliopita, Kundi la KCB lilipiga hatua kubwa katika kuhakikisha ukuaji wa biashara zake, kwa kuangalia kwa kina shughuli zake katika masoko yote. Tuliendelea kuongeza kasi uwekezaji katika bidhaa, huduma na teknolojia ili kutimiza lengo letu kuu la kurahisisha maisha ya kila tunayehusiana naye na kumpa fursa ya kufanikiwa.

Hata hivyo, mwaka ulipoita ulikuwa na changamoto zake baadhi ambazo zimeingia hadi mwaka wa 2020. Hali ya kutotabirika kisiasa katika baadhi ya mataifa na mabadiliko ya kiuchumi vilisababisha hali kwenye masoko ya kifedha kuwa ngumu kwenye kanda hii. Kulikiwa pia na baadhi ya changamoto zilizotoka nje ya kanda. Hata hivyo, licha ya changamoto hizo, biashara yetu ilisalia kuwa imara.

Matokeo: Sura mpya

Kundi letu liliendelea kukoleza na kupanua uhusiano wake na wadai kupitia kuboresha utoaji huduma kwa wateja na kuongezwa kwa thamani kwa wenyehisa. Hivi vilichangia benki hii kukua na kupata faida. Mafanikio haya yalipatikana katika mazingira ya safari yetu ya kufanya mageuzi ya kidijitali na juhudi za pamoja na kuhakikisha uendelevu kama kiungo muhimu cha sura mpya ya biashara yetu.

Tumeandikisha sura mpya ya kufana kwenye historia ya Kundi letu na katika kanda hii kwa matokeo yetu na mchango wetu. Biashara yetu Kenya inasalia kuwa kampuni tanzu yetu kubwa zadi na ilichangia sana katika ukuaji wa faida yetu wa 9% na ukuaji wa mapato wa 26% tuliopata mwaka huo. Kampuni zetu zote tanzu, isipokuwa Uganda, ziliandikisha ukuaji mkubwa kwa mwaka huo na kufikisha mchango wa kampuni hizo tanzu hadi asilimia 10. Hii inatupa matumaini ya kufikia lengo letu la asilimia 20 katika siku za usoni.

Ukuaji wetu umechangia kuhakikisha Kundi letu linaendelea kuongoza sokoni. Mwaka 2019, Kundi la KCB liliorodheshwa katika nafasi ya 717 katika orodha ya Benki 1,000 Zinazoongoza Duniani inayotayarishwa na The Banker. Benki yetu pia ilipanda hatua 100, hilo likichangiwa na ukuaji imara na mapato ya kuridhisha. Kuimarika huko kutoka nafasi ya 809 mwaka 2018 kumeifanya benki hii pia kuibuka nafasi ya 21 barani Afrika na nafasi ya 1 katika eneo kubwa la Afrika Mashariki. KCB ndiyo benki iliyoimarika zaidi katika orodha hiyo ambayo huangazia uthabiti na ubora katika sekta ya benki duniani.

Ununuzi wa NBK: Kuboresha Mizizi na Sifa zetu

Tukio kuu mwaka jana lilikuwa ununuzi wa Benki ya Taifa la Kenya (yaani National Bank of Kenya-NBK). Ununuzi huu wa kihistoria ni hatua muhimu kwa Kundi la KCB na pia kwa NBK. Kunaipa NBK matumaini mapya kama biashara na pia kunaendana na mkakati wa upanuzi wa KCB. Tunatazama ununuzi huu wa kirafiki kama hatua ya kuboresha mizizi na sifa ambazo tumejijengea katika taifa hili kwa zaidi ya miaka 120 ambayo tumekuwepo.

Kutazama Upya Sekta ya Benki: Mkakati Wetu Mpya (2020-2022)

Mwaka huo ulikuwa wa mwisho kwenye mkakati wetu wa miaka mitano iliyopita. Sasa tumeanza kutekeleza mkakati mwingine wa miaka mitatu ambao tunauita Zaidi ya Huduma za Benki, kuongoza biashara yetu siku zinazofuata.

Kufupishwa kwa kipindi cha mkakati kunatokana na mabadiliko ya haraka yanayoshuhudiwa duniani kutokana na teknolojia ya dijitali na uvumbuzi. Mkakati wetu mpya kwa hivyo ni wa kuondoka kutoka kwa utoaji wa huduma za benki wa zamani hadi kwa ulimwengu wa sasa wa utoaji huduma za benki kupitia dijitali pamoja na huduma nyingine za kutuwezesha kutimiza mahitaji ya sasa na ya siku za usoni kwa wateja wetu. Kila kampuni tanzu imeupokea na kufanya mabadiliko yafaayo kwenye malengo yake kuendana na mkakati wa Kundi kuhakikisha kila mtu anaumiliki. Kila Bodi ya kampuni tanzu, kwa hivyo, inawajibika katika utekelezaji wa mkakati huu kwenye kampuni husika kwa kipindi cha miaka mitatu ijayo.

Kiongozi wa Dijitali na Dijitali hadi kwenye Kina

Katika Kundi la KCB, tunatambua haja ya kutembea na majira kuhusiana na uendeshaji wa shughuli za benki. Nguzo kuu ya mkakati wetu ni kuboresha shughuli za kukumbatia digitali kwenye shughuli kwenye benki yetu kwa kuhakikisha ni 'dijitali kwanza na kwa haraka'. Hili linatokana na matarajio ya wateja kwamba tuwe mbele kwenye teknolojia na kubadilisha huduma za benki na maisha yao kifedha.

Katika jambo hili, tumepiga hatua katika mataifa tunayoendesha shughuli zetu kuoanisha huduma za dijitali tunazozitoa na mifumo tunayotumia ili kutumia vyema mafunzo kutoka kwa takwimu na pia kufaidi kutokana na ushirikiano na wadau mbalimbali.

Uwajibikaji katika biashara

Katika mazingira ya kibiashara yanayobadilika kwa kasi, ni muhimu kwa Kundi la KCB kuwa na mwelekeo na kutobadilika katika kuongoza biashara inayojali sio tu faida bali pia maslahi ya watu na dunia. Mwongo mmoja uliopita, kwa makusudi tumekuwa tukiendesha shughuli zetu kwa kuzingatia uendelevu kama mwelekeo wetu wa busara.

Miongoni mwa mikakati mingine, tumefungamanisha wajibu wetu kwa jamii na mazingira kwenye mkakati wetu na kutia saini makubaliano mbalimbali ya kimataifa, ikiwemo Malengo ya Maendeleo Endelevu (SDGs) ya Umoja wa Mataifa na Mkakati wa Maadili ya Kifedha kuhusu utoaji huduma za Benki kwa Uwajibikaji wa Umoja wa Mataifa.

Benki hii pia inaamini katika falsafa ya maadili mema, uwazi na uwajibikaji katika uendeshaji shughuli kwa kujihusisha na wateja, wawekezaji, wenyehisa, jamii na wadau wengine wanaoathiriwa kwa njia yoyote ile na shughuli zetu kwa njia ya haki.

Kupatanishwa kwa Sheria katika Kanda

Tunaamini kuwa nguvu, uthabiti na ukakamavu wa sekta ya benki Afrika Mashariki umetokana na mazingira wazi ya usimamizi na sheria. Tulishuhudia mwaka wenye mabadiliko makubwa yanayotuathiri katika mataifa mbalimbali.

Ingawa sheria ni muhimu kwa benki, wateja na uchumi kwa jumla, tofauti katika mifumo ya kisheria Afrika zimesalia kuwa kizingiti kikuu katika ufanyaji wa biashara kutoka taifa moja hadi jingine. Katika miaka mitano iliyopita, tumeshuhudia mtindo wa serikali katika kanda hii wa kupatanisha sheria katika sekta ya kifedha kama njia moja ya kusaidia utandawazi na kuvutia wateja wa kimataifa.

Ingawa tunatambua kwamba kuna changamoto za kuwa na mfumo sawa wa kisheria, tunaamini kwamba kutokana na uvumbuzi na teknolojia, kupatanishwa kwa sheria ni jambo litakalowezekana katika miaka ijayo.

Usimamizi wa kampuni

Mojawapo ya wajibu muhimu wa benki ni kulinda fedha za wenyehisa na fedha za wateja. Hili linawezekana tu kupitia mfumo thabiti na wenye nidhamu wa usimamizi wa kampuni. Viwango vyetu vya usimamizi vinafuata viwango vya kanda na kimataifa na tunaendelea kuhamasisha utamaduni huu Kenya na katika kampuni nyingine tanzu.

Tunaongozwa na Hati Kuu ambayo huweka kikomo kwenye muda wa kuhudumu kwa Bodi na hatua za kuhakikisha shughuli laini ya mpito na mabadiliko kwenye uanachama wa bodi zimefanyika kwa wakati na vilevile kwa njia laini.

Mwaka 2019, kwa minajili ya kuongeza nguvu mpya kwenye Bodi tulikuwa na mabadiliko yaliyoleta wanachama wawili wenye ujuzi na tajriba ya hali ya juu kwenye Bodi ya Kundi. Mhandisi Stanley Kamau aliteuliwa kuchukua nafasi ya Bw. Julius Mutua kama mwakilishi wa Waziri wa Fedha. Pia, tuliteua Bi. Anne Eriksson kuchukua nafasi ya Bw. Ng'eny Biwott aliyestaafu baada ya kuhudumu kwa muda uliowekwa. Ningependa kutoa shukrani za dhati kwa Julius na Ng'eny kwa mchango wao kwa muda waliohudumu kwa bidii na shauku.

Kadhalika kwenye uteuzi, tulifanya mabadiliko kwenye mabodi ya wakurugenzi katika kampuni tanzu na kuwateua wanachama wapya wa sifa mbalimbali kuongeza msukumo mpya na kuboresha usimamizi wa kampuni hizo. Aidha, tumetoa fursa ya uwakilishi kutoka kwa Kamati Tendaji ya Kundi ili kusaidia kampuni mbalimbali katika kutimiza mkakati mpya. Maelezo ya kina kuhusu mabadiliko hayo yanapatikana kwenye ripoti hii.

Watu wetu

Bodi ina imani kubwa katika wafanyakazi wa KCB na inaangazia sio tu kufanikisha mazingira bora ya kufanyia kazi bali pia kuwekeza katika kuwa bora kuambatana na mabadiliko yanayotokea kila siku. Ni azma kuu ya Bodi kuifanya KCB kuwa kampuni inayopendwa zaidi na wafanyakazi kanda hii. Kando na kutoa kazi na majukumu ya kuvutia pamoja na mishahara mizuri, Bodi ina hamu ya kuhakikisha afya ya kimwili na ya kiakili ya wafanyakazi wake inafuatiliwa na kutunzwa vyema.

Kushirikiana na Jamii

Sawa na tunavyojali ustawi wa wafanyakazi wetu, tunajali pia hali ya jamii katika maeneo tunayofanya kazi. Tumedhihirisha hili kupitia Wakfu wa KCB unaoangazia kujenga thamani ya pamoja, miradi ya kufaa jamii au CSR, na utoaji wa misaada ya hisani kwa jamii kupitia miradi kama vile 2jiajiri, Mifugo ni Mali na ufadhili wa karo ya elimu ya shule ya upili. Kundi hili litaendelea kuwekeza zaidi katika jamii kubadilisha maisha ya watu katika maeneo tunayofanya kazi.

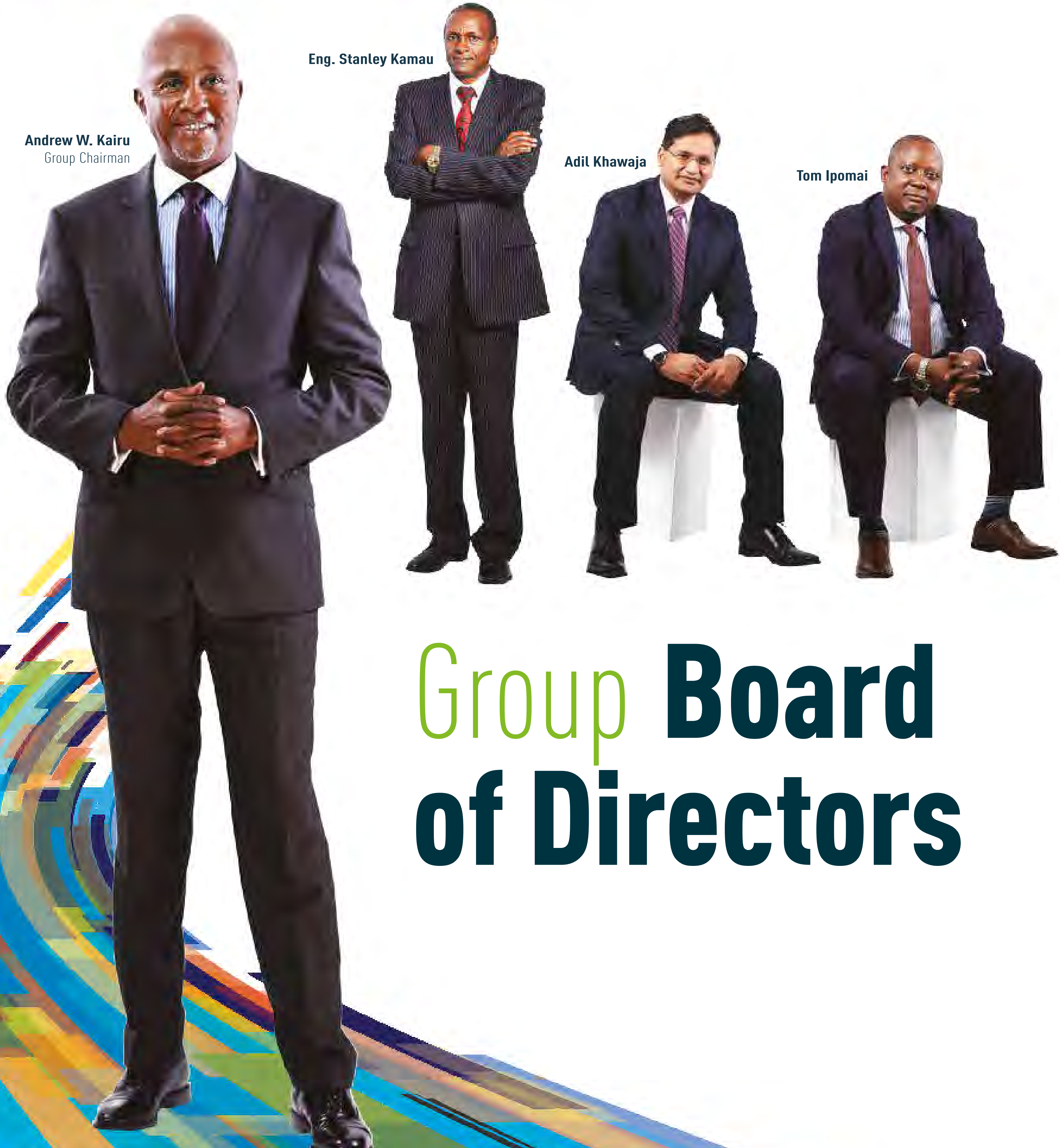
Mustakabali

Tukitazama siku za usoni, tunatarajia ukuaji mwema katika mazingira ya kiuchumi yaliyoimarika hasa Kenya. Tunatarajia pia imani ya wawekezaji kurejea Sudan Kusini kutokana na kutekelezwa kwa makubaliano ya amani. Ningependa kuchukua fursa hii kuwashukuru wadau wetu wote, na hasa wenyehisa wetu kwa kuiunga mkono Bodi mwaka 2019 tulipowasilisha ombi na mwishowe kuinunua benki ya NBK.

Kwa niaba ya Bodi ya Wakurugenzi wa Kundi, ningependa kuwashukuru wasimamizi na wafanyakazi kwa kutekeleza mkakati na malengo ya muda mrefu ya Kundi, na pia kwa kulinda na kuiboresha nembo yetu. Ni kutokana na juhudi hizi, na kuungwa mkono na Bodi ya Kundi ambapo tupo katika nafasi nzuri kuzikumbatia siku za usoni kwa imani na matumaini.

Andrew W. Kairu
Mwenyekiti wa Kundi la KCB

Group **Board of Directors**



Andrew W. Kairu
Group Chairman

Eng. Stanley Kamau

Adil Khawaja

Tom Ipomai

Georgina Malombe

John Nyerere

Lawrence Njiru

Anne Eriksson

Joseph Kania
Group Company Secretary

Joshua Oigara, CBS
Group Chief Executive Officer and Managing Director

Lawrence Kimathi
Group Chief Finance Officer

Who governs us

KCB Group CEO &MD Letter to Shareholders 2019

Dear Shareholders,

2019 was yet another remarkable year with the Group registering impressive results and marking a historic milestone with the acquisition of the National Bank of Kenya (NBK). The business remained resilient, posting impressive results despite the challenging economic conditions witnessed in the various markets we operate in and indeed the wider global economy. Our Full-Year total income grew 18% to KShs. 84.3 billion while the Profit After Tax surged 5% to KShs. 25.2 billion. More on our performance is highlighted within the CFO's statement and other sections of this report.

The year also represented a significant period with the maturity of our 2015-2019 Strategic Plan, Transformative Partnerships. The strategy was driven by the following thematic areas; customer experience, network spread, youth agenda, digital financial services, new businesses, robust IT platform, and strategic partnerships. The relevance of these themes was not lost or diminished over the period even as the focus areas were reviewed on a year on year basis.

Operational Environment

Over this period, the banking sector saw heightened regulatory scrutiny, increased competition, amplified adoption of digital banking, and shifting economic environment across the region. In the face of these shifts, we positioned ourselves and tapped into opportunities presented as we navigated past the challenges. We contributed immensely to implement financial deepening and economic development across the region. This enabled us to maintain our position as the leading Bank in East and Central Africa and a significant player on the continent in provision of financial services.

In Kenya, whereas the economy continued to perform below it's potential, inflation was within range, and the shilling remained stable against major currencies, sustained by increasing diaspora remittances and earnings from tourism.

The East African region continued to face various downside risks that ranged from adverse weather patterns to stress from currency fluctuations and the pressure from oil imports. On the global arena, the main challenges were witnessed around the trade tensions between the east and west; uncertainties brought about by the nature and form of Brexit; as well as challenges in the Euro-zone area. Coming into 2020, the world grappled with the spread and impact of the COVID-19 virus which unfortunately has cost numerous lives and will further impact the global economic growth for at least 12 months looking ahead.

Tapping the digital dividend

Over the past five years, we positioned ourselves well for a digitalized future. Our investments in diversified channels accorded our customers a means to access banking services conveniently, at a competitive prices and in line with our purpose of simplifying their world to enable their progress. This saw the number of non-bank transactions increase to 97% with a majority of them conducted via the mobile device.

Mobile loans advanced increased to KShs. 212 billion in 2019 from KShs. 54 billion in 2018. This represents numerous individuals whose shelter was secured, thousands of small, medium and micro businesses that remained in operation, thousands of school fees invoices settled on time and countless other forms of bills that were paid.

Mobile loans advanced increased to KShs. 212 billion in 2019 from KShs. 54 billion in 2018, and 400 million in 2014. The cumulative disbursement over the last five years totaled to KShs. 319 billion shillings via mobile. This represents numerous individuals whose shelter was secured, thousands of small, medium and micro businesses that remained in operation, thousands of school fees invoices settled on time and countless other forms of bills that were paid. It is such innovation that drives our teams to constantly rethink ways in which to improve our products and services because of the positive impact it has on our customers lives.

Beyond the mobile, our customers have thousands of additional agent and merchant outlets across the region where they can engage with the bank. Further to these channels, the significance of online banking is undeniable for corporate customers who wish to make large volume and value payments at any time of the day. Together with the mobile, these outlets have redefined what alternative channels are and changed the metrics for convenience.

The team behind the performance

The success we have published in this report was made possible through 7,584 staff of varying attributes, professions and nationalities. The commitment to nurture best in class staff with up to date training continues with an annual growth in the number and variety of core and non-core training courses offered to our staff. Among the courses and trainings conducted in 2019 were awareness courses on IT & cyber security, health and safety, anti-money laundering and sustainability (courses which I too completed), all of which remain pertinent topics necessary for the individual at work and away from work.

In 2019, we closed out on several senior roles that were vacant or had individuals who were transitioning to other roles. At the Executive committee level, we filled in the roles of the Group Human Resource director, the Chief Technology Officer and appointment of the Managing Director for NBK, who is also the Group Regional Business Director. Other senior management roles filled within the year included the Director Shared Services, the Director Strategy, Managing Director KCB Bank Uganda Limited, Managing Director, KCB Bank South Sudan Limited and the Managing Director and Principal Officer KCB Insurance Agency Limited.

Across the Group in 2019, we had 217 staff of different grades promoted after demonstrating capacity to handle greater responsibility and the desire to drive the Group's strategy.

Beyond promotions, KCB annually seeks and recognizes employees who performed exceptionally well in living the KCB values and supporting the banks efforts in delivery of superior business performance. A total of 937 simba award nominations were received from which a total of 55 country winners and 17 Group winners were awarded across different categories.

KCB also conducted the Organizational Health Index (OHI) survey which independently assessed the current state of the organization and current behaviors and activities used to drive results within the

217

Promotions amongst our employees

17%

Market share of loans and advances in Kenya

96%

The closure rate of audit issues in 2019

Among the courses and trainings conducted in 2019 were awareness courses on IT & cyber security, health and safety, anti-money laundering and sustainability, all of which remain pertinent topics necessary for the individual at work and away from work.

Bank. KCB scored 72% from this survey, within the second quartile of hundreds of companies surveyed globally. The result highlighted an organization distinct in providing direction, and possessing the right capabilities and pointed out an opportunity to better motivate employees.

Having received the detailed results broken down per country and division, we have initiated a group wide programme to not only implement key actions highlighted to bridge the gaps but also suggestions brought out by staff during the survey. Together with reinforcing the strong areas captured from the survey, we are confident this programme will complement the initiatives of the Group strategy, Beyond banking that was also launched in 2020.

Beyond Banking: Our 2020-2022 Strategy

This year marks the start of our new strategic cycle which we have shortened having appreciated the speed with which our environment changes. Even with the shorter duration, we maintained the customer at the center of all that we do. It is the concerted effort around the customer that will not only set us apart but also grow our business through deepened relationships and activities with our customers.

We call it Beyond Banking because technology and innovation are pushing the boundaries of our business. The strategic thrusts are centered on customer first with leading value propositions; driving a step change in efficiency and productivity; being the digital leader and digital to the core; and building scale to achieve regional relevance. The thrusts are underpinned by a modern IT architecture, enhanced credit and risk management and a rigorous performance management and enabling culture.

Our mark of success in the achievement of the strategy will be demonstrated through our aspirations on the Net Promoter Score (NPS); the customer effort score; our total assets; the cost-income ratio; our non-funded income ratio; and the contribution of profit from our non KCB Bank Kenya businesses.

Removal of Interest Rate Cap

KCB Group welcomed the decision by the National Assembly of Kenya to lift the cap on interest rates in November 2019. As the largest lender in the region we believe that the repeal of the interest rates cap, especially to the Small, Micro-Enterprises (SME) sector, will spur economic activity that had been dampened for three years. Other sectors of the economy are poised to also benefit from the increased credit thus creating new and exciting opportunities across the financial services sector. KCB committed the adoption

147M

Additional number of KCB Group shares listed on the Nairobi Securities Exchange following the NBK acquisition

As the largest lender in the region we believe that the repeal of the interest rates cap, especially to the Small, Micro-Enterprises (SME) sector, will spur economic activity that had been dampened for three years.

10B

Amount in KShs. mobilised from MasterCard Foundation to scale-up 2jiajiri

In 2019, we were among the 28 banks globally entrusted to champion the Principles of Responsible Banking that seek to shape a sustainable future. This was an opportunity for us to step up our efforts to uphold international standards and best practices that promote responsible business conduct.

of the banking sector charter tenets to transform the areas of fairness, transparency, financial literacy and financial access.

Post the rate cap, we do not foresee drastic changes in the pricing regime and we believe the sector can generate the adequate and decent returns while deepening financial services. The opportunity is rife within the market and region to achieve more through innovation and extension of services.

National Bank of Kenya Acquisition

We successfully concluded the historic acquisition of the National Bank of Kenya (NBK). The transaction effected vide a share swap, saw the listing of an additional 147 million new KCB Group shares on the Nairobi Securities Exchange. This acquisition was part of our growth strategy and fits well with our plan to enhance shareholder value.

This acquisition was received with mixed feelings by different stakeholders. Some shareholders were convinced that we were buying a struggling Bank with little value to add to the KCB Group while others, including the board and management, strongly felt we had an opportunity to create a step change in the performance and trajectory of the Group. NBK is a Kenyan brand with a strong heritage that spans over 50 years and a similar history and shareholders with KCB. We are confident that with the backing of KCB, NBK will rise once again to register impressive performance and confirm to us that it was the right fit within the KCB Group.

I was pleased to see healthy competition from the staff of the two banks and a mutual respect for what the overall brand represents during and after the process for acquisition. Kudos to all the staff who have embraced the new normal and have committed to charge forward with renewed vigor. In the coming year, this new camaraderie will be instrumental in the growth of both businesses. Our overarching goal is the same and I will champion the continued team effort for the two brands in the market.

The ongoing integration process will go a long way in enhancing the value of NBK with a marked improvement in efficiency, increase in customers as well as profitability of branches and revamping of its digital platforms. Over the integration period, NBK will keep running as an independent subsidiary and, having injected KShs. 5 billion in additional capital, will be expected to deliver on its targets in the same manner the other Group businesses are mandated.

Scaling Regional Business

Our international businesses have continued to demonstrate resilience to post strong growth and profitability despite the macro headwinds of some of the markets. In 2019, KCB Bank Uganda and KCB bank South Sudan faced increased macro pressures thus posting a decline in the overall return to the Group. We expect this trend to reverse in the year 2020 and beyond.

The next three-year cycle has detailed a comprehensive roadmap for each of the businesses. The overall strategy is to build on each market's strengths and overlay that with scale on the technology front. As we grow organically, we will also explore options for inorganic growth in the stronger markets for our business. The potential in Ethiopia remains strong and shall be monitored through our representative office as anticipate options for a full entry into the market.

Further than our physical presence, we continue to enhance our capabilities to help our clients capitalize on regional growth opportunities. The cross-border banking services to businesses, and increasingly to individuals, is a viable pathway to entrenching the KCB brand in the different jurisdictions.

Responsible Banking

As an institution, we believe that our responsibilities go beyond banking, and we are committed to contributing to addressing socio-economic challenges across the different markets in which we operate.

Through the KCB Foundation, the three flagship programmes of 2jiajiri, Mifugo-Ni-Mali, and KCB Scholarship Programme are our primary channels to impact lives. The KCB Foundation upskilled over 34,000 beneficiaries in agribusiness, building and construction, automotive engineering, beauty and personal care, cosmestic services and ICT. Further to this, the Foundation mobilized KShs.10 billion ($100 million) funding from the MasterCard Foundation to roll out the single largest private sector intervention over a 5-year period to create over 1.5 million jobs.

In 2020, we are looking at scaling the flagship KCB Foundation programmes to the subsidiaries, with a plan to localize the initiatives to meet each country's unique requirements.

Our sustainability initiatives have demonstrated that value-driven business can operate and minimizes potential negative impact on the environment through the creation of eco-friendly products, social initiatives, or other sustainable strategies.

In 2019, we were among the 28 banks globally entrusted to champion the Principles of Responsible Banking that seek to shape a sustainable future. This was an opportunity for us to step up our efforts to uphold international standards and best practices that promote responsible business conduct. Part of our role is to rally the entire banking industry in East Africa to adopt these standards that provide a framework for the sustainable banking system of the future – and enable the banking industry to demonstrate how it makes a positive contribution to society.

External Recognitions

Beyond financial performance, KCB was also feted with several accolades locally and globally. KCB Bank was named as the Best Bank in Kenya and the Region's Best Bank for SMEs during the Euromoney Awards for Excellence 2019. The Euromoney Awards for Excellence are recognized as the most prestigious in the financial services industry globally.

KCB Bank was also named; Best Bank by Global Finance Best Bank Awards; Best Digital Transformation in Online Banking and Best CSR Initiative Awards by Global Business Outlook; Best Regional Bank and Best Innovation Bank by Africa Banker Awards and the Most Admired Financial Services Award by Brand 100.

In recognition of our initiatives to provide stellar customer experience, KCB also won Gold Awards for Best Customer Experience Team, Customer Experience Leadership as well as Best Digital Strategy at the 2019 International Customer Experience Awards.

Outlook

We are optimistic about the future. It offers a considerable upside for the East African economies and better for our Group and we are prepared and to take advantage of the opportunities.

This year, we are committed to accelerating the delivery of our strategy while taking steps to become a stronger and sustainable bank.

I am grateful to the Group Board of Directors, management and staff for the support provided in growing the business and look forward to our collective effort creating a lasting impact across our communities.

Joshua Oigara, CBS
Group Chief Executive Officer & Managing Director

15%
Market share of customer deposits in Kenya

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

36.9B
Group's profit before tax in 2019 in KShs.

This year marks the start of our new strategic cycle which we have shortened having appreciated the speed with which our environment changes.

Barua ya Afisa Mkuu Mtendaji wa Kundi la KCB na Mkurugenzi Mkuu kwa Wenyehisa 2019

Kwa Wenyehisa wapendwa,

2019 ulikuwa mwaka mwingine wa mafanikio na Kundi letu la kampuni liliandikisha matokeo ya kuridhisha na kupiga hatua ya kihistoria kwa ununuzi wa Benki ya Taifa la Kenya (yaani National Bank of Kenya-NBK). Biashara yetu iliendelea kuwa kakamavu na kuandikisha matokeo mazuri licha ya mazingira magumu ya kiuchumi kutoka mataifa tunayoendesha shughuli zetu na pia duniani kwa jumla. Mapato yetu ya Mwaka yalikua kwa asilimia 18 hadi KShs. 84.3 bilioni huku faida baada ya kutozwa ushuru ikiongezeka kwa asilimia 5 hadi KShs. 25.2 bilioni. Maelezo zaidi kuhusu matokeo haya yanapatikana katika taarifa ya Afisa Mkuu wa Fedha KCB (CFO) na sehemu nyingine za ripoti hii.

Mwaka huo pia uliashiria kipindi muhimu kutokana na kukomaa kwa Mpango wa Mkakati wa 2015-2019, Ushirikiano wa Mageuzi. Mkakati huu uliongozwa na malengo yafuatayo; huduma bora kwa wateja, upanuzi wa mtandao wetu, ajenda ya vijana, huduma za kifedha za kidijitali, biashara mpya, mfumo imara wa teknolojia na ushirikiano wa manufaa. Umuhimu wa malengo haya uliendelea kuangazia kipindi chote hata utathmini wa mambo ya kuangaziwa ulipofanywa mwaka baada ya mwaka.

Mazingira ya Utendakazi

Katika kipindi hiki, sekta ya benki ilishuhudia kuongezeka kwa uangalizi kutoka kwa wasimamizi, ongezeko la ushindani, ongezeko la watu kukumbatia huduma za benki za dijitali na kubadilika kwa mazingira ya kiuchumi kanda hii. Licha ya haya, tuliweza kukabiliana na changamoto hizo katika biashara yetu. Tulichangia pakubwa katika kuongezeka kwa watu wanaopokea huduma za benki na pia ustawi wa kiuchumi katika kanda hii. Hii ilitusaidia kuhifadhi nafasi yetu kama benki bora inayoongoza katika Afrika Mashariki na Kati na mhusika mkuu katika sekta ya kifedha barani Afrika.

Nchini Kenya, ingawa uchumi uliendelea kutofanya vyema, mfumko wa bei haukuwa juu sana, na shilingi iliendelea kuwa imara dhidi ya sarafu nyingine za kimataifa kutokana na ongezeko la fedha kutoka kwa Wakenya wanaoishi nje ya nchi na mapato kutoka kwa utalii.

Kanda ya Afrika Mashariki iliendelea kukabiliwa na hatari nyingi kuanzia kwa hali mbaya ya hewa hadi kwa kuyumbayumba kwa sarafu na shinikizo kutokana na uagizaji wa mafuta. Kimataifa, changamoto kuu zilizoshuhudiwa zilikuwa ni kuhusiana na mgogoro wa kibiashara kati ya mashariki na magharibi; kutotabirika kulikosababishwa na kujiondoa kwa Uingereza kutoka kwa Umoja wa Ulaya maarufu kama Brexit; pamoja na changamoto katika kanda ya mataifa yanayotumia sarafu ya Euro. Mwaka 2020, ulimwengu unakabiliana na athari za kuenea kwa virusi vya ungonjwa wa Corona (COVID-19) ambavyo vimesababisha vifo vingi na vinatarajiwa kuathiri ukuaji wa uchumi wa dunia kwa angalau miezi 12 ijayo.

Mikopo ya kutolewa kwa njia ya simu iliongezeka na KShs. 212 bilioni mwaka 2019 kutoka KShs. 54 bilioni mwaka 2018, na 400 milioni mwaka 2014. Jumla ya mikopo iliyotolewa kwa njia ya simu miaka mitano iliyopita imefikia KShs. 319 bilioni

Kufaidi kutokana na dijitali

Katika miaka mitano iliyopita, tulijiweka katika nafasi nzuri ya kufaidi siku zijazo kutokana na biashara ya kidijitali. Kuwekeza kwetu katika mifumo mbalimbali kuliwapa wateja njia ya kupata huduma kwa njia rahisi, kwa gharama nafuu na kwa kuambatana na lengo letu la kurahisisha ulimwengu wa wateja na kuwawezesha kufanikiwa. Hili lilichangia kuongezeka kwa shughuli za kibiashara zilizokamilishwa nje ya benki hadi asilimia 97, nyingi zikikamilishwa kwa kutumia simu.

