



( Inclusive **Progress** ) 2018 Report to Society



# ( About this Report )

**K**CB Group 2018 Report to Society is the 11th annual communication about its non-financial performance impacting our social, environment, economy and its financial stability.

Together with the KCB Group Integrated Report, this report aims to provide a broader overview of the Group's activities for the period January 1 to December 31, 2018.

Over the past year, we carried out a materiality analysis to determine the bank's greatest challenges and track our achievements alongside our medium and long term goals.

The 2018 report outlines the strides KCB Group has made in entrenching sustainability into its business operations including: internalizing eight Sustainable Development Goals and continuous tracking of our progress in the Ten Point Action Plan.

Our primary focus in 2019 will be the implementation of the UNEP FI Principles for Responsible banking which KCB Group, together with 28 other global banks, helped develop.

In compliance to the GRI – 4 guidelines and the UN Global Compact Principles, this report presents a balanced and succinct analysis of the Group's strategy, performance, governance and prospects.

Potential material matters were identified through a broad range of processes, from engagement with our stakeholders to our own internal processes through the lens of our four sustainability pillars – financial, economic, social and environmental.



**The 2018 report outlines the strides KCB Group has made in entrenching sustainability into its business operations including: internalizing eight Sustainable Development Goals and continuous tracking of our progress in the Ten Point Action Plan.**



## Our Purpose

**Simplify your world to enable your progress**



This report has been prepared in accordance with the Global Reporting Initiative Standards framework, the most recognized and comprehensive guidelines for sustainability reporting globally. Our GRI content index is available on our website

To download a copy of this report, or sustainability reports from previous years, please visit the KCB website at [www.kcbgroup.com](http://www.kcbgroup.com).

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We value feedback and welcome any comments or suggestions you may have about the Report to Society or our sustainability performance, which may help us improve our reporting. Please contact us at: [sustainability@kcbgroup.com](mailto:sustainability@kcbgroup.com)

## Reporting Key



### Sustainable Development Goals

- In 2017, KCB adopted 8 of the 17 Sustainable Development Goals established by the international community in 2015.
- In this report, the relevant SDGs and targets to which we contribute societal value are highlighted under this icon.



### Global Reporting Initiative

- This report has been prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core option. Many indicators beyond the Core reporting option, including disclosures from the Financial Services Sector Supplement, have also been included.
- In this report, the relevant GRI Standards are listed under this icon.
- The full GRI Index can be found on our website.

( Inside the **Report** )



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**KCB is a leader in the banking industry and has the ability to scale meaningful and impactful projects in climate smart agriculture, renewable energy distribution, infrastructure and low-cost housing in Kenya and across the region.**



# Inclusive progress drives our business sustainability

**W**e recognise that our shareholders are cognisant of KCB Group's impact and performance beyond financial returns and are interested in our contribution to society and the environment. Therefore, this Sustainability Report for the period ending December 2018 is a reflection of how we purpose to help develop sustainable economies and to empower people to build a better future.

The theme for our report this year is "Inclusive progress," based on our Sustainability Framework of Financial, Economic, Social and Environmental stability. Globally it is known that Banking is based on "Trust" and our customers and the wider stakeholders expect us to serve their best interest and act responsibly. Access to financial services, the mechanism for inclusive progress, spurs innovation and creates shared value throughout



**KCB specifically focuses on women, SMEs and the youth to provide otherwise unavailable access to financial services and products.**



**8**

**KCB selected eight SDGs in areas in which we have core competencies and can make a significant contribution, but it does not exclude having an impact on the other SDGs.**

society. KCB specifically focuses on women, SMEs and the youth to provide otherwise unavailable access to financial services and products. At the same time, we are mindful of our impact on the environment and the precious resources on which we depend.

KCB is a leader in the banking industry and has the ability to scale meaningful and impactful projects in climate smart agriculture, renewable energy distribution, infrastructure and low-cost housing in Kenya and across the region. Mobile banking, the fastest growing platform, not only provides fast and reliable access, but also plays a major role in providing safe banking options. KCB selected eight SDGs in areas in which we have core competencies and can make a significant contribution, but it does not exclude having an impact on the other SDGs. We keep ourselves accountable to reach our sustainability targets with our 10 Point Action plan.

