

# STATEMENT OF CORPORATE GOVERNANCE

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.

The KCB Group Plc. Board of Directors ("Board") is committed to high standards of corporate governance and its corporate governance framework supports its long term performance and sustainability projects and enhances shareholder value and protects the interests of all its key stakeholders. The Group believes that good corporate governance is based on a set of values and behaviours that underpin day-to-day activities; provide transparency and fair dealing; and promote financial stability and healthy economic growth that can deliver better outcomes for the Group's stakeholders and help its customers get ahead.

KCB Group regularly reviews its corporate governance arrangements and practices and ensures that the same reflects the developments in regulation, best market practice and stakeholder expectations.

Each year, the regulators in Kenya, and indeed in the countries in the region in which the Group operates, have continued to enhance the regulatory and risk management guidelines. The Group continuously embraces the changes and remains at the forefront in adopting best practices in corporate governance and risk management in the rapidly evolving financial markets and business landscape.

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

## Our Board

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

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

The Articles of Association of the company provides that the Board shall comprise of a maximum of eleven Directors. The Board is currently structured with two Executive Directors, one as a Non-Executive Director and eight as Independent Non-Executive Directors including the Group Chairman. The Board determines its size and composition, subject to the Company's Articles of Association, Board Charter and applicable law.

As at 31 December 2017, the Board comprised of nine Directors. Dr. Nancy Onyango retired as a Director on 3 January 2018 while Mrs. Josephine Djirackor was appointed as a Director on 3 January 2018 replacing Catherine Kola who retired on 1 June 2017. There are currently two vacancies on the Board to be substantially filled following the retirement of Mrs. Charity Muya-Ngaruiya and Gen. (Rtd.) Joseph Kibwana who both retired on 21 April 2017.

The current Board directors are detailed as follows:

	Director	Directorship Type	Appointed
1	Ngeny Biwott (Board Chairman from August 2013)	Non-Executive Independent	15 June 2011
2	Henry Rotich (Alternate - Julius Mutua)	Non-Executive*	24 September 2014
3	Adil Khawaja	Non-Executive Independent	14 June 2012
4	Tom Ipomai	Non-Executive Independent	8 July 2013
5	Georgina Malombe	Non-Executive Independent	16 June 2014
6	John Nyerere	Non-Executive Independent	13 June 2014
7	Josephine Djirackor	Non-Executive Independent	3 January 2018
8	Joshua Oigara	Chief Executive Officer	1 January 2013
9	Lawrence Kimathi	Chief Financial Officer	5 May 2015

\* Deemed as non-independent by virtue of being the representative of the Government of Kenya, the single largest shareholder.

Full details of the current Directors, their qualifications, skills and experience are set out on page 144 to 146 of the 2017 Integrated Report.

## The Role of Our Board

The Board has the following key responsibilities as are enumerated in the Board Charter.

- i. Reviewing the strategic direction of the Group and adopting business plans proposed by management for the achievement of the strategic direction set.
- ii. Approving specific financial and non-financial objectives and policies proposed by management.
- iii. Reviewing processes for the identification and management of business risk and processes for compliance with key regulatory and legal areas.
- iv. Delegating authority for lending and provisioning and write-off limits, with capital expenditure, investment, capital and funding proposals being reserved for the Board's approval.
- v. Reviewing succession planning for the management team and making senior executive appointments, organizational changes and high level remuneration issues.
- vi. Providing oversight of performance against targets and objectives.
- vii. Providing oversight of reporting to shareholders on the direction, governance and performance of the Group as well as other processes that need reporting and disclosure.
- viii. Providing oversight over the activities of the subsidiaries of the Group.

The Board Charter regulates the Board composition, the Board meeting process and defines the relationship and interactions between the Board and management.

## 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 roles and responsibilities of the Group Chairman and the Group Chief Executive Officer are separate with a clear division of responsibility between the running of the Board and the executive responsibility of running KCB Group's business.