Mikopo ya kutolewa kwa njia ya simu iliongezeka na KShs. 212 bilioni mwaka 2019 kutoka KShs. 54 bilioni mwaka 2018, na 400 milioni mwaka 2014. Jumla ya mikopo iliyotolewa kwa njia ya simu miaka mitano iliyopita imefikia Kshs. 319 bilioni. Hii inaashiria watu wengi walitumia mikopo hii kuhifadhi makao yao, maelfu ya biashara ndogo na za wastani zilizosaidiwa kuendeleza biashara, maelfu ya watu waliolipa karo kwa wakati na malipo mengine mengi yasiyoweza kuhesabika yaliyofanikishwa . Ni uvumbuzi kama huu unaohamasisha wafanyakazi wetu kuendelea kufikiria njia mpya za kuboresha huduma na bidhaa zetu kutokana na faida wanayopata wateja katika maisha yao ya kila siku.

Kando na simu zao, wateja wetu wana maelfu ya maajenti na mawakala kote katika kanda yote ambako wanaweza kwenda na kupokea huduma za benki. Aidha, umuhimu wa kuendesha shughuli za benki kupitia mtandao ni mkubwa mno kwa kampuni na wateja wengine wakubwa wanaohitaji kukamilisha malipo ya pesa nyingi wakati wowote. Pamoja na simu, njia hizi zingine zimebadilisha kabisa taswira na njia ya utoaji huduma katika benki.

Waliochangia matokeo mazuri

Ufanisi ambao tumeuchapisha kwenye ripoti hii umetokana na jitihada za wafanyakazi 7,584 wa sifa, vyeo, taaluma na utaifa tofauti. Tunaendelea kuwaajiri wafanyakazi walio bora zaidi na kuwapa mafunzo kazini. Mafunzo ambayo tuliwapa wafanyakazi wetu mwaka 2019 ni ufahamu kuhusu teknolojia na usalama mtandaoni, afya na usalama, kukabiliana na utakatishaji wa fedha na uendelevu (mimi mwenyewe pia nilifanya masomo haya), na zinaangazia mambo ambayo ni muhimu sana kwa watu kazini na hata kwa maisha ya kibinafsi.

Mwaka 2019, tulijaza nafasi za ngazi ya juu ambazo zilikuwa wazi au waliozishikilia walikuwa wanachukua kazi nyingine. Katika ngazi ya Kamati Tendaji, tulijaza nafasi za mkurugenzi wa Wafanyakazi katika Kundi, Afisa Mkuu wa Teknolojia na pia tukafanya uteuzi wa Meneja Mkurugenzi wa Benki ya Taifa la Kenya, ambaye pia ni Mkurugenzi wa Biashara za Kundi katika Kanda. Nafasi zingine kuu ambazo zilijazwa mwaka huo ni pamoja na Mkurugenzi wa Huduma za Pamoja, Mkurugenzi wa Mkakati, meneja Mkurugenzi wa Benki ya KCB Uganda, Meneja Mkurugenzi wa Benki ya KCB Sudan Kusini na Meneja Mkurugenzi na Afisa Mkuu wa Kampuni ya Wakala wa Bima ya KCB.

Katika Kundi mwaka 2019, wafanyakazi 217 mbalimbali walipandishwa vyeo baada ya kudhihirisha uwezo wa kutekeleza majukumu makubwa zaidi na hamu ya kuongoza mkakati wa Kundi.

217

Wafanyakazi waliopandishwa vyeo

17%

Kiwango cha mikopo yetu katika mikopo yote iliyotolewa sokoni Kenya

96%

Kiwango cha kutatuliwa kwa maswali ya ukaguzi wa hesabu 2019

Mafunzo tuliyowapa wafanyakazi wetu mwaka 2019 ni ufahamu kuhusu teknolojia na usalama mtandaoni, afya na usalama, kukabiliana na utakatishaji wa fedha na uendelevu, na zinaangazia mambo ambayo ni muhimu sana kwa watu kazini na hata kwa maisha ya kibinafsi

Kando na kuwapandisha vyeo, kila mwaka KCB huwatambua wafanyakazi waliofanya vyema sana katika kudumisha na kutekeleza maadili ya KCB na kusaidia benki hii kupata matokeo mema. Kwa jumla, kulikuwa na mapendekezo 937 ya kupokea tuzo za simba, na kutoka kwake 55 wakawa washindi katika mataifa mbalimbali na 17 pia wakatuzwa katika kiwango cha Kundi katika vitengo mbalimbali.

KCB pia ilifanya utafiti wa Kipimo cha Afya katika Shirika (OHI) ambao ulitathmini hali ya kundi letu na tabia na shughuli zinazotumiwa kufanikisha matokeo kwenye benki. KCB ilipata asilimia 72 kwenye utafiti huo ambapo tulikuwa miongoni mwa kampuni zilizopata matokeo bora zaidi kwenye utafiti huo kote duniani. Matokeo hayo yalionyesha shirika ambalo lina mwelekeo, na lina watu wenye uwezo ufaao. Hata hivyo utafiti ulionyesha kuna haja ya kuwapa motisha zaidi wafanyakazi wetu.

Baada ya kupokea matokeo haya tumeanzisha mpango wa kundi lote kuziba mapengo yaliyojitokeza na aidha mapendekezo yaliyotolewa na wafanyakazi wetu. Pamoja na kusisitiza zaidi maeneo ambayo ilibainika tunafanya vyema kwa mujibu wa utafiti huo, tuna imani kwamba mpango huu utasaidiana na mipango iliyo kwenye mkakati wa Kundi, kwa jina, Zaidi ya Huduma za Benki tuliouzindua mwaka 2020.

Zaidi ya Huduma za Benki: Mkakati wetu wa 2020-2022

Mwaka huu ndio mwanzo wa mzunguko mwingine wetu wa mikakati. Tumefupisha kipindi hiki kutokana na kutambua kasi ya mabadiliko katika mazingira ya sasa. Lakini licha ya kipindi kuwa kifupi, mteja amepewa kipaumbele katika kila kitu. Ni juhudi za kuangazia mteja ambazo zitatutenganisha na wengine na pia kukuza biashara yetu kwa kukuza uhusiano wetu na shughuli zetu na wateja.

Tunauita mkakati huu Zaidi ya Huduma za Benki kwa sababu teknolojia na uvumbuzi vinabadilisha yanayowezekana katika biashara yetu. Msukumo mkuu unaangazia mteja kwanza na kwa kutoa huduma za thamani ya juu; kubadilisha utoaji bora wa huduma na matokeo; kuwa mtoaji mikopo kupitia dijitali; na kuongeza ukubwa na uwepo kwenye kanda. Misukumo hii inaongozwa na kutumia teknolojia ya kisasa, usimamizi bora wa utoaji mikopo na kusimamia hatari na pia kuzingatia matokeo na utamaduni wa kuwezesha ufanisi kwenye biashara.

Kipimo chetu cha ufanisi katika kutekeleza mkakati huu kitadhihirishwa kupitia matamanio yetu kwenye Kipimo cha Uvumishaji (NPS); kipimo cha juhudi kwa wateja; jumla ya mali yetu; kipimo cha gharama na mapato; kipimo cha mapato yasiyotokana na uwekezaji wa moja kwa moja; na mchango wa faida kwa kampuni kutoka kwa biashara zilizo nje ya Benki ya KCB Kenya.

147M

Hisa za ziada za Kundi la KCB zilizoorodheshwa katika Soko la Hisa la Nairobi baada ya ununuzi wa NBK

Kama benki inayoongoza kwa kutoa mikopo kanda hii, tunaamini kwamba kubadilishwa kwa sheria iliyoondoa kikomo kwenye kiwango cha riba, hasa kwa Biashara Ndogo na za Wastani (SME), kutasisimua shughuli zaidi kwenye uchumi ambao ulikuwa umedidimia kwa miaka mitatu

10B

Kiasi cha Kshs ambazo zimetolewa na Wakfu wa MasterCard kuimarisha mradi wa 2jiajiri

Mwaka 2019, tulikuwa miongoni mwa benki 28 zilizopewa jukumu la kuongoza mkakati wa Maadili ya Huduma za Benki kwa Uwajibikaji ambao lengo lake ni kuhakikisha siku za usoni zenye uendelevu. Hii ilikuwa fursa kwetu kuongeza juhudi zetu za kutimiza viwango vya ubora vya kimataifa na maadili pamoja na kuendeleza uwajibikaji na maadili kwenye biashara

Kuondolewa kwa kipimo kwenye riba

Kundi la KCB lilifurahishwa na hatua ya Bunge la Kenya ya kuondoa kikomo kwenye kiwango cha riba mwezi wa Novemba 2019. Kama benki inayoongoza kwa kutoa mikopo kanda hii, tunaamini kwamba kubadilishwa kwa sheria hiyo, hasa kwa Biashara Ndogo na za Wastani (SME), kutasisimua shughuli zaidi kwenye uchumi ambao ulikuwa umedidimia kwa miaka mitatu. Sekta zingine za uchumi zitafaidi pia kutokana na kuongezeka kwa pesa za kutolewa kama mikopo na hivyo basi kuzalisha fursa zaidi kwenye sekta ya kifedha. KCB imejitolea kukumbatia maadili ya sekta ya benki kubadilisha sekta hiyo katika haki, uwazi, ufahamu kuhusu masuala ya kifedha na kufikiwa na huduma za kifedha. Baada ya kuondolewa kwa kikomo kwenye kiwango cha riba, hatutarajii mabadiliko makubwa katika riba na tunaamini kwamba sekta hii inaweza kuzalisha mapato ya kuridhisha huku ikichangia wengi kupata huduma za kifedha. Kuna fursa nyingi sokoni na katika kanda kuweza kutimiza mengi kupitia uvumbuzi na usambazaji wa huduma.

Ununuzi wa Benki ya Taifa la Kenya

Tulikamilisha ununuzi wa kihistoria wa Benki ya Taifa la Kenya (NBK). Ununuzi huu ulikamilishwa kupitia kubadilishana hisa, ambapo hisa mpya za Kundi la KCB 147 milioni ziliongezwa kwenye Soko la Hisa la Nairobi. Ununuzi huu ulikuwa sehemu ya mkakati wetu wa ukuaji na unaendana vyema na mpango wetu wa kuongeza thamani kwa wenyehisa.

Ununuzi huu ulipokelewa kwa hisia mbalimbali na wadau. Baadhi ya wenyehisa waliamini kwamba tunanunua benki inayohangaika ambayo haikuwa na thamani kubwa ya kuongeza kwa Kundi la KCB ilhali wapo wengine, wakiwemo wasimamizi na bodi, walioamini kuwa ilikuwa fursa nzuri ya kubadilisha mwelekeo wa matokeo na ufanisi wa Kundi hili. Benki ya Taifa la Kenya ni nembo ya Kenya iliyo na mizizi na historia ndefu ya zaidi ya miaka 50 na ina wenyehisa wanaokaribiana sana na wale wa KCB. Tuna imani kwamba kwa usaidizi wa KCB, Benki ya Taifa la Kenya itainuka tena na kuandikisha matokeo mema na kututhibitishia kwamba ilifaa kuwa kwenye Kundi la KCB.

Nilifurahia sana kuona kukiwepo mashindano ya manufaa kati ya wafanyakazi wa benki zote mbili na pia heshima kubwa kabla ya, wakati wa na baada ya ununuzi kukamilishwa. Hongera kwa wafanyakazi ambao wamekumbatia hali ya sasa na kujitolea kusonga mbele na mwelekeo huu mpya. Katika mwaka ujao, umoja huu utakuwa na umuhimu mkubwa katika ukuaji wa biashara zote mbili. Lengo letu kuu ni moja na nitaendelea kuongoza na kusisitiza juhudi za pamoja za nembo zote mbili katika soko letu la biashara.

Shughuli inayoendelea na ufungamanisho itachangia katika kuongeza thamani ya Benki ya Taifa la Kenya pamoja na kuimarika kwa utoaji huduma, kuongezeka kwa wateja na kutengeneza faida kwa matawi ya benki hiyo na kupambwa upya kwa huduma zake za dijitali. Katika kipindi hiki cha ufungamanisho, Benki ya Taifa la Kenya itaendelea kuendesha shughuli zake kama kampuni tanzu inayojisimamia na, baada ya kuongezewa KShs. 5 bilioni kwenye mtaji wake, itatarajiwa kutimiza malengo yake sawa na biashara zingine za Kundi hili.

Kuongezwa nguvu kwa Biashara za Kanda

Biashara zetu za nje ya Kenya zimeendelea kuonyesha ukakamavu na kupata ukuaji na faida licha ya changamoto katika baadhi ya mataifa husika. Mwaka 2019, Benki ya KCB Uganda na Benki ya KCB Sudan Kusini zilikabiliwa na changamoto zaidi na hivyo mchango wake kwa Kundi kwa jumla ukashuka. Tunatarajia mabadiliko katika mwaka 2020 na baadaye.

Mzunguko unaofuata wa miaka mitatu una mpango wa kina kwa kila biashara. Mkakati wa jumla ni kutumia nguvu za kila biashara kwenye soko husika na kuongeza ufanisi kupitia teknolojia. Tunapoendelea kukua kwa kampuni kutoka ndani, tutaendelea pia kuangazia ukuaji unaoweza kuja kutoka nje kupitia ununuzi au ushirikiano katika masoko yaliyo na tija zaidi kwa biashara yetu. Katika nchi ya Ethiopia bado kuna fursa nzuri na tutaendelea kufuatilia kupitia afisi yetu ya uwakilishi tunapoendelea kutathmini uwezekano wa kuingia kwenye soko hilo kikamilifu.

Zaidi ya uwepo wetu kupitia matawi au mawakala, tutaendelea kuimarisha uwezo wetu wa kuwasaidia wateja wetu kufaidi kutokana na fursa za ukuaji katika kanda hii. Huduma ya benki kutoka taifa hadi taifa ni muhimu sana kwa kampuni kubwa na pia watu binafsi na ni njia nzuri ya kukuza nembo ya KCB.

Uwajibikaji katika huduma za benki

Kama taasisi, tunaamini kwamba wajibu wetu ni zaidi ya huduma za benki, na tumejitolea kuendelea kuchangia katika kukabili changamoto za kiuchumi na kijamii katika masoko tunayofanya kazi.

Kupitia Wakfu wa KCB, mipango mitatu mikuu ya 2jiajiri, Mifugo-Ni-Mali, na Msaada wa Karo wa KCB ndizo njia zetu kuu za kuboresha maisha ya watu. Wakfu wa KCB umetoa mafunzo kwa watu zaidi ya 34,000 katika sekta ya kilimo biashara, ujenzi, uhandisi wa magari, urembo na ulimbwende na pia katika teknolojia ya habari na mawasiliano. Aidha, wakfu ulifanikisha ufadhili wa KShs.10 bilioni ($100 milioni) kutoka kwa Wakfu wa MasterCard ambao ni uwekezaji mkubwa zaidi wa sekta ya kibinafsi katika kipindi cha miaka mitano ambao utasaidia kuunda nafasi za kazi zaidi ya 1.5 milioni.

Mwaka 2020, tunaangalia uwezekano wa kupanua miradi ya Wakfu wa KCB hadi kwenye kampuni tanzu, mpango huu utanufaisha mahitaji ya kila taifa.

Mikakati yetu ya uendelevu imeashiria kwamba biashara inayoongozwa na uongezaji wa thamani inaweza kufanya shughuli zake na kupunguza madhara kwa mazingira kupitia kuunda bidhaa, huduma na mikakati ya kijamii inayofaa mazingira, pamoja na mikakati mingine endelevu.

15%

Sehemu yetu ya jumla ya pesa zilizowekwa benki na wateja Kenya

90%

Mikopo zaidi ya 90% ilitathminiwa kudadisi hatari za Kimazingira, Kijamii na Kiusimamizi

36.9B

Faida ya Kundi kwa Kshs kabla ya kulipa ushuru mwaka 2019

Mwaka huu ndio mwanzo wa mzunguko mwingine wetu wa mikakati ambao tumeufupisha kipindi hiki kutokana na kutambua kasi ya mabadiliko katika mazingira ya sasa

Mwaka 2019, tulikuwa miongoni mwa benki 28 zilizopewa jukumu la kuongoza mkakati wa Maadili ya Huduma za Benki kwa Uwajibikaji ambao lengo lake ni kuhakikisha siku za usoni zenye uendelevu. Hii ilikuwa fursa kwetu kuongeza juhudi zetu za kutimiza viwango vya ubora vya kimataifa na maadili pamoja na kuendeleza uwajibikaji na maadili kwenye biashara. Sehemu ya jukumu letu ni kuhamasisha sekta yote ya benki Afrika Mashariki kukumbatia viwango hivi na kufanikisha mfumo endelevu wa benki wa siku za usoni – na kuwezesha sekta ya benki kudhihirisha jinsi inavyotoa mchango bora kwa jamii.

Kutambuliwa na wengine

Kando na matokeo mazuri ya kifedha, KCB pia imetambuliwa na kutuzwa ndani na nje ya nchi. Benki ya KCB ilitawazwa Benki Bora Kenya na Benki Bora kwa SME katika Kanda wakati wa Tuzo za Ubora za Euromoney Awards za mwaka 2019. Tuzo hizo za Ubora za Euromoney ni tuzo zinazotambuliwa kuwa za hadhi ya juu zaidi katika sekta ya kifedha duniani.

Benki ya KCB pia ilitawazwa kuwa Benki Bora katika tuzo za Benki Bora za Global Finance; Benki iliyofanya mabadiliko bora zaidi katika Dijitali na utoaji huduma za benki Mtandaoni na Benki yenye Mpango Bora Zaidi wa Kusaidia Jamii zilizotolewa na Global Business Outlook; Benki Bora ya Kanda na Benki Bora kwa Uvumbuzi katika tuzo za Africa Banker na Tuzo ya Benki yenye Huduma za Kifedha Zinazopendwa Zaidi inayotolewa na Brand 100.

Katika kutambua huduma yetu bora kwa wateja, KCB pia ilishinda Tuzo za Dhahabu kwa Kundi Bora za Kuwahudumia Wateja, Uongozi katika Utoaji Huduma kwa Wateja na pia Mkakati Bora Zaidi wa Dijitali katika International Customer Experience Awards za mwaka 2019.

Mustakabali

Tuna matumaini kuhusu siku zijazo. Mwaka wa 2020 ni mwaka wenye matumaini kwa mataifa ya Afrika Mashariki kiuchumi na zaidi kwa Kundi letu la kampuni na tumejiandaa kutumia vyema fursa zitakazojitokeza.

Mwaka huu, tumejitolea kuongeza kasi utekelezaji wa mkakati wetu huku tukichukua hatua kuwa benki yenye nguvu zaidi na endelevu.

Nina shukrani nyingi sana kwa Bodi ya Wakurugenzi wa Kundi, wasimamizi na wafanyakazi kwa mchango walioutoa katika ukuaji wa biashara yetu na natarajia kushuhudia juhudi zetu za pamoja zikizalisha na kufaidi jamii kwa njia ya kudumu.

Joshua Oigara, CBS
Afisa Mkuu Mtendaji wa Kundi na Mkurugenzi Mkuu

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 Business
Director and MD NBK

Executive **Committee**

Judith Sidi Odhiambo
Group Head Corporate & Regulatory Affairs

Joachim Steuerwald
Group Chief Technology Officer

Japheth Achola
Group HR Director

Jane Mwangi
Managing Director KCB Foundation

John Mukulu
Group Chief Risk Officer

Apollo Ongara
Director Credit

Joseph Kania
Group Company Secretary

Report from the Group Chief Finance Officer

Operating environment

The business environment in all the markets we operate in was tough in 2019. In Kenya, both the World Bank and the Central Bank revised forecasted GDP growth downwards, inflation whilst largely contained, spiked upwards severally as did the exchange rate which hit a low of KShs. 104.3 to the USD. The country demonetized the old one-thousand-shilling note and the law capping interest rates was finally repealed at the end of the year.

Rwanda and Tanzania experienced major market liquidity constraints in spite of stable GDP growth while our other markets took inflationary strain and hard currency availability pressure.

Performance overview

2019 was the final year of our five-year strategy dubbed "transformative partnerships" which we completed successfully. The table below summarizes key achievements in the five years we have executed the strategy: -

	2014	2019	% Change
Number of customers	4.14M	**22.81M**	**>451%**
Total assets (KShs. B)	490.3	**898.6**	**83%**
Distributable profits (KShs. B)	16.8	**25.2**	**50%**
Dividends paid (KShs. B)	6.1	**11.1**	**82%**
Total Shareholder Return (%)	23.6%	**53.7%**	**301 bps**
Cost-to-income ratio	50.2%	**45.9%**	**430 bps**

In the year we added National Bank of Kenya to the KCB Group family through an acquisition in line with our growth strategy.

Our profit before tax for 2019 grew by 9% to KShs. 36.9 billion compared to KShs. 33.9 billion in 2018 driven by a 15% growth in net interest income to KShs. 56.1 billion and 25% growth in non-interest income to KShs. 28.2 billion. Pre-provision expenses grew by 10% to KShs. 39.2 billion while the loan loss provisions increased to KShs. 8.9 billion mainly due to the mobile loan portfolio.

Our subsidiary businesses contributed 7.4% of the overall profit for the year boosted by KCB Bank Tanzania, Rwanda, Burundi and acquisition of National bank of Kenya.

Profit after tax closed at KShs. 25.2 billion representing a growth of 5% over KShs. 24.0 billion in 2018. We distributed part of the profit by way of an interim dividend of KShs. 1.00 per share in the course of 2019 and the directors have recommended a further KShs. 2.50 per share as final dividend.

Overall, the business continued to generate good returns for its shareholders averaging a return on equity of 20.7% in 2019.

Net interest income

KShs. Billion	2019	2018	% Change
Total Interest Income	**74.35**	66.28	**12.2**
Total Interest Expense	**(18.22)**	(17.45)	**4.4**
Net Interest Income	**56.13**	**48.83**	**14.9**

KCB maintained its lending pattern in 2019 growing volume of interest earning assets and the total interest income despite lower asset yield, observed in the key market of Kenya due to reduction of the benchmark rate. Total deposits increased by 28% which drove overall growth in interest expense by KShs. 770 million. However, cost of funds improved by 40 bps closing at 2.8%.

Non-interest income

Non-interest income was up 23% in 2019 to KShs. 28.2 billion primarily on the back of lending fees from our mobile product which recorded a 293% growth. FX trading income and other fees and commissions also recorded some good growth in the year.

Total expenses

Operating expenses were up 10% to 38.5 billion and this was largely driven by staff costs which went up 13% in part due to the acquisition of NBK. Excluding NBK, operating expenses increased by 5.1%.

Loan loss provision

The loan loss provision increased to KShs. 8.9 billion from KShs. 2.9 billion in 2018 on the back of the growth in the stock of gross non-performing loans. This was occasioned by an increase in mobile loans disbursed in 2019 which grew 290% coupled with an increase in non-performing loan ratio of the same category.

Assets and Liabilities

Total assets of the group surged to KShs. 898.6 billion shillings, a growth of 26% from KShs. 714.3 billion in 2018. The key drivers for this growth were the loan book growth of 17.4% to KShs. 535.4 billion and the customer deposits growth of 27.7% to KShs. 686.6 billion. The main driver for this growth was acquisition of NBK, excluding which total assets grew by 10%.

Credit quality

Non-performing loans ratio increased to 10.9% (7.4% and 6.9% for 2019 and 2018 respectively excluding NBK). The key sectors driving this deterioration in asset quality were trade, tourism and manufacturing sectors within the corporate banking book and on the mobile loan portfolio. Non-performing stock increased to KShs. 63.4 billion (KShs. 38.2 billion excluding NBK) up from KShs. 32.7 billion in 2018 following consolidation with NBK.

Capital position

KCB Group has maintained healthy buffers on its capital ratios over the minimum regulatory requirement. The core capital ratio, closed at 17.2% while total capital was 19.0% against regulatory requirement of 10.5% and 14.5% respectively.

All banking subsidiaries met regulatory capital requirement with the exception of NBK which was below total capital requirement despite the KShs. 5 billion capital injection. This is expected to be addressed within the first half of 2020 through various initiatives at NBK.

CAR	2019	Minimum requirement	2018
Kenya	**17.5%**	14.5%	17.8%
National Bank of Kenya	**11.5%**	14.5%	3.7%
Tanzania	**17.3%**	12.0%	15.7%
South Sudan	**108.0%**	12.0%	124.0%
Uganda	**15.5%**	12.0%	18.3%
Rwanda	**16.4%**	12.0%	15.8%
Burundi	**23.2%**	12.0%	29.0%

Segmental review - PBT

KShs. Million	2019	2018	% Change
Kenya	**33,184**	31,385	6%
National Bank of Kenya	**1,281**	-	>100%
Tanzania	**998**	776	29%
South Sudan	**578**	665	(13%)
Uganda	**(79)**	446	<100%
Rwanda	**949**	424	>100%
Burundi	**275**	220	25%

KCB Bank Kenya posted 6% growth in PBT year on year driven by growth in interest earning assets, growth in lending fees and FX income. This was despite the marginal growth in service fees and the dip in asset yield occasioned by the reduction in the CBR.

Collectively, the subsidiaries, excluding KCB Bank Uganda, posted a positive growth and contribution to the Group's profitability. KCB Bank Uganda faced the greatest challenge due to the decline in average earning assets, low asset yields and an increase in NPLs to record a year on year movement of (118%) in PBT. KCB Bank Burundi posted 25% growth in PBT driven by stronger interest income due to improved asset yields and lending volumes from the loan book growth of 26%. The performance was however restrained by weak non-interest income that grew only 1% and becomes a key focus for 2020. KCB bank Tanzania posted a growth of 6% in net interest income and while non-interest income was up 23%. This was largely driven by 31% growth in FX volumes. KCB Bank Rwanda recorded the highest year on year growth in profitability, over 100%, driven by a strong growth in interest income due to improved lending volumes as the loan book grew 14% in the segments of corporate, sme and personal. This was supported by a 12% reduction in operating expenses year on year. KCB Bank South Sudan posted 15% decline in year on year performance despite the resumption of moderate lending activities and improvement in the consumer price index leading to a reduced loss on monetary position. Fees and FX income remained subdued due to reduced transaction volumes and strained FCY liquidity.

Outlook

We expect the operating environment to improve especially in Kenya with the repeal of the interest rate capping law and concerted effort to clear pending bills by the Government. The ongoing peace talks in South Sudan are a welcome relief and will bring much needed consumer and general economic confidence in the country.

2020 marks the first year of KCB's three year strategy, "Beyond Banking" which runs to 2022. The strategy is anchored on four pillars focusing on keeping our customers first, enhancing productivity and efficiency, driving end to end digitization and scaling up our regional businesses.

Our sound strategy coupled with a healthy operating environment is a recipe for delivering great performance in 2020 and beyond.

Lawrence Kimathi
Group Chief Finance Officer

Five Year Review

Consolidated statement of financial position

	31 Dec 15 KShs. million Audited	31 Dec 16 KShs. million Audited	31 Dec 17 KShs. million Audited	31 Dec 18 KShs. million Audited	31 Dec 19 KShs. million Audited
Assets					
Government and other securities	96,948	102,470	109,737	120,070	169,243
Loans and advances to customers (net)	345,969	385,745	422,685	455,880	535,371
Property and equipment	9,028	9,373	10,454	11,007	13,132
Other assets	106,149	97,652	103,792	127,356	180,826
Total Assets	**558,094**	**595,240**	**646,668**	**714,313**	**898,572**
Liabilities					
Customer Deposits	424,391	448,174	499,549	537,460	686,583
Lines of Credit	43,268	36,105	25,934	42,552	41,856
Other Liabilities	9,181	14,395	15,220	20,640	40,392
Total Liabilities	**476,840**	**498,674**	**540,703**	**600,652**	**768,831**
Total Equity	**81,254**	**96,566**	**105,965**	**113,661**	**129,741**
TOTAL LIABILITIES AND EQUITY	**558,094**	**595,240**	**646,668**	**714,313**	**898,572**

Consolidated statement of profit and loss

	31 Dec 15 KShs. million Audited	31 Dec 16 KShs. million Audited	31 Dec 17 KShs. million Audited	31 Dec 18 KShs. million Audited	31 Dec 19 KShs. million Audited
Interest Income	56,443	62,806	63,673	66,280	74,350
Interest Expense	(17,148)	(15,779)	(15,288)	(17,450)	(18,220)
Net Interest Income	**39,295**	**47,027**	**48,385**	**48,830**	**56,130**
Non-Interest Income	19,732	22,449	23,000	22,973	28,171
Operating Income	**59,027**	**69,476**	**71,385**	**71,803**	**84,301**
Operating Expenses	(30,310)	(33,104)	(34,996)	(34,698)	(38,679)
Impairment on Loans and Advances	(2,179)	(3,823)	(5,914)	(2,944)	(8,889)
Total Expenses	(32,489)	(36,927)	(40,910)	(37,642)	(47,568)
Profit Before Tax and Loss on Monetary Position	**26,538**	**32,549**	**30,475**	**34,161**	**36,733**
Loss on Monetary Position	-	(3,458)	(1,361)	(302)	164
Profit Before Tax and Loss on Monetary Position	**26,538**	**29,091**	**29,114**	**33,859**	**36,897**
Income Tax Expense	(6,915)	(9,368)	(9,410)	(9,864)	(11,732)
Profit for the Year	**19,623**	**19,723**	**19,704**	**23,995**	**25,165**

Value Added Statement

VALUE ADDED	2015 KShs. million	2016 KShs. million	2017 KShs. million	2018 KShs. million	2019 KShs. million
Interest Income,Fees,Commission and Other Revenues	76,175	85,256	86,673	89,253	102,521
Interest Paid to Depositors and Cost of Other Services	(29,801)	(34,454)	(33,205)	(32,916)	(39,687)
Interest paid on borrowings	(1,852)	(1,298)	(2,126)	(1,986)	(1,954)
Wealth Created	**44,522**	**49,504**	**51,342**	**54,351**	**60,880**

Distribution of Wealth	2015		2016		2017		2018		2019	
Employees-Salaries, Wages and Other Benefits	15,311	34.4%	17,719	35.8%	19,146	37.3%	17,007	31.3%	19,459	32.0%
Government-Tax	6,915	15.5%	9,369	18.9%	9,410	18.3%	9,864	18.1%	11,732	19.3%
Shareholder's Dividends	6,050	13.6%	9,198	18.6%	9,198	17.9%	10,731	19.7%	11,099	18.2%
Retention to support future Business Growth:										
-Retained Earnings	13,573	30.5%	10,525	21.3%	10,506	20.5%	13,264	24.4%	14,066	23.1%
-Depreciation and Amortization	2,435	5.5%	2,428	4.9%	2,791	5.4%	3,146	5.8%	4,044	6.6%
Social Capital-KCB Foundation	238	0.5%	265	0.5%	291	0.6%	339	0.7%	480	0.8%
Wealth Distributed	**44,522**	**100.0%**	**49,504**	**100.0%**	**51,342**	**100%**	**54,351**	**100%**	**60,880**	**100%**

Key Facts

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

Profitability
Achieved **KShs. 25.2 billion** in net income through growth in Digital Financial Services and cost efficiencies

Total Deposits
Mobilized **KShs. 686.6 billion** Customer Deposits, highest in the region.

Total Assets

KShs. 898.6billion in total assets, largest amongst regional banks.

Revenue
Top among banks in the region with **KShs. 84.3 billion** in total revenues

Branches
Network of **342 branches** across the region, greatest distribution in the region.

The year under review marked the end of our Five-Year Strategic Plan dubbed "Transformative Partnerships" that was initiated in 2015. The strategy was anchored on six themes, namely: simplified customer journey, digital first, operational efficiency, optimization of the balance sheet and driving asset quality, maximize our regional business and sustainability agenda. To chart the next chapter, the Group conducted a review of the plan which showed significant achievement on the key delivery areas. The successful execution of this strategy that was largely hinged on driving customer excellence and enhanced investment in technology ushers in a new era for the Bank.

Below is a detailed review of our performance on all the six pillars, detailing our progress over the period whilst drawing parallels from strategy inception in 2015 to its maturity in 2019.

42%

During the year under review, NPS closed at 42%, well above the banking industry average of 29%

Over the past five years, we have made significant changes in our policies, systems, products and processes to ensure simplified, efficient, affordable and better outcomes for our 22.8 million customers.

A Review of Our Strategic Themes

1 Simplified Customer Journey

Customer experience has evolved over the years, with customers demanding more of us, expecting better and personalized services, both at the branch level and on the digital platform. Over the past five years, we have made significant changes in our policies, systems, products and processes to ensure simplified, efficient, affordable and better outcomes for our 22.8 million customers.

In 2019, our focus was on delivering frictionless customer experience, both internally for staff as key stakeholders and also amongst our customers across the region. To enable us deliver superior customer experience, we embraced and approached the customer journey by optimizing experience in all our touch points. The Bank mapped out the customer journey and adopted various solutions to improve ease of access, user experience and enhance reliability. This is in line with our mission to drive efficiency, as we work towards simplifying the customer journey. In mapping the customer journey, we sought to understand the experiences that customers go through to access our services. It is through this intervention that we are able to understand the customer needs better, allowing us to shape our interaction with them whilst reviewing and enhancing our journey maps.

Our deliberate efforts to remove barriers to banking and improve products, processes, systems and decision making were successful and continued to reap dividends. Using a data-driven approach to review customer complaints and identifying poor customer outcomes, we were able to investigate and fix problems before they became systemic issues. In particular, for the retail customers, we leveraged IT solutions to not only facilitate decision making, but also to enhance delivery of customer experience.

Our corporate customers continue to enjoy a personalized service that we offer through the relationship managers who stay on top of industry trends. Our relationship managers provide both consultative and advisory roles to the customers, helping them to make more informed financial decisions. For some of our customers experiencing financial challenges - mainly in the SME and corporate banking sectors - we continued to engage them with a view to finding a solution to their predicament. These interventions enabled us to check against deterioration of our asset book while at the same time ensuring improved customer satisfaction.

We also held several engagement sessions for our corporate customers drawn from key economic sectors such as IT, oil & gas, and energy. The forums – dubbed KCB Power Talks series – are meant to explore new opportunities for customers and address challenges they may be facing. This was part of a wider strategy of reaching out to customers to fully understand their needs and aspirations and, most importantly, see how we can fit and support their growth plans.