Responsible lending, ethics, governance, risk management, compliance and human rights for our colleagues, communities and in countries in which we operate-- is fundamental to our success and reputation. The Group supports and abides by local and international regulations and frameworks, including the UN Global Compact and recently spearheaded the UNEP-FI Principles

for Responsible Banking. Along with making further progress on the SDGs, implementing the Principles for Responsible Banking will be our major focus in 2019 and the years ahead.

Like many financial institutions, we consider the existing climate emergency and the associated risks to societal and economic stability, one of the greatest challenges of our times. Africa is especially vulnerable to the effects of climate change due to our heavy reliance on agriculture. Our goal to be carbon neutral by 2030 is progressing well. KCB's Green Agenda and Social and Environmental Management System, support lowering our carbon footprint and motivate those operating within our supply chain, as well as our customers to take similar actions.

The KCB Foundation, in line with its inclusive progress approach, now provides 80% of its services as shared value opportunities. KCB Group believes in moving everyone toward prosperity through the types of products and services it offers and deems cooperation and collaboration necessary for maximum achievement.

KCB is committed to making a difference in the lives of millions of people as it aspires to be a force for good. We thank you for your interest in our latest report to society.

**- Andrew Wambari Kairu**



**For over a decade, KCB Group has been consciously integrating sustainability into our business operations and reporting on our progress.**



# Inclusive progress through innovation and partnership

**A**cross the world, the social and environmental stakes are now higher than ever before. KCB Group, as the largest financial institution in East Africa, is committed to making a positive impact on society.

We believe such impact is intrinsically linked to our desire to remain profitable and create long-term shareholder value. We view sustainability as central to any successful business strategy. We maintain that future success will only be possible by working in partnership.

For over a decade, KCB Group has been consciously integrating sustainability into our business operations and reporting on our progress. This year, the Group took another big step in its sustainability journey by adopting the **United Nations**



**We continue to work towards combating the negative effects of climate change, one of the biggest threats to human existence.**

## 10 Point Action Plan

Internally, we continue to make progress on our **Ten Point Action Plan**, our scorecard and targets for environmental, social and governance performance in 2018 and beyond.

**Environment Programme Finance Initiative Responsible Banking Principles.** KCB was the only East African financial institution invited to be part of the 28 founding member bank partners.

We also remain committed to the **UN Global Compact** to implement universal sustainability principles, and through partnerships, support the implementation of the **Sustainable Development Goals (SDGs)**.

We continue to work towards combating the negative effects of **climate change**, one of the biggest threats to human existence. In 2018, we put in place a framework to begin tracking and increasing our green financing portfolio, as well as achieve our 2028 goal of becoming **carbon neutral**.

Providing access to financial services to all, including our local small and medium sized enterprises remains one of our top priorities. **Empowering our youth**, which represent the majority of the population, through skills building and access to finance, is especially important to us.

KCB Group made solid progress in mainstreaming eight SDGs into our operations this past year. We believe collaboration is key in accomplishing the government's four pillars for

economic growth, as well as the SDGs. Much of our impact will continue to be made possible through transformative partnerships.

Knowing that we want to be more than just a Bank, we have made a concerted effort to step beyond societal expectations of solely offering banking / financial services in return for profit, to build long-term relationships necessary to offer the latest technology and create innovative solutions to reach customers previously left behind.

KCB Group has also bolstered our industry leadership in driving the sustainability agenda in the banking sector. We believe that if all financial institutions join hands in playing their part, this will make a major difference in the world we live in. Internally, we continue to make progress on our **Ten Point Action Plan**, our scorecard and targets for environmental, social and governance performance in 2018 and beyond.

I want to thank our staff and all stakeholders for supporting the efforts towards improving the world we live in by working hard to make a positive impact in peoples' lives and the environment and society we live in.

**– Joshua Oigara, CBS**

A low-angle, upward-looking photograph of a dense forest. The sun is shining brightly from the upper right, creating a lens flare and illuminating the scene. The tree trunks are dark and converge towards the top of the frame, while the leaves are a vibrant green. The overall atmosphere is bright and natural.