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

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

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

## Board Meetings

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

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

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

During the year ended 31 December, 2017, the Board held nine Board meetings. A strategic planning session was held in conjunction with the Board meeting held in November 2017. Details of Directors' attendance at Board and Committee meetings are set out in the table below:

	Board	Audit	Risk	Finance & strategy	HR & Nominations	IT & Innovation	Supply Chain
<b>Number of meetings</b>	<b>9</b>	<b>8</b>	<b>6</b>	<b>5</b>	<b>16</b>	<b>4</b>	<b>5</b>
Ngony Biwott	9						
Henry Rotich (Alternate - Julius Mutua)	9		6		16	4	
Charity Muya-Ngaruiya <sup>(1)</sup>	2	2	4	2	4		
Adil Khawaja	6		3	2			
Gen. (Rtd.) Joseph Kibwana <sup>(1)</sup>	2	2		2			3
Catherine Kola <sup>(2)</sup>	2			1		2	
Tom Ipomai	9				16	4	5
Georgina Malombe	9	8	5			4	5
John Nyerere	9	8	6	5	16		5
Nancy Onyango <sup>(3)</sup>	4	2	1	1			
Joshua Oigara	9		6	5	9	2	
Lawrence Kimathi	8			4 <sup>(4)</sup>			

(1) Retired on 21 April, 2017 | (2) Retired on 1 June, 2017 | (3) Appointed 7 August, 2017. Resigned 3 January, 2018 | (4) Lawrence Kimathi is a permanent attendee.

# STATEMENT OF CORPORATE GOVERNANCE

## The Role of Our Board Committees

The Board Committees assist the Board in carrying out its responsibilities. In deciding committee memberships, the Board endeavours to make the best use of the range of skills across the Board and share responsibility. As well, overlapping memberships take into account where matters raised in one committee may have implications for another. Membership is reviewed on an annual basis by the Group Chairman in collaboration with the HR & Nominations Committee.

The Board receives a verbal report from the committee Chair on significant areas of discussion and key decisions at the following Board meeting. To assist each committee in discharging its responsibilities, each committee has an annual meeting planner that sets out the scheduled items of business and reports to be considered during the year.

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

A summary of the role of each of the Committees is set out below.

<p><b>Julius Mutua (Chairman)</b>  <b>Georgina Malombe</b>  <b>John Nyerere</b>  <b>Joshua Oigara</b></p>	<p><b>Risk Management</b>            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.</p>
<p><b>Audit</b>            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 historical view, focused on financial reporting and control issues, including overseeing any control issue remediation plans.</p>	<p><b>Georgina Malombe (Chairman)</b>  <b>John Nyerere</b>  <b>Josephine Djirackor</b></p>
<p><b>Tom Ipomai (Chairman)</b>  <b>John Nyerere</b>  <b>Julius Mutua</b>  <b>Josephine Djirackor</b>  <b>Joshua Oigara</b></p>	<p><b>HR &amp; Nomination Committee</b>            This Committee reviews human resource policies and makes suitable recommendations to the Board on senior management appointments. This Committee also oversees the nomination functions and senior management performance reviews. The Committee keeps under review the structure, size and composition of the Board as well as succession planning for Directors. It leads the process for identifying, nominating for approval by the Board, candidates to fill Board vacancies.</p>
<p><b>Finance &amp; Strategy Committee</b>            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.</p>	<p><b>Adil Khawaja (Chairman)</b>  <b>John Nyerere</b>  <b>Josephine Djirackor</b>  <b>Joshua Oigara</b></p>
<p><b>Tom Ipomai (Chairman)</b>  <b>Julius Mutua</b>  <b>Georgina Malombe</b>  <b>Adil Khawaja</b>  <b>Josephine Djirackor</b>  <b>Joshua Oigara</b></p>	<p><b>IT &amp; Innovation Committee</b>            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.</p>
<p><b>Supply Chain Committee</b>            The Committee ensures transparency in procurement and dealings with suppliers/service providers. It meets review and approve high value procurement needs of the Company deemed necessary for efficient service delivery.</p>	<p><b>John Nyerere (Chairman)</b>  <b>Tom Ipomai</b>  <b>Georgina Malombe</b></p>

## Board Composition – What we look for in our Directors

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.

### Director Skills, Experience and Diversity

KCB Group seeks to have a Board that has the right mix of individuals with relevant attributes skills, knowledge and experience and who jointly have the overall collective competence to deal with current and emerging issues and effectively guide management in ensuring the highest performance for the Group.

The Non-Executive Directors are expected to have a clear understanding of the strategy of the Company as well as knowledge of the industry and markets in which the Group operates.

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

The Board regularly reviews the skills, knowledge and experience represented on the Board against the skills and experience needed to deliver the strategy. From the review in 2017, the Board is satisfied with the current composition.