To further entrench a customer-centric organisation, we trained all our employees on how to deliver customer value through direct interactions, marketing and enhanced experience. Our goal is to empower every employee with the ability to engage with customers because the landscape is changing rapidly due to the digital revolution and the conveniences, proficiencies and efficiencies it affords us. Therefore, we have invested in the right people and technology in order to support our customers. As a result of our Customer Relationship Management Systems and solutions, we have witnessed improved workflow efficiency as they help us to manage the increasing demand for outstanding customer service.

We set ourselves goals to benchmark against global best practice on customer experience, measuring our performance on key parameters such as Net Promoter Score (NPS) and Customer Effort Score (CES). NPS is a measure of customer satisfaction and brand loyalty while CES shows how much friction a customer experiences when interacting with us. During the year under review, NPS closed at 42%, well above the banking industry average of 29% while CES stood at 20%, a considerable improvement from the 2018 score of 26%. To drive further improvement on these parameters, we rolled out engagements to help improve NPS for specific branches with a focus on floor management and feedback from customers on how to improve our services at these branches. In this era of disruption, compounded by the reality that customers

have become discerning, we realized we have to be different by staying ahead of the curve in our interaction with our customers. As a result, we continue to leverage big data for product and service customization, enabling us to develop better customer offering, cross sell to our customers and gain a competitive edge in the market.

We also needed to open up channels where customers could reach us, whether it is through the call center, social media or the branch network. We have primed ourselves to be ready to interact with our customers at every touchpoint. For example, KCB deployed a WhatsApp messaging service for customers that allows them to reach out to the Bank through the social media platform. This saw KCB become one of the leading African financial service companies pioneering the use of the WhatsApp business solution. This platform has enabled us improve on personalized customer experiences, cross sell and upsell products, and resolve customer issues with a near real-time turnaround time (TAT). As at December 2019 we had received and serviced 185,249 customer interactions.

This platform also creates a centralized communication hub for KCB digital customer care interactions, allowing the Bank to effectively leverage the most-used messaging systems to take communications to the next level as part of an overall digital transformation effort. Furthermore, customers can also interact with us through Facebook Messenger, Instagram, Twitter, bi-directional SMS and live chat.

On Facebook, we have 1,181,153 followers and 357,941 on Twitter. Today, KCB is the leader in the usage of social media to drive customer experience excellence in Africa.

In 2019, we reviewed our customer issue management as part of improving the customer journey and enhancing their experience. This has enabled us to develop a centralized registry for all the customer pain-points using our upgraded Enterprise Customer Relationship Management system (eCRM). As a result, we have subsequently developed solutions for the frequently recurring issues. We also continue monitoring our infrastructure closely to ensure that all our systems in branches, ATMs and the core Banking system T24 are performing optimally.

To further entrench a customer-centric organisation, we trained all our employees on how to deliver customer value through direct interactions, marketing and enhanced experience.

These systems guide us in making intelligent decisions and improving customer relations. Further, we use behavioral analytics to directly address individual customer's needs. The algorithms have become useful tools in our operations, helping us make decisions such as how much to lend to a customer on the KCB mobile platform.

These efforts are paying off. In the third quarter of 2019 we won the Gold Award for the Best Customer Experience Team, Best Digital Strategy and the Best Leadership Award in Customer Experience globally during the International Customer Experience awards in Netherlands.

The internal customer

The human capital remains a key foundation in driving our business. During the period under review, we made several changes to enhance our staff proposition, with a view of making KCB an employer of choice across East Africa and beyond. This focused on recruitment, onboarding, remuneration and staff wellness. Most of the vacancies that arose in the Group during the year were filled internally as a direct result of our deliberate policy to farm the talent within the organization and grow employees to excel in what they do while getting ready for new challenges that may arise.

Under the Women in Leadership Network (WILN) initiative, 250 female staff completed the two-year customized career development programme. The programme is meant to equip the participants with leadership skills to enable them navigate their career progression. This is achieved through various initiatives availed through trainings and networking forums; corporate social responsibility drives; a book club and mentorship sessions. The scheme also offers mentorship to high school students. Over 23,428 girls in 49 schools have so far benefitted. Overall, our deliberate investments and efforts on diversity within the workforce have been successful. KCB Group has achieved its target of having 50% of women in managerial positions ahead of the 2020 goal.

The focus is now on senior management roles currently at 26% against a target of 33% by 2020.

In 2019, the Group conducted an Organizational Health Index (OHI) survey to assess, measure and track the organizational elements that drive performance. The overall Group health score stood at 72, outperforming global peers in majority of the parameters. In the coming year, focus will be on addressing areas of concern in the survey.

The Group repackaged the staff recognition scheme (Simba Awards), through the introduction of in-country awards to drive up staff participation and provide a more inclusive reward mechanism. This resulted in an increase in the number of nominations to 937 in 2019 from 839 in the previous year. Under the new model, 72 staff were awarded in 2019 compared to 22 in the previous year.

In 2019, we re-introduced a 24-month Management Trainee programme to nurture a strong talent pipeline for deployment within the organization, taking in 69 staff members. Moreover, 217 staff members across the Group were promoted during the year after demonstrating ability to handle bigger roles.

Over 1,000 branch staff and mid-level managers were trained on current trends in business operations. The uptake of e-learning courses and in-class training sessions for staff saw the improvement of average learner days from 7.1 to 11.2 across the Group. The Group also conducted a talent review on critical roles to enhance succession planning.

Our wellness programme encompasses chronic disease management, the KCB pharmacy, a clinic, a fitness centre, employee assistance programme and various health education engagements designed to promote the welfare of our staff.

The revamp of the staff offering saw KCB ranked the third best employer of choice in Kenya and top in the banking sector following an independent survey conducted during the year.

2 Digital First and Fast

The Fourth Industrial Revolution is rapidly driving transformational disruption across every sector. It is estimated that by the year 2022, over 60% of global GDP will be digitized. An estimated 70% of new value created in the economy over the next decade will be based on digitally-enabled platforms. The financial sector, especially the banking industry has embraced digitization in their operations. To navigate the disruption, the sector has had to re-imagine how to leverage technology to create value, increase market share and serve customers in this new dispensation.

In preparing ourselves for the digital economy, KCB Group has remained true to the customer by offering products based on their evolving needs as well as having the right infrastructure and talent to support the development of these products. To enable us deliver on this, our strategy has comprehensively addressed innovative ways to meet current needs and anticipate future trends through robust digital offerings. These products have continued to record increased activity, giving the business a new growth frontier. Digital financial services have continued to play a huge part in driving the value proposition and growing the Bank.

Our flagship digital products – KCB Mobi and KCB-MPESA —continued to post exponential growth in value and volume of transactions with loans of over KShs. 142.7 billion being disbursed in 2019. These are majorly micro loans with an average ticket of

Human Capital

Metric	2019	2018
Total Staff	7,584	6,220
Average number of leave days taken	21.3	19.1
Average number of sick off days taken	1.8	1.7
Total number of interns	782	199
Total number of new hires	63	58
Total number of exits	220	179
Staff Cost-to-income ratio	22.8%	23.7%
Employee distribution by gender M:F	56:44	57:43
Revenue per staff (KShs. Millions)	16.2	11.5
Cost per staff (KShs. Millions)	2.6	2.7

Average tenure (years):	2018	2019
Kenya	8.7	9.7
Burundi	3.2	4.2
Tanzania	5.5	6.1
Rwanda	5.2	6.4
Uganda	3.8	3.9
South Sudan	7.0	8.3

Mobile Loans Advanced

KShs. 212.1B
MOBILE LOANS ADVANCED

Mobile Loans Repayment Rate: **95.40%**

Mobile Loans Advanced

Every 24 hours
KShs. 581,162,437

Every hour
KShs. 24,215,102

Every minute
KShs. 403,585

Every second
KShs. 6,726

Average loan on mobile excluding Fuliza (KCB Mpesa and KCB Mobiloan): **KShs. 8,072**
Average loan on mobile including Fuliza: **KShs. 1,635**

Agency Banking Deposits

Agency Transaction Types

Cash Deposit - **37.2%**
Cash Withdrawal – **15.4%**
School Fees – **15.8%**
*Others– **31.6%**

KCB App downloads

2016 - **351,259**
2017- **763,084**
2018 - **1,184,023**
2019 - **1,770,754**

Number of Mobile loans

In 2019-**129,733,564**
Per day - **355,435**
Per hour - **14,810**
Per min - **247**
Per Sec - **4**

* Others: Account opening, Balance enquiry, Mini statement, Bill payment, Load cards and funds transfer

KShs. 8,072. This growth in digital products has further accelerated the increase in the number of the Bank's customers. Since 2015 when we launched KCB-MPESA, the number of KCB customers has risen from 4 million to almost 23 million today. In 2019, KCB partnered to roll out Fuliza, a mobile overdraft facility. This product gained significance and relevance in the market due to its ease of use and convenience. Since the launch, the Bank has disbursed loans amounting to KShs. 69.4 billion with an average size of KShs. 600.

We have observed a notable change in customers' preference for digital touchpoints; today, over 97% of transactions are through the digital platforms. It is therefore evident that digital is the platform of preference today and can only become more pervasive going forward. We have also been able to, among others, serve 563,121 elderly persons, orphans and persons living with disability through these digital channels under the Inua Jamii state-run social protection programme disbursing KShs 15.1 billion.

KCB was also one of the four pioneering banks behind the launch of Stawi, a mobile-based business loan product for the Micro, Small and Medium Enterprises (MSMEs). Stawi was designed to provide affordable and convenient access to credit for MSMEs.

KCB Bank South Sudan launched the first mobile banking services in the country in August 2019. This product enables customers across the country to access banking services. The Bank continues to seek partnerships to enhance its digital offering, in a country where mobile penetration is approximately 21%.

In Rwanda, the Bank launched KCB Connect, a mobile lending product in November, while in Tanzania, Uganda and Burundi, the Bank focused on increasing the digital footprint through innovative products in partnership with telecommunication companies.

105
Intelligent ATMS

KShs. 59.7 billion
Amounts Collected

In preparing ourselves for the digital economy, KCB Group has remained true to the customer by offering products based on their evolving needs as well as having the right infrastructure and talent to support the development of these products.

3 Operational Efficiency

As a Group, KCB is focused on re-imagining the customer journey so that banking is embedded in the lives of our customers. When banking is simple and the processes are seamless, it has a real impact on people's lives and create a positive impetus on the economy. During the year under review, the Group heightened efforts aimed at improving operational efficiency to deliver value to our customers while also improving shareholder value. This involved improving processes, systems and operations in all the customer touchpoints while putting in place the right talent.

We conducted a wide scale automation of branch processes to drive efficiency. Through this innovation, online account opening and automatic requisition of bankers cheques were enabled. In our Trade services, we automated customer debit advise generation and dispatch from our core banking system as well as the Customs Bond Issuance process from paper to biometric. We also fully integrated our core banking and lending systems to enable auto booking of all unsecured loans and centralized our salary advances processing. These automations led to improved turnaround times and increased customer satisfaction.

Furthermore, we automated reconciliation for clearing accounts and cheques leading to a reduction of the number of unpaid cheques from an average of 50 to less than 10 on a daily basis, while ensuring 100% participation in the automated clearing house without a single lock out. At the same time, we enhanced float release for cheques deposited on Thursdays from Monday to Saturday.

The Bank also has in place robust risk management controls, enabling it to deal effectively with the changes in economic, social and technological advancements as well as getting a clear understanding of the regulatory context in all the markets we operate in. Protecting our customers' information and hard earned cash remains of utmost importance to us. As more of our transactions move to the digital channels, we remain alive to the threats posed by cyber fraud and has invested heavily in ensuring our systems are secure. In 2019, no breach in our systems was recorded. We continue to meet global standards in safeguarding customers' data and information. Efforts are also being heightened to secure the Mobile Apps and our system interface with third party networks.

To further enhance our digital channels, we commenced implementation of a system to automate processes of identifying and reversing failed transactions between KCB and our telecommunication partners leading to timely resolution of customer complaints. This system also facilitates timely resolution of failed transactions leading to enhanced customer experience.

Cost to Income Ratio	
240bps	**2019** 45.9%
	2018 48.3%

We also introduced multi-factor authentication on our mobile App. Additionally, we will continue running customer sensitization campaigns on best practices to protect them from online fraudsters as well as invest in a limited number of ethical hackers to test our systems. This is aimed at safe-guarding our systems and keeping it safe from illegal hackers. We also conducted a Risk-Based guard training for over 300 security officers from the four firms providing security to the Bank on emerging banking security threats including ATM jackpotting. The strong room hardening, initiated in 2018 for our seven currency centers was also finalized as well as a replacement of 79 ATMs' within the network to ensure reliability.

During the year under review, our core banking system experienced only two incidents of downtime. Although these incidences posed a mild risk for us, they were of concern because they affected our ability to offer uninterrupted service to our customers. The root cause for the two incidents was identified and issues closed to ensure such down time does not recur.

As a result of these initiatives to enhance operational efficiency, the Group's cost-to-income ratio improved from 48.3% in 2018 to 45.9% in 2019. The cost per staff also reduced to KShs. 2.57 million in 2019 from KShs. 2.73 million in the previous year.

In the coming financial year, we will implement controlled access systems that will enable us facilitate delegation of authority, increase transparency and guarantee integrity of our systems. We will be able to monitor all the decisions in the systems with different levels of approvals, allowing for greater accountability and transparency to effectively block any fraudulent activities.

Audit

As a Bank, we keep an eye out on the Group's business by effectively scanning the internal and external operating environment. The audit function through its control framework supports this by ensuring robust internal controls are enforced in order to sustain the business in the long term, and give assurance to our shareholders of business continuity. This assurance is demonstrated through quarterly reports to the Board. Besides conducting operations, information systems, credit, treasury and legal units' audits, the audit function also offer advisory services for various key strategic projects for the Bank.

Prudential guidelines require that the audit function is overseen by an independent Board Committee, whose membership is drawn from diverse skill-sets and chaired by a qualified accountant.

Every five years, the Bank carries out a self-audit to ensure compliance with international standards. During the year, we conducted this assessment which confirmed our compliance.

We have invested in new tools to automate and conduct continuous audits while generating insights, to complement traditional assurance frameworks, effectively delivering value added service. The outcome of the sustained investment in improving the audit function has led to a great improvement in closure of audit issues leading to improved operational performance. In 2019, closure rate across the Group stood at 96% compared to 94% in the previous year.

4 Optimize balance Sheet and drive Asset Quality

At the beginning of the year, we focused on continuously growing the business to drive market leadership by delivering superior return on investments and maximizing our revenue earning potential. We successfully tapped synergies and partnerships in our effort to grow deposits and leverage balance sheet and improve the non-performing loans ratio. As a result, net loans and advances grew from KShs. 455.9 billion in 2018 to KShs. 535.4 billion in 2019 on the back of sustained growth in corporate and checkoff loans.

The retail and corporate franchises maintained a strong show throughout the year. In the retail business, digital banking was one of the main drivers of growth riding on mobile lending where KShs. 212 billion was disbursed. The Group customer numbers rose to 22.8 million, compared to 17.4 million in the previous year. This growth led to a 28% increase in customer deposits to KShs. 686.6 billion. By the end of 2019, 97% of our transactions were handled through digital channels such as agents, mobile, internet and card business.

Islamic banking posted a strong growth in all the four key financial indicators – net income 46%, customer deposits 53%, loan book 79% and number of accounts 41%.

With the integration of the NBK into the KCB group family, the combined entity now has the second largest market share of Islamic banking in the country. KCB is at the forefront of driving industry initiatives meant to grow the uptake of Islamic finance.

As part of our drive towards gender diversity, we have put in place measures to empower women customers through provision of affordable credit under the Women in Business proposition. The scheme has grown the loan book to KShs.10.8 billion in the last two years, with an NPL ratio of 1%. We have reached out to over 75,000 women, drawing in deposits of KShs. 9 Billion. In order to reach out to more women through our KCB network, the proposition has now been rolled out to 104 branches and trained over 500 staff on relationship management, gender intelligence and new credit methodology. We have conducted 66 women workshops covering over 2,500 entrepreneurs.

The women programme is part of our larger SME offering which we see as a strong frontier for growth in the coming years. In the period under review, the segment was subdued due to the rate cap regime which inhibited the ability to effectively price risk. Going forward, in line with our focus on

46%

Growth in Sahl Banking Net Income in 2019

Sahl Banking Growth

	2019	2018
Net Income (Kshs. Millions)	576	395
Customer Deposits (Kshs. Billions)	7.6	5.0
Loan Book (Kshs. Billions)	5.0	2.8
Sahl Customer Accounts	40,006	28,374

96%

Audit issues closure rate across the Group in 2019, compared to 94% in the previous year.

We have invested in new tools to automate and conduct continuous audits while generating insights, to complement traditional assurance frameworks, effectively delivering value added service.

new strategy, the Bank has developed and rolled out differentiated customer value propositions for priority retail and SME segments which should see a rejuvenation of the sector.

In light of the shift towards digital banking, KCB is remodeling its branch network to transform the outlets into relationship centres, a change that has been rolled out in 65 branches in Kenya with a target of 100% roll out by 2021. The change in the operating model will boost excellence in service delivery, facilitate the customer management and retention initiatives and deliver optimal staff management.

To leverage the youth dividend, we continue to build products and services around the young people, which has significantly led to the growth of our flagship Bankika product. Among other initiatives, we have deepened our e-wallet, a proposition for students which allows parents to have sight over their children's spending trends.

As part of our strategic thrust on customer first, we have revamped our value proposition for high net worth customers, while creating centers of excellence to serve them better. Some of these outlets have been established in Nairobi, Mombasa, Eldoret and Nakuru focusing on wealth management, succession planning and the various investment options.

Agriculture remains a key growth area for the Bank, given its central role in driving economic expansion. We have rolled out several programmes across the value chain to catalyze this sector, key among them being Mobigrow which is a digital financial platform for agribusiness in partnership with MasterCard. Since inception, the programme has reached out to over 2 million small holder farmers extending affordable credit for upscaling agribusiness through farm implements, market intelligence, insurance and training. The capacity building encompasses modules on savings and loans, grow your money, dairy, livestock and crop farming.

The enactment of the Warehouse Receipt System Act in 2019 is expected to provide more options for smallholder farmers to access affordable credit facilities. The new law will allow for access to credit by agricultural producers based on the produce they have stored in controlled warehouses. In turn, this will allow the Bank to participate in unlocking value and further mobilization of credit to the agricultural sector.

100%

The Branch Excellence model has been rolled out in 65 branches in Kenya with a target of 100% by 2021.

Our 2019 International Women's Day Hear her Roar campaign saw the changing of our logo from a lion to a lioness for a day, for the very first time.

Brand Value

KCB Group continued to make targeted investments to boost brand value through sponsorships, stakeholder engagements and thought leadership. This is line with our recognition that in order to achieve sustainable business growth, there is need to build a strong brand that is anchored on trust, believability, favorability, advocacy, awareness and familiarity.

In 2019, the Group deepened its sponsorships towards sports to develop and nurture a critical mass of talent to compete in local, regional and international competitions across various disciplines—football, golf, rugby, volleyball, chess, motorsports and athletics. The highlight of the year was the announcement of the return of the World Rally Championships to Kenya in 2020. A fete that the Bank played a huge part in making possible.

Other initiatives aimed at enhancing brand value included the business show Lions' Den that is now on its fifth edition. We also ran several award winning campaigns to champion various causes. Our Weka Weka campaign drove up the transactions to the savings account on mobile banking which hitherto was majorly lending based. On the 2019 International Women's Day, our Hear her Roar campaign to champion and empower women and women-led enterprises to ensure they have room to show case their potential, saw the changing of our logo from a lion to a lioness for a day, for the very first time.

Furthermore, to reach out to key groups and associations with the aim of creating a progressive and thought provoking platform for leaders and entrepreneurs to have conversations that inspire economic progress, the Bank sponsored the Soar Africa 2019 Leadership and Entrepreneurship Summit. The summit headlined by T.D. Jakes saw the congregation of Africa's top corporate, social and political leaders with the aim of

KCB women's volleyball team in action In 2019.

addressing the continent's most pressing challenges. The Bank also undertook more stakeholder engagements including KCB PowerTalks— a quarterly premium corporate banking engagement session— media fora, Biashara Club and Developers Club.

KCB Insurance Agency

The KCB Bancassurance business, run under KCB Insurance Agency has been on an upward trajectory, with a notable contribution to the Group business. In order to continue growing the business, focus areas in the coming year will be to align products and sales to customer needs, leverage the KCB distribution network, drive insurance uptake with corporate customers, embed digital distribution and service delivery.

We take cognizance of the low penetration of insurance products which currently stands at 2% in the market. There is a deliberate effort by the team to innovate products reaching out to the lower customer segment through monthly premiums and usage of digital channels. Although there is shortage of competent and qualified staff in the insurance sector as a whole, the Bank continues to strengthen the department with new hires, to complement the in-house talent.

Case Study

Insuring Farmers with renewed hope

Aisha began her journey with KCB Bank in 1991 while in her twenties and preoccupied with occasional construction jobs that did little to put food on the table. In 1997, she decided to venture into farming and bought her first half an acre of land and four cows with a loan she borrowed from KCB. This move marked the start of a lucrative agribusiness journey.

Through hard work and diligence, she was able to realize the fruits of her labour and she intentionally sought out a second loan to grow her business and subsequently increase her produce. In 2000, having successfully repaid her initial loan, Aisha secured another loan that enabled her purchase six more cows and a bigger piece of land for her growing farm. Through it, she was able to upscale her farm and from the profits begin to rear chicken, pigs and ducks.

As her business flourished, Aisha's credit worthiness continued to improve and she remains grateful to KCB for holding her hand through decisions she knew would have been tough to make on her own. The next facility she obtained, enabled her to venture further into bee keeping – a common practice synonymous with the semi-arid area of Malindi. By this time, her livestock had grown to accommodate both beef and dairy cows.

In 2014, Aisha joined the KCB Biashara Club as an avenue for networking with her fellow entrepreneurs across the country. The platform expanded her worldview beyond her expectations and through it she was able to expand her agribusiness knowledge and customer pool for agricultural products.

During one of the club's business exposure trips to Israel, she got introduced to a drought resistant fodder crop that needed very little water to grow. She tried it out when she came back and vowed never to look back after she witnessed its benefits.

If someone had told me earlier to take livestock insurance, I would never have given it a second thought, but now I have proof that I did not spend my money on nothing. I am now in the process of insuring all my agricultural produce."

The crop is a favorite meal for her cattle and needs only to be fed in small quantities for maximum milk production. Through Biashara club, her dream of expanding her business saw the light of day, she applied for a bigger loan to nurture this dream into reality.

In 2018, she secured a KShs. 1 Million loan facility that enabled her to open her business – Ganda Dairy Farm – where she sells milk and yoghurt. During one of the regular customer visits, the KCB Malindi Branch Manager, Nelson Wanyonyi advised her to sign up for livestock insurance to protect her cows and secure her business further.

Without need for much convincing, Aisha signed up for the livestock insurance facility against her cattle. Regrettably, in January 2019, one of her bee hives fell from a tree and landed in the middle of the field where her cattle herd were grazing.

Aisha lost 4 of her 26 cattle to this unfortunate event and upon obtaining clearance for the veterinary department, she quickly lodged her claim with KCB Insurance Agency. She was over the moon when she received her insurance compensation within two months of the incident.

"If someone had told me earlier to take livestock insurance, I would never have given it a second thought, but now I have proof that I did not spend my money on nothing. I am now in the process of insuring all my agricultural produce." She says.

In a world where climate change effects are instant and non-reversible, Aisha calls on her fellow farmers to quickly sign up for agricultural insurance to safeguard their farms and livestock from the uncertainties of this world. When asked when she will take a life assurance policy for herself, Aisha isn't too sure about it but admits that so long as it is a product from KCB she will be willing to try it out.

5 Maximize our Regional Business

Amidst the tough operating environment and uncertain regulatory environment across the region, we have continued to demonstrate resilience, not just in Kenya but across all our markets. The international market has continued to post improved performance.

In 2019, our focus was on leveraging our international businesses to provide reach to our customers around the region while contributing to economic growth of all the markets where we are operating.

We were also focused on boosting the international business contribution to the Group performance, with a long term aim of achieving 20% contribution of the bottom-line coming from the international market. We remain focused on optimizing the international business model to serve our customers better and also to expand shareholders' value.

The regional businesses continued to show good recovery prospects following a hiatus that has been reported in the past which had affected growth. Overall, the subsidiaries grew by 11 percent following a renewed focus on improving operational efficiency across the board.

South Sudan, which has been particularly challenging over the last couple of years, was a good performer during the year, posting a 31 percent growth ahead of projections. There was increased stability – both politically and economically – in the country which translated to a positive business environment. As a result, we reopened two more branches that had been closed earlier to cater for the renewed demand for our services.

We are fast tracking mobile services in South Sudan which will be made easier following the commissioning of an electricity grid network in Juba and its environs. A new Managing Director was appointed to drive the business and build relationships.

We are also realigning our strategy in the other countries to enable us realise our goal of becoming a top tier Bank in every market that we are in.

In Uganda, the bottom line was affected by two major NPLs but we are confident of resolving the matter in the coming financial year. However, despite the NPLs, the month–on-month growth remained solid.

Burundi and Rwanda posted a healthy performance with positive outlook while in Tanzania, the subsidiary was the best performing.

This year, we expect subsidiaries to contribute at least 10% to the Group Revenue compared to six percent last year.

As part of our regional growth strategy, we are looking at boosting operations by strengthening the boards and management of the subsidiaries so that they can play a more central role in the overall growth of the Group. Talent development within the subsidiaries forms a core part of our turnaround strategy, with plans to onboard resources that fit the overall business strategy. This is a rapid-results initiative that is well under way and which we are already seeing operational improvements. Where we see an opportunity, we will also target the right acquisition so that we can push the growth plane higher and faster.

One of the major challenges we faced during the year was a requirement to have In Country Data Centers (ICDC) in some of the countries that we operate in. This amounted to duplication of resources and huge capital expenses that will impact the businesses not only through the actual heavy expenses but also the resultant depreciation over the next couple of years.

We also expect to see increased consolidation in our regional markets as the regulators move to increase capitalization of the banks. As much as it will impact on us as a business, we believe it is a good initiative as it will lead to having fewer but stronger banks across the region.

We are closely monitoring the regulatory environment in Ethiopia where we have a representative office.

11%

Overall, the subsidiaries grew by 11 percent following a renewed focus on improving operational efficiency across the board.

We also expect to see increased consolidation in our regional markets as the regulators move to increase capitalization of the banks.

6 Sustainability Agenda

KCB Group is committed to sustainably create long term values. As a leading financial institution, we are focused on creating sustainable value for our stakeholders and aligning our long-term business strategies with their interests. As we continue to deepen our presence across the region, we seek to address the environmental, social and governance (ESG) risks and effects of our operations in a manner consistent with our values. This is also in line with our commitment to helping ensure a safe, secure and trusted banking system. KCB Group has been consistent in driving internal and industry wide sustainability initiatives since the official launch and adoption of KCB green agenda in 2009. The adoption of the SDG framework helped the bank to have a longer term view of the business guided by clear and realizable goals.

We have developed various frameworks and policies which include sustainability framework and policy (2003), Social and Environment Management Systems (2005) and 10 action point strategy. Over time we have actively participated in the banking sector development initiatives at the global, regional and local levels. Key among them are UN Sustainable Development Goals, Paris Climate agreement, and the recent United Nations Principles for Responsible Banking.

Our approach to sustainability is to address the material risks and opportunities that may impact on our customers, investors, staff and the communities in which we operate in.

We believe that as a Bank, we have a duty to contribute to the region's long-term economic, social and environmental well-being. This responsible, long-term approach is central to our business activities.

As a responsible bank, sustainability remains a key area of focus. Besides, adherence to sustainability helps attract new business partners.

Additionally, sustainability has been incorporated into the group's balanced scorecard with a measure of the carbon footprint. We have also walked the talk by deciding not to finance projects that pollute the environment.

Our 2019 sustainability initiatives were anchored on three key elements including driving the principles for responsible business; implementation of the 10 Action Plan; and implementation of the SDGs that had earlier been adopted in 2017.

Responsible Banking

At KCB, we believe that our responsibilities go beyond banking, and we remain committed to making a meaningful contribution to addressing socio-economic challenges across the different markets in which we operate. Through our sustainability initiatives, we have demonstrated that you can successfully run a value and purpose-driven business through shared value and Environmental and Social Governance approach.

Now, there is a need for us to step up our effort to uphold international standards and best practices that promote responsible business conduct. As one of the 28 Banks globally entrusted to champion the new Principles for Responsible Banking launched in the third quarter - seeking to shape a more sustainable future - we are rallying the entire banking industry in East Africa to adopt these standards that provide a framework for sustainable banking system of the future.

We strive to make a more meaningful contribution to the realization of the UN Sustainable Development Goals, which form a core element of the UN Agenda 2030 as well as Paris Climate Change Action in the decade ahead of us.

During the year under the review, mapping of the eight SDGs adopted earlier within the strategic cycle was completed to all divisions and subsidiaries across the Group. Further, in 2019, the Group adopted SDG 13 on climate action in line with the collective commitment to climate action by the founding banks of the recently launched Principles of Sustainable Banking. Going forward, in line with the new strategic plan, the focus is to monitor and evaluate progress annually on the initiatives in each of the SDG charters.

Subsequently, we continued to carry out environmental and social due diligence (ESDD) for all our corporate and SME lending to mitigate any negative impacts to the environment. In the coming year, we aim to screen up to KShs. 100 billion of the loan book for environmental, social and governance compliance, reviewing its positive and negative impacts using the science based target model. By addressing the environmental, social and governance (ESG) risks and its effects on our operations, it will allow us to have a better visibility of our impact to the society and the environment.

Internally, KCB Group continues with its green agenda initiative scoping the resource consumption and operational efficiencies.

In the course of the year, a lot of capacity building was done for over 5,000 staff who undertook the sustainability awareness courses in Environmental and Social Risks Assessments (ESRA) and Environmental and

182

Over 182 relationship managers and branch managers were trained on the environmental and social risk assessment, across the Group.

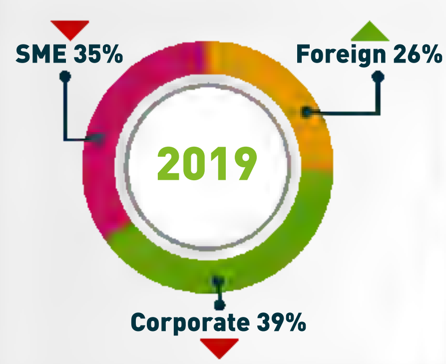
In August 2019, we successfully commissioned the first fully Solar Hybrid branch in the Bank network at KCB Maasai Mara branch. The 54 KW PV system uses Solar as the primary power supply supporting all operations, which is supplemented with back up batteries and twin generators for secondary supply.

Social Due Diligence (ESDD) to equip them to successfully carry out their mandate in assessing credit facilities before issuance. In August 2019, we successfully commissioned the first fully Solar Hybrid branch in the Bank network at KCB Maasai Mara branch. The 54 KW PV system uses Solar as the primary power supply supporting all operations, which is supplemented with back up batteries and twin generators for secondary supply. In addition, the installation has an inbuilt remote monitoring system for real time monitoring of the power supply system. This is in line with the Bank's Sustainability agenda of implementing clean energy solutions thereby reducing the overall Bank's carbon foot-print.

Our customers and service providers are also implementing sustainability initiatives in their businesses following training and engagements with them in the course of the year. Among the initiatives are solar installations, diversity and inclusion and gender empowerment which form part of our case studies in the sustainability report.

The Group has zero tolerance to all forms of corruption, bribery and unethical business practice at the workplace. We require all employees and service providers to adhere to the Group Code of Ethical Conduct. We also have in place a policy to ensure equitable distribution of work to our suppliers. This policy places emphasis on SMEs as well as special interest groups/enterprises. In 2019, 16 special interest groups comprising of enterprises owned by youth, women and persons living with disability were awarded procurement contracts valued at KShs. 141 million. We also have in place a supplier performance framework to evaluate performance of our suppliers annually. In 2019 this evaluation was conducted for 111 key contracted vendors, returning an average performance of 88% against a minimum of 85% on all deliverables.

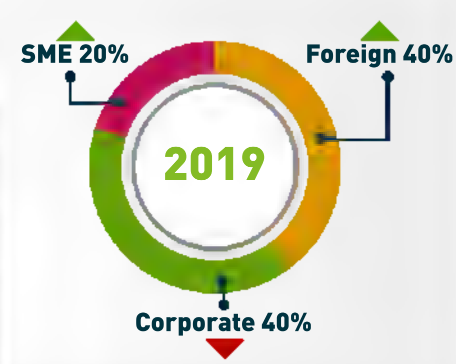
Distribution of work of the top 100 suppliers



2018

Foreign 16%
SME 37%
Corporate 47%

Distribution of the value of work



2018

Foreign 12%
SME 30%
Corporate 58%

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 demonstrates our inclusive progress approach and drives the Group's sustainability efforts. Key indicators of the Plan are as follows:

10 Point Action Plan

Pillar	Action point	Indicator	Indicator
Social Stability	Portfolio reimagining	**10.8B** Amount of loans in KShs. lent under the women proposition	**17.4%** Percentage of portfolio lending to SMEs
Economic Stability	Added-value partnership	**81,571** Number of schools operating accounts through KCB	**1,210** Number of active local suppliers
Economic Stability	Financial Inclusion	**45.3m** Agency Banking transactions	**563,121*** Inua Jamii beneficiaries
Environmental Stability	Environmental footprint	**SDG 13** On Climate Action adopted in 2019	**11%** Reduction in fuel consumption
Financial Stability	Cyber security awareness & fortification	**5,382** of KCB Group staff trained in cyber security	Core banking and lending systems upgraded

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.