(KCB **Group Highlights**)

# 2018 Performance Highlights

## Our Society (Customers, Colleagues and Community)



**17.4m**  
No. of KCB customers

**10,201**  
No. of youth upskilled under Zjajiri

**717,342**  
No. of Inua Jamii beneficiaries

**236**  
No. enrolled in Women in Leadership Programme

**250**  
No. of Scholarships awarded annually. 970 since 2014 (16% with disabilities)



**6,220**  
No. of employees

**7.1**  
No. of average annual training days per employee

**43%**  
of overall Group employees are female

**88%**  
of transaction are performed outside of a branch

**KShs.54.7 million**  
disbursed through CSI Sponsorships/ Philanthropy

## Our Environment



**23%**  
Reduction in Carbon Footprint

**84**  
No. of social-environmental assessments undertaken.

**12%**  
Reduction in paper consumption

**KShs.126.7 billion**  
Value of facilities that have undergone E&S assessments.



**36,000**  
No. of Mirugoni Mali farmers reached

**13.2%**  
Reduction in electricity use

**29%**  
Reduction in fuel consumption

**20%**  
Reduction in water consumption

## Our Economic Stability and Access to finance



**KShs.40b**  
value of MSME loan book

**KShs.17b**  
Paid in salaries and benefits

**KShs.2.085 billion**  
Value of insurance premiums obtained

**KShs.80.8 million**  
the value of Mobigrow accounts



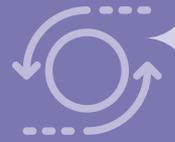
**3%**  
Proportion of loan portfolio in affordable housing

**13.2m**  
No. of registered KCB M-PESA users

**KShs.622 million**  
Value of insurance claims settled

**62.1m**  
No. of mobile transactions processed under mobile banking

## Our Financial Stability



**1,213**  
No. of fraud cases reported

**894**  
No. of unsuccessful internal fraud attempts

**10**  
No. of employees dismissed over internal fraud

**4,500**  
No. of employees trained in Anti-Money Laundering and Fraud

**100%**  
completion of annual mandatory Ethics e-learning courses across the Group



**KShs.33.9b**  
Profit before tax

**100%**  
of our active suppliers signed up to the code of ethics

**4,136**  
No. of staff trained on cyber security

**100%**  
achievement of anti-money laundering awareness across the Group

# How KCB Group creates shared value

In a fast changing and competitive global banking environment, reputation and trust are key ingredients for growth and customer retention.

KCB Group is committed to working sustainably not only because we feel it is our responsibility toward society, but also because we understand it supports progress and growth. We believe in creating shared value and implementing it through our 4-pillar Sustainability Framework of Social, Environmental, Economic and Financial Sustainability

We see it as an opportunity to be a better financial solutions provider.

To keep us accountable to our commitment; we screen and evaluate all our loans for environmental and social issues, we also report on the progress of the KCB Green Agenda through our annual reports to society.

What inspires us is the Group's ability to create shared value at scale in the East African region. Our larger reach means that any general societal or environmental



**A company creates shared value by defining policies and operating practices that enhance its competitiveness, while simultaneously advancing the economic and social conditions in the communities in which it operates. In this way it champions inclusive progress so that no one is left behind.**

issue solved is likely to help a greater number of people. We don't take this opportunity lightly. Our mission, vision and purpose therefore strive to create as much shared value as possible.

KCB also considers itself a financial services industry influencer based on our size, reach and vision for inclusive progress and a healthy financial system locally and globally.

We therefore participate in local, regional and international fora aimed at improving the system and providing more inclusive access. KCB is an East African champion of local and international best practice, principles and procedures.



## How do we know we are delivering on our mission to create shared value?

Since 2013, we have been measuring our performance through a Ten Point Action plan. In 2017, the Group adopted eight of the 17 UN Sustainable Development Goals following an internal stakeholder engagement process.

That same year, the Action Plan underwent a midterm review and the plan was updated to reflect current realities and keep us on track to meet our goals. The Action Plan and our progress is featured in this report. In the coming year, having been one of the founding bank members involved in their development, we are pleased to announce the Group will implement the newly announced UN Environment Program's Principles for Responsible Banking.





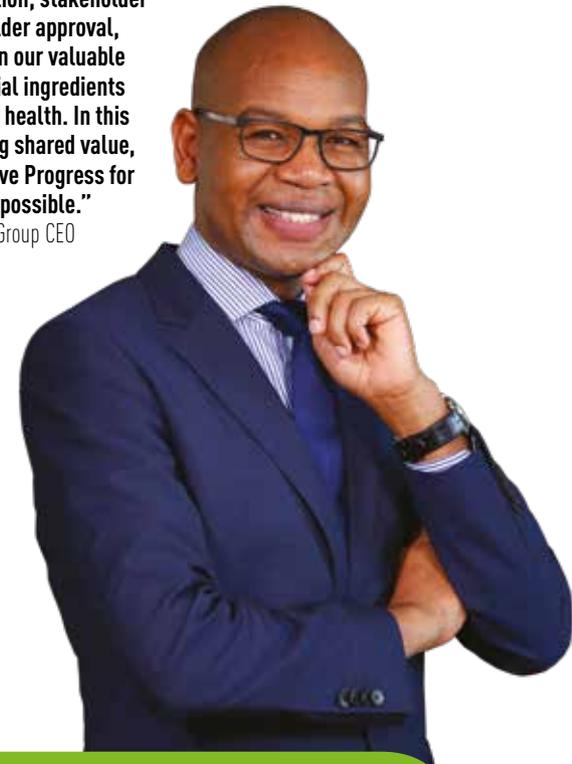
### KCB Group International, Regional and Local Commitments