The current skills and industry experience represented on the Board are as follows:

Director	Industry experience
Ngeny Biwott	Strategy, Risk and crisis management
Henry Rotich (Represented by Julius Mutua)	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
Josephine Djirackor	Telecommunications and Information Technology
Joshua Oigara	Business management, Financial accounting and Financial Services
Lawrence Kimathi	Financial advisory, Financial accounting, Business management

### Board Appointments

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

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

### Board Tenure, Election and Re-election

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

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

### Independence of Directors and conflict of interest

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

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

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

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

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

### 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.

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

# STATEMENT OF CORPORATE GOVERNANCE

## Director induction and professional development

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

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.

During the year 2017, amongst other individual professional development courses, the Board of Directors underwent training sessions on emerging areas in audit, information technology as well as a session on risk management by an international consultant.

## Board performance evaluation

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

The review in respect of the 2017 financial year was conducted internally by the Group Chairman through the coordination of the Group Company Secretary. Each director completed a detailed questionnaire designed to obtain feedback on the Board's performance in the following areas:

- Strategic objectives;
- Risk governance;
- Board composition and skills;
- Board meetings and preparation;
- Board interaction and support;
- Performance of governance functions; and
- Performance of the Chairman, respective Committees and individual 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 Directors provided consistent and positive feedback on the areas under review in the board evaluation. For the 2017 financial year, the evaluation outcome found that the Board continues to operate effectively and is well positioned to address any challenges faced by the Group.

The Board evaluation was conducted in February 2018 and the results presented to the Central Bank of Kenya in March 2018 in line with regulatory requirements.

### The Group Company Secretary

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

The Group Company Secretary is responsible for monitoring compliance with the Board's procedures and implementing the governance framework to give practical effect to the Board's decisions. The Company Secretary is also responsible for facilitating good information flows 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.

## Our engagement with our shareholders

KCB Group is committed to giving its shareholders appropriate information and facilities to enable them exercise their rights effectively. As a result, the Group seeks to provide shareholders with information that is timely, of high quality and relevant to their investment, and to listen and respond to shareholder feedback.

The Board recognizes the importance of maintaining transparency and accountability to its shareholders. The Board ensures that all the Company's shareholders are treated equitably and the rights of all shareholders are protected. The Board has put in place a sustainable programme of engagement which offers all shareholders an opportunity to receive information directly and enable them share their views with the Board.

### Communication and Periodic Continuous Disclosure

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

The Group additionally releases material information to the Capital Markets Authority and the Nairobi Securities Exchange as well as the Central Bank of Kenya in line with all disclosure requirements in the Capital Markets Act, the Banking Act, the Prudential Guidelines as well as all other relevant regulation.

### Annual General Meetings

The annual general meeting provides an opportunity for shareholders to engage with us in person. The Group encourages shareholders to attend and participate in its annual general meeting. As well as attending in person or voting by proxy, shareholders can use direct voting.

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

### Investment Community

The Group, through its Investor Relations team, works to facilitate two-way communication with the investor community and to foster participation at various meetings with shareholders.

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

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

#### **Outsourcing of Shares Registry Services**

During the year 2017, KCB Group Plc., in a bid to better serve its retail shareholders, outsourced its Shares Registry services to better manage its interaction with and service offering to its retail shareholders. This was done to ensure there is a better experience for the retail shareholders of the company especially on legacy matters. All shareholder 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 cheque are handled by the Company's appointed shares registrar with effect from 1 November, 2017.

With effect from 1st November, 2017, **IMAGE REGISTRARS LIMITED** was appointed the KCB Group Plc.'s Shares Registrar.

The physical and postal address of Image Registrars Limited is as follows:



**5th Floor, Barclays Plaza, Loita Street  
P.O. Box 9287-00100, Nairobi.  
Telephone: 0709 170 000, 0724 699 667, 0735 565 666  
Mobile: 0724 699 667, 0735 565 666  
Email: [info@image.co.ke](mailto:info@image.co.ke)  
Website: [www.image.co.ke](http://www.image.co.ke)**

### **Integrity of our financial reporting**

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

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

#### **Board**

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

#### **Audit Committee**

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

The Audit Committee responsibilities include the following:

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

#### **External Auditor**

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

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

### **Directors remuneration**

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

The aggregate amount of emoluments paid to Directors for services rendered during the Year 2017 is disclosed in Note 18 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.

Additional details are provided in the Directors' Remuneration Report at page 65 to 69 of the Integrated Report