10 Point Action Plan

Indicator	Indicator	Action point	Pillar
5,382 No. of employees trained on sustainability awareness	**5%** Staff attrition rate	Talent management and diversity	Social Stability
▲ **340** No. of scholarships under Scholarship Programme	**60%**** Proportion spent on local procurement ▼	Empowering youth and community	Social Stability
▲ **10** No. of new products launched	We endeavour to provide banking products and solutions that resonate with societal needs as expressed in the SDGs framework	Product development & innovation	Economic Stability
▲ **276** No. of social-environmental assessments undertaken	**KShs.447B** ▲ Cumulative Value of facilities that have undergone social & Environmental Assessments	Responsible lending	Environmental Stability
▼ **13** Number of employee dismissals relating to fraud	**689** ▼ No. of unsuccessful internal fraud attempts	Ethics & integrity	Financial Stability

* The decline was due to introduction of more service providers in Inua Jamii. However there was an increase in revenue and values and KCB handles 55% of the disbursements.
** Procurement decline in local sourcing was due to heavy IT purchases of specialized equipment that were not locally available in 2019.

KCB Foundation

Scaling up, going forward

The KCB Foundation continued on the path of success in 2019, making new partnerships, scaling up its programmes, and continuing to make an impact in Rwanda and Tanzania.

The Foundation's key focus areas were the 2jiajiri programme, our work in the Rwanda and Tanzania subsidiaries, the scholarships for secondary school students and Mifugo ni Mali.

We also continued our work with partners and in 2019, signed up 11 new partnerships, some whose fruits we have already begun to see. Notably, due to the success rate of the programme, and the well-defined model to combating youth unemployment, last year 2jiajiri secured an innovative 5-Year (2019 -2024) Kshs. 12.5 Billion ($125 Million) funding from the Mastercard Foundation to scale up the programme by building the capacity of 114,000 youth MSME beneficiaries who will create 1.5 million jobs. These jobs will be created in collaboration with three main partners: Miramar International, Gearbox, Arcskills, and a Foundation supporting young creatives—Filamujuani— tapped to tell the programme story. The partners will work in the agriculture ecosystem, towards the establishment of greenhouses using hydroponics to grow fresh produce for supply to Tuskys Supermarkets. Work has already begun and there are signs of success with 3,313 jobs being created in the first two months.

In 2jiajiri, the flagship youth empowerment programme, the Foundation oversaw the graduation of 10,565 beneficiaries, bringing the total number so far to 34,844 since inception.

1.5M

Jobs to be created under the KCB Foundation - MasterCard Foundation partnership over five years

340

No. of scholarships under KCB Foundation Scholarship Programme

The programme is rolled out in three stages:

1. Sponsorships to address the lack of technical skills
2. Business Development Services to help the graduates set up businesses and
3. Loans to advance the business ideas developed.

To measure the impact of the Foundations work, we conducted an in-depth analysis that showed that in 2019 we created 13,316 jobs against an annual job creation target of 10,000 jobs. Further, in the same year, of the 10,565 beneficiaries we trained, 6,929 began the journey of business incubation and 2,636 business plans were developed as a result.

Under a partnership with GIZ's Employment and Skills for Eastern Africa (E4D/SOGA) programme, the Foundation bought and handed over tool kits worth KShs. 20 million to a total of 580 beneficiaries. The tools have a one-year warranty and were supplied by Alibhai Shariff, Devsons Industries and ASL. Training was facilitated by BOSCH and Alibhai Shariff.

In Tanzania, the Malkia wa Nguvu initiative made a number of steps forward. Fifteen women-owned businesses received tools of business in line with our 2jiajiri pillars. The Foundation also commissioned 210 Tanzanian youth for training under 2jiajiri. These young people will be trained on several informal sector trades as well as entrepreneurial development; ultimately enabling them to become self-employed and also create jobs for their peers.

There was also progress in Rwanda, where 200 beneficiaries were sponsored for training under the Igire programme with 10 businesses from the 2018 class receiving funding to start off their businesses.

Mifugo ni Mali also made significant progress, with 71 groups from Baringo, Taita Taveta, Narok, Kwale, Laikipia, Kilifi, Samburu, Kajiado, Marsabit and Mombasa counties receiving training.

The secondary school scholarships also progressed, and the Foundation increased the number of beneficiaries by 100 under a sponsorship by Tullow Oil, bringing the total for the year to 340.

Looking forward, the Foundation will be seeking to make progress in the hospitality pillar by going into strategic partnerships to help deliver another stream of jobs. The Foundation is considering a partnership with an internationally-accredited training institution and an off-taker.

2jiajiri Beneficiaries in Kenya

34,087
Beneficiaries

17,570
Agribusiness

3,480
Beauty and Personal Care

2,083
Automotive Engineering

1,638
Domestic Services

9,001
Building and Construction

315
ICT

In Tanzania, the Malkia wa Nguvu initiative made a number of steps forward. Fifteen women-owned businesses received tools of business in line with our 2jiajiri pillars.

Mifugo Ni Mali

KShs 20M

Amount of money spent towards supporting livestock producers

80,000

Number of farmers reached through Mifugo Ni Mali

187

Livestock producer groups reached through Mifugo Ni Mali

KShs 140M

Amount of money disbursed as loans to Co-operatives in ASAL Counties

10

Number of Counties the Mifugo Ni Mali programme is being implemented

3

Number of Co-operatives supported to expand on value addition innitiatives

71

Number of Co-operatives trained on governance, business plan development and credit access

KCB Foundation partners with GIZ to equip 580 youth in the construction sector

Pursuant to its efforts to enable the youth to start their individual and group-based microenterprises in the building and construction sectors, KCB Foundation in partnership with GIZ's E4D/SOGA – Employment and Skills for Eastern Africa Programme kitted 580 youth with construction starter toolkits.

The toolkits valued at KShs. 20 million were awarded to the youth who completed a skills and entrepreneurship training programme in vocational training institutions across the country. The tools are trade-specific for roofing, masonry, tile laying, carpentry, plumbing and pipe-fitting, welding and fabrication and electrical installation.

The beneficiaries were selected after they underwent TVET training, attended workshops, developed business plans, registered their companies and attained work experience in their respective fields. The last batch of 250 youths were presented with the toolkits at KCB Leadership Centre Karen at an event graced by KCB Foundation Managing Director Jane Mwangi, Programme Director for Sustainable Economic Development and E4D/SOGA in Kenya Ms Aregash Asfaw and Deputy Director, Vocational and Education Training, Ministry of Education Joan Omuruli.

The event was also attended by representatives from the German Embassy and Meru County government executives. Similar activities were held across the country with the Foundation handing over construction toolkits to youth in Nyeri, Meru, Kisumu, Mombasa and Eldoret. "The construction beneficiaries are now well placed to access contracts from the private sector and national and county governments as they have fully registered their businesses. I urge our graduates to take care of the booming construction sector and apply the skills we have imparted on you. We will continue walking with you through the journey to ensure that you not only benefit yourself but also create opportunities for your peers," said the KCB Foundation MD.

The beneficiaries were also equipped with basic competency skills for handling the power tools during the handover ceremony. KCB Foundation formed a partnership with E4D/SOGA in 2017 to collectively empower, equip and engage 4,000 young people, to increase their employability and income generation odds in the informal construction and agribusiness sectors in Kenya. The project supports 2,897 youth in the construction sector. About 60% of them (1,738 youth) will secure employment in housing construction projects in selected counties; while 20% (580 youth) will establish their microenterprises in the construction sector. Close to 6,000 Kenyan youth have benefitted under the building and construction pillar of KCB Foundation's 2jiajiri programme since 2016.

Tom Mogaka at his hardware store, Smart Digital Electricals, in Umoja Innercore, Nairobi. He is one of 580 2jiajiri beneficiaries who received a toolkit from KCB Foundation and GIZ to start their businesses.

Case Study

KCB Foundation Empowering Cooperatives to Promote Productivity

KCB Foundation intensified its outreach to livestock farmers in a bid to enable them attain maximum returns from their enterprises. Through the livestock value chain programme Mifugo Ni Mali, the Foundation supported livestock producer organisations in Kajiado, Bomet and Narok counties. The Foundation also assessed programme implementation and made follow-ups on loans advanced to farmers mainly under the dairy and beef value chains in Kilgoris, Narok West, Narok East, and Transmara areas.

The Mifugo Ni Mali beneficiaries, comprising board members of the cooperatives, also gave feedback on programme implementation and highlighted areas that need enhanced support. The Foundation also carried out similar exercises across the ASAL areas where it operates. The programme has since inception benefited over 80,000 members from 187 livestock producer groups with over KShs. 140 million discounted loans disbursed to livestock groups in Baringo, Taita Taveta, Narok, Kwale, Laikipia, Kilifi, Samburu, Kajiado, Marsabit and Mombasa counties.

Since inception, the Mifugo Ni Mali programme has benefited over 80,000 members from 187 livestock producer groups with over KShs.140 million discounted loans disbursed to livestock groups in 10 ASAL counties in Kenya.

Case Study

2jiajiri Taps 1,000 Persons with Disabilities

KCB Foundation reaffirmed its commitment to economic inclusion of persons with disability (PWDs). The Foundation, through its flagship youth empowerment programme, 2jiajiri equiped 1,000 persons living with disability with technical and entrepreneurial skills in 2019. The beneficiaries received vocational training at technical training institutions across the country in various trades that form the backbone of the informal economy such as: agribusiness, automotive engineering, beauty and personal care, building and construction and domestic services. The Foundation also extended business development services and financial support to PWDs operating Micro Small and Medium Enterprises (MSMEs) and apprentices who were recruited through the KCB Bank branch network in the country. Furthermore, the Foundation offered Business Development Services and financial support to the out-of-school youth to start their own enterprises upon completion of the training.

The Foundation also held a roundtable with Persons with Disabilities (PWDs), Government and the private sector in Nairobi. The discussions revolved around commitments made at the Global Disability Summit held in London in July 2018, on promoting economic empowerment for young PWDs with a special focus on enhancing effective participation of PWDs. The high-level meeting was attended by the British High Commissioner Nic Hailey, Nominated Senator Isaac Mwaura, Chief Administrative Secretary at the Ministry of Labour and Social Protection Abdul Bahari and KCB Foundation team led by Chairman Austen Baraza and Managing Director Jane Mwangi. Schools with PWDs present included; the Karen Technical Institute for the Deaf, Nile Road Special School, Mathare Special School, The Salvation Army Variety Village Training Centre and Machakos Technical Institute for The Blind.

"The Foundation's objective is to empower persons living with disabilities to run businesses that can allow them to utilize existing opportunities such as access to the 30% of Government procurement opportunities set aside specifically for enterprises owned by youth, women and PWDs through the Access to Government Procurement Opportunities (AGPO) programme," said KCB Foundation Managing Director Jane Mwangi.

John Msabaa, Chairman of Lualenyi Ranch in Taita Taveta County, where KCB Foundation has supported the establishment of a modern feedlot.

Case Study

KCB Group Secures Youth Project Funding from MasterCard Foundation

A cross-section of beneficiaries demonstrating their skills at a construction site

KCB secured $ 100 million (KShs. 10 billion) funding from the MasterCard Foundation for a new wealth and job creation project for the youth. The Group's social investment arm- KCB Foundation- in partnership with the Young Africa Works programme of the MasterCard Foundation will jointly implement an innovative 5-Year (2019 -2024) nationwide project that will create 1,586,000 Jobs under the 2jiajiri programme of the KCB Foundation. It will reach out to 114,000 beneficiaries comprising Micro and Small Enterprises spread across three economic sectors of Agriculture, Manufacturing and Construction in Kenya.

Under the new project KCB Foundation will extend support to the youth on the above areas through technical training, Business Development Services, access to capital and market linkages. The project in Kenya, launched by President Uhuru Kenyatta in Nairobi, is part of a KShs. 30 billion commitment by MasterCard in 10 African countries to grow micro, small and medium-sized enterprises towards expanding the Big Four sectors and create opportunities for young people. It will also expand skills that are critical to the growth of the economy, particularly vocational and technical skills. Under the partnership, KCB Foundation will work with institutions including Miramar International College (MIC), a leading agri-business trainer with specialisation in hydroponic farming, Gearbox, a leading manufacturing incubator that trains user manufacturers (Jua-Kali craftsmen with no engineering qualification, but with vast experience) and graduate manufacturers.

The Foundation is also collaborating with Arc Skills, who are construction experts. Arc Skills will construct greenhouses for the hydroponic framing beneficiaries.

The Foundation will also collaborate with Arc Skills as the lead training partner for construction, whose graduates will obtain construction contracts from agribusiness beneficiaries to construct greenhouses for the hydroponic framing beneficiaries. KCB Group CEO and MD, Joshua Oigara penned the Group's commitment to the partnership in the event that also attended by the KCB Foundation Managing Director Jane Mwangi.

Case Study

Promoting Smart Farming: KCB Foundation graduates 92 hydroponics-trained youth

KCB Foundation recently graduated 92 beneficiaries who completed the first phase of training in hydroponics farming, a rapidly growing and innovative farming method. The graduation at Miramar International College in Kikuyu, marked a milestone in the Foundation's journey to boost job creation by training youths in agribusiness management and modern crop husbandry. Under a partnership between KCB Foundation and Miramar International College, the beneficiaries were trained in hydroponic farming, a method of growing plants in a soil-free nutrient solution. They also received business management and soft skills training to prepare them for entrepreneurship in the agribusiness sector. "We chose to focus on hydroponic farming because it's a smart farming method cognizant of the challenges faced by 21st century farmers. This method is attractive to young people especially because it's not capital intensive, consumes little space and is not reliant on weather patterns," said KCB Foundation Managing Director Jane Mwangi in a speech read on her behalf by KCB Foundation Senior Manager Partnerships John Waimiri. Thanks to the success of 2jiajiri, KCB Foundation has secured additional KShs.10 billion funding from the MasterCard Foundation to scale up the programme in agribusiness, manufacturing and construction.

2jiajiri beneficiary Elizabeth Okullo at her greenhouse in Juja. She is a graduate of Miramar International College's hydroponic farming technology class.

Corporate Governance Statement

The Board of Directors ("Board") of KCB Group Plc. ("Company") see governance as promoting strategic decision making that balances short, medium and long-term outcomes to reconcile interests of the KCB Group as a whole together with its stakeholders and the society in which we operate to create sustainable shared value.

The Board has ultimate authority over, and oversight of, the Group and considers that corporate governance extends beyond compliance and is a critical element in achieving the Group's objectives.

The Board believes that good corporate governance creates shared value by underpinning responsive thinking, and protects shareholder value by ensuring responsible behaviour through effective leadership, enhanced accountability, heightened transparency and robust risk management.

The Board regularly reviews its corporate governance arrangements and practices and ensures that the same reflects the developments in regulation, best market practice and stakeholder expectations. Our corporate governance framework enables the Board to oversee the strategic direction of the organization, financial goals, resource allocation, risk appetite and to hold the executive management accountable for execution.

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*.

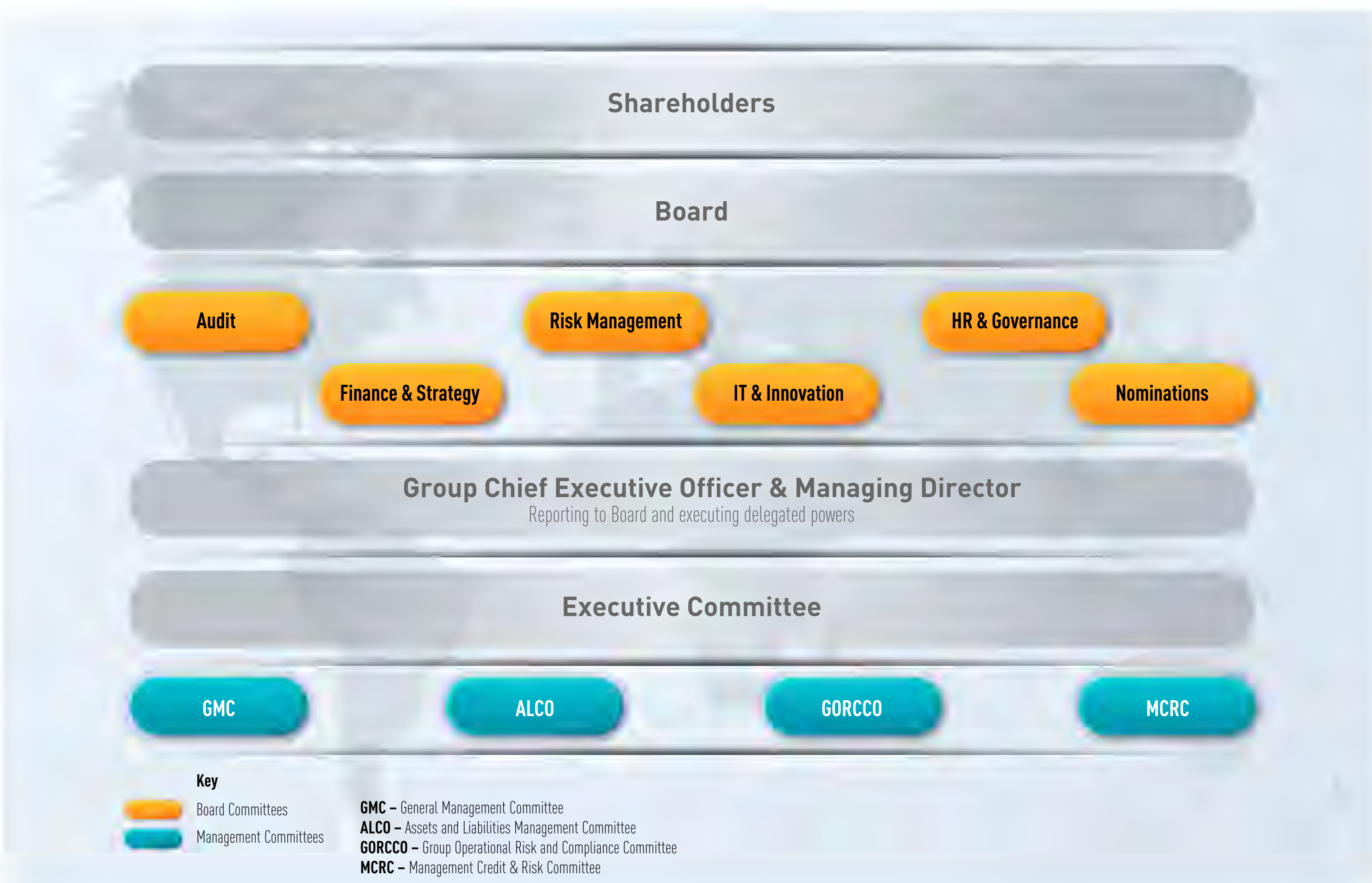
This statement details the key corporate governance arrangements and practices of KCB Group Plc. and its affiliate companies (collectively, the "Group"). The statement sets out the key components of KCB Group Plc.'s Corporate Governance Framework, which provides guidance to the Board, management and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

GOVERNANCE STRUCTURE

GOVERNANCE FRAMEWORK

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 Group Chief Executive Officer & Managing Director, with their performance against set objectives and policies closely monitored. The Board operates through six committees mandated to review specific areas and assist the Board undertake its duties effectively and efficiently.

The fundamental relationships between the shareholders, Board, Board committees and executive management is illustrated below:



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 & Managing Director 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.

The current KCB Group Board Charter was reviewed and approved by the Board on 5 March, 2019 and is available on the company website (www.kcbgroup.com)

Separation of roles and responsibilities

The role of Chairman is separate from that of the Group Chief Executive. There is a clear division of responsibilities. Care is taken to ensure that no single director has unfettered powers in the decision making process.

Chairman

- 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 to 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.

Board

- 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.

Group Chief Executive

- 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 management.
- Provides leadership and direction to the senior management.

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 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.

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 & Managing Director 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.

Full details of the current Directors, their qualifications, skills and experience are set out on pages 78-80 of this 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. Provides 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.

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 & Managing Director. The Group Chief Executive Officer & Managing Director in turn delegates aspects of his own authority to members of the 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 in include the Executive Management Committee (EXCO), the General Management Committee (GMC), the Assets and Liabilities Management Committee (ALCO), the Group Operational Risk and Compliance Committee (GORCCO) and the Management Credit & Risk Committee (MCRC).

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 & Managing Director 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, 2019, the Board held twelve Board meetings. The number of board meetings held during the year was high due to the acquisition of National Bank of Kenya Limited which required special meetings to be held by the Board. A strategic planning session was held in conjunction with the Board meeting held in November 2019.

Details of Directors' attendance at Board and Committee meetings are set out in the table below:

	Board	Audit	Risk Management	Finance & Strategy	Human Resources	IT & Innovation	Nominations
Number of meetings	**12**	**5**	**4**	**5**	**10**	**4**	**3**
Andrew W. Kairu	12						3
Henry Rotich (Alternate - Julius Mutua) [1]	5		3	2		3	
Henry Rotich (Alternate – Eng. Stanley Kamau) [2]	6			2		1	
Ngeny Biwott[3]	6		2			2	
Adil Khawaja	8			4	10		2
Tom Ipomai	11		4		10		3
Georgina Malombe	11	5				3	
John Nyerere	11	5		5			
Lawrence Njiru	11	5			9		3
Anne Eriksson[4]	-						
Joshua Oigara	12			3	1		2
Lawrence Kimathi	11		4			3	

(1) Ceased to be the Alternate to the C. S. National Treasury with effect from 6 August, 2019.
(2) Appointed as the Alternate to the C. S. National Treasury with effect from 7 August, 2019.
(3) Retired from the board on 15 June, 2019.
(4) Appointed to the board on 18 December, 2019.

KCB Group Corporate Structure

BOARD COMPOSITION, DIVERSITY AND PERFORMANCE

Board Renewal and Re-election of Directors

The Articles of Association of the company provides that the Board shall comprise of a maximum of eleven Directors. The current Board structure comprises of two Executive Directors, one non-executive Director and eight 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.

The Board composition is driven by the following principles:

- The board must comprise of a majority of independent non-executive directors.
- The board should consist of directors with a board range of skills, experience and expertise and be from a diverse range of backgrounds.
- The Chairman of the Board must be an independent non-executive director.

Succession planning is an on-going process, with the Board discussing the same regularly and robustly. To promote adequate oversight over succession planning, in the year 2019, the Board established a Nominations committee separate and distinct from the previously Existing HR & Nominations committee. The process to appoint a new director is overseen by the Chairman and the Nominations committee. The committee is responsible for recommending the procedure for the selection of new directors, the proposed criteria for the selection of candidates with particular reference to current mix of skills, knowledge and experience.

The Committee identifies and nominates a shortlist of candidates and may engage the services of a professional intermediary to provide assistance in identifying and assessing potential candidates. The preferred candidates meet with the members of the committee before a final decision is made. Prior to confirmation of appointment, all Directors are required to meet the "Fit and Proper" requirements set out in the Prudential Guidelines issued by the Central Bank of Kenya. The key terms and conditions of a director's appointment are documented in a letter of appointment.

As at 31 December, 2019, the Board comprised of 10 Directors.

Mrs. Anne Ooga Eriksson was appointed as a Director on 18 December, 2019.

Eng. Stanley Kamau was appointed as alternate to the C.S. – National Treasury with effect from 7 August, 2019

A Director appointed by the Board to fill a casual vacancy must seek election at the next Annual General Meeting ("AGM") after their appointment. As further provided for in the Articles of Association, at every AGM, and as may be applicable, at least one-third of the non-executive Directors must retire from the Board and where eligible, stand for 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.

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 challenges 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 2019, 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 are as follows:

DIRECTOR	INDUSTRY EXPERIENCE
Andrew W. Kairu	Business Management, Corporate Governance
C.S – National Treasury (Represented by Eng. Stanley Kamau)	Financial Services, Public Sector
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
Anne Ooga Eriksson	Audit, Quality Assurance, Financial Accounting, Risk Management
Joshua Oigara	Business Management, Financial Accounting and Financial Services
Lawrence Kimathi	Financial advisory, Financial Accounting, Business Management

PERFORMANCE EVALUATION

The Board reviews its performance and that of the Board committees and individual directors every year. Every third year, the review is facilitated by an external consultant. On the years the consultant is not engaged, the Chairman leads the assessment of the Board and each Director.

The review in respect of the 2019 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 2020 and the results presented to the Central Bank of Kenya in March 2020 in line with regulatory requirements.

DIRECTOR INDEPENDENCE

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.

CONFLICT OF INTEREST

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 or committee meeting will not vote on the matter or be present when the matter is being discussed and considered.

During the year 2019, with the exception of the directorship held by the Cabinet Secretary, National 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.

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 entitled to obtain independent legal, accounting or other professional advice at the Company's expense. The Board may conduct or direct any investigation to fulfill its responsibilities and can retain, at the Company's expense, any legal, accounting or other services that it considers necessary from time to time to fulfill its duties.

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

DIRECTOR INDUCTION AND CONTINUING EDUCATION

All newly appointed non-executive Directors participate in an induction program. The induction program includes a series of meetings with other Directors, the CEO 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.

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.

The Board completed a number of education sessions during the 2019 financial year. Directors gained insights and a deeper knowledge of the business including on risk management.

SUBSIDIARY BOARDS

KCB Group has a number of subsidiary companies. The activities of each subsidiary company are overseen by that company's own board of directors. The Board's confidence in the activities of its controlled entities stems from the quality of directors on those subsidiary boards. At least one member of the KCB Group PLC Board sits on each of the subsidiary boards as a member.

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 Nominations Committee.

The Board receives a 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 have an independent Chairman. 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 2019, the Board undertook a review of the existing committees and introduced a Nominations Committee tasked to handle the overall identification of suitable candidates to be recommended for appointment by the Board. The introduction of the committee increased the overall number of committees from 5 to 6. A summary of the role of the current committees, current members and key activities undertaken during the year 2019 are set out below.

ENGAGEMENT WITH SHAREHOLDERS

The Board recognizes the importance of maintaining transparency and accountability to our shareholders and investors and works to ensure that all shareholders are treated equitably and their rights are protected.

KCB Group is committed to giving our shareholders appropriate information and facilities to enable them exercise their rights effectively. We are also committed to making sure shareholders and the investment community have appropriate information to make investment decisions. 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.

Communication and Periodic Continuous Disclosure

Key shareholder communication include the Group's Annual Integrated Report, the Group Sustainability Report and full year, 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 financial 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.

Board Committees

Audit
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.

2019 activities
In line with its mandate, the Committee reviewed the unaudited and audited financial statements for the full year 2019 and ensured 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. The Committee further received a report on the external quality assurance review on the internal audit function giving the internal audit function a clean bill of health.

The Committee held sessions with KPMG, the external auditor, to receive the auditor's independent report and assurance on the financial statements.

Members
Lawrence Njiru (Chairman)
Anne Eriksson
John Nyerere

Risk Management
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.

2019 activities
During the year 2019, the Risk Management Committee received a report on an independent AML/CFT risk assessment review across all subsidiaries of the Group. The report was reviewed by the committee and submitted to the Central Bank of Kenya.

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
Tom Ipomai (Chairman)
Eng. Stanley Kamau
Lawrence Kimathi

Human Resources Committee
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.

2019 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 Human Resources Director and the Group Chief Technology Officer (both senior management roles) was filled.

In line with its mandate, the Committee reviewed the senior management performance for the year.

Members
Adil Khawaja (Chairman)
Tom Ipomai
Lawrence Njiru
Joshua Oigara

Group Board

Nomination Committee
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.

2019 activities
During the year, the Committee reviewed the Board succession plans for the Group as well as the skills matrix for the Board.

The Committee identified and nominated two directors for approval by the Board to fill in casual vacancies.

Members
Adil Khawaja (Chairman)
Andrew W. Kairu
Tom Ipomai
Lawrence Njiru
Joshua Oigara

IT & Innovation Committee
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.

2019 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
Eng. Stanley Kamau (Chairman)
Georgina Malombe
Lawrence Kimathi

Finance & Strategy Committee
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.

2019 activities
The Committee reviewed the performance of the Group against the set strategy. The Committee further reviewed the proposed 2020 - 2022 strategic initiatives, financial plans and budgets proposed by management.

Members
John Nyerere (Chairman)
Eng. Stanley Kamau
Adil Khawaja
Anne Eriksson
Joshua Oigara

Annual General Meetings

The Group recognizes the importance of shareholder participation in meetings. Shareholders are strongly encouraged to attend and participate in the AGM. The AGM provides an opportunity for shareholders to engage with us in person.

The Group makes use of the AGM as well as the published annual integrated 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

KCB Group is committed to engagement with the investment community and consistently shares our story and communicates our strategy.

Our investor relations program includes liaising with institutional investors, brokers, analysts and rating agencies including presentations during our announcement of our annual results. The investor relations team is responsible for drafting certain market announcements, providing feedback to management and the Board on market views and perceptions about the Group and coordinates roadshows including half-year and full-year results announcements.

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 & Managing Director and the Chief Finance Officer, they achieve this through a combination of briefings to analysts and institutional investors.

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 on the **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 stakeholders, 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 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 organizations 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 as they possess inside 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 Plc. securities.

INTERGRITY OF FINANCIAL REPORTING

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 reports independently and directly to the Board at the end year Board meetings.

RISK MANAGEMENT GOVERNANCE

Risk is an inherent part of the KCB Group's business and the effective management of risk is a fundamental enabler of our strategic plan. The strategy for managing risk is aimed towards customer protection and enabling sustained performance.

This is achieved through the Risk Management Framework of the Company. 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 Board oversees the risk management strategy and framework taking into account the risk appetite, prudential capital requirements and strategic and business priorities of the Group. This includes setting and reviewing the risk appetite, monitoring the effectiveness of the risk management framework and making changes to it.

The following Board committees assist the Board in the oversight of risk:

- **Risk Management Committee:** In relation to risk appetite and risk management strategy.
- **Human Resources Committee:** In relation to remuneration risk.
- **Audit Committee:** In relation to financial reporting and taxation risk.

At KCB Bank Kenya subsidiary level, the Credit Committee reviews issues relating to credit risk appetite and credit risk management strategy

The following management committees also assist in relation to risk management:

- Executive Committee
- Operational Risk Committee
- Asset and Liability Management Committee
- Management Credit and Risk Committee

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 Group's risk management is based on the 'three line of defence' model. The overarching principle of the model is that risk management capability must be embedded within the business to be effective. These act as the foundation for effective risk management across the Group.

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.

Additional information and details of the Risk Management Governance of the Company is contained in pages 22-31 of this integrated report.

DIRECTORS REMUNERATION

The Human Resources 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 2019 is disclosed on page 85 to 89 of 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.

Additional details are provided in the Directors' Remuneration Report on page 85 to 89 of the Integrated Report

SHAREHOLDING

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

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 31 DECEMBER, 2019

Name of Director	Number of Shares	% Shareholding
Cabinet Secretary, National Treasury of Kenya	635,001,947	19.76
Mr. Adil Khawaja	38,500	0.001
Mr. John Nyerere	35,157	0.001
Mr. Joshua Oigara	35,157	0.001
Mr. Andrew W. Kairu	0	0
Mr. Tom Ipomai	0	0
Ms. Georgina Malombe	0	0
Mr. Lawrence Njiru	0	0
Mrs. Anne Eriksson	0	0
Mr. Lawrence Kimathi	0	0

Shareholders' Profile as at 31 December, 2019	Number of Sharesholders	Number of Shares Held	% Shareholding
Kenyan Individual Investors	184,510	816,481,620	25.41
Kenyan Institutional Investors	6,419	1,577,562,279	49.09
East African Individual Investors	215	2,890,490	0.09
East African Institutional Investors	65	111,579,709	3.47
Foreign Individual Investors	602	58,237,140	1.81
Foreign Institutional Investors	131	646,711,577	20.13
	191,942	**3,213,462,815**	**100.00**

Summary of Totals

Shares Range	Shareholders	Number of Shares	% Shareholding
1 to 5,000	163,888	201,972,186	6.29
5,001 to 50,000	26,117	272,374,152	8.48
50,001 to 100,000	752	51,982,836	1.62
100,001 to 1,000,000	884	268,194,180	8.34
1,000,001 to 10,000,000	264	787,874,008	24.52
10,000,001 & above	37	1,631,065,453	50.76
	191,942	**3,213,462,815**	**100.00**

Major Shareholders

	Number of Shares Held	% Shareholding
Cabinet Secretary, National Treasury of Kenya	635,001,947	19.76
National Social Security Fund	228,673,323	7.12
Stanbic Nominees Limited A/C NR3530153-1	86,500,000	2.69
Standard Chartered Nominees A/C 9688	45,778,323	1.42
Standard Chartered Nomunees Non-Resd A/C 9069	44,093,242	1.37
Investment & Mortgages Nominees Ltd A/C 002983	36,000,000	1.12
Standard Chartered Nominees A/C 9687	31,680,986	0.99
Standard Chartered Nominee Account KE17682	29,338,610	0.91
Sandip Kana Sinh;Babla,Alka Sandip Babla	29,005,100	0.90
Standard Chartered Kenya Nominees Ltd A/C KE002596	28,615,100	0.89
	1,194,686,631	**37.18**

Board of Directors' Profiles

NAME: **ANDREW W. KAIRU (61 years)**

DESIGNATION: **GROUP CHAIRMAN**

DATE OF APPOINTMENT TO DESIGNATION: Appointed Group Chairman in October 2018

DATE OF APPOINTMENT TO BOARD: June 2018

Profile/Experience

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. Andrew has previously served as a member of the audit committee of the Commonwealth Secretariat, London and was also previously a Trustee of the Citizens Advice Bureau of Caterham and Warlingham, United Kingdom. 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.

Profile/Experience

EDUCATION AND PROFESSIONAL BACKGROUND: Eng. Kamau is currently the Director General, Public Investments and Portfolio Management Directorate. Prior to his current role, Eng. Kamau was the Director for Public Investment Management at the National Treasury & Planning. Before that he was the Director of Public Private Partnership (PPP) Unit, at the National Treasury & Planning where he established the current legal and regulatory framework for PPPs in Kenya. Eng Kamau has also served as an Alternate Director/Board Member in a number of state corporations. Eng. Kamau holds a Bachelor of Science Degree in Civil Engineering from the University of Nairobi and is a registered engineer with Engineers Registration Board of Kenya.

CURRENT KCB GROUP BOARD APPOINTMENTS: Eng. Stanley is the Chairman of the IT & Innovations Committee and is a member of the Risk Management Committee and Finance & Strategy Committee. He is a member of the Boards of KCB Bank Kenya Limited, National Bank of Kenya Limited and KCB Capital Limited.