- Capital Markets Authority Code of Corporate Governance Practices
- Code of Ethics for Business in Kenya
- Corporate Governance Guidelines prescribed by Central Bank of Kenya
- Equator Principles
- Global Banking Alliance for Women
- Global Reporting Initiative
- International Reporting Standards 9 (IFRS 9)
- Kenya Bankers Association (KBA) Sustainable Finance Initiative (SFI)
- Paris Climate Agreement
- Sustainable Development Goals (SDGs): KCB has adopted and committed to support 8 of the 17 SDGs
- UN Global Compact
- UN Women Empowerment Principles
- UNEP-FI Principles for Responsible Banking (KCB was selected to be a founding bank member)



At KCB Group, we believe that operating sustainably not only enhances performance and boosts revenue, but it also improves the Group's reputation, stakeholder trust, and shareholder approval, while helping retain our valuable talent---all essential ingredients for excellent brand health. In this way we are creating shared value, resulting in Inclusive Progress for as many people as possible."

–Joshua Oigara, KCB Group CEO & MD



We rely on Our Partnerships to implement programmes and deliver products and services to our customers. Transformative Partnerships is central to our business strategy. We firmly believe partnerships and collaboration provides strength and ability to execute on the SDGs.

# Our Sustainability Framework: Rationale

The Sustainability Framework graphic (SF Graphic) that follows represents how we integrate and align our Material Topics, the SDGs, and our 10 Point Action Plan items within our sustainability pillars.

Creating Shared Value is at the center of what drives our business. We look for and execute shared value opportunities through our 4 Sustainability Pillars which guides our contribution and impact on society and the environment. These pillars are Social Stability, Environmental Stability, Economic Stability and Financial Stability. Each Sustainability pillar is represented with a different colour in the SF Graphic.

During the year in review we conducted a materiality analysis and identified our material topics. (Our materiality analysis is reviewed on page 18.) Our material topics inform our strategic response in each pillar which is represented in the first circle from the center in the SF Graphic.

8 SDGs were selected in 2017 and aligned with our core competencies in each pillar represented in the second circle from the center in the SF Graphic.

Our performance in each pillar is measured with our 10 Point Action Plan items (highlighted on page 28) which is represented in the outer circle of the SF Graphic.

KCB has been recognized with several prestigious AWARDS showcasing our efforts in each pillar as represented in the corner of each pillar in the SF Graphic.

We have organised our 4 Sustainability Pillars as follows;

## Social Stability (Our Society: Customers, Colleagues and Community):

Represents our commitment to develop equitable, inclusive products and to support our youth and communities to prosper and thrive and enables us to create shared value. The related Material topics, SDGs and 10 Point Action Plan items are;

Related Material Topics	Related SDGs	Related 10 Point Action Plan items
Customer Centricity	#1 No Poverty	Empowering Youth and community
Talent management	#8 Decent Work and Economic Growth	Talent Management and Diversity
	#10 Reduced Inequalities	Portfolio reimagining

**Environmental Stability:** Signifies our commitment to caring for the environment on which we depend. We support responsible finance and consumption, green finance and lowering our Carbon Footprint to protect the environment. The related Material topics, SDGs and 10 Point Action Plan items are;

Related Material Topics	Related SDGs	Related 10 Point Action Plan items
Inclusivity, Diversity and Shared Value	#11 Sustainable Cities and Communities	Responsible Lending
	#12 Responsible Consumption and Production	Environmental Footprint
	#10 Reduced Inequalities	

