Questions and responses for the KCB Group Plc 51 AGM held virtually on 3 June 2022

I have gone through your accounts, and they are very much okay. But when I look at our operations from the different countries, I have noted that the profits from Uganda have decreased from Kes 378 million to Kes 270 million. Bearing in mind that there was no significant disruption that happened in Uganda, I would like to know what contributed to this decline.

The drop in profitability of KCB Bank Uganda between 2021 and 2020 was due to a one-off gain that we had in 2020 in Uganda that bolstered the performance during that year. There was a customer whom we had taken full provisions for their facility in the prior year and when they got back on their feet, we were able to write back a big portion of the provisions that we had taken which pushed up the profits in 2020.

I have noted that the CEO's numeration totals to Kes 368 million. Granted that you performed very well, I would like to know which criteria you used to reward the CEO because I feel that this is quite on the higher side compared to the average pay per employee per year and compared to peers. Furthermore, I would like to understand now, considering that the CEO who was there has left, whether the incoming CEO will also be receiving this high level of renumeration.

The Directors renumeration, both Executive and Non-Executive are subject to independent market survey that is conducted by a reputable external firm to ensure that they are reflective of the complexity of the organization and market conditions.

That review is done every two to three years to make sure that Directors renumeration is competitive, in line with the market and aligned with other institutions of KCB's size and complexity.

With the admission of DRC into the East African Community, I would like to inquire if the Bank has a plan that the Board is considering for entry into this untapped market as well as for Ethiopia.

We have made a good headway on discussions on entry and we're looking forward to coming back to you, the shareholders, very shortly to approve our plans to enter DRC.

Ethiopia is also a market that is starting to open up for foreign banks. For a long time, Ethiopia has not been allowing foreign banks to operate in the country, but we are monitoring the ongoing process to change these regulations. We are primed and ready to make an entry as soon as the market is opened to foreign banks.

I have noted that most of your transactions are on the digital platforms. With that in mind and considering that the brick-and-mortar branches come with a lot of fixed costs, I would like to inquire what is the strategy with regards to branch rationalization to continue to drive down the cost to income ratio to below 40%, although the percentage that you have in 2021 of 44% is quite commendable.

We are looking to make different use of the branches that we have, to be used more as relationship management outlets and over time on a case-by-case basis, we will review not only the size of these outlets but also all the services that we are going to provide through them to ensure that we have the right balance.

I note that the authorized shares are 4.5 billion and the issued shares are 3.2 billion. I would like to know if the authorized but unissued shares are also entitled to dividends. I would also like to ask about directors without shareholding in the company. Why is this so? As shareholders we would like to see that all Directors have shares.

Dividends are only paid on the issued shares, what has not been issued does not attract any dividend payout. The part that is authorized gives the Board headroom should there be a need to raise more capital. We do encourage Directors to buy shares in the company and we have noted an increase in the number of Directors that have a shareholding in the company.

Please provide more clarification about the expected credit losses which I noted is one of the key audit issues to the auditors.

Tackling the ticking up of NPL is something that we have prioritized, and we are looking to address it as a matter of urgency. At the same time, we will continue to provide meaningful support to our customers who might come across headwinds to ensure that we support these customers and journey with them.

What led to the doubling of the income tax expense?

The income tax doubled in line with the doubling in profitability. From an effective tax rate point of view (amount of tax paid as a proportion of the taxable profits), you will notice that year on year, we had an improvement on the effective tax rate, but in absolute terms, the quantum has increased in line with improved profitability.

Why can't the company increase the dividend payout as I feel that you are currently retaining too much or consider issuing us with bonus shares. There is quite a gap between earning per share compared to dividend per share.

The Board did take the decision that we do need to conserve capital to ensure that we fund growth both organic and inorganic going forward. As we continue generating more profits for the organization, we expect that we will stick to our dividend policy and pay out dividends in line with that policy.

What measures do you have in place to tap on new technology to reduce operation costs thus translating to an increase in our dividend payouts?

We have invested in technology significantly and we will continue to do that. We have also made sure that we created the role of a Group Shared Services Director, and our objective is to make sure that we go into the space of creating a true Group shared services to help us reduce unit cost of transactions. This is something that is top of our agenda.

How has climate change affected the banking sector and what is your take on the remedy? Furthermore, what role does the company play in building capacity and in entrenching sustainability in the business going forward?

The Group does take the impact of climate change very seriously. We are signatories to various Global conventions that address sustainability. Environmental, social and governance (ESG) issues are very core to us, and we have embedded them in our strategy and operations. Currently, 8% of our book is Green and we are looking to grow that to 25% by 2025. We also do hold our stakeholders accountable for their ESG practices. We do ensure that the stakeholders we operate with are also compliant and they're taking ESG matters very seriously.

We would like to have a good sendoff party for the outgoing CEO with a few representatives of the shareholders to celebrate and thank him for his good work.

As and when we plan our outgoing CEO's departure party, we shall certainly note to invite several shareholders to bid him farewell. Joshua Oigara had a good run over the last nine and a half years. He leaves the Bank on an even keel, and we are counting on Paul Russo to further take the Bank to greater heights.

What is the calculations percentage for dividends?

KCB Group's dividend policy caps payout at not more than 50% of the profit after tax. The management and the Board consider the additional capital required to fund any strategic growth for the coming year. After consideration of the items above, the remainder is then proposed for distribution to shareholders as dividend.

KCB should not declare less dividend compared to competitors

For the 2021 financial year, KCB Group paid Kes 1.00 per share as interim dividend in January 2022. The Board additionally proposed a final dividend of Kes 2.00 per share to be paid on or before 7 July 2022. This will bring the total dividend paid to Kes 3.00 per share. For over a decade, KCB has consistently paid dividend and during the COVID-19 period maintained a dividend payout even as other entities withheld payment of the same.

When will we resume physical annual general meetings?

KCB Group is carefully monitoring the environment in light of the health protocols occasioned by the pandemic. As the situation continues to improve and stabilize, we shall review our AGM format and advise our shareholders in good time on the resumption of physical meetings.

Why is the dividend lower than before?

The Group dividend for the year 2021 of Kes 3.00 per share has taken into consideration the capital considerations to fund the growth of the Bank and additionally retained earnings for strategic initiatives for the future.

Will we receive merchandise such as bags, t-shirts or umbrellas this time?

Since the 51 annual general meeting is being held virtually, there shall not be any distribution of merchandise to participants.