NAME: **ENG. STANLEY KAMAU (61 years)**

DESIGNATION: **ALTERNATE DIRECTOR TO C.S – NATIONAL TREASURY**

DATE OF APPOINTMENT TO BOARD: August 2019

NAME: **ADIL KHAWAJA (49 years)**

DESIGNATION: **DIRECTOR**

DATE OF APPOINTMENT TO BOARD: June 2012

Profile/Experience

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 the law firm, Dentons Hamilton Harrison and Mathews, Advocates.

CURRENT KCB GROUP BOARD APPOINTMENTS: Adil is the Chairman of the HR, Nominations & Governance committee and is a member of the Finance & Strategy committee. He also serves as Chairman of the KCB Bank Kenya Limited Board and is also the Chairman of KCB Insurance Agency Limited.

Profile/Experience

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.

CURRENT KCB GROUP BOARD APPOINTMENTS: Tom is the Chairman of the Risk Management committee and is a member of the HR, Nominations & Governance committee. He serves as a member of the KCB Bank Kenya Limited Board and also the KCB Bank Rwanda Board.

NAME: **TOM IPOMAI (47 years)**

DESIGNATION: **DIRECTOR**

DATE OF APPOINTMENT TO BOARD: July 2013

Profile/Experience

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.

CURRENT KCB GROUP BOARD APPOINTMENTS: Georgina is a member of the IT & Innovations Committee. She is also a member of the KCB Bank Tanzania Limited Board.

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) and the Institute of Internal Auditors.

NAME: **GEORGINA MALOMBE (44 years)**

DESIGNATION: **DIRECTOR**

DATE OF APPOINTMENT TO BOARD: June 2014

NAME: **JOHN NYERERE (58 years)**

DESIGNATION: **DIRECTOR**

DATE OF APPOINTMENT TO BOARD: June 2014

Profile/Experience

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.

CURRENT KCB GROUP BOARD APPOINTMENTS: John is the Chairman of the Finance & Strategy Committee and is a member of the Audit Committee. He is the Chairman of National Bank of Kenya Limited and also serves as a member of KCB Bank Tanzania Limited.

Profile/Experience

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. Lawrence previously served as a non-executive director of Kenya Seed Company Limited where he chaired the Audit committee and also previously served as the Chairman of Simlaw Seeds Company Limited.

CURRENT KCB GROUP BOARD APPOINTMENTS: Lawrence is the Chairman of the Audit Committee and is a member of the HR, Nominations & Governance Committee.

NAME: **LAWRENCE NJIRU (48 years)**

DESIGNATION: **DIRECTOR**

DATE OF APPOINTMENT TO BOARD: August 2018

NAME: **ANNE ERIKSSON (61 years)**

DESIGNATION: **DIRECTOR**

DATE OF APPOINTMENT TO BOARD: December 2019

Profile/Experience

EDUCATION AND PROFESSIONAL BACKGROUND:

Anne has an MBA (Distinction) from the University of Warwick, is a Fellow of the Association of Certified & Chartered Accountants (FCCA) and a Fellow of the Institute of Certified Public Accountants of Kenya (FCPA). She has led provision of audit and advisory services to a wide range of regional and local organizations in various sectors. She recently retired from PricewaterhouseCoopers (PwC) after 40 years where her last role was Regional Senior Partner for Eastern Africa and Country Senior Partner Kenya, overseeing firm wide activities in six countries with over 1,500 staff. In her role as Regional Senior Partner she was also a member of the PwC Africa leadership team. Her previous roles included heading the Assurance practice of PwC in Eastern and Western Africa, including Nigeria, Ghana, Angola, Zambia and Mauritius. She is widely recognized as one of Africa's leading professionals in the industry.

She has advised audit committees and boards on financial reporting, internal control matters, including risk and readiness assessment prior to implementation of major systems and processes. She serves in non-executive director positions on various boards, provides financial advice at a strategic level and mentors entrepreneurs.

CURRENT KCB GROUP BOARD APPOINTMENTS: Anne is a member of the Audit Committee and the Finance & Strategy Committee. Anne also sits on the board of KCB Bank Kenya Limited.

OTHER DIRECTORSHIPS: Anne is a non-executive director of Africa Asset Finance Inc (US), Ethiolease (Ethiopia) and Mpesa Foundation (Kenya).

Board of Directors' Profiles

NAME: **JOSHUA OIGARA (45 years)**

DESIGNATION: **CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR**

DATE OF APPOINTMENT TO BOARD: January 2013

Profile/Experience

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.

CURRENT KCB GROUP BOARD APPOINTMENTS: Joshua is a member of the HR, Nomination & Governance and the Finance & Strategy committees and serves as a member of the board of KCB Bank Kenya Limited and is a trustee of the KCB Foundation.

OTHER DIRECTORSHIPS: Joshua serves as the Chairman of the Energy & Petroleum Regulatory Authority 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).

Profile/Experience

EDUCATION AND PROFESSIONAL BACKGROUND:

Lawrence Kimathi holds a Masters in Business Administration (MBA) with a merit from Warwick Business School UK, a Bachelor of Science degree majoring in accounting from United States International University – Africa (USIU) and is a Certified Public Accountant of Kenya, CPA (K). He is a member of the Institute of Certified Public Accountants of Kenya and Institute of Directors. His senior leadership experience spans over 25 years having worked as Finance Director/CFO in a number of multinational organizations which include Cadbury East and Central Africa, AIG, East Africa Breweries Limited, BAT Sub Sahara Africa and BAT PLC in London.

CURRENT KCB GROUP BOARD APPOINTMENTS: Lawrence is a member of the Risk Management Committee and the IT & Innovation committee. 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).

NAME: **LAWRENCE KIMATHI (49 years)**

DESIGNATION: **GROUP CHIEF FINANCE OFFICER**

DATE OF APPOINTMENT TO BOARD: May 2015

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 and is an accredited Governance Auditor and an associate arbitrator. 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.

2019
Financial Statements & Notes
For the Year Ended 31 December 2019

Contents

KCB GROUP PLC REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2019

DIRECTORS

Mr. Andrew W. Kairu	- Chairman
C.S – National Treasury	- Alternate Eng. Stanley Kamau
Mr. Ngeny Biwott	- Retired 15 June 2019
Mr. Adil Khawaja	
Mr. Tom Ipomai	
Mr. John Nyerere	
Ms. Georgina Malombe	
Mr. Lawrence Njiru	
Mrs. Anne Eriksson	- Appointed 18 December 2019
Mr. Joshua Oigara	- Group Chief Executive Officer & Managing Director
Mr. Lawrence Kimathi	- Group Chief Finance Officer

SECRETARY
Mr. Joseph Kania
PO Box 48400 – 00100
Nairobi, Kenya

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

REGISTERED OFFICES AND PRINCIPAL PLACES OF BUSINESS
KCB Group PLC
Kencom House
Moi Avenue
PO Box 48400 – 00100
Nairobi, Kenya

KCB Bank Tanzania Limited
Harambee Plaza
Ali Hassan Mwinyi Road/Kaunda Road Junction
PO Box 804
Dar es Salaam, Tanzania

KCB Bank South Sudan Limited
KCB Plaza
Ministry Road
PO Box 47
Juba, Southern Sudan

KCB Bank Uganda Limited
Commercial Plaza
7 Kampala Road
PO Box 7399
Kampala, Uganda

KCB Bank Rwanda Limited
Avenue de la Paix
PO Box 5620
Kigali, Rwanda

KCB Bank Burundi Limited
Boulevard Patrice Lumumba
PO Box 6119
Bujumbura, Burundi

KCB Bank Kenya Ltd
Kencom House
Moi Avenue
PO Box 48400 – 00100
Nairobi, Kenya

KCB Bank Kenya (Ethiopia Representative Office)
Morning Star Mall 4th floor
Bole Medhanialem
Addis Ababa, Ethiopia.

National Bank of Kenya
National Bank Building
18 Harambee Avenue
PO Box 72866 – 00200
Nairobi, Kenya

ADVOCATES
Various. A list is available at the Company

The Directors submit their report together with the audited financial statements for the year ended 31 December 2019, in accordance with the Kenyan

KCB GROUP PLC REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2019

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 94 to 95 and 97 to 98 respectively.

3. Dividend
An interim dividend of KShs. 3,066 million was approved and paid during the year (2018 – KShs. 3,066 million). The Directors recommend a final dividend of KShs. 8,033 million (2018 – KShs. 7,665), this together with the interim dividend brings the total dividend to KShs. 11,099 million. (2018: KShs. 10,731 million) which represents KShs. 3.50 per share in respect of the year ended 31 December 2019 (2018 – KShs.3.50 per share).

4. Directors
The Directors who served during the year and up to the date of this report are set out on page 78 - 80.

All the Directors are non-executive other than the Group Chief Executive Officer & Managing Director and the Chief Finance Officer.

5. Acquisition of National Bank of Kenya
The Group acquired National Bank of Kenya (NBK), a bank operating in Kenya through a share swap effective 4 October 2019 in line with the approval of the shareholders of the Company during the Annual General Meeting held on 30th May 2019. The Group also obtained approvals for the acquisition from the Competition Authority of Kenya, Central Bank of Kenya and the Capital Markets Authority.

The Group is looking at obtaining synergy through acquisition and also increase its market share in the ever vibrant Kenyan banking sector.

Detailed information on this transaction is disclosed in Note 32(b).

6. 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 undertaking retail and corporate banking business in the domicile countries.

The Profit before tax increased by 9.0% from KShs. 33.9 billion to KShs. 36.9 billion mainly contributed by the interest income and the Non-funded income. The interest income was up 12% from KShs. 66.3 billion to KShs. 74.4 billion driven by the growth in loans and advances and investments in government securities. Commission and fees was up 39% from KShs. 14.2 billion to KShs. 19.8 billion as the Group leverage on technology through digital transformations.

Total Operating expenses were up 11% from KShs. 34.7 billion to KShs. 38.7 billion to support business growth and relevant income streams. Customer deposits were up 28% from KShs. 537 billion to KShs. 687 billion attributable to customer number growth, acquisitions in the Kenya market and improved customer service. The loan book grew by 17% from KShs. 456 billion to KShs. 535 billion as KCB commits to support feasible and sustainable businesses in the economies that it is operating in.

In 2019 the Group implemented IFRS 16 in compliance with the reporting requirements as guided by IFRS. Overall, there was minimal impact on the performance, the Group elected to apply the modified retrospective approach for the transition where the net impact of the initial application was recognized in the retained earnings as at 1 January 2019 (Note 3 (a)).

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 framework focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group. This is entrenched in the Group's governance structure, 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.

Employees' Welfare
Our leadership believes in creating an environment where high performing individuals care about each other and work towards achieving the success of the organization. Our leaders passionately drive clarity and directions allowing our employees to connect to each other as they are bound by a common mission and vision.

The Group's management focuses on building the right culture as a strategic human resource priority by ensuring that the Group's culture is embedded across all levels and the same is driven across the entire workforce. Having the right culture is an essential element for the Group's future development as we transform towards creating the digital era banking. Amongst the key components in this development is ensuring that our leaders are charged by the major roles of fostering strong leadership capabilities, talent management, enhancing employee relationship and development.

Environmental Footprint
At KCB Group, we believe that taking care of the ecological environment is a solemn responsibility for every human being. As a corporate citizen we have embraced a culture of responsible living, with the ultimate intention of building a sustainable work environment that has minimal or nil adverse effects on the environment.

7. 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.

8. Auditors
KPMG Kenya retire as auditors of the company and a recommendation will be made to the shareholders at the forthcoming Annual General Meeting to appoint new auditors in accordance with the provisions of section 721 of the Companies Act 2015 and subject to Section 24 (1) of the Banking Act (Cap 488).

9. Approval of financial statements
The financial statements were approved and authorised for issue by the Board of Directors on 11 March 2020.

BY ORDER OF THE BOARD

Mr. Joseph Kania
SECRETARY
Date: 11 March 2020

KCB GROUP PLC DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019

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, 2019 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, 2019, 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) C.S - National Treasury (Alternate: Eng. Stanley Kamau)

c) Maximum of eight independent Non-Executive Directors:
   i) Andrew W. Kairu (Chairman)
   (ii) Adil Khawaja
   (iii) Tom Ipomai
   (iv) Georgina Malombe
   (v) John Nyerere
   (vi) Lawrence Njiru
   (vii) Anne Eriksson (Appointed 18 December, 2019)

1. Directors Emoluments

For the financial year ended 31 December, 2019, the total Non-executive Directors remuneration was KShs. 65 million (2018 - KShs. 72 million).

The total amount of emoluments paid to Directors for services rendered during the Year 2019 is disclosed in Note 18 and 39 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.

2. 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 W. Kairu (Chairman)	4 June, 2018	3 June, 2026
C.S - National Treasury (Alt. Eng. Stanley Kamau)	-	-
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
Mrs. Anne Eriksson	18 December, 2019	17 December, 2027

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

During the last quarter of the year 2019, the Human Resources & Nominations Committee reviewed the entitlement under the Remuneration Policy following a benchmarking exercise undertaken by an external consultant. Based on the outcome of the benchmarking exercise, adjustments were made to the remuneration of the Directors. The impact of the adjustments will be recognized fully in the full year 2020 financial statements.

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.

KCB GROUP PLC DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

2. Non-Executive Directors Remuneration and privileges policy (continued)

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.

(i) Non-Executive Directors fees, allowances and other benefits for the year ended 31 December, 2019

Director's Name	Directors fees KShs. millions	Sitting allowance KShs. millions	Other allowances [1] KShs. millions	Non cash benefit [2] KShs. millions	Total KShs. millions
Mr. Andrew W. Kairu - Chairman	7	4	2	1	**14**
CS National Treasury	3	-	-	-	**3**
Mr. Julius Mutua (Alt. to CS) [3]	-	3	-	-	**3**
Eng. Stanley Kamau [4]	-	2	-	-	**2**
Mr. Ngeny Biwott [5]	1	1	-	-	**2**
Mr. Adil Khawaja	5	3	1	-	**9**
Mr. Tom Ipomai	5	5	1	-	**11**
Ms. Georgina Malombe	3	3	1	-	**7**
Mr. John Nyerere	4	3	1	-	**8**
Mr. Lawrence Njiru	2	3	1	-	**6**
Mrs. Anne Eriksson [6]	-	-	-	-	**-**
Grand total [7]					**65**

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] Ceased to be the Alternate to the C. S. National Treasury with effect from 6 August, 2019.
[4] Appointed as the Alternate to the C. S. National Treasury with effect from 7 August, 2019.
[5] Retired 15 June, 2019.
[6] Appointed 18 December, 2019.
[7] The amount includes fees, allowances and other benefits in respect of KCB Bank Kenya Limited, National Bank of 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 2019 (CONTINUED)

2. Non-Executive Directors Remuneration and privileges policy (continued)
(ii) Non-executive Directors fees, allowances and other benefits for the year ended 31 December, 2018

Director's Name	Directors fees KShs. millions	Sitting allowance KShs. millions	Other allowances [1] KShs. millions	Non cash benefit [2] KShs. millions	Total KShs. millions
Mr. Andrew W. 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 travel-day 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, 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.

3. 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	5 years	3 years	3 months
Lawrence Kimathi	1 January, 2016	5 years	1 year	3 months

***** As at 31 December, 2019

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.

KCB GROUP PLC DIRECTORS' REMUNERATION REPORT
FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

3. Executive Directors Remuneration (continued)

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 30% of the annual consolidated basic salary. The total gratuity earned is paid at the end of the contract term.

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 2019, there was a KShs.12.8m adjustment to the basic pay of the two Executive Directors sitting on the board with effect from 1 January, 2019.

(i) Executive Directors remuneration for the year ended 31 December, 2019

		Bonus					
Director's Name	Salary KShs. millions	Cash KShs. millions	Deferred KShs. millions	Allowances KShs. millions	Gratuity KShs. millions	Non cash benefit [1] KShs. millions	Total KShs. millions
Mr. Joshua Oigara	72.0	145.3	48.4	11.5	21.6	0.3	**299.1**
Mr. Lawrence Kimathi	40.8	29.4	9.8	-	12.2	0.1	**92.3**

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 2019 (CONTINUED)

3. Executive Directors Remuneration (continued)

(ii) Executive Directors remuneration for the year ended 31 December, 2018

Director's Name	Salary KShs. millions	Bonus KShs. millions	Allowance KShs. millions	Gratuity KShs. millions	Non cash benefit [1] KShs. millions	Total KShs. millions
Mr. Joshua Oigara	68	179.9	10	14	1	**272.9**
Mr. Lawrence Kimathi	32	42.8	-	6	1	**81.8**

Note:
[1] Non-cash benefits includes medical insurance cover, club membership and professional indemnity cover.

BY ORDER OF THE BOARD

Mr. Joseph Kania
SECRETARY
Date: 11 March 2020

KCB GROUP PLC STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 31 DECEMBER 2019 (CONTINUED)

The Directors are responsible for the preparation and presentation of the consolidated and separate financial statements of KCB Group PLC set out on pages 94 to 186 which comprise the consolidated and company statements of financial position as at 31 December 2019, 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 statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, 2015 the Directors are required to prepare financial statements for each financial year which give a true and fair view of the financial position of the Group and 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 financial position and profit or loss of the Group and the company.

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 11 March 2020.

Andrew W. Kairu
Chairman

Joshua Oigara, CBS
Chief Executive Officer and Managing Director

Lawrence Njiru
Director

Joseph Kania
Secretary

Date: 11 March 2020

KPMG

INDEPENDENT AUDITOR'S REPORT 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 94 to 186, which comprise the Consolidated and Company statements of financial position as at 31 December 2019,and the Consolidated and Company statements of profit or loss, Consolidated and Company statements of other comprehensive income, Consolidated and Company statements of changes in equity and Consolidated and Company statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying 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 2019, and it's Consolidated and separate financial performance and its Consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's 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 in the consolidated financial statements

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 standard requires the Group to recognise expected credit losses ('ECL') on financial instruments, which involves significant judgement and estimates. During the year, credit loss provisions increased from KShs. 20,649 million as at 31 December 2018 to KShs. 45,687 million as at 31 December 2019. The key areas where we identified greater levels of management Judgement and therefore increased levels of audit focus are: ■ **Forward looking Information** - 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 macro economic information. used and the probability weightings applied. ■ **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 hence we determined impairment allowance on loans and advances to be a key audit matter	**Our audit procedures in this area included, among others:** ■ Involving our internal 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.

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INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KCB GROUP PLC (CONTINUED)

Report on the audit of the consolidated and separate financial statements (Continued)
Key audit matters (continued)

Acquisition of National Bank of Kenya Limited in the consolidated and separate financial statements
See accounting policy Note 3 (b) - Significant accounting policies and disclosure Note 32 (b) - Acquisition of National Bank of Kenya Limited.

The Key audit matter	How the matter was addressed in our audit
The Group and company acquired National Bank of Kenya Limited on 4 October 2019 and involved the use of significant judgment and assumptions mainly : (i) Valuation techniques to determine the fair value of the acquired net assets and the resulting goodwill on acquisition; and (ii) Determining of the acquisition date for purposes of accounting and identification of the pre-acquisition and post-acquisition results during the year. We determined this area to be a key audit matter due to the significant judgment involved and the magnitude (size) of the transaction, which required significant audit focus.	**Our audit procedures in this area included, among others:** ■ Assessing of the accounting implication of the acquisition of National Bank of Kenya Limited ■ Evaluating appropriateness of management's method of determination of fair value of the assets and liabilities acquired. ■ Involving our internal tax experts and specialists in assessing the reasonableness of the tax assets and liabilities acquired or arising through the business combination. ■ Involving our internal valuation experts in assessing the reasonableness of the fair value of assets and liabilities acquired. ■ Assessing the adequacy of the disclosures relating to the acquisition in the financial statements.

Information Technology (IT) Systems and controls in the consolidated financial statements

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. The interfaces between the operating systems and financial reporting systems, or automated controls that prevent or detect inaccurate or incomplete transfers of financial information involves manual intervention that make it subject to possible human error. 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. We determined this area to be a key audit matter due to the complexity of the IT systems, manual interventions that required increased audit focus and attention.	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: ■ Testing reconciliations between systems and other information sources.

Other information
The Directors are responsible for the other information. The other information comprises the information included in the Integrated Report and Financial Statements, but does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express 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 that we have performed, we conclude that there is a material misstatement of this information, we are required to report that fact. We have nothing to report in this regard.

Directors' responsibilities for the consolidated and separate financial statements
As stated on page 90, the directors are responsible for the preparation of the 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 the company or to cease operations, or has no realistic alternative but to do so.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF KCB GROUP PLC (CONTINUED)

Report on the audit of the consolidated and separate financial statements (Continued)

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

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

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional 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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's 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 auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other 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 84 is consistent with the consolidated and separate financial statements;

(ii) We have issued an unqualified opinion on the consolidated and separate financial statements; and

(iii)The auditable part of the directors' remuneration report on pages 85 to 89 has been properly prepared in accordance with the Kenyan Companies Act, 2015.

The signing Partner responsible for the audit resulting in this independent auditor's report is CPA Joseph Kariuki – P/2102.

KPMG Kenya

Certified Public Accountants
PO Box 40612 – 00100
Nairobi

Date: 11 March 2020

KCB GROUP PLC CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 KShs.'million	2018 KShs.'million
Interest income	9	74,350	66,280
Interest expense	9	(18,220)	(17,450)
Net interest income		**56,130**	**48,830**
Fees and commission income	10	20,779	15,046
Fees and commission expense	10	(928)	(808)
Net fees and commission income		**19,851**	**14,238**
Net foreign exchange income	11	4,497	4,374
Other operating income	13	3,823	4,361
Total income		**84,301**	**71,803**
Provision for impairment of loans and advances to customers	14	(8,889)	(2,944)
Net operating income		**75,412**	**68,859**
Employee benefits	15	(19,459)	(17,007)
Depreciation and amortization	16	(4,044)	(3,146)
Interest expense on lease liability	17(a)	(464)	-
Amortisation of Right of Use Asset	17(a)	(749)	-
Other operating expenses	17(b)	(13,963)	(14,545)
Profit before income tax and gain/(loss) on monetary position	18	**36,733**	**34,161**
Gain/(loss) on monetary position	19	164	(302)
Profit before income tax		**36,897**	**33,859**
Income tax expense	20	(11,732)	(9,864)
Profit for the year		**25,165**	**23,995**
Attributable to:			
Owners of the parent		**25,165**	**23,995**
Earnings per share (KShs.)			
Basic earnings per share	21	**7.83**	**7.83**
Diluted earnings per share	21	**7.83**	**7.83**
Dividends (KShs. millions)			
Interim dividend declared and paid		3,066	3,066
Proposed final		8,033	7,665
Total Dividends		**11,099**	**10,731**

The notes set out on pages 106 to 186 form an integral part of these financial statements.

KCB GROUP PLC CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOMES
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 KShs.'million	2018 KShs.'million
Profit for the year		**25,165**	**23,995**
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss			
Financial assets at FVOCI			
- Unrealized (loss)/gain arising from measurement at fair value through OCI- Equity Instruments		(1,579)	1,316
- Re-measurement of defined benefit pension fund	48	(719)	(486)
- Related tax at 30% - current year	33	216	(249)
		(2,082)	581
Hyperinflation translation		**443**	**664**
Items that are or may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(780)	(1,967)
Financial assets at FVOCI			
- Unrealized (loss)/gain arising from measurement at fair value through OCI		(2,106)	1,094
- Related tax at 30% - current year	33	632	(328)
		(2,254)	**(1,201)**
Other comprehensive income for the year, net of income tax		**(3,893)**	**44**
Total comprehensive income for the year		**21,272**	**24,039**
Attributable to:			
Owners of parent		**21,272**	**24,039**

The notes set out on pages 106 to 186 form an integral part of these financial statements.

KCB GROUP PLC CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	2019 KShs.'million	2018 KShs.'million
ASSETS			
Cash and balances with Central Banks	22	83,235	50,101
Loans and advances to banks	23	25,174	32,017
Financial assets at fair value through OCI	24	70,614	83,805
Clearing house	25	1,181	1,217
Financial assets held for trading		1,651	-
Other assets and prepayments	26	44,328	30,646
Loans and advances to customers (Net)	27	535,371	455,880
Financial assets at amortized cost	28	96,977	37,174
Tax recoverable	20(b)	552	-
Property and equipment	29	13,132	11,007
Intangible assets-software	31	6,337	3,003
Right of Use Leased Assets	30	7,159	129
Retirement benefit asset	47	-	658
Deferred income tax asset	33	12,861	8,676
TOTAL ASSETS		**898,572**	**714,313**
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks	34	20,371	20,105
Deposits from customers	35	686,583	537,460
Bills payable	36	4,447	5,514
Lease liabilities	38	6,108	-
Other liabilities and accrued expenses	37	29,701	14,817
Tax payable	20(b)	136	309
Borrowings	40	21,485	22,447
Total liabilities		**768,831**	**600,652**
Equity			
Share capital	41	3,213	3,066
Share premium	42	27,690	21,647
Regulatory reserve	42	5,915	1,222
Other reserves	42	(8,429)	(4,995)
Retained earnings	42	93,319	85,056
Proposed dividend	44	8,033	7,665
Total equity		**129,741**	**113,661**
TOTAL LIABILITIES AND EQUITY		**898,572**	**714,313**

The financial statements set out on pages 94 to 186 were approved and authorised for issue by the Board of Directors on 11 March 2020.

Andrew W. Kairu
Chairman

Joshua Oigara, CBS
Chief Executive Officer & Managing Director

Lawrence Njiru
Director

Joseph Kania
Secretary

The notes set out on pages 106 to 186 form an integral part of these financial statements.

KCB GROUP PLC COMPANY STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 KShs.'million	2018 KShs.'million
Interest income	9	-	317
Interest expense	9	-	(272)
Net interest income		**-**	**45**
Fees and commission income	10	-	-
Fees and commission expense	10	-	-
Net fees and commission income		**-**	**-**
Net foreign exchange gain	11	(4)	(14)
Dividend income	12	16,551	16,864
Other operating income	13	156	105
Total income		**16,703**	**17,000**
Provision for impairment of loans and advances to customers	14	**-**	**-**
Net operating income		**16,703**	**17,000**
Employee benefits	15	(67)	(91)
Depreciation and amortization	16	(9)	(4)
Other operating expenses	17	(599)	(399)
Profit/(loss) before income tax	18	16,028	16,506
Income tax expense	20	(142)	104
Profit/(loss) for the year		**15,886**	**16,610**
Attributable to:			
Owners of the parent		**15,886**	**16,610**
Earnings per share (KShs.)			
Basic	21	**4.94**	**5.42**
Diluted	21	**4.94**	**5.42**
Dividends (KShs. millions)			
Interim dividend declared and paid		3,066	3,066
Proposed final		8,033	7,665
Total Dividends		**11,099**	**10,731**

The notes set out on pages 106 to 186 form an integral part of these financial statements.

KCB GROUP PLC COMPANY STATEMENT OF OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 KShs. million	2018 KShs. million
Profit for the year		15,886	16,610
Other comprehensive income, net of income tax			
Items that are or may be reclassified subsequently to profit or loss			
Financial assets at FVOCI			
- Unrealized (loss)/gain arising from measurement at fair value through OCI		(13)	(27)
- Related tax at 30% - current year	29	4	8
		(9)	(19)
Other comprehensive income for the year			
net of income tax		**(9)**	**(19)**
Total comprehensive income for the year		**15,877**	**16,591**
Attributable to:			
Owners of the parent		**15,877**	**16,591**

The notes set out on pages 106 to 186 form an integral part of these financial statements.

KCB GROUP PLC COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2019

	Note	2019 KShs.'million	2018 KShs.'million
ASSETS			
Cash and bank balances	22	1,178	899
Financial assets at fair value through OCI	24	25	34
Other assets and prepayments	26	37	-
Property and equipment	29	607	649
Intangible assets	31	10	-
Balances due from related companies	39(a)	6,336	7,105
Investment in subsidiary	32	79,227	68,036
Tax receivable	20(b)	27	69
Deferred income tax	33	2	102
TOTAL ASSETS		**87,449**	**76,894**
LIABILITIES AND EQUITY			
Liabilities			
Balances due from related companies	39(b)	-	731
Other liabilities	37	4	55
Total liabilities		**4**	**786**
Equity			
Share capital	41	3,213	**3,066**
Share premium	43	27,690	21,647
Other reserves	42	(52)	(43)
Retained earnings	42	48,561	43,773
Proposed dividend	44	8,033	7,665
Total equity		**87,445**	**76,108**
TOTAL LIABILITIES AND EQUITY		**87,449**	**76,894**

The financial statements set out on pages 94 to 186 were approved and authorised for issue by the Board of Directors on 11 March 2020.

Andrew W. Kairu
Chairman

Joshua Oigara, CBS
Chief Executive Officer & Managing Director

Lawrence Njiru
Director

Joseph Kania
Secretary

The notes set out on pages 106 to 186 form an integral part of these financial statements.

KCB GROUP PLC CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Share capital KShs. Millions	Share premium KShs. Millions	Statutory credit risk reserve KShs. Millions	Proposed Dividend KShs. Millions	Translation reserve KShs. Millions	Available -for-sale- reserve KShs. Millions	Retained earnings KShs. Millions	Defined benefit reserve KShs. Millions	Hyper-inflation KShs. Millions	Total KShs. Millions
At 1 January 2019		3,066	21,647	1,222	7,665	(9,844)	1,821	85,056	44	2,984	113,661
Adjustment of initial application of IFRS 16, net of taxes		-	-	-	-	-	-	(651)	-	-	(651)
Restated Balance as at 1 January 2019		**3,066**	**21,647**	**1,222**	**7,665**	**(9,844)**	**1,821**	**84,405**	**44**	**2,984**	**113,010**
Profit for the year		-	-	-	-	-	-	25,165	-	-	25,165
Other comprehensive income (net of taxes)											
Foreign currency translation differences for foreign operations		-	-	-		(780)	-	-	-		(780)
Change in fair value of Fair value through other comprehensive income increments (net of tax)		-	-	-	-		(3,053)				(3,053)
Transfer from statutory credit risk reserve		-	-	4,693	-	-	-	(4,693)	-	-	-
Transfer from defined benefit reserve		-	-	-	-	-	-	(459)	459	-	-
Hyperinflationary impact		-	-	-	-	-	-		-	443	443
Re-measurement of defined benefit asset/ liability (net of taxes)		-	-	-	-	-	-		(503)	-	(503)
Total comprehensive income		**-**	**-**	**4,693**	**-**	**(780)**	**(3,053)**	**20,013**	**(44)**	**443**	**21,272**
Transactions with owners recorded directly in equity											
Issued Shares	32	147	6,043								6,190
Dividend paid – 2019	43	-	-	-	(7,665)	-	-	-	-	-	(7,665)
Interim dividend - 2019		-	-	-	-	-	-	(3,066)	-	-	(3,066)
Final Dividend – 2019	43	-	-	-	8,033	-	-	(8,033)	-	-	-
Total contributions and distributions		**147**	**6,043**	**-**	**368**	**-**	**-**	**(11,099)**	**-**	**-**	**(4,541)**
At 31 December 2019		**3,213**	**27,690**	**5,915**	**8,033**	**(10,624)**	**(1,232)**	**93,319**	**-**	**3,427**	**129,741**

The notes set out on pages 106 to 186 form an integral part of these financial statements.

KCB GROUP PLC CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Share capital KShs. Millions	Share premium KShs. Millions	Statutory credit risk reserve KShs. Millions	Proposed Dividend KShs. Millions	Translation reserve KShs. Millions	Available -for-sale- reserve KShs. Millions	Retained earnings KShs. Millions	Defined benefit reserve KShs. Millions	Hyper inflation KShs. Millions	Total KShs. Millions
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 increments (net of tax)		-	-	-	-	-	1,687	-			1,687
Transfer to statutory credit risk reserve		-	-	(10,011)	-	-	-	10,011	-	-	-
Re-measurement of defined benefit asset/ liability (net of taxes)		-	-	-	-	-	-	-	(340)	-	(340)
Hyperinflationary impact		-	-	-	-	-	-	-	-	664	664
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	43	-	-	-	(6,132)	-	-	-	-	-	(6,132)
Interim dividend – 2018	43	-	-	-		-	-	(3,066)	-	-	(3,066)
Dividend proposed – 2018	43	-	-	-	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 106 to 186 form an integral part of these financial statements.

KCB GROUP PLC COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	Share capital	Share premium	Statutory credit risk reserve	Proposed Dividend	Available -for-sale- reserve	Retained earnings	Defined benefit reserve	Total
		KShs. Millions	KShs. Millions	KShs. Millions	KShs. Millions	KShs. Millions	KShs. Millions	KShs. Millions	KShs. Millions
At 1 January 2019		3,066	21,647	-	7,665	(43)	43,773	-	76,108
Profit for the year		-	-	-	-	-	15,886	-	15,886
Other comprehensive income (net of taxes)									-
Change in fair value of Fair value through other comprehensive income increments (net of taxes)		-	-	-	-	(9)	-	-	(9)
Total comprehensive income		**-**	**-**	**-**	**-**	**(9)**	**15,886**	**-**	**15,877**
Transactions with owners recorded directly in equity									
Scrip Shares	32	147	6,043	-	-	-	-	-	6,190
Dividend paid – 2019	43	-	-	-	(7,665)	-	-	-	(7,665)
Interim dividend - 2019		-	-	-	-	-	(3,066)	-	(3,066)
Final Dividend – 2019	43	-	-	-	8,033	-	(8,033)	-	-
Total contributions and distributions		**147**	**6,043**	**-**	**368**	**-**	**(11,099)**	**-**	**(4,541)**
At 31 December 2019		**3,213**	**27,690**	**-**	**8,033**	**(52)**	**48,561**	**-**	**87,445**

The notes set out on pages 106 to 186 form an integral part of these financial statements.

KCB GROUP PLC COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Share capital	Share premium	Statutory credit risk reserve	Proposed Dividend	Available -for-sale- reserve	Retained earnings	Defined benefit reserve	Total
		KShs. Millions	KShs. Millions	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	43	-	-	-	(6,132)		-	-	(6,132)
Interim 2018		-	-	-		-	(3,066)	-	(3,066)
Dividend proposed 2018	43	-	-	-	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 106 to 186 form an integral part of these financial statements.