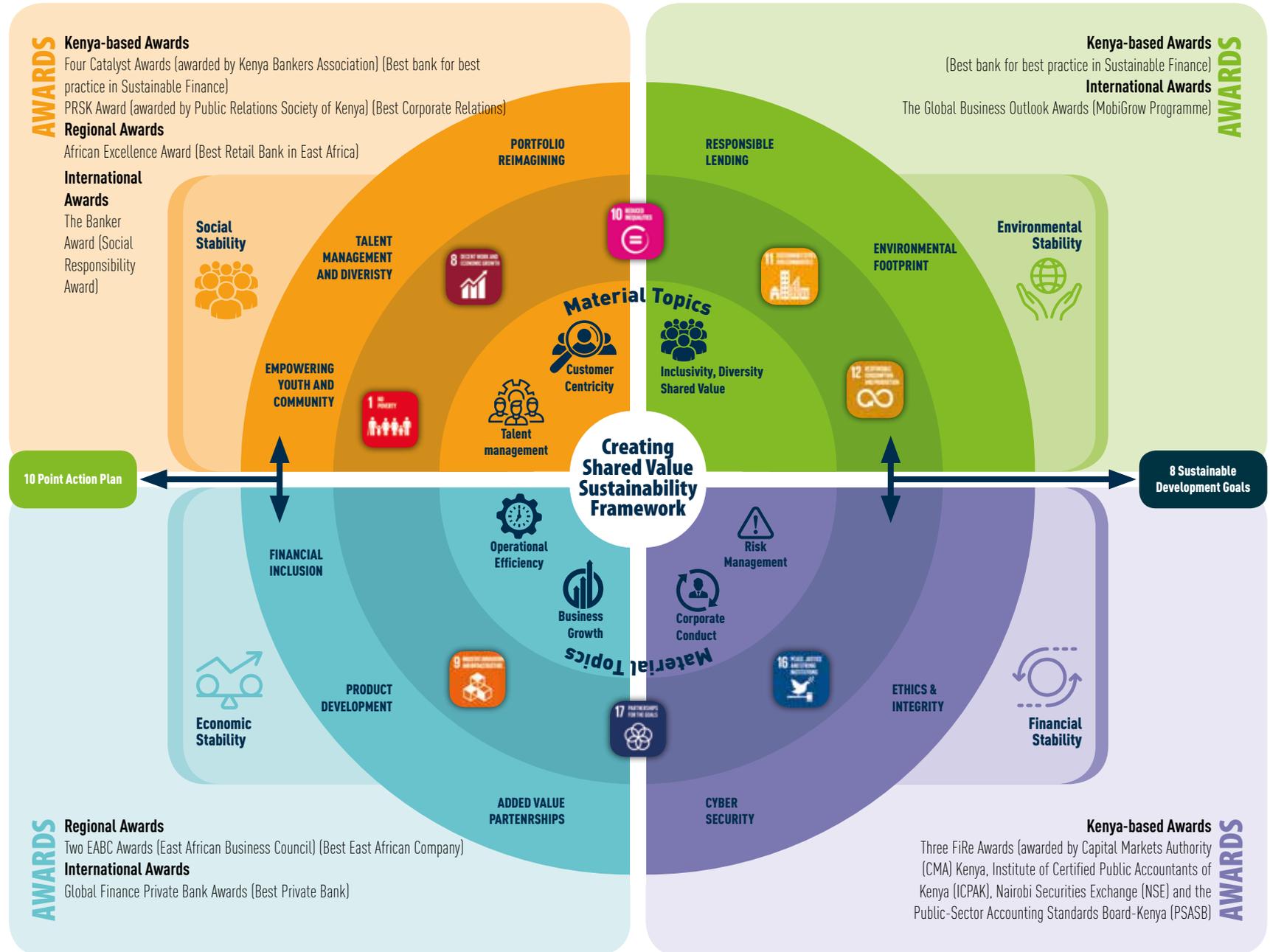
**Economic Stability:** Our contribution to enable and empower people's financial success is a cornerstone of a healthy economy. We believe in transformative partnerships to provide access to financial products that leads to inclusive progress. The related material topics, SDGs and 10 Point Action Plan items are;

Related Material Topics	Related SDGs	Related 10 Point Action Plan items
Operational efficiency	#9 Industry, Innovation and Infrastructure	Financial Inclusion
Business growth	#17 Partnership for the Goals	Added Value Partnerships
		Product Development

**Financial Stability:** Regulatory compliance, innovative and robust systems, security and ethics are critical components that form the foundation of a stable and prosperous economy. The related material topics, SDGs and 10 Point Action Plan items are:

