A Review of Our Strategic Themes

2. Exponential Growth in Digital Financial Services

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

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

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

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

717,342

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

98.2%

Mobile loans repayment rate

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

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

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

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

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

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

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

Mobile Loans Advanced

February
KShs. 2.9 billion

December
KShs. 10.1 billion

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

every 24 hours	every hour	every minute
KShs. 149,068,732	**KShs. 6,211,197**	**KShs. 103,519**

Number of Mobile loans

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

KCB App downloads

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

Agency Banking Deposits

2014
KShs. 9.0 billion

2018
KShs. 153.3 billion

Agency Transaction Types

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

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

3. Driving Operational Efficiency

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

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

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

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

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

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

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

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

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

68

Intelligent ATMs rolled out in Kenya.

KShs.22.5 billion Deposited through intelligent ATMs.

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

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

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

4. Driving Shareholder Value

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

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

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

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

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

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

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

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

UNEP FINANCE INITIATIVE | PRINCIPLES FOR RESPONSIBLE BANKING

The six UNEP FI Principles for Responsible Banking.

1 ALIGNMENT
Align our business strategy with society's goals as expressed in the SDGs, Paris Climate Agreement and other frameworks

2 IMPACT
Continuously increase our positive impacts while reducing our negative impacts

3 CLIENTS & CUSTOMERS
Work responsibly with our clients and customers to create shared prosperity for current and future generations other frameworks

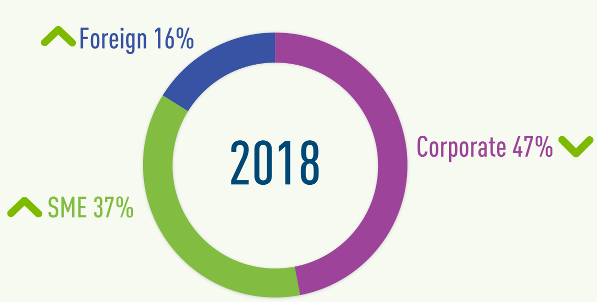
4 STAKEHOLDERS
Consult, engage and partner with relevant stakeholders to achieve society's goals

5 GOVERNANCE & TARGET SETTING
Implement commitments through effective governance and setting targets for our most significant impacts

6 TRANSPARENCY & ACCOUNTABILITY
Commit to transparency and accountability for our positive and negative impacts, and our contribution to society's goals

Distribution of work of the top 100 suppliers

2017
Foreign 12%
SME 36%
Corporate 52%



Distribution of the value of work

2017
Foreign 12%
SME 36%
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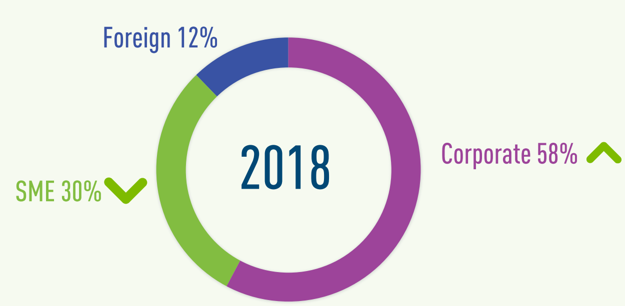

A Review of Our Strategic Themes

5. Business Growth

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

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

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

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

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

Deposits grew by 8.0% to KShs.537.5 billion

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

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

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

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

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

MobiGro

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

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

the grooming of the next generation of agricultural entrepreneurs.

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

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

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

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

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

Women Segment

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

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

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

SME

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

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

KCB Capital

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

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

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

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

Mortgage

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

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

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

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

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

SAHL Banking

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

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

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

SAHL Banking Loan book ^15%	**2018**	**KShs.2.8B**
	2017	KShs.2.4B
Total SAHL Customers ^19%	**2018**	**28,374**
	2017	23,884

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

Brand Value

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

LIONS' DEN

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

KShs. 79 million, amount invested in Season 3

6. Effective Talent Management

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

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

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

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

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

26%

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

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

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

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

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

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

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

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

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

75%

of staff are aged less than 40 years

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

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

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

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

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

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

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

Staff Cost to Income Ratio %

2017	2018
26.90%	23.70%

Employee Distribution

Male	Female
57.0%	43.0%

Average Tenure (All Staff)

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