KCB GROUP PLC CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 KShs.'million	2018 KShs.'million
Net cash flows generated from operating activities	**44(a)**	**38,148**	**7,908**
Investing activities			
Proceeds from disposal of property and equipment		113	17
Purchase of intangible assets		(2,669)	(921)
Purchase of property and equipment	29(a)	(2,986)	(2,959)
Acquisition of subsidiary net of cash acquired	42(b)	(9,384)	-
Effects of exchange rate changes on translation of foreign operation		-	756
Net cash flows used in investing activities		**(14,926)**	**(3,107)**
Financing activities			
Net movement in borrowings	41	(1,164)	7,552
Lease payments		(1,082)	
Dividends paid	44	(10,731)	(9,198)
Net cash flows used in financing activities		**(10,649)**	**(1,646)**
Increase in cash and cash equivalents		12,573	3,155
Cash and cash equivalents at the beginning of the year		50,629	47,474
Cash and cash equivalents at the end of the year	45(b)	**63,202**	**50,629**

The notes set out on pages 106 to 186 form an integral part of these financial statements.

KCB GROUP PLC COMPANY STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	2019 KShs.'million	2018 KShs.'million
Net cash flows generated from operating activities	**15(a)**	**16,062**	**(17,443)**
Investing activities			
Purchase of property and equipment	29	(52)	(92)
Investment in subsidiaries	32(a)	(5,000)	(387)
Net cash flows used in investing activities		**(5,052)**	**(479)**
Financing activities			
Net movement in borrowings	12	-	(7,755)
Dividends paid	14	(10,731)	(9,198)
Net cash flows used in financing activities		**(10,731)**	**(16,953)**
Increase in cash and cash equivalents		279	11
Cash and cash equivalents at the beginning of the year		899	888
Cash and cash equivalents at the end of the year	15(b)	**1,178**	**899**

The notes set out on pages 106 to 186 form an integral part of these financial statements.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019

1. GENERAL INFORMATION
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 2019 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, National Bank of Kenya, 20% ownership in Kenya Mortgage Refinance Company(KMRC) 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.

This is the first set of the Group's annual financial statements in which IFRS 16 Leases has been applied. The related changes to significant accounting policies are described in note 3.

(b) Basis of measurement
The financial statements have been prepared on the historical cost basis except for the following material items, which are measured on the following alternative basis on each reporting date:

- 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 2019 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 thousand (KShs. '000). 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 effective from 1 January 2019 but they do not have a material effect on the Group's financial statements except for IFRS16: Leases and IFRIC 23: Clarification on accounting for income taxes.

- ***IFRS 16 Leases***

IFRS 16 Leases was issued by the IASB on 13 January 2016 and is effective for periods beginning on or after 1 January 2019. IFRS 16 replaces the following standards and interpretations: IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

3. 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 16 Leases (continued)***

A. Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases.

Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

B. As a lessee

As a lessee, the Group leases many assets including property, equipment and motor vehicles. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most of these leases – i.e. on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

C. Leases classified as operating leases under IAS 17

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019

Right-of-use assets are measured at their carrying value as if IFRS 16 had been applied since the commencement date, discounted using the incremental borrowing rate at the date of initial application.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- relied on its assessment of whether leases are onerous under IAS 37 immediately before date of initial application as an alternative to performing an impairment review;
- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

D. As a lessor

The Group leases out its leasehold property and right-of-use assets. The Group has classified these leases as operating leases. The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease. The Group does not sub-lease its properties. Under IAS 17, the head lease and sub-lease contracts were classified as operating leases. On transition to IFRS 16, the right-of-use assets recognised from the head leases are presented in property, plant and equipment, and measured at fair value at that date. The Group assessed the classification of the sub-lease contracts with reference to the right of -

- use asset rather than the underlying asset, and concluded that they are operating leases under IFRS 16.
- The Group has applied IFRS 15 Revenue from Contracts with Customers to allocate consideration in the contract to each lease and non-lease component.

E. Impact on financial statements

On transition to IFRS 16, the Group recognised additional right-of-use assets, and additional lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below

1 January 2019	KShs. million
Right-of-use assets – Property and equipment	**6,880**
Deferred tax asset	**279**
Lease liabilities	**5,950**
Retained earnings	**(651)**

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 10%.

1 January 2019	KShs. million
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Group's consolidated financial statements	**7,352**
Discounted using the incremental borrowing rate at 1 January 2019	**4,922**
Finance lease liabilities recognised as at 31 December 2018	**-**
– Recognition exemption for leases of low-value assets	**(176)**
– Recognition exemption for leases with less than 12 months of lease term at transition	**(11)**
– Extension options reasonably certain to be exercised	**1,215**
Lease liabilities recognised at 1 January 2019	**5,950**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

—IFRIC 23 Clarification on accounting for Income tax exposures
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 following amended standards are not expected to have a significant impact on the Group's consolidated financial statements.
- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- Long-term Interests in Associates and Joint Ventures 1 (Amendments to IAS 28)
- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)

(ii) New standards, amendments and interpretations issued but not adopted
The group does not plan to adopt these standards early. These are summarised below;

New Standard or amendments	Effective for annual periods beginning on or after
— Definition of a Business (Amendments to IFRS 3)	1 January 2020
— Definition of material (Amendments to IAS 1 and IAS 8)	1 January 2020
— Amendments to references to the Conceptual Framework in IFRS Standards	1 January 2020
— IFRS 17 insurance contracts	1 January 2021
— Sale or combination of assets between an investment and associate or joint venture (Amendments to IFRS 10 and IAS 28)	To be determined

All standards and interpretations will be adopted at their effective date (except for those standards and interpretations that are not applicable to the entity). The standard that is expected to have an impact to the bank is Definition of material (Amendments to IAS 1 and IAS 8).

—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

(b) Basis of consolidation

(i) Business Combinations
The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identified net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

(ii) Subsidiaries
Subsidiaries are entities controlled by the Group. The Group 'controls' an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Basis of consolidation (continued)

are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. The subsidiaries are shown in Note 32.

(iii) Non-controlling interest (NCI)
NCI are measured initially at their proportionate share of the acquiree's identifiable net assets at the date of acquisition.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iv) Loss of control
When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI 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.

(v) Interests in equity-accounted investees
The Group's interests in equity-accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in associates and the joint venture are accounted for using the equity method. They are initially recognised at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of the profit or loss and OCI of equity-accounted investees, until the date on which significant influence or joint control ceases.

(vi) 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 2019) 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 50.

(d) Recognition of income and interest expense

(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

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Recognition of income and interest expense (continued)

(i) Interest income and expenses (continued)

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.

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.

(ii) 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.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Recognition of income and interest expense (continued)

(iii) 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.

(iv) 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.

(v) Rental income
Rental income in respect of operating leases is accounted for on a straight-line basis over the lease terms on ongoing leases.

(vi) 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

i. Recognition and measurement
Financial assets and financial liabilities are recognised in the Group'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.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial assets and liabilities (continued)

ii. Classification and subsequent measurement of financial instruments

A. 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. 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:

  - 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

  - 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).

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial assets and liabilities (continued)

ii. Classification and subsequent measurement of financial instruments (continued)

A. Financial assets (continued)

Debt instruments at amortised cost or at FVTOCI (continued)

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 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 3.

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 7or 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.

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.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial assets and liabilities (continued)

ii. Classification and subsequent measurement of financial instruments (continued)

A. Financial assets (continued)

Impairment of financial assets (continued)

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.

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.

More information on measurement of ECLs is provided in note 4, including details on how instruments are banked when they are assessed on 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:

- 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 (see note 3).

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. More details are provided

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial assets and liabilities (continued)

ii. Classification and subsequent measurement of financial instruments (continued)

A. Financial assets (continued)

Definition of default (continued)

in note 4. 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. See note 3 for more details about 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 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

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial assets and liabilities (continued)

ii. Classification and subsequent measurement of financial instruments (continued)

A. Financial assets (continued)

Modification and derecognition of financial assets (continued)

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 Group'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 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.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial assets and liabilities (continued)

ii. Classification and subsequent measurement of financial instruments (continued)

A. Financial assets (continued)

Modification and derecognition of financial assets (continued)

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 28);
- 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.

B. 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.

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 Group 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

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial assets and liabilities (continued)

ii. Classification and subsequent measurement of financial instruments (continued)

B. Financial liabilities (continued)

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 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.

iii. Offsetting financial assets and liabilities
Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted under IFRS Standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(g) 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.

Right of use assets are recognized at the commencement of the lease contract and is measured at cost less accumulated depreciation and accumulated impairment

Property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property and equipment (continued)

(i) Recognition and measurement (continued)

asset or at the expiration of a lease contract for right of use assets. 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.

(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	Nil
Leasehold improvements	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.

(h) Intangible assets

(i) Software

Software acquired by the Group is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Group is able to demonstrate: that the product is technically and commercially feasible, its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and that it can reliably measure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as it is incurred

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is three to five years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(ii) Other intangible assets

Other intangible assets, include brand, customer networks and core deposits that are acquired by the Group. At the date of acquisition of a business, intangible assets which are deemed separable and that arise from contractual or other legal rights are capitalised and included within the net identifiable assets acquired (Note 32(b)). These intangible assets are initially measured at fair value, which reflects market expectations of the probability that the future economic benefits embodied in the asset will flow to the entity, and are amortised on the basis of their expected useful lives.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated intangible assets, is recognised in profit or loss as incurred.

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight line method over their estimated useful lives, and is generally recognised in profit or loss. The estimated useful lives for current period is five years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate

(i) Leases

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset.

(i) As a lessee

Assets held under other leases were classified as operating leases and were not recognised in the Group's's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(ii) As a lessor

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Group made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Group considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Leases (continued)

(i)As a lessee (continued)

Policy applicable from 1 January 2019

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. However, for leases of branches and office premises the Group has elected not to separate non-lease components and accounts for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

(ii). As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Group acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Group applies the derecognition and impairment requirements in IFRS 16 to the net investment in the lease (see Note 49). The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

(j) Cash and cash equivalent

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(k)Impairment of 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 asset's 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. Impairment losses are recognised in profit or loss 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 on a pro-rata basis.

(l) Employee benefits

The Group operates both a defined contribution plan and defined benefit plan.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Employee benefits (continued)

(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 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.

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 amortied 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.

(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.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

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. 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 Group bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Internal credit risk ratings (continued)

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 risk grades	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.

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.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Internal credit risk ratings (continued)

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	0.0554%	AAA to B
Stage 2	27.03%	B- 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
Grades 1	3%
Grades 2	56%
Grades 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 2019 for the years 2020 to 2024, 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.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Incorporation of forward-looking information (continued)

	2020	2021	2022	2023	2024
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

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

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Measurement of ECL (continued)

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 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 ranked 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	83,235	Sovereign	S& P ratings
Financial assets held through FVOCI	70,614	Sovereign	S& P ratings
Financial assets held at amortized costs	96,977	Sovereign	S& P ratings
Loans and advances to banks	25,174	Corporate	S& P ratings
Clearing house	1,181	Corporate	S& P ratings
Other assets	32,027	Corporate	S& P ratings
Off balance sheet	64,329	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
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
Debt investment securities at amortised cost	Financial assets at amortise costs	Note 28
Debt investment securities at FVTOCI	Financial assets at FVOCI	Note 24
Loan commitments and financial guarantee contracts	None	Note 46
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.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Credit quality (continued)

Loan Commitments Concentration by region Loans and advances at amortised cost	Kenya	Tanzania	Uganda	Rwanda	South Sudan	Burundi	Total
	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million
31-Dec-19	492,823	17,443	6,522	14,628	911	3,044	535,371
31-Dec-18	417,230	16,559	6,220	12,799	688	2,384	455,880

Concentration by sector Loans and advances at amortised cost	Corporate	Retail	Total
	KShs. million	KShs. million	KShs. million
31-Dec-19	259,339	276,032	535,371
31-Dec-18	209,707	246,173	455,880

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.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
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4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Credit quality (continued)

Corporate & Retail

Loans and advances to customers at amortised cost	Year ended 2019 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Year ended 2018 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million
Grade 1: Normal	409,467	24,494	1,289	435,250	365,412	15,140	1,577	382,129
Grade 2: Watch	22,277	33,929	22,441	78,647	18,595	16,382	28,607	63,584
Grade 3: Substandard	225	382	18,734	19,341	384	1,092	4,417	5,893
Grade 4: Doubtful	502	38	22,644	23,184	40	64	5,026	5,130
Grade 5: Loss	469	44	24,123	24,636	69	31	19,693	19,793
Total gross carrying amount	**432,940**	**58,887**	**89,231**	**581,058**	**384,500**	**32,709**	**59,320**	**476,529**
Loss allowance	(6,187)	(6,199)	(33,301)	(45,687)	(4,115)	(3,444)	(13,090)	(20,649)
Carrying amount	**426,753**	**52,688**	**55,930**	**535,371**	**380,385**	**29,265**	**46,230**	**455,880**

Retail

Loans and advances to Retail customers at amortised cost	Year ended 2019 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Year ended 2018 Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million
Grade 1: Normal	247,061	382	54	247,879	195,072	8,176	852	204,100
Grade 2: Watch	16,153	7,151	2,621	25,925	10,041	8,846	15,448	34,335
Grade 3: Substandard	210	366	7,538	8,114	207	590	2,385	3,182
Grade 4: Doubtful	363	38	3,976	4,337	22	34	2,714	2,770
Grade 5: Loss	42	25	8,608	8,675	37	16	10,634	10,687
Total gross carrying amount	**263,829**	**7,962**	**22,797**	**294,588**	**205,379**	**17,662**	**32,033**	**255,074**
Loss allowance	(5,753)	(1,774)	(11,029)	(18,556)	(3,875)	(246)	(4,780)	(8,901)
Carrying amount	**258,076**	**6,188**	**11,768**	**276,032**	**201,504**	**17,416**	**27,253**	**246,173**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Credit quality (continued)

Corporate

	Year ended 2019				Year ended 2018			
Loans and advances to Corporate customers at amortised cost	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	KShs. million	KShs. million	KShs. million		KShs. million	KShs. million	KShs. million	
Grade 1: Normal	147,012	28,434	613	176,059	170,340	6,964	725	178,029
Grade 2: Watch	21,521	22,455	17,318	61,294	8,554	7,536	13,159	29,249
Grade 3: Substandard	14	16	11,228	11,258	177	502	2,032	2,711
Grade 4: Doubtful	139	-	21,738	21,877	18	29	2,312	2,359
Grade 5: Loss	425	20	15,537	15,982	32	14	9,059	9,105
Total gross carrying amount	**169,111**	**50,925**	**66,434**	**286,470**	**179,121**	**15,045**	**27,287**	**221,453**
Loss allowance	(434)	(4,425)	(22,272)	(27,131)	(241)	(2,347)	(9,160)	(11,748)
Carrying amount	**168,677**	**46,500**	**44,162**	**259,339**	**178,880**	**12,698**	**18,127**	**209,705**

	Year ended 2019				Year ended 2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Letters of Credit, guarantees and other financial assets at FVTOCI	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million
Grade 1: AAA	6,529	-	-	6,529	845	-	-	845
Grade 2: AA	45,121	-	-	45,121	2,271	-	-	2,271
Grade 3: A	-	2,421	-	2,421	1,323	1,019	-	2,342
Grade 4: BBB	2,958	126	-	3,084	568	-	-	568
Grade 5: BB	-	8,054	-	8,054	4,276	1,464	4,372	10,111
Grade 6: B	-	404	-	404	560	205	47	813
Grade 7: CCC	-	4,819	-	4,819	276	5,125	-	5,401
Grade 8: D	-	-	3,042	3,042	-	-	673	673
Grade 9: U	-	-	-	-	163	-	-	163
Total gross carrying amount	**54,608**	**15,824**	**3,042**	**73,474**	**10,282**	**7,813**	**5,092**	**23,187**
Loss allowance	(123)	(58)	(950)	(1,131)	-	-	-	-
Carrying amount	**54,485**	**15,766**	**2,092**	**72,343**	**10,282**	**7,813**	**5,092**	**23,187**

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 (see note 1 Presentation of allowance for ECL).

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 (see note 1 presentation of allowance for ECL).

The tables below analyses the movement of the loss allowance during the year per class of assets.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Credit quality (continued)

Loss allowance – Loans and advances to customers 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
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**
Loss allowance as at 1 January 2019	4,115	3,444	13,090	-	**20,649**
Changes in the loss allowance					
– Transfer to stage 1	955	(185)	(770)	-	**-**
– Transfer to stage 2	(204)	945	(741)	-	**-**
– Transfer to stage 3	(381)	4	377	-	**-**
– Write-offs	-	-	-	-	**-**
– Changes due to modifications that did not result in derecognition	53	1,365	145	-	**1,563**
New financial assets originated or purchased	4,951	1,536	23,618	-	**30,105**
Financial assets that have been derecognised	(2,186)	(211)	(2,418)	-	**(4,815)**
Changes in models/risk parameters	(1,117)	(699)	-	-	**(1,816)**
Foreign exchange and other movements	1	-	-	-	**1**
Loss allowance as at 31 December 2019	**6,187**	**6,199**	**33,301**	**-**	**45,687**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

4. FINANCIAL RISK MANAGEMENT (continued)
(a) Credit risk (continued)
Credit quality (continued)

Retail

Loss allowance – Loans and advances to customers 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
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	**3,876**	**246**	**4,780**	**-**	**8,902**
Loss allowance as at 1 January 2019	3,876	246	4,780	-	**8,902**
Changes in the loss allowance					
– Transfer to stage 1	492	(95)	(397)	-	**-**
– Transfer to stage 2	(105)	487	(382)	-	**-**
– Transfer to stage 3	(196)	2	194	-	**-**
– Write-offs	-	-	-	-	**-**
– Changes due to modifications that did not result in derecognition	27	704	75	-	**806**
New financial assets originated or purchased	3,346	899	8,006	-	**12,251**
Financial assets that have been derecognised	(1,127)	(109)	(1,247)	-	**(2,483)**
Changes in models/risk parameters	(560)	(360)	-	-	**(920)**
Foreign exchange and other movements	-	-	-	-	**-**
Loss allowance as at 31 December 2019	**5,753**	**1,774**	**11,029**	**-**	**18,556**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Credit quality (continued)

Corporate

Loss allowance – Loans and advances to customers 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
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	**240**	**3,197**	**8,310**	**-**	**11,747**
Loss allowance as at 1 January 2019	240	3,197	8,310	-	**11,747**
Changes in the loss allowance					
– Transfer to stage 1	1,527	(185)	(1,342)	-	**-**
– Transfer to stage 2	(93)	945	(852)	-	**-**
– Transfer to stage 3	586	4	(590)	-	**-**
– Write-offs	-	-	-	-	**-**
– Changes due to modifications that did not result in derecognition	43	236	15,060	-	**15,339**
New financial assets originated or purchased	7,794	7,194	2,866	-	**17,854**
Financial assets that have been derecognised	(9,106)	(6,627)	(1,180)	-	**(16,913)**
Changes in models/risk parameters	(557)	(339)	-	-	**(896)**
Foreign exchange and other movements	-	-	-	-	**-**
Loss allowance as at 31 December 2019	**434**	**4,425**	**22,272**	**-**	**27,131**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

4. FINANCIAL RISK MANAGEMENT (continued)
(a) Credit risk (continued)
Credit quality (continued)

Corporate

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 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 dueto 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**
Loss allowance as at 1 January 2019	15	208	126	-	**349**
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	948	2	-	-	**950**
Financial assets that have been derecognised	(291)	(8)	(140)	-	**(439)**
Changes in models/risk parameters	87	-	-	-	**87**
Foreign exchange and other movements	13	-	-	-	**13**
Loss allowance as at 31 December 2019	**772**	**202**	**- 14**	**-**	**960**

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:

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

4. FINANCIAL RISK MANAGEMENT (continued)
(a) Credit risk (continued)
Credit quality (continued)

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 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**
Gross carrying amount as at 1 January 2019	32,017	-	-	-	**32,017**
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	3,854	-	-	-	**3,854**
Financial assets that have been derecognised	(10,697)	-	-	-	**(10,697)**
Other changes	-	-	-	-	**-**
Gross carrying amount as at 31 December 2019	**25,174**	**-**	**-**	**-**	**25,174**

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 (see note 1 Presentation of allowance for ECL).

The Group does not hold any lease receivables.

The contractual amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity is KShs. 8,367m at 31 December 2018 (6,659m- 2018)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.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Credit quality (continued)

	Year ended 2019		Year ended 2018	
	Gross carrying amount	Loss allowance	Gross carrying amount	Loss allowance
Loans and advances to customers	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**
0-29 days	411,699	8,050	384,500	4,115
30-59 days	92,229	2,635	32,893	2,601
60-89 days	13,734	8,213	59,136	13,933
90-180 days	16,844	7,023	-	(0)
More than 181 days	46,552	19,766	-	0
Total	**581,058**	**45,687**	**476,529**	**20,649**

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.

Financial assets (with loss allowance based on lifetime ECL) modified during the period	Year ended 2019 KShs. million	Year ended 2018 KShs. million
Gross carrying amount before modification	43,159	24,553
Loss allowance before modification	(1,231)	(306)
Net amortised cost before modification	41,928	24,247
Net modification gain/(loss)	-	(149)
Net amortised cost after modification	41,928	24,098

Financial assets modified since initial recognition at a time when loss allowance was based on lifetime ECL	Year ended 2019 KShs. million	Year ended 2018 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	201	179

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

4. FINANCIAL RISK MANAGEMENT (continued)
(a) Credit risk (continued)

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.

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 2019. 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.

	Year ended 2019		Year ended 2018	
Mortgage lending LTV ratio	Gross carrying amount	Loss allowance	Gross carrying	Loss allowance
	KShs. million	KShs. million	KShs. million	KShs. million
Less than 50%	26,186	770	343	99
51-70%	12,998	305	518	136
71-90%	219,621	1,108	4,129	291
91-100%	10,331	386	10,154	153
More than 100%	2,131,161	1,931	48,612	122
Total	**2,400,297**	**4,500**	**63,756**	**801**
Credit impaired – mortgage lending LTV ratio	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**
Less than 50%	25,316	736	140	87
51-70%	11,872	272	280	116
71-90%	214,350	973	877	221
91-100%	1,157	272	257	84
More than 100%	1,168,211	1,818	4,162	58
Total	**1,420,906**	**4,071**	**5,716**	**566**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

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 2019 the net carrying amount of loans and advances to corporate customers was KShs. 251b (2018 – KShs.190b) and the value of the respective collateral was KShs. 2,189b (2018 – KShs. 1,896b).

Investment securities
The Group holds investment securities measured at amortised cost with a carrying amount of KShs. 96,977 m and at FVTOCI with a carrying amount of KShs. 72,265 m. 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 obtained financial assets during the year by taking possession of collateral held as security against loans and advances. The Group's policy is to realise collateral on a timely basis. The Group does not use non-cash collateral for its operations.

(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	
	2019	2018	2019	2018
	KShs. million	KShs. million	KShs. million	KShs. million
Less than 60 days	31,812	48,983	-	-
Between 60 and 120 days	18,584	12,475	-	-
Greater than 120 days	11,188	17,668	-	-
	61,584	**79,126**	**-**	**-**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Assets obtained by taking possession of collateral (continued)

(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	
	2019	2018	2019	2018
	KShs.' million	KShs.' million	KShs.' million	KShs.' million
Agriculture	15,529	14,636	-	-
Manufacturing	64,433	51,678	-	-
Building and Construction	44,247	41,311	-	-
Mining and Quarrying	1,379	1,534	-	-
Energy and Water	13,707	11,560	-	-
Trade	56,212	81,600	-	-
Tourism,Restaurant and Hotels	23,287	14,861	-	-
Transport and Communication	27,078	22,609	-	-
Real Estate	98,117	83,234	-	-
Financial Services	20,726	25,081	-	-
Personal/Household	216,343	128,425	-	-
Totals	**581,058**	**476,529**	**-**	**-**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

4. FINANCIAL RISK MANAGEMENT (continued)

(a) Credit risk (continued)

Assets obtained by taking possession of collateral (continued)

(vi) Fair value of collateral helds

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 2019 and 2018. 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	
	2019	2018	2019	2018
	KShs. million	KShs. million	KShs. million	KShs. million
Impaired loans	43,060	215,125	-	-
Performing loans	2,146,237	1,931,585	-	-
	2,189,297	**1,946,710**	**-**	**-**

4. FINANCIAL RISK MANAGEMENT (continued)

(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	
	2019	2018
At close of the year	37.1%	33.3%
Average for the year	35.9%	34.1%
Maximum for the year	37.1%	35.3%
Minimum for the year	34.9%	33.3%

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

The table below summarizes the Group's liquidity risk as at 31 December 2019, categorized into relevant maturity groupings based on the earlier of the remaining contractual maturities.

As at 31 December 2019	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
	KShs.'million	KShs.'million	KShs.'million	KShs.'million	KShs.'million	KShs.'million
Cash and balances with Central Banks	83,235	-	-	-	-	83,235
Loans and advances to Banks	17,671	3,198	1,793	1,039	1,473	25,174
Financial assets held for trading	767	884	-	-	-	1,651
Financial Assets Fair value through other comprehensive income	-	7,599	22,259	7,771	32,985	70,614
Financial Assets held at armotised cost	289	391	6,231	19,094	70,972	96,977
Loans and advances to customers	54,007	24,411	40,395	190,224	226,334	535,371
Clearing house	1,037	144	-	-	-	1,181
Other assets	32,027	-	-	-	-	32,027
Total financial assets	**189,033**	**36,627**	**70,678**	**218,128**	**331,764**	**846,230**
Deposits from banks	11,032	5,182	1,789	2,368	-	20,371
Deposits from customers	570,144	55,798	50,856	9,785	-	686,583
Bills payable	4,104	343	-	-	-	4,447
Lease liability	-	-	-	-	3,184	6,108
Borrowings	896	176	882	11,172	8,359	21,485
Other liabilities	29,701	-	-	-	-	29,701
Total financial liabilities	**615,877**	**62,261**	**55,649**	**25,250**	**9,658**	**768,695**
	(426,844)	**(25,634)**	**15,029**	**192,878**	**322,106**	**77,535**

Company As at 31 December 2019	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
	KShs.'million	KShs.'million	KShs.'million	KShs.'million	KShs.'million	KShs.'million
Cash and balances with Central Banks	1,178	-	-	-	-	1,178
Loans and advances to Banks	-	-	-	-	-	-
Financial Assets Fair value through other comprehensive income	25	-	-	-	-	25
Financial Assets held at armotised cost	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-
Clearing house	-	-	-	-	-	-
Other assets	6,336	-	-	-	-	6,336
Total financial assets	**7,539**	**-**	**-**	**-**	**-**	**7,539**
Deposits from banks	-	-	-	-	-	-
Deposits from customers	-	-	-	-	-	-
Bills payable	-	-	-	-	-	-
Lease liability	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-
Other liabilities	**4**	**-**	**-**	**-**	**-**	**4**
Total financial liabilities	**4**	**-**	**-**	**-**	**-**	**4**
	7,535	**-**	**-**	**-**	**-**	**7,535**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

4. FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk (continued)

As at 31 December 2018	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
	KShs.'million	KShs.'million	KShs.'million	KShs.'million	KShs.'million	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 armotised 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**	**218,517**	**81,532**

The amounts in the tables above have been compiled based on undiscounted cash flows, which include estimated interest payments.

Company As at 31 December 2018	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Total
	KShs.'million	KShs.'million	KShs.'million	KShs.'million	KShs.'million	KShs.'million
Cash and balances with Central Banks	899	-	-	-	-	899
Loans and advances to Banks	-	-	-	-	-	-
Financial Assets Fair value through other comprehensive income	34	-	-	-	-	34
Financial Assets held at armotised cost	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-
Balances due to related parties	7,105	-	-	-	-	7,105
Clearing house	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Total financial assets	**8,038**	**-**	**-**	**-**	**-**	**8,038**
Deposits from banks	-	-	-	-	-	-
Deposits from customers	-	-	-	-	-	-
Bills payable	-	-	-	-	-	-
Lease liability	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-
Other liabilities	786	-	-	-	-	786
Total financial liabilities	**786**	**-**	**-**	**-**	**-**	**786**
	7,252	**-**	**-**	**-**	**-**	**7,252**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

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 2019 and 31 December 2018:

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs. million	KShs. million	KShs. million	KShs. million
Assets in foreign currencies	366,934	287,214	-	-
Liabilities in foreign currencies	(369,700)	(301,548)	-	-
Net foreign currency exposure at the end of the year	**(2,766)**	**(14,334)**	**-**	**-**

GROUP

31 December 2019	USD	GBP	Euro	Other	Total
	KShs. million	KShs. million	KShs. million	KShs. million	KShs. million
ASSETS					
Cash and balances with Central Banks	30,225	927	2,291	1,702	**35,145**
Placements with Banks	5,382	151	900	1,559	**7,992**
Loans and advances to customers	104,307	66	1,377	3,689	**109,439**
Other assets	201,997	171	7,661	4,529	**214,358**
At 31 December 2019	**341,911**	**1,315**	**12,229**	**11,479**	**366,934**
LIABILITIES					
Deposits from banks	10,845	166	363	576	**11,950**
Deposits from customers	97,335	1,075	3,092	8,557	**110,059**
Other liabilities	234,137	176	8,185	5,193	**247,691**
At 31 December 2019	**342,317**	**1,417**	**11,640**	**14,326**	**369,700**
Net statement of financial position exposure	**(406)**	**(102)**	**589**	**(2,847)**	**(2,766)**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

4. FINANCIAL RISK MANAGEMENT (continued)
(c) Market risk (continued)
(i) Currency risk (continued)

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)**

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 2019			At 31 December 2018		
KShs.'million	Currency Carrying Amount	10% Depreciation	10% Appreciation	Currency Carrying Amount	10% Depreciation	10% Appreciation
	KShs.'million	KShs.'million	KShs.'million	KShs.'million	KShs.'million	KShs.'million
Assets						
USD	341,910	(34,191)	34,191	269,532	(26,953)	26,953
GBP	1,314	(131)	131	1,687	(169)	169
Euro	12,229	(1,223)	1,223	10,931	(1,093)	1,093
Other	11,481	(1,148)	1,148	5,064	(506)	506
		(36,693)	**36,693**		**(28,721)**	**28,721**
Liabilities						
USD	342,317	34,232	(34,232)	271,212	27,121	(27,121)
GBP	1,417	142	(142)	1,635	164	(164)
Euro	11,640	1,164	(1,164)	11,096	1,110	(1,110)
Others	14,326	1,433	(1,433)	17,605	1,761	(1,761)
		36,971	**(36,971)**		**30,156**	**(30,156)**
Total (decrease)/increase		**278**	**(278)**		**1,435**	**(1,435)**
Tax charge at 30%		83	(83)		431	(431)
Effect on net profit		195	(195)		1,004	(1,004)
Percentage of net profit		0.77%	(0.77%)		4.18%	(4.18%)

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

4. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(i) Currency risk (continued)

At 31 December 2019 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. 195 million (2018: KShs. 1,004 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 2019	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	-	-	-	-	-	-	83,235	83,235
Loans and advances to banks	7.8%	17,671	3,198	1,793	1,039	1,473	0	25,174
Financial assets available-for-sale	-	-	7,599	22,259	7,771	32,985	-	70,614
Financial assets held for trading	-	767	884					1,651
Clearing house	-	1,037	144	-	-	-	-	1,181
Loans and advances to customers	13.5%	54,007	24,411	40,395	190,224	226,334	-	535,371
Financial assets held at armotised cost	10.6%	289	391	6,231	19,094	70,972	-	96,977
Other assets	-	-	-	-	-	-	32,027	32,027
Total assets		**73,771**	**36,627**	**70,678**	**218,128**	**331,764**	**115,262**	**846,230**
Deposits from banks	8.2%	11,032	5,182	1,789	2,368	-	-	20,371
Deposits from customers	7.4%	570,144	55,798	50,856	9,785	-	-	686,583
Bills payable	-	4,104	343	-	-	-	-	4,447
Borrowings	2.5%	896	176	882	11,172	8,359	-	21,485
Lease liabilities	-	-	-	-	2,924	3,184	-	6,108
Other liabilities	-	-	-	-	-	-	29,726	29,726
Total liabilities and equity		**586,176**	**61,499**	**53,527**	**26,249**	**11,543**	**29,726**	**768,720**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

4. FINANCIAL RISK MANAGEMENT (continued)
(c) Market risk (continued)
(ii) Interest rate risk (continued)

Company As at 31 December 2019	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	-	-	-	-	-	1,178	1,178
Loans and advances to Banks	-	-	-	-	-	-	-
Financial Assets Fair value through other comprehensive income	-	-	-	-	-	25	25
Financial Assets held at armotised cost	-	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-	-
Balance due to related parties	-	-	-	-	-	6,336	6,336
Clearing house	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-
Total financial assets	**-**	**-**	**-**	**-**	**-**	**7,539**	**7,539**
Deposits from banks	-	-	-	-	-	-	-
Deposits from customers	-	-	-	-	-	-	-
Bills payable	-	-	-	-	-	-	-
Lease liability	-	-	-	-	-	-	-
Borrowings	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	4	4
Total financial liabilities	**-**	**-**	**-**	**-**	**-**	**4**	**4**
	-	**-**	**-**	**-**	**-**	**7,535**	**7,535**

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	2.5%	30,160	1,244	104	509	-	0	32,017
Financial assets available-for-sale	3.6%	10,850	413	40,542	12,502	19,498	-	83,805
Clearing house	-	1,217	-	-	-	-	0	1,217
Loans and advances to customers	13%	34,842	27,121	38,005	166,953	188,959	-	455,880
Financial assets held to maturity	5.9%	460	3,437	5,561	7,243	20,473	-	37,174
Other assets	-	-	-	-	-	-	11,004	11,004
Total assets		**77,529**	**32,215**	**84,212**	**187,207**	**228,930**	**61,105**	**671,198**
Deposits from banks	1.3%	11,350	7,384	1,371	0	-	0	20,105
Deposits from customers	7.4%	362,473	90,878	76,747	7,362	-	(0)	537,460
Bills payable	-	5,514	-	-	-	-	-	5,514
Borrowings	2.1%	232	0	2,248	9,495	10,472	-	22,447
Lease liabilities	-	-	-	-	-	-	-	-
Other liabilities	-	-	0	(0)	(0)	-	4,140	4,140
Total liabilities and equity		**379,569**	**98,262**	**80,366**	**16,857**	**10,472**	**4,140**	**589,666**
Interest rate sensitivity gap		**(302,040)**	**(66,047)**	**3,846**	**170,350**	**218,458**	**56,965**	**81,532**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

4. FINANCIAL RISK MANAGEMENT (continued)

(c) Market risk (continued)

(ii) Interest rate risk (continued)

Company As at 31 December 2018	Up to 1 month	1 - 3 months	3 - 12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
	KShs.'million	KShs.'million	KShs.'million	KShs.'million	KShs.'million	KShs.'million	KShs.'million
Cash and balances with Central Banks	-	-	-	-	-	899	899
Loans and advances to Banks	-	-	-	-	-	-	-
Financial Assets Fair value through other comprehensive income	-	-	-	-	-	34	34
Financial Assets held at armotised cost	-	-	-	-	-	-	-
Loans and advances to customers	-	-	-	-	-	-	-
Balances due to related parties	-	-	-	-	-	7,105	7,105
Clearing house	-	-	-	-	-	-	-
Other assets	-	-	-	-	-	-	-
Total financial assets	**-**	**-**	**-**	**-**	**-**	**8,038**	**8,038**
Deposits from banks	-	-	-	-	-	-	-
Deposits from customers	-	-	-	-	-	-	-
Bills payable	-	-	-	-	-	-	-
Lease liability	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Borrowings	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	786	786
Total financial liabilities	**-**	**-**	**-**	**-**	**-**	**786**	**786**
	-	**-**	**-**	**-**	**-**	**7,252**	**7,252**

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):

KShs.'millions	2019			2018		
	Carrying	10%	10%	Carrying	10%	10%
	KShs.'million	KShs.'million	KShs.'million	KShs.'million	KShs.'million	KShs.'million
GROUP	**amount**	**Increase**	**Decrease**	**amount**	**Increase**	**Decrease**
Cash and balances with Central Banks	83,235	(832)	832	50,101	(501)	501
Loans and advances to banks	25,174	(252)	252	32,017	(320)	320
Financial assets available-for-sale	70,614	(706)	706	82,896	(829)	829
Clearing house	1,181	(12)	12	1,217	(12)	12
Other assets and prepayments	44,329	(443)	443	-	-	-
Loans and advances to customers (Net)	535,370	(5,354)	5,354	455,880	(4,559)	4,559
Financial assets held at armotised cost	96,977	(970)	970	37,174	(372)	372
	856,880			**659,285**		
LIABILITIES & EQUITY						
Deposits from banks	20,371	204	(204)	20,105	201	(201)
Deposits from customers	686,583	6,866	(6,866)	537,460	5,375	(5,375)
Bills payable	4,447	-	-	5,514	-	-
Other liabilities and accrued expenses	35,834	-	-	4,140	-	-
Borrowings	21,485	215	(215)	22,447	224	(224)
	768,720			**589,666**		
Net interest income Increase/(decrease)		**(452)**	**452**		**(292)**	**292**
Tax Charge @ 30%	-	136	(136)	-	88	(88)
Impact on profit after tax	**-**	**(316)**	**316**	**-**	**(204)**	**204**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

(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 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 2019 (See Note 19 and Note 50)

- 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 Groups 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 4, 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(f) for more details.