Related Material Topics	Related SDGs	Related 10 Point Action Plan items
Risk Management	#16 Peace and Justice Strong Institutions	Ethics & Integrity
Corporate Conduct	#17 Partnership for the Goals	Cyber Security

# OUR SUSTAINABILITY FRAMEWORK: How it all fits Material Topics - SDGs - 10 Point Action Plan

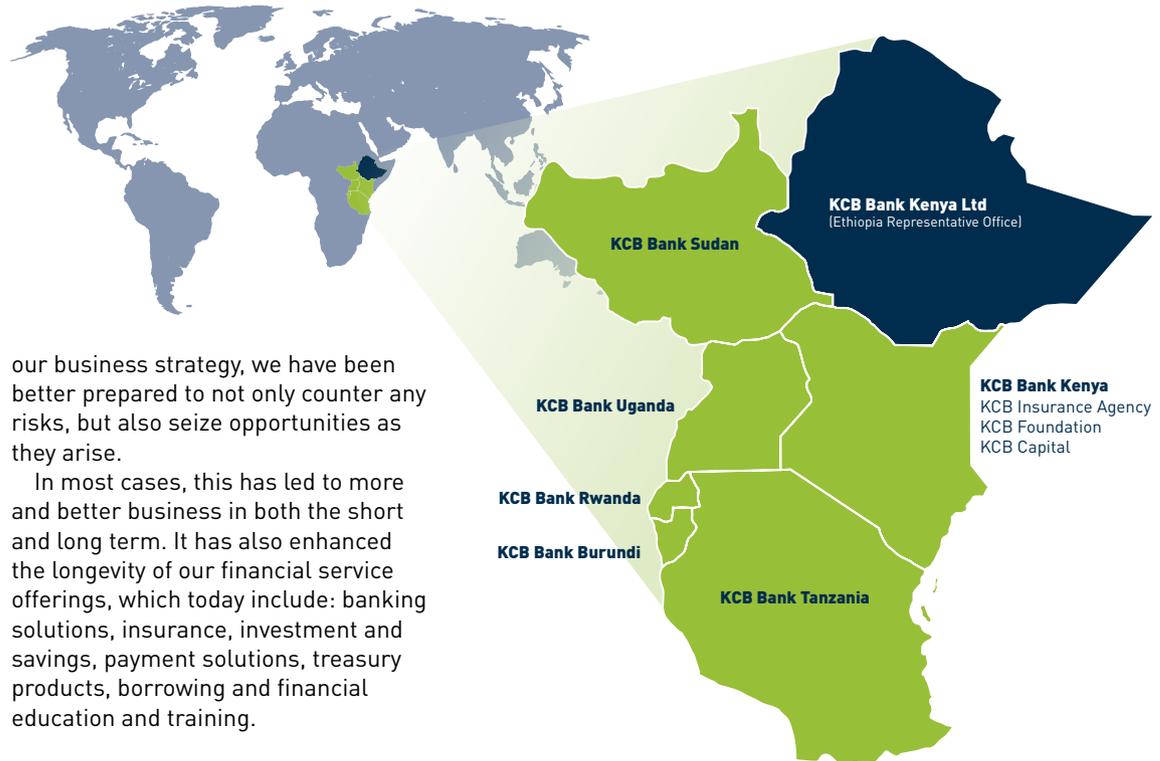


\*UNEP-FI Responsible Banking Principles to be aligned and implemented during 2019

# Our Presence

**K**CB Group strives to create shared value for as many people as possible within our communities across the East African region and we endeavor to be a leader in ensuring a sustainable global financial system. To achieve these goals, we have intentionally developed our product portfolio to be inclusive and reach those who would otherwise not be eligible for traditional bank finance. At the same time, we have ensured our internal systems align with international best practices to support a healthy financial industry at the local, regional and global levels.

For over 120 years of our existence, we have remained relevant. We have been able to flourish through innovation, resilience and adaptation. Our experience has proven time and time again that having incorporated long-term sustainable practices into



our business strategy, we have been better prepared to not only counter any risks, but also seize opportunities as they arise.

In most cases, this has led to more and better business in both the short and long term. It has also enhanced the longevity of our financial service offerings, which today include: banking solutions, insurance, investment and savings, payment solutions, treasury products, borrowing and financial education and training.

 **KShs.113,661,138,000**  
Total Equity

 **258 Branches**  
946 ATMs, 9,322 Agents  
& 7,320 POS / Merchants