- Establishing Groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are ranked on the basis of shared risk characteristics. Refer to note 3(f) 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 Group 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 3 for more details on ECL and note 7 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.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

(b) Assumptions and estimation uncertainties (continued)

***(i) Impairment* losses on loans and advances**

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.

(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

(vi) Leases

The right of use is depreciated over the lease term considering the renewal option.

The bank will renew the lease when it is reasonably certain that the lease location is still economically viable to conduct business.

The bank will bear restoration costs upon relocation or end of lease where such is stipulated in the lease agreement.

(vii) Acquisition of subsidiary

The fair value of the assets acquired and liabilities assumed have been measured as at date of acquisition. The intangibles assets; brand, customer network and core deposits have been assessed to be of a finite life of five years.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

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						
	Held for trading	At Amortized Costs	Fair value through other comprehensive income	Total carrying amount	Level 1	Level 2	Level 3	Fair value
2019 - Group	**KShs.' million**	**KShs.' million**	**KShs.' million**	**KShs.' million**	**KShs.' million**	**KShs.' million**	**KShs.' million**	**KShs.' million**
Assets								
Financial assets								
Cash and balances with Central Banks	-	83,235	-	83,235	-	-	-	-
Due from other banks	-	25,174	-	25,174	-	-	-	-
Financial assets held at armotised cost	-	96,977	-	96,977	-	-	-	-
Financial assets held for trading	1,651	-	-	1,651	1,651	-	-	1,651
Financial assets Fair value through other comprehensive income	-	-	70,614	70,614	66,280	4,334	-	70,614
Loans and advances to customers	-	535,371	-	535,371	-	-	-	-
Clearing house	-	1,181	-	1,181	-	-	-	-
Other assets	-	32,027	-	32,027	-	-	-	-
Total financial assets	**1,651**	**773,965**	**70,614**	**846,230**	**67,931**	**4,334**	**-**	**72,265**
Due to other banks	-	20,371	-	20,371	-	-	-	-
Deposits from customers	-	686,583	-	686,583	-	-	-	-
Bills payable	-	4,447	-	4,447	-	-	-	-
Lease liabilities	-	6,108	-	6,108	-	-		-
Other liabilities	-	29,726	-	29,726	-	-	-	-
Borrowings	-	21,485	-	21,485	-	-		-
Total financial liabilities	**-**	**768,720**	**-**	**768,720**				

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

6. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(a) Accounting classification and fair values (continued)

	Held for trading	Loans and receivables	Fair value through other comprehensive income	Total carrying amount	Level 1	Level 2	Level 3	Fair value
2018 - Group	KShs.' million	KShs.' million	KShs.' million	KShs.' million	KShs.' million	KShs.' million	KShs.' million	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 to maturity	-	37,174	-	37,174	-	-	-	-
Financial assets Fair value through other comprehensive income	-	-	83,805	83,805	79,897	3,908	-	83,805
Loans and advances to customers	-	455,880	-	455,847	-	-	-	-
Clearing house	-	1,217	-	1,217	-	-	-	-
Other assets	-	11,004	-	11,004	-	-	-	-
Total financial assets	**-**	**587,393**	**83,805**	**671,198**	**79,897**	**3,908**	**-**	**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 liabilities	-	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 2019 (Continued)

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. The table above includes KShs. 312 million (2018: KShs. 348 million) of securities in both carrying amount and fair value columns that were measured at cost and for which disclosure at fair value was not provided because their fair value was not considered to be reliably measurable.

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).

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

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 Group.

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 Group'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

KENYA	2019 KShs.'million	2018 KShs.'million
Core capital (Tier 1)		
Share capital	53,986	53,986
Retained earnings	36,214	33,927
Deferred Tax	-	44
Total core capital	90,200	87,957
Supplementary capital (Tier 2)	10,867	7,639
Total capital	101,067	95,596
Risk weighted assets	577,236	537,573
Capital ratios		
Core capital/Total deposits		
(CBK min 8%)	17.0%	18.5%
Core capital/total risk weighted assets (CBK min 10.50%)	15.6%	16.4%
Total capital/total risk weighted assets (CBK min 14.50%)	17.5%	17.8%

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

7. MANAGEMENT OF CAPITAL (continued)

Regulatory capital – Tanzania

KCB Bank Tanzania had the following capital adequacy ratios:-

	2019	2018
Core capital (Tier 1)		
Tier I (Minimum required 10%)	17.3%	15.0%
Tier I + Tier II (Minimum required 12%)	17.3%	15.7%

Regulatory capital – Rwanda

KCB Bank Rwanda had the following capital adequacy ratios:-

	2019	2018
Core capital (Tier 1)		
Tier I (Minimum required 10%)	15.8%	15.8%
Tier I + Tier II (Minimum required 12%)	16.4%	15.8%

Regulatory capital – South Sudan

KCB Bank South Sudan had the following capital adequacy ratios:-

	2019	2018
Core capital (Tier 1)		
Tier I (Minimum required 10%)	86.0%	96.0%
Tier I + Tier II (Minimum required 12%)	108.0%	124.0%

Regulatory capital – Burundi

KCB Bank Burundi had the following capital adequacy ratios:-

	2019	2018
Core capital (Tier 1)		
Tier I (Minimum required 10%)	22.6%	26.2%
Tier I + Tier II (Minimum required 12%)	23.2%	29.0%

Regulatory capital – Uganda

KCB Bank Uganda had the following capital adequacy ratios:-

	2019	2018
Core capital (Tier 1)		
Tier I (Minimum required 10%)	14.9%	17.7%
Tier I + Tier II (Minimum required 12%)	15.5%	18.3%

KCB Group Plc will ensure that the capital adequacy of its subsidiaries meet the requirements of home and host regulators as required by cap 488 of the Banking Act.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

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	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**
31-Dec-19						
Interest income	22,407	27,854	14,379	7,063	2,647	74,350
Interest expense	(10,689)	(1,253)	(1,359)	(3,903)	(1,016)	(18,220)
Net interest income	**11,718**	**26,601**	**13,020**	**3,160**	**1,631**	**56,130**
Net fees and commission income	7,254	14,307	4,045	177	(5,932)	19,851
Other income	3,040	3,584	1,696	-	-	8,320
Depreciation and amortization	(1,603)	(3,194)	(894)	(7)	1,654	(4,044)
Impairment	(3,248)	(5,315)	(120)	(206)	-	(8,889)
Operating expenses	(3,836)	(14,284)	(425)	(217)	(15,873)	(34,635)
Profit before monetary items	**13,325**	**21,699**	**17,322**	**2,907**	**(18,520)**	**36,733**
Loss on monetary items	-	-	-	-	164	164
Profit before tax	**13,325**	**21,699**	**17,322**	**2,907**	**(18,356)**	**36,897**
Tax expense	(4,237)	(6,899)	(5,507)	(924)	5,835	(11,732)
Profit after tax	**9,088**	**14,800**	**11,815**	**1,983**	**(12,521)**	**25,165**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

8. SEGMENT REPORTING (continued)

	Corporate banking	Retail banking	Treasury	Mortgages	Other	Total
For the year ended	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**
31-Dec-18						
Interest income	19,975	24,398	12,818	6,729	2,360	66,280
Interest expense	(10,237)	(531)	(1,302)	(4,407)	(973)	(17,450)
Net interest income	**9,738**	**23,867**	**11,516**	**2,322**	**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)	(2,567)	(1)	(2)	(572)	(3,146)
Impairment	(1,493)	(1,381)	-	(70)	-	(2,944)
Operating expenses	(1,225)	(13,134)	(393)	(206)	(16,594)	(31,552)
Profit before monetary items	**12,334**	**19,055**	**14,931**	**2,236**	**(14,395)**	**34,161**
Loss on monetary items	-	-	-	-	(302)	(302)
Profit before tax	**12,334**	**19,055**	**14,931**	**2,236**	**(14,696)**	**33,859**
Tax expense	(3,593)	(5,551)	(4,350)	(651)	4,281	(9,864)
Profit after tax	**8,741**	**13,504**	**10,581**	**1,585**	**(10,416)**	**23,995**

Financial position	Corporate banking	Retail banking	Treasury	Mortgages	Other	Total
As at	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**
31-Dec-19						
Short term funds	70,215	56,870	148,692	0	1,404	277,181
Loans and advances	247,246	221,991	-	66,134	-	535,371
Other assets	-	7,128	9,295	977	68,620	86,020
Total assets	**317,461**	**285,989**	**157,987**	**67,111**	**70,024**	**898,572**
Customer deposits	306,158	336,213	17,095	25,713	1,404	686,583
Borrowed funds	-	-	21,485	-	-	21,485
Other liabilities	-	6,108	11,437	514	42,731	60,763
Shareholders' funds	-	-	-	-	129,741	129,741
Total liabilities and shareholders' funds	**306,158**	**342,321**	**50,017**	**26,227**	**173,849**	**898,572**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

8. SEGMENT REPORTING (continued)

Financial position	Corporate banking	Retail banking	Treasury	Mortgages	Other	Total
As at	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**
31-Dec-18						
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**

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.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

8. SEGMENT REPORTING (continued)

Geographical information

Income Statement

For the year ended 31-Dec-19	Kenya KShs. million	Tanzania KShs. million	South Sudan KShs. million	Uganda KShs. million	Rwanda KShs. million	Burundi KShs. million	Elimination KShs. million	Total KShs. million
Interest income	66,815	2,727	63	1,619	2,404	722	-	**74,350**
Interest expense	(15,613)	(968)	(30)	(633)	(829)	(147)	-	**(18,220)**
Net interest income	**51,202**	**1,759**	**33**	**986**	**1,575**	**575**	**-**	**56,130**
Net fees and commission income	18,113	472	207	338	467	254	-	**19,851**
Other income	23,431	422	305	326	290	97	(16,551)	**8,320**
Impairment	(8,420)	(172)	232	(366)	(89)	(74)	-	**(8,889)**
Depreciation and amortization	(3,376)	(195)	(30)	(159)	(198)	(86)	-	**(4,044)**
Operating expenses	(30,252)	(1,287)	(332)	(1,204)	(1,069)	(491)	-	**(34,635)**
Profit before tax and monetary loss	**50,698**	**999**	**415**	**(79)**	**976**	**275**	**(16,551)**	**36,733**
Loss on monetary position	-	-	164	-	-	-	-	**164**
Profit before income tax	**50,698**	**999**	**579**	**(79)**	**976**	**275**	**(16,551)**	**36,897**
Tax	(10,773)	(315)	(18)	(408)	(213)	(5)	-	**(11,732)**
Profit after tax	**39,925**	**684**	**561**	**(487)**	**763**	**270**	**(16,551)**	**25,165**
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**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

8. SEGMENT REPORTING (continued)

Geographical information (Continued)

Statement of financial position

	Kenya	Tanzania	South Sudan	Uganda	Rwanda	Burundi	Group Elimination	Total
31-Dec-19	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**
Cash and short term funds	230,998	9,577	11,954	15,383	5,394	4,345	-	277,651
Loans and advances	492,822	17,443	911	6,522	14,628	3,044	-	535,370
Other assets	156,543	1,108	1,720	1,351	658	958	(76,787)	85,551
Total assets	**880,363**	**28,128**	**14,585**	**23,256**	**20,680**	**8,347**	**(76,787)**	**898,572**
Customer deposits	620,125	16,979	8,269	18,475	16,152	6,583	-	686,583
Borrowed funds	18,465	1,081	-	1,177	763	-	-	21,486
Other liabilities	49,929	6,098	2,220	1,394	779	342	-	60,762
Shareholders' funds	191,844	3,970	4,096	2,210	2,986	1,422	(76,787)	129,741
Total liabilities and shareholders' funds	**880,363**	**28,128**	**14,585**	**23,256**	**20,680**	**8,347**	**(76,787)**	**898,572**
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	12,766	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**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

9. INTEREST INCOME AND EXPENSE

	GROUP		COMPANY	
	2019	2018	2019	2018
INTEREST INCOME	**KShs. million**	**KShs. million**	**KShs. million**	**KShs. million**
Interest on loans and advances	58,947	52,706	-	(7)
Financial instruments at FVOCI	10,502	5,863	-	-
Other investments at armotised costs	377	7,120	-	-
Held for trading securities	3,187	-	-	-
Interest on impaired loans and advances	64	6	-	-
Interest on placements and bank balances	1,273	585	-	324
	74,350	**66,280**	**-**	**317**
INTEREST EXPENSE				
Interest on deposits	16,266	15,464	-	-
Interest on borrowed funds	1,954	1,986	-	272
	18,220	17,450	-	272
NET INTEREST INCOME	**56,130**	**48,830**	**-**	**45**

10. FEES AND COMMISSIONS INCOME

Retail and corporate fee income	11,767	7,415	-	-
Commission income	8,815	7,441	-	-
Custodian fee income	197	190	-	-
	20,779	**15,046**	**-**	**-**
Commission expense	(928)	(808)	-	-
	19,851	**14,238**	**-**	**-**

11. FOREIGN EXCHANGE GAINS

Foreign currency dealings	4,018	3,683	(4)	(14)
Translation gains	479	691	-	-
	4,497	**4,374**	**(4)**	**(14)**

12. DIVIDEND INCOME

Quoted investments	-	-	-	-
Dividend income from subsidiaries	-	-	16,551	16,864
	-	**-**	**16,551**	**16,864**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

13. OTHER OPERATING INCOME

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs. million	KShs. million	KShs. million	KShs. million
Rent income	236	202	4	-
Profit on disposal of property and equipment	(6)	(21)	-	-
Management fees	-	250	-	-
Income on disposal of securities	794	712	-	-
Risk premium	2,025	2,410	-	-
Miscellaneous income	774	808	152	105
	3,823	**4,361**	**156**	**105**

14. NET IMPAIRMENT

Losses on financial assets				
Stage 3 allowance (Note 27(b))	14,197	8,576	-	-
Stage 1 & 2 allowance (Note 27(c))	4,782	(326)	-	-
Bad debts recovered during the year (Note 27(b)	(10,233)	(4,906)	-	-
Hyperinflation adjustment (Note 27(b) & 27 (c)	143	(400)	-	-
	8,889	**2,944**	**-**	**-**

15. EMPLOYEE BENEFITS

Salaries and wages	16,208	14,182	56	8
Medical expenses	998	880	5	2
Pension costs – defined benefit scheme	258	184	6	5
Pension costs – defined contribution scheme	857	656	-	76
Social security contributions	191	124	-	-
Fringe benefits	642	611	-	-
Restructuring costs	132	175	-	-
Others *	173	195	-	-
	19,459	**17,007**	**67**	**91**

*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 2019 was 7,584 (31 December 2018– 6,217).

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

16. DEPRECIATION AND AMORTIZATION

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs.'million	KShs.'million	KShs.'million	KShs.'million
Depreciation of property and equipment (Note 29)	2,104	1,855	8	4
Amortization of right of use assets- Leased (Note 30)	2	3		
Amortization of intangible assets (Note 31)	1,938	1,288	1	-
	4,044	**3,146**	**9**	**4**

17 (a) LEASE EXPENSE

Interest expense on lease liability	464	-	2	2
Depreciation charge on right of use asset	749	-	-	-
	1,213	**-**	**2**	**2**

The Group leases a number of bank premises and motor vehicles to undertake its business. The average lease term for premises is 6 years with an option to extend whereas motor vehicles covers for a 5-year period. The Group negotiates after the end of every lease period with the lessor to reflect the prevailing market conditions subject to an agreement between the two parties.

17 (b) OTHER OPERATING EXPENSES

	GROUP		COMPANY	
KShs.'million	2019	2018	2019	2018
Business Stationery	358	351	1	2
Business Subscriptions	171	168	-	-
Card Expenses	776	761	33	95
Corporate Social Responsibility	473	464		
DPF	689	675	-	7
Guard	1,058	1,037	9	16
Insurance	151	148	-	
Leases	2,387	2,340	-	
Other Admin	3,415	4,300	28	28
Rent	2,061	2,021	1	1
Staff Development	1,451	1,423	3	4
Water and Power	874	857	524	246
	13,963	**14,545**	**599**	**399**

The Group also leases computer equipment and Point of Sale machines for between one to three years. These leases are short-term or low valued and the Group has elected not to recognize the right-of-use assets and liabilities as exempted by the standard.

18. PROFIT BEFORE INCOME TAX

	GROUP		COMPANY	
KShs.'million	2019	2018	2019	2018
Profit before tax is arrived at after				
charging/ (crediting):				
Depreciation	2,104	1,855	8	4
Amortization of intangible assets	1,938	1,288	1	-
Directors' emoluments – fees	189	139	43	40
Auditors remuneration	55	73	22	39
Amortization of right of use assets	751	3	-	-

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

19. GAIN/ (LOSS) ON MONETARY POSITION

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs.' million	KShs.' million	KShs.' million	KShs.' million
Gain /(Loss) on monetary position on hyperinflation	**164**	**(302)**	**-**	**-**

Gain / Loss in monetary position is as a result of the South Sudan economy being declared a hyperinflationary economy in 2016. The financial statements for KCB Bank South Sudan Limited have been adjusted for hyperinflation which resulted in a gain on monetary position of KShs.164 million (2018 – loss KShs. 302 million)

2019	1-Jan-19	Net change in monetary items	31-Dec-19
Monetary Items	KShs.' million	KShs.' million	KShs.' million
Cash and balances with Bank of South Sudan	10,900	385	11,285
Investment in government securities	-	-	-
Placements and balances with other banking institutions	418	173	591
Amounts due from related companies	101	33	134
Loans and advances to customers	504	411	915
Other assets	230	(193)	37
Customer deposits	(8,451)	(146)	(8,305)
Balances due to other banks	(0)	(1)	(1)
Tax payable	60	(59)	1
Other liabilities	(109)	(334)	(443)
Lease liabilities	-	(423)	(423)
Amounts due to related companies	(1,620)	(196)	(1,816)
Net monetary assets	**2,033**	**58**	**1,974**
Expressed in purchasing power at 31 Dec 2018	(2,335)	524	1,811
Loss on net monetary position	**(302)**	**466**	**164**

	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 2017	(3,291)	956	(2,335)
Loss on net monetary position	**(1,361)**	**1,059**	**(302)**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

20. INCOME TAX

	GROUP		COMPANY	
	2019	2018	2019	2018
(a) Income statement	**KShs.' million**	**KShs.' million**	**KShs.' million**	**KShs.' million**
Income tax expense				
Current tax expense	11,708	11,276	42	-
Deferred tax charge/(credit) (note 35)	24	(1,412)	100	(104)
	11,732	**9,864**	**142**	**(104)**
Reconciliation of effective tax				
Accounting profit/(loss) before tax	36,895	33,859	16,029	16,505
Tax calculated using applicable tax rates based on respective income tax laws	11,026	10,158	4,809	4,952
Effects of Hyperinflation adjustment	(58)	204	-	-
Effects of non-allowable expenses	1,461	223	194	107
Effects of non-taxable income	(697)	(721)	(4,861)	(5,163)
	11,732	**9,864**	**142**	**(104)**

	GROUP		COMPANY	
KShs.'million	2019	2018	2019	2018
(b) Statement of financial position				
At 1 January	309	(258)	69	69
Effects of Hyperinflation adjustments	(382)	182	-	-
On Acquisition of subsidiary	452			
Tax paid during the year	12,363	11,043	-	-
Tax charge for the year	(12,202)	(11,276)	(42)	-
At 31 December	**416**	**(309)**	**27**	**69**
Comprising:				
Tax recoverable	552	-	27	-
Tax payable	(136)	(309)	-	(69)
	416	**(309)**	**27**	**69**

21. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated on the profit attributable to ordinary shareholders of KShs. 25,165 million (2018 – 23,995 million) and on the weighted average number of ordinary shares during the year of 3,213 million (2018 – 3,066 million shares).

	GROUP		COMPANY	
	2019	2018	2019	2018
Basic earnings per share	7.83	7.83	5.12	5.42
Diluted earnings per share	7.83	7.83	5.12	5.42

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

22. CASH AND BALANCES WITH CENTRAL BANKS

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs.' million	KShs.' million	KShs.' million	KShs.' million
Cash on hand	15,605	11,063	-	-
Bank balances	-	-	1,178	899
Balances with Central Banks:				
Cash reserve ratio	48,152	35,386	-	-
Other current accounts	19,478	3,652	-	-
	83,235	**50,101**	**1,178**	**899**

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	
	2019	2018	2019	2018
	KShs.' million	KShs.' million	KShs.' million	KShs.' million
Balances in nostro accounts*	8,321	8,273	-	-
Placements with other banks	16,853	23,744	-	-
	25,174	**32,017**	**-**	**-**

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 2019 was 7.5% (2018 – 7.8%).

*Nostro accounts are accounts held in other banks in a foreign country.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH OCI

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs.' million	KShs.' million	KShs.' million	KShs.' million
Quoted investments	3,908	3,392	14	23
Unquoted equity investments	47	141	11	11
Corporate bonds	-	-	-	-
Treasury bonds	66,659	80,272	-	-
	70,614	**83,805**	**25**	**34**

25. CLEARING HOUSE

Un-cleared effects	**1,181**	**1,217**	**-**	**-**

The clearing house balance consists of items in transit to/from other banks through the Central Banks of various countries' clearing system. These items generally clear by end of the next business day.

26. OTHER ASSETS AND PREPAYMENTS

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs.' million	KShs.' million	KShs.' million	KShs.' million
Other receivables	32,027	24,842	37	(61)
Other Assets	5,642	-		
Prepayments	6,659	5,804	-	-
	44,328	**30,646**	**37**	**-**

Other receivables are current and non-interest bearing and are generally between 30 to 90 days terms.
Other assets relate to KShs. 5,642 million collateral transferred to the bank during the year to extinguish a loan facility.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

27. LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs. million	KShs. million	KShs. million	KShs. million
Gross loans and advances to customers	581,058	476,529	-	-
Stage 3 impairment allowance (Note 27(b))	(33,301)	(13,090)	-	-
Stage 1 &2 impairment allowance (Note 27(c))	(12,386)	(7,559)	-	-
	535,371	**455,880**	**-**	**-**
(b) Specific allowance for impairment loss				
At 1 January	13,090	14,805	-	-
IFRS 9 day 1 adjustment	-	3,410	-	-
Allowance made during the year (Note 14)	14,197	8,576	-	-
Allowance recovered/un required during the year (Note 14)	(10,233)	(4,906)	-	-
Write downs/write offs during the year	16,149	(8,367)	-	-
Effects of movements in exchange rates (Note 14)	98	(428)	-	-
At 31 December	**33,301**	**13,090**	**-**	**-**
(c) Collective allowance for impairment loss				
At 1 January	7,559	1,153	-	-
IFRS 9 day 1 adjustment	-	6,704	-	-
Allowance made during the year (Note 15)	4,782	(326)	-	-
Effects of movements in exchanges rates (Note 15)	45	28	-	-
At 31 December	**12,386**	**7,559**	**-**	**-**
(d) Maturity analysis of gross loans and advances to customers:				
Maturing within 1 month	60,840	34,842	-	-
Maturing after 1 month but before 3 months	25,552	27,121	-	-
Maturing after 3 months, but within 1 year	35,383	38,005	-	-
Maturing after 1 year, but within 5 years	192,212	166,953	-	-
Maturing after 5 years	267,070	209,608	-	-
	581,058	**476,529**	**-**	**-**
(e) Sectorial analysis of gross loans and advances to customers:				
Private sector and individuals	546,961	449,678	-	-
Government and parastatals	34,096	26,851	-	-
	581,058	**476,529**	**-**	**-**

The weighted average effective interest rate on loans and advances as at 31 December 2019 was 13.1% (2018 – 12.5%).

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

28. FINANCIAL ASSETS AT AMORTIZED COST

	GROUP		COMPANY	
	2019	2018	2019	2018
Treasury bonds	**KShs.' million**	**KShs.' million**	**KShs.' million**	**KShs.' million**
Maturing as follows:-				
Maturing within 1 month	551	920	-	-
Maturing between 1-3 months	743	4,275	-	-
Maturing between 3-6 months	6,204	5,118	-	-
Maturing between 6-12 months	4,397	(855)	-	-
Maturing between 1-5 years	19,375	10,405	-	-
Maturing after 5 years	65,707	17,311	-	-
	96,977	**37,174**	**-**	**-**

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, Government of the Republic of Burundi and the Republic of South Sudan. The bills and bonds are categorized as amounts held at amortied cost and carried at amortized cost.

The weighted average effective interest rates on Government securities as at 31 December 2019 was 8.9% (31 December 2018– 12.8%).

29. PROPERTY AND EQUIPMENT

a) GROUP				
As at 31 December 2019:	leasehold premises	Leasehold improvements	Freehold and furniture and equipment	Total
	KShs.' million	**KShs.' million**	**KShs.' million**	**KShs.' million**
COST:				
At 1 January 2019	1,808	3,442	22,047	27,297
Additions	-	40	2,946	2,986
Disposals	-	(4)	(304)	(308)
Acquisitions	1,441	2,219	3,625	7,285
Reclassification/internal transfers	-	(836)	(1,331)	(2,167)
Translation differences	-	509	(256)	253
Hyperinflationary change	-	(58)	(33)	(91)
At 31 December 2019	3,249	5,312	26,694	35,255
Depreciation				
At 1 January 2019	386	1,630	14,274	16,290
Acquisitions	37	1,694	2,637	4,368
Charge for the year	65	107	1,932	2,104
Disposals	-	-	(284)	(284)
Reclassification/internal transfers	(25)	252	-	227
Translation differences	(15)	(288)	(246)	(527)
Hyperinflationary change	-	(17)	(16)	(33)
At 31 December 2019	448	3,378	18,297	22,123
Carrying amount	**2,801**	**1,934**	**8,397**	**13,132**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

29. PROPERTY AND EQUIPMENT (continued)

	Leasehold premises	Leasehold improvements	Freehold and furniture and equipment	Total
	KShs.'million	KShs.'million	KShs.'million	KShs.'million
As at 31 December 2018:				
COST:				
At 1 January 2018	1,808	3,955	19,635	25,398
Additions	-	40	2,919	2,959
Disposals	-	(50)	(230)	(280)
Translation Difference	-	(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**

Included in property and equipment are fully depreciated assets amounting to KShs. 9,334 (31 December 2018 – KShs. 8,119 Million) which would have a notional depreciation of KShs. 1,630 (31 December 2018 – KShs. 1,737).

(b) COMPANY	Freehold and leasehold premises	Leasehold improvements	Freehold and furniture and equipment	Total
As at 31 December 2019:	KShs.' million	KShs.' million	KShs.' million	KShs.' million
COST:				
At 1 January 2019	585	-	91	676
Additions	-	-	52	52
Adjusted balance at 1 January 2019	585	-	(86)	(86)
At 31 December 2019	**585**	**-**	**57**	**642**
Depreciation				
At 1 January 2019	26	-	-	26
Charge for the year	3	-	6	9
At 31 December 2019	29	-	40	35
Carrying amount				
At 31 December 2019	**556**	**-**	**51**	**607**
As at 31 December 2018:				
COST:				
At 1 January 2018	585	-	91	676
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
At 31 December 2018	**559**	**-**	**90**	**649**

Included in property and equipment are fully depreciated assets amounting to 9.8 million (2018 – KShs. 10.5 Million) which would have a notional depreciation of 1.01million (2018 – KShs. 1.053 Million).

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

30. RIGHT OF USE ASSETS

	GROUP			
	2019			2018
	Leasehold Premises	Leasehold Motor vehicles	Total	
	KShs.' million	KShs.' million	KShs.' million	KShs.' million
COST				
At 1 January	223	-	223	223
IFRS 16 transition adjustment	8,815	195	9,010	-
Acquisition of a subsidiary	1,680	-	1,680	-
Translation difference	(513)	-	(513)	-
At 31 December 2019	**10,205**	**195**	**10,400**	**223**
AMORTISATION				
At 1 January	94	-	94	91
IFRS 16 transition adjustment	2,130	-	2,130	-
Charge for the year	721	30	751	3
Acquisition of a subsidiary	320	-	320	-
Translation difference	(54)		(54)	
At 31 December 2019	**3,211**	**30**	**3,241**	**94**
Carrying amount				
At 31 December 2019	**6,994**	**165**	**7,159**	**129**

Right of use assets relate to leased premises and Motor vehicles that are presented within Right of Use Assets.

31. INTANGIBLE ASSETS-SOFTWARE

	Group		Company	
	2019	2018	2019	2018
	KShs.' million	KShs.' million	KShs.' million	KShs.' million
Cost				
At 1 January	9,379	8,550	-	-
Additions	2,669	921	10	-
Acquisition of a subsidiary	4,320	-	-	-
Disposals	(184)	-	-	-
Reclassification/Internal transfers	1,323	-	-	-
Translation differences	(101)	(2)		
At 31 December	17,406	9,469	10	-
Amortisation				
At 1 January	6,376	5,179	-	-
Acquisitions	3,158	-	-	-
Disposals	(89)	-	-	-
Amortization for the year	1,938	1,288	-	-
Translation differences	(314)	(1)		
At 31 December	11,069	6,466		-
Carrying amount				
At 31 December	**6,337**	**3,003**	**10**	**-**

Included in intangible assets are fully depreciated assets amounting to KShs. 3,915 (31 December 2018 - 3,632 Million) which would have a notional depreciation of KShs. 488 million (31 December 2018 - 561 Million).

The intangible assets are in respect of computer software purchase costs and other Intangible assets relating to brand, core deposits and customer relationships acquired on acquisition of subsidiary (Note 32 (b)).

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

32. INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES

(a) Investment in subsidiaries

Investments in subsidiaries:		Beneficial ownership %	2019 KShs.' million	2018 KShs.' million
Incorporated in Kenya:				
Company	**Activity**			
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	-	-
National Bank of Kenya	Commercial Banking	100	11,191	
Kenya Commercial Bank Nominees Limited	Nominee 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	3,546
KCB Bank South Sudan Limited	Commercial Banking	100	2,354	2,354
KCB Bank Rwanda Limited	Commercial Banking	100	2,269	2,269
KCB Bank Burundi Limited	Commercial Banking	100	937	937
KCB Bank Uganda Limited	Commercial banking	100	3,145	3,145
Investment in associates:				
United Finance Limited*	Dormant	45	-	-
			79,227	**68,036**

	2019 KShs.' million	2018 KShs.' million
Movement in investment in subsidiaries		
Balance at 1 January	68,036	67,649
Additional investment in KCB Bank Rwanda Limited	-	387
Acquisition of National Bank of Kenya	6,191	-
Equity injection into National Bank of Kenya	5,000	-
Total additional investment in subsidiaries	11,191	387
Balance at 31 December	**79,227**	**68,036**

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. The carrying amounts of banking subsidiaries' assets and liabilities are KShs. 94,997million and KShs. 80,312million respectively (2018 – KShs. 99,741 million and KShs. 88,725million respectively).

KCB Foundation is the corporate social responsibility arm of the Group and it's financial results are not included in the consolidated group's position.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

32. INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES (continued)

(b) Acquisition of Subsidiary National Bank of Kenya

On 4 October 2019, the Group acquired 100% of the shares and voting interests in National Bank of Kenya (NBK) through a share swap; 1 KCB Share for every 10 NBK Shares granting it control of NBK. This transaction has been accounted for by the acquisition method of accounting. NBK is an entity incorporated in Kenya with its principal activity being to undertake corporate banking, business banking, retail and Islamic banking with an extensive portfolio of products and financial solutions tailored for the requirements of a broad spectrum of customer segments it serves. The group acquired NBK for various reasons, the primary reason being to obtain synergy and competitive advantage in the ever-dynamic banking sector in Kenya.

(i) *Consideration transferred (at acquisition date fair values)*

The Group offered NBK shareholders 147,399,328 shares each at KShs. 42 which cumulatively accounts for the consideration price of KShs. 6,190,771,776. The fair value of the ordinary shares issued was based on the listed share price of the Company as at 4 October 2019 (KShs. 42 per share).

(ii) *Acquisition related costs*

The Group incurred acquisition-related costs of KShs. 98.5 million on legal fees and due diligence costs. These costs have been excluded from the consideration transferred and have been recognized as an expense in the period, within the 'other operating expenses' line item in the statement of profit or loss and other comprehensive income.

(iii) *Identifiable assets acquired and liabilities assumed*

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

	Note	KShs. 'M
Cash and Central Bank Balances	22	6,935
Financial assets at Fair Value through OCI	24	17,343
Financial Assets at Amortized Cost	28	19,523
Deposits and balances from banking Institutions	36	2,379
Property and equipment	29	2,917
Right of Use Asset	30	1,360
Intangible assets	31	1,162
Net loans and advances	34	45,072
Tax receivable	20	452
Deferred Tax Asset	35	3,148
Other Assets and prepayments	26	4,978
Intangible assets acquired on business combination	33	1,008
Deferred tax liability recognised on business combination	35	(302)
Balance due to Central Bank	38	(8,109)
Customer deposits	40	(82,513)
Deposits and Balances due to Banks	39	(5,125)
Lease liabilities	35	(586)
Other liabilities	41	(3,532)
Net assets acquired and liabilities assumed		**6,110**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

32. INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES (continued)

(b) Acquisition of Subsidiary National Bank of Kenya (Continued)

(iv) *Measurement of fair values*

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Assets acquired	Valuation technique
Securities held at amortised cost	*Mark to Market:* The valuation method used measured the fair value of the financial instruments 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.
Non-current assets held for sale	*Market comparison technique and cost technique:* The valuation model considers market prices for similar items when they are available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustments for physical deterioration as well as functional and economic obsolescence.
Intangible assets	*Relief-from-royalty method and multi-period excess earnings method:* The relief-from-royalty method considers the discounted estimated royalty payments that are expected to be avoided as a result of the patents being owned. The multi-period excess earnings method considers the present value of net cash flows expected to be generated by the customer relationships, by excluding any cash flows related to contributory assets.

(v) *Impact of acquisition on the results of the group*

Included in the profit for the year ended 31 December 2019 is KShs. 1.288 billion attributable to the additional business generated by NBK. Revenue for the three months ended 31 December 2019 from NBK amounted to KShs. 3 billion. Had the business combination during the year been effected at January 1, 2019, the consolidated revenue from continuing operations would have been KShs. 84.8 billion and the consolidated profit would have been KShs. 34.8 billion. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition had occurred on 1 January 2019.

Goodwill Arising on Acquisition

Goodwill arose in the acquisition of NBK because the cost of the combination included a control premium. This was assessed and fully impaired on the date of acquisition through profit and loss.

National Bank of Kenya Limited	Amount in KShs. M
Gross consideration due to Share Swap	6,191
Fair value of identifiable net assets acquired	(6,110)
Goodwill Arising on Acquisition	**80**
Impairment of goodwill though Profit or Loss	(80)
Carrying value of goodwill at 31 December 2019	**-**

In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of NBK. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

(vi) *Intangible assets on acquisition of NBK*

The group also acquired the Brand, Core deposits and customer relationships of NBK as part of the acquisition. These intangibles were valued at KShs. 1.008 Billion as at acquisition and have been considered in the acquisition balance sheet in arriving at the net identifiable assets acquired. These assets could not be separately recognized from goodwill because they are not capable of being separated from the group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts. Consequently, they are subsumed into goodwill.

Intangibles assets arising from the acquisition has been recognised as follows:

- ***Brand***

  NBK is a well-established brand which has been operational over the past five decades, and currently has 85 branches countrywide. As at 31 December 2018 it had a market size index of 2.24 and as part of the merger it is expected to retain the brand.

  The Group used the relief from royalty approach in valuation of the brand which estimated that the value of the intangible asset as the present value of the royalty expense that is avoided through ownership of the asset (rather than having to license the asset) and it was based on:

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
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32. INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES (continued)
(b) Acquisition of Subsidiary National Bank of Kenya (continued)
(vi) *Intangible assets on acquisition of NBK (continued)*
- ***Brand (continued)***

- Observed rates between third parties for the use of comparable assets - Internal transfer pricing rates;
- Return on asset analysis/profit split analysis; and
- Industry rules of thumb.
- Royalty rate is assumed as 1%;
- Cost of equity of 24.55% - Base cost of equity ± 1.5%.

The brand equity value has been determined by discounting the free cash flows and terminal value at the relevant discount rates. Through this approach the cash flows are distributed over the course of the year rather than at the end of the year. The Group estimates the brand value of NBK at 30 September 2019 to be KShs. 295m. Amortisation for this asset is for five years.

- ***Core deposits***

A core deposit intangible asset arises on acquisition when the acquired bank has a stable deposit base composed of funds associated with long-term customer relationships. The stable deposit base provides a low cost source of funding as banks are able to utilize the core deposit base as a low-cost source of finance.

The Group has used the cost savings approach in valuing the core deposit base. This approach is similar to when an investment is valued, except that cash inflows are discounted to present value, whereas when a deposit base is valued, cash outflows are discounted. Cash outflows associated with the deposits include the interest costs on the deposits, the maintenance costs (net of any fees), and the runoff of the deposits themselves.

These future outflows are discounted at a market rate of interest that reflects the yield curve for the alternative source of funds at the time of the valuation. The difference between the deposits acquired and the net present value of future cash outflows is the value benefit of the deposit base. In arriving at the workings, we have assessed that the cash flows from existing customers will grow based on NBK's forecasted average operating income growth rate of 1.6% and a cost of equity of 24.55% (Base cost of equity ± 1.5%).

The Group has valued separately the deposits acquired under different type of accounts and obtained a low-churn and high-churn scenarios, resulting in a valuation of KShs. 528m. Amortisation for this asset is for five years.

- ***Customer relationships***

The value of a customer relationship is mainly derived from the expectation of repeat business. In the case of a bank, this value depends on the ability of the bank to provide banking products that meet customer needs now and in the future. When determining if a customer relationship asset exists, the following elements were considered:

- Availability of factual information about the customer that is important and useful to the bank
- Expectations by the bank of repeat patronage from its customers based on the customers' banking activity. This expectation translates into the future revenue, income and cashflow of the bank.

The customer contracts were acquired as part of a business combination. They are recognised at their fair value at the date of acquisition, and are subsequently amortised on a straight-line based on the timing of projected cash flows of the contracts over their estimated useful lives.

The Group used the Multi-Period Excess Earning Method (MEEM) to value NBK's customer relationship. This approach is used to value a company's primary asset. It isolates the cash flows that can be associated with a single intangible asset and measures fair value by discounting them to present value. The present value of the profit ("excess earnings") allocated to the intangible asset under consideration represents its value

The key assumptions used to estimate the value of NBK's customer relationships are forecast on non-interest income, customer churn rate, profitability, the effective contributory asset charge and the discounted cash flows.

The Group estimates the customer relationship value derived from the non-interest income from existing customers of NBK at 30 September 2019 to be KShs. 185m. Amortisation for this asset is for five years.

(vii) *Impact on Statement of Cashflow*

Cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the dates of the advances.

	Amount in KShs. M
Cash consideration paid	-
Add cash in hand	1,327
Add Deposits and balances due to banking institutions	1,246
Add cash and central bank balances	1,277
Less Deposits and balances due to banking institutions	(13,234)
Net impact on statement of cash flows	**(9,384)**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

33. DEFERRED TAX

	GROUP		COMPANY	
	2019	2018	2019	2018
(a) Deferred tax asset	**KShs.' million**	**KShs.' million**	**KShs.' million**	**KShs.' million**
At 1 January	8,676	4,664	102	(2)
IFRS 9 Day 1 Adjustment	-	3,062	-	-
IFRS 16 Day 1 Adjustment	268	-	-	-
As at Acquisition date	-			
Credit for the year	24	1,412	(100)	104
Retirement Benefit Scheme – through Equity	-	146	-	-
AFS Reserve – through Equity	910	(723)	-	-
Acquisition of a subsidiary	3,148	-	-	-
Hyperinflation adjustment	-	166	-	-
Derecognized	-			
Translation difference	(165)	(51)	-	-
At 31 December	**12,861**	**8,676**	**2**	**102**
The net deferred tax asset is attributable	-			
to the following items:				
Depreciation over tax allowances	541	535	2	94
Provisions	12,360	8,313	-	-
Retirement Benefit Scheme – remeasurement	-	205	-	-
IFRS 16 application	268			
IFRS 9 initial application adjustment	-			
AFS fair value movement	(916)	(817)	-	8
Tax losses carried forward	608	440	-	-
	12,861	**8,676**	**2**	**102**
Comprising:				
Deferred tax asset	12,861	8,676	2	-
Deferred tax liability	-	-	-	102
	12,861	**8,676**	**2**	**102**

Recognition of deferred tax asset of KShs. 12,861 million (2018 – KShs. 8,676 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	
	2019	2018	2019	2018
	KShs.' million	**KShs.' million**	**KShs.' million**	**KShs.' million**
Deposits and balances from other banks	18,738	20,105	-	-
Payable within 1 month	11,767	11,350	-	-
Payable after 1 month, but within 3 months	5,183	7,384	-	-
Payable after 3 months, but within 1 year	1,788	1,371	-	-
	20,371	**20,105**	**-**	**-**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

35. DEPOSITS FROM CUSTOMERS

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs.' million	KShs.' million	KShs.' million	KShs.' million
(a) From government and parastatals:				
Payable within 1 month	165,276	129,379	-	-
Payable after 1 month, but within 3 months	39,019	30,544	-	-
Payable after 3 months, but within 1 year	17,818	13,948	-	-
Payable after 1 year, but within 5 years	-	-	-	-
	222,113	**173,871**	**-**	**-**
(b) From private sector and individuals:				
Payable within 1 month	297,768	233,094	-	-
Payable after 1 month, but within 3 months	77,074	60,334	-	-
Payable after 3 months, but within 1 year	80,223	62,799	-	-
Payable after 1 year, but within 5 years	9,405	7,362	-	-
	464,470	**363,589**	**-**	**-**
Total other customer deposits	**686,583**	**537,460**	**-**	**-**
Maturing as follows:				
Payable within 1 month	463,044	362,473	-	-
Payable after 1 month but within 3 months	116,093	90,878	-	-
Payable after 3 months but within 1 year	98,041	76,747	-	-
Payable after 1 year but within 5 years	9,405	7,362	-	-
	686,583	**537,460**	**-**	**-**

The weighted average effective interest rates on interest bearing customer deposits as at 31 December 2019 was 7.2% (At 31 December 2018 – 7.4%).

36. BILLS PAYABLE

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs.' million	KShs.' million	KShs.' million	KShs.' million
Bills payable	**4,447**	**5,514**	**-**	**-**

Bills payable consist of cheques issued by the Group to customers and suppliers that were not presented for payment at the end of the year.

37. OTHER LIABILITIES

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs.' million	KShs.' million	KShs.' million	KShs.' million
Accruals	8,664	4,649	-	-
Other payables	21,037	10,168	4	55
	29,701	**14,817**	**4**	**55**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

38. LEASE LIABILITIES

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs.' million	KShs.' million	KShs.' million	KShs.' million
Recognition on initial application at 1/1/2019	5,950	-	-	-
Additions	985			
Interest expense in P&L	464	-	-	-
Payment of leases	(1,082)	-	-	-
	(209)	-	-	-
At 31 December	**6,108**	**-**	**-**	**-**

As at 31 December, the future minimum lease payments under non-cancellable operating leases were payable as follows: -

Amount in KShs. '000'	2019	2018
Maturity analysis-Contractual undiscounted cash flows		
Less than one year	1,699	832
Between one and 5 Years	3,636	5,805
More than Five Years	815	715
Total Undiscounted Lease liabilities at 31 December	**6,150**	**7,352**

39. 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:

	COMPANY	
	2019	2018
	KShs.' million	KShs.' million
(a) Balances due from group companies		**million**
KCB Bank Kenya Limited	6,336	7,105
	6,336	**7,105**
(b) Balances due to group companies		
KCB Bank South Sudan Limited	-	731
	-	**731**
Net balances due to group companies	**6,336**	**6,374**

Balances due from and due to group companies are non-interest bearing and are generally on 30-90-day term. The balances relate to transactions entered into with the subsidiary companies at arm's length in the ordinary course of business.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

39. LEASE LIABILITIES (continued)

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs.' million	KShs.' million	KShs.' million	KShs.' million
(c) Shareholders, Directors and key management personnel				
(i) Loans				
Government of Kenya*	126	1,685	-	-
Directors - Executive	13	45	-	-
-Non Executive	12	44	-	-
Senior management	214	371	-	-
	365	**2,145**	**-**	**-**
Movement in loans to Directors and senior management				
At 1 January	460	609	-	-
Loans issued during the year	239	362	-	-
Loans repayments during the year	(460)	(511)	-	-
At 31 December	**239**	**460**	**-**	**-**
Interest income earned	**1**	**32**	**-**	**-**
(ii) Deposits				
Government of Kenya	112,365	89,761	-	-
Directors	96	47	-	-
Senior management	23	74	-	-
At 31 December	**112,484**	**89,882**	**-**	**-**
Movement in deposits by Directors and senior management				
At 1 January	121	35	-	-
Deposits received during the year	1,567	1,292	-	-
Deposits withdrawn during the year	(1,569)	(1,249)	-	-
At 31 December	**119**	**121**	**-**	**-**
Interest expense	**9**	**71**	**-**	**-**

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. 9 million (2018: Shs 71million). The interest paid on balances outstanding to related parties amounted to KShs. 1 million (2018: 32 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	
	2019	2018	2019	2018
(iii) Senior management personnel compensation (Included under personnel costs - Note 40)	KShs.' million	KShs.' million	KShs.' million	KShs.' million
Short term employee benefits	**301**	**291**	**-**	**-**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

40. BORROWINGS

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs.' million	KShs.' million	KShs.' million	KShs.' million
Maturing within one year	1,948	1,506	-	-
Maturing after one year, but within five years	11,172	10,756	-	-
Maturing after 5 year	8,365	10,185	-	-
	21,485	**22,447**	**-**	**-**

Reconciliation of the movement in the long term debt

	2019	2018
	KShs.' million	KShs.' million
Group		
At 1 January	22,447	14,895
Funds received - African Development Bank	-	10,185
Payments on principal and interest	(1,164)	(2,759)
Translation differences	202	126
Net movement in borrowings	(962)	7,552
At 31 December	**21,485**	**22,447**

Reconciliation of the movement in the long term debt

Company		
At 1 January	-	7,755
Borrowings transferred to KCB Bank Kenya Limited	-	-
Recognition of International Finance Corporation loan surbordinated to KCB Bank Kenya Limited	-	(7,755)
Funds received - Standard Chartered Plc	-	-
Funds received - Ghana International Bank	-	-
Payments on principal and interest	-	-
Translation differences	-	-
Net movement in borrowings	-	(7,755)
At 31 December	**-**	**-**

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 2013 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 2018 of USD 75 million by KCB Bank Kenya at interest terms of Libor+5.3 % p.a.

(d) 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.

(e) 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.

(f) 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.

(g) 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.

(h) 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.

(i) 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.

(j) A 7year loan obtained of EUR 7 million from European Investment Bank at interest terms of 7.96% p.a. by KCB Bank Rwanda in 2019

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

41. SHARE CAPITAL

	GROUP AND COMPANY	
(a) Share capital	2019	2018
	KShs.' million	KShs.' million
Authorised:		
4,500,000,000 (2018: 4,500,000,000) ordinary shares of KShs. 1 each	**4,500**	**4,500**
Issued and fully paid:		
As at 1 January 3,066,656,647 and 31 December ordinary shares of KShs. 1 each	**3,066**	**3,066**
Swap shares issued	147	-
At 31 December 3,213,462,815 (2018: 3,066,656,647) ordinary shares of KShs. 1 each	**3,213**	**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 2019 were:

	Number of Shares Held	% Shareholding
Cabinet Secretary, National Treasury of Kenya	635,001,947	19.76
National Social Security Fund	228,673,323	7.12
Stanbic Nominees Limited A/C NR3530153-1	86,500,000	2.69
Standard Chartered Nominees A/C 9688	45,778,323	1.42
Standard Chartered Nomunees Non-Resd A/C 9069	44,093,242	1.37
Investment & Mortgages Nominees Ltd A/C 002983	36,000,000	1.12
Standard Chartered Nominees A/C 9687	31,680,986	0.99
Standard Chartered Nominee Account KE17682	29,338,610	0.91
Sandip Kana Sinh;Babla,Alka Sandip Babla	29,005,100	0.90
Standard Chartered Kenya Nominees Ltd A/C KE002596	28,615,100	0.89
	1,194,686,631	**37.18**

The distribution of shareholders as at 31 December 2019 was as follows:

Share range	Shares held	%
1 to 500	9,600,474	0.30%
501 to 1,000	10,321,438	0.32%
1,001 to 5,000	182,050,274	5.67%
5,001 to 10,000	116,837,416	3.64%
10,001 to 50,000	155,536,736	4.84%
50,001 to 100,000	51,982,836	1.62%
100,001 to 500,000	157,562,492	4.90%
500,001 to 1,000,000	110,631,688	3.44%
1,000,001 to 2,000,000,000	2,418,939,461	75.28%
	3,213,462,815	**100%**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

42. RESERVES

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs.' million	KShs.' million	KShs.' million	KShs.' million
Retained earnings	93,319	85,056	48,561	43,773
Share Premium	27,690	21,647	27,690	21,647
Proposed dividend	8,033	7,665	8,033	7,665
Statutory credit risk reserve	5,915	1,222	-	-
Other reserves:				
FVOCI	(1,232)	1,821	(52)	(43)
- Re-measurement of defined pension fund	-	44	-	-
- Hyperinflation reserve	3,427	2,984	-	-
- Translation reserve	(10,624)	(9,844)	-	-
	(8,429)	**(4,995)**	**(52)**	**(43)**
	126,528	**110,595**	**84,231**	**73,042**

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 *FVTOCI reserve* arises from marking to market of investment securities classified under FVTOCI 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 *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 income statement 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.

43. 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 4 June 2020, a final dividend in respect of the year ended 31 December 2019 of KShs. 8,033 million (2018 – 7,665 million) for every ordinary share of KShs. 2.50 is to be proposed. An interim dividend of KShs. 1.00 (KShs. 3,066 Million) was declared and paid during the year making in all KShs. 3.50 per share (KShs. 11,099). Payment of dividends is subject to withholding tax at the rate of 5% for residents and 10% for non-resident shareholders.

	GROUP AND COMPANY	
	2019	2018
Dividends per share (KShs.)	3.50	3.50
	KShs.' million	KShs.' million
At 1 January	2,173	640
Interim dividend declared and paid	3,066	3,066
Final dividend proposed	8,033	7,665
Dividend paid	(10,731)	(9,198)
At 31 December	**2,541**	**2,173**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

44. NOTES TO THE STATEMENT OF CASH FLOWS

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs.' million	KShs.' million	KShs.' million	KShs.' million
(a) Cash flows from operating activities				
This has been derived as follows:-				
Profit before tax	36,897	33,859	16,028	16,506
Adjustments for:				
Depreciation of property and equipment	2,104	1,855	9	4
Amortization of prepaid operating lease rentals	751	3	-	-
Amortization of intangible assets	1,938	1,288	-	-
Net interest income	(56,130)	(48,831)	-	(45)
Dividend income	-	-	16,551	(16,864)
Interest expense on lease liability	464	-	-	-
Hyperinflation adjustments	(503)	120	-	-
Translation adjustments	304	-	-	-
Retirement benefit expense	614	(126)	-	-
(Profit)/loss on disposal of property and equipment	6	21	86	-
Operating profit before movements in operating assets and liabilities	**(13,555)**	**(11,811)**	**32,674**	**(399)**

(b) Cash flows from operating activities				
Cash reserve ratio	(12,766)	(5,369)	-	-
Financial assets at FVOCI	10,138	(11,098)	-	-
Financial assets at amortised cost	(59,803)	(1,880)	-	-
Loans and advances	(79,491)	(43,402)	-	-
Related parties balance	-	-	27	66
Other assets	(12,730)	(8,834)	(37)	81
Deposits from banks	266	9,066	-	-
Other customer deposits	149,123	37,911	-	-
Other liabilities	13,199	5,537	(51)	(1,273)
	(5,619)	**(29,880)**	**32,613**	**(1,525)**
Interest received	74,350	66,281	-	317
Dividend received	-	-	(16,551)	(16,864)
Interest paid	(18,220)	(17,450)	-	(272)
Income taxes paid	(12,363)	(11,043)	-	(2)
Net cash flows from operating activities	**38,148**	**7,908**	**16,062**	**(18,346)**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

44. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs.' million	KShs.' million	KShs.' million	KShs.' million
(c) Analysis of cash and cash equivalents				
Balances with Central Banks	19,478	3,652	-	-
Cash on hand	15,605	11,063	-	-
Bank balances	-	-	1,178	899
Financial assets at amortised cost	1,294	3,897	-	-
Advances to banks	25,174	32,017	-	-
Financial assets held for trading	1,651	-	-	-
	63,202	**50,629**	**1,178**	**899**

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. 48,152 million (2018 - KShs. 35,386 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 amortied cost investments, whose reconciliation is as follows:

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs.' million	KShs.' million	KShs.' million	KShs.' million
Balance as per statement of cash flows	1,295	6,867	-	-
Balances with less than three months maturity from the acquisition date	95,683	31,397	-	-
Balance as per statement of financial position	**96,978**	**38,264**	**-**	**-**

45. 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	
	2019	2018	2019	2018
	KShs.' million	KShs.' million	KShs.' million	KShs.' million
Capital commitments contracted for at year end	**1,482**	**2,199**	**-**	**-**
Loans committed but not disbursed at year end	**55,277**	**46,718**	**-**	**-**
Foreign currency commitments	**(10)**	**1,456**	**-**	**-**

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.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

46. CONTINGENT LIABILITIES

	GROUP		COMPANY	
	2019	2018	2019	2018
	KShs. Million	KShs. Million	KShs. Million	KShs. Million
Letters of credit, acceptances, guarantees, indemnities and other engagements entered into on behalf of customers at year end	107,950	102,703	-	-

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.

47. FIDUCIARY ACTIVITIES

The Group asset security documents on behalf of customers with a value of KShs. 208,878 million (2018 – KShs. 176,471 million). The asset held comprises of government securities and debentures.

48. 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 Group operates a funded defined benefit plan. The Fund closed to new entrants effective 1 June 2006. The Fund is non-contributory with the Group 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.

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

48. RETIREMENT BENEFIT OBLIGATIONS (continued)

The information below summarizes the scheme assets and liabilities. Composition of fund assets based on the Investment Manager's reports as at 31 December 2019.

Asset Class	2019 KShs. Million	2019
Property	3,939	47.98%
Government securities	2,650	32.28%
Fixed and term deposits	365	4.45%
Quoted equities	1,004	12.23%
Corporate bonds	146	1.78%
Cash and demand deposits	-	0.00%
Net current liability	105	1.28%
Total	**8,209**	**100%**

Changes in the present value of the defined benefit obligation over the year:

	2019 KShs. Million	2018 KShs. Million
At start of year	7,309	7,019
Current service cost (net of employer contributions)	69	62
Interest cost	898	893
Actuarial gain/(loss)-due to experience	-	-
Actuarial gain/(loss)-due to changes in assumptions	(45)	212
Benefits paid plus administration expenses	(913)	(877)
At end of year	**7,318**	**7,309**

Changes in the fair value of plan assets over the year

	2019 KShs .Million	2018 KShs .Million
At start of year	(8,173)	8,577
Interest income on plan assets	(1,006)	1,102
Employer contributions	(49)	52
Actuarial gains/(loss)	106	(681
Benefits paid	913	(877
At end of year	**(8,209)**	**8,173**

The amounts recognised in the statement of financial position are determined as follows;

	2019 KShs. Million	2018 KShs. Million
Present value of fund obligations	7,318	(7,309)
Fair value of plan assets	(8,209)	8,173
Effect of asset ceiling at end of period	891	(206)
Asset recognized in the statement of financial position	**-**	**658**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

48. RETIREMENT BENEFIT OBLIGATIONS (continued)

Reconciliation of asset in the statement of financial position:

	2019 KShs. Million	2018 KShs. Million
At start of year	658	1,018
Net expense recognised in statement of profit and loss	12	74
Employer contribution	49	52
Amount recognised in other comprehensive income	(719)	(486)
At end of year	**-**	**658**

The amount recognised in profit and loss for the year are as follows:

	2019 KShs. Million	2018 KShs. Million
Service Cost		
Current service cost (employer)	69	62
Total Service Cost	**69**	**62**
Interest Cost	-	-
Interest cost on defined benefit obligation	898	893
Interest income on plan assets	(1,006)	(1,102)
Interest on the effect of the asset ceiling	27	73
Net interest cost on Balance Sheet liability	**(81)**	**(136)**
Net included in profit and loss in respect of the scheme	**(12)**	**(74)**
Re-measurement (Other comprehensive income)		
Actuarial loss – obligation	(45)	212
Return on plan assets (excluding amount in interest cost)	106	(681)
Change in effect of asset ceiling (excluding amount in interest cost)	658	407
Amount recognized in other comprehensive income	**719**	**(62)**

The principal actuarial assumptions used are as follows:

	2019	2018
Actuarial Assumptions		
Discount Rate (% p.a.)	13.10%	13.00%
Future salary increases (% p.a.)	6.00%	6.00%
Future pension increases (% p.a.)		
Mortality (pre-retirement)	A1949-1951	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

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

48. RETIREMENT BENEFIT OBLIGATIONS (continued)

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:

	2019	2018
	KShs. Million	KShs. Million
	Current discount rate	**Current discount rate**
	(13.1% per annum)	**(14.5% per annum)**
Present value of obligation	7,318	7,309

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.

49. (a) OPERATING LEASE UNDER IFRS 16

(i) Lease liability

	2019
Maturity analysis – Contractual cash flows	**KShs.'million**
Expected to be settled within 12 months after the year end	1,301
Expected to be settled more than 12 months after the year end	4,807
	6,108
Amounts recognised in statement of cash flows:	
Payments of principal portion of the lease liability	1,082
Interest paid on lease liabilities	464
	1,546

	KShs.'million
Movement for the year ended 31 December 2019	
Balance on adoption of IFRS 16	5,950
Additions	985
Interest expense	464
Translation differences	(1,082)
Lease payments	(209)
	6,108

At 31 December 2018, the future minimum lease payments under non-cancellable operating leases were payable as follows.

	2018
	KShs.'million
Maturity analysis – Contractual undiscounted cash flows	
Less than one year	832
Between one and five years	5,805
More than five years	715
Total undiscounted lease liabilities at 31 December 2018	**7,352**

KCB GROUP PLC NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2019 (Continued)

49. (a) OPERATING LEASE UNDER IFRS 16 (continued)

(ii) Amounts recognised in profit or loss

	2019 KShs.'million
2019 – Leases under IFRS 16	
Interest on lease liabilities	(464)
Depreciation of right to use asset	(751)
Expenses relating to short-term leases	(364)
Total	**1,580**

	2018 KShs.'million
2018 – Operating leases under IAS 17	
Lease expense	762

(iii) Extension options

Some leases of office premises contain extension options exercisable by the Bank up to one term after the end of the non-cancellable contract period. Where practicable, the Bank seeks to include extension options in new leases to provide operational flexibility. The Bank assesses at lease commencement date whether it is reasonably certain to exercise the extension options. The Bank reassesses whether it is reasonably certain to exercise the options if there is a significant event or significant changes in circumstances within its control.

50. HYPERINFLATION

For the financial year ended 31 December 2019, the directors evaluated and determined the economy of South Sudan to be hyperinflationary. As a result of this, KCB Bank South Sudan Limited, a significant foreign subsidiary of the Group complied with the requirements of IAS 29 - Financial reporting in Hyperinflationary Economies on the individual financial statements for the year ending 31 December 2019. The standard requires significant judgments to be made by the financial statement preparer considering guidelines provided in IAS 29. Consequently, for the individual entity, the financial statements and corresponding figures for previous periods are restated for the changes in the general purchasing power of the functional currency, and as a result are stated in terms of the measuring unit current at the end of the reporting period. The consolidated financial statements have been adjusted to reflect changes in KCB Bank South Sudan as indicated above.

The Directors considered the following factors in determining and concluding that the South Sudan economy was hyperinflationary:

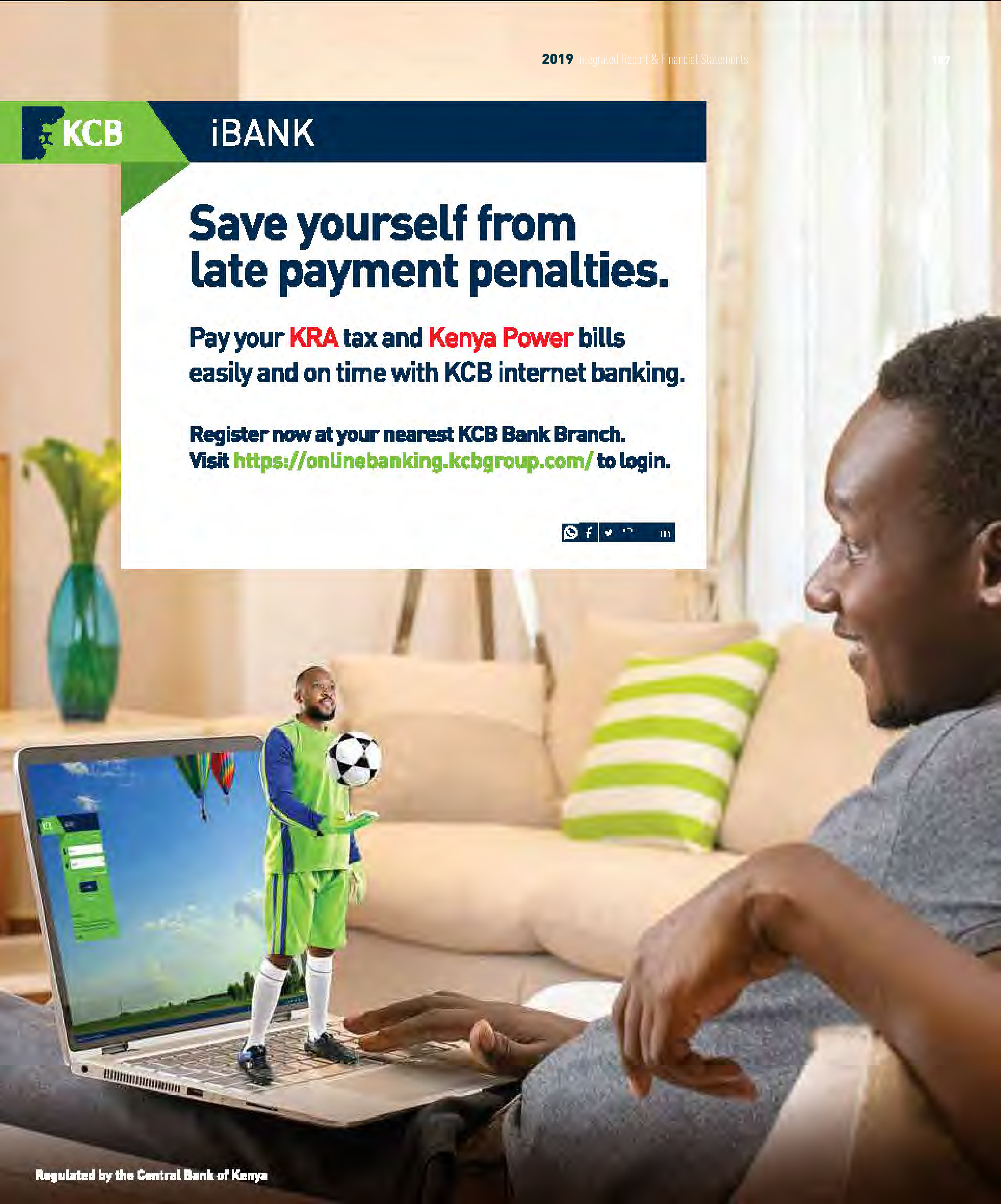
(a) The population's preference to keep wealth in non-monetary assets or a relatively stable foreign currency;
(b) Prices for credit transactions being set at levels to compensate for expected loss of purchasing power during the credit period;
(c) Interest rates and wages are frequently adjusted to compensate 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 515% as at 31 December 2019 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 2019. The source of the price indexes used was the International Monetary Fund (IMF).

	CPI
CPI as at 31 December 2017	5,392.80
CPI as at 31 December 2018	6,916.73
CPI as at 31 December 2019	6,642.19
Average CPI in 2016	4,384.19
Average CPI in 2017	6,975.10
Average CPI in 2018	11,136.61

51. EVENTS AFTER THE REPORTING PERIOD

The directors are not aware of events after the reporting date that require disclosures in or adjustments to the financial statement as at the date of this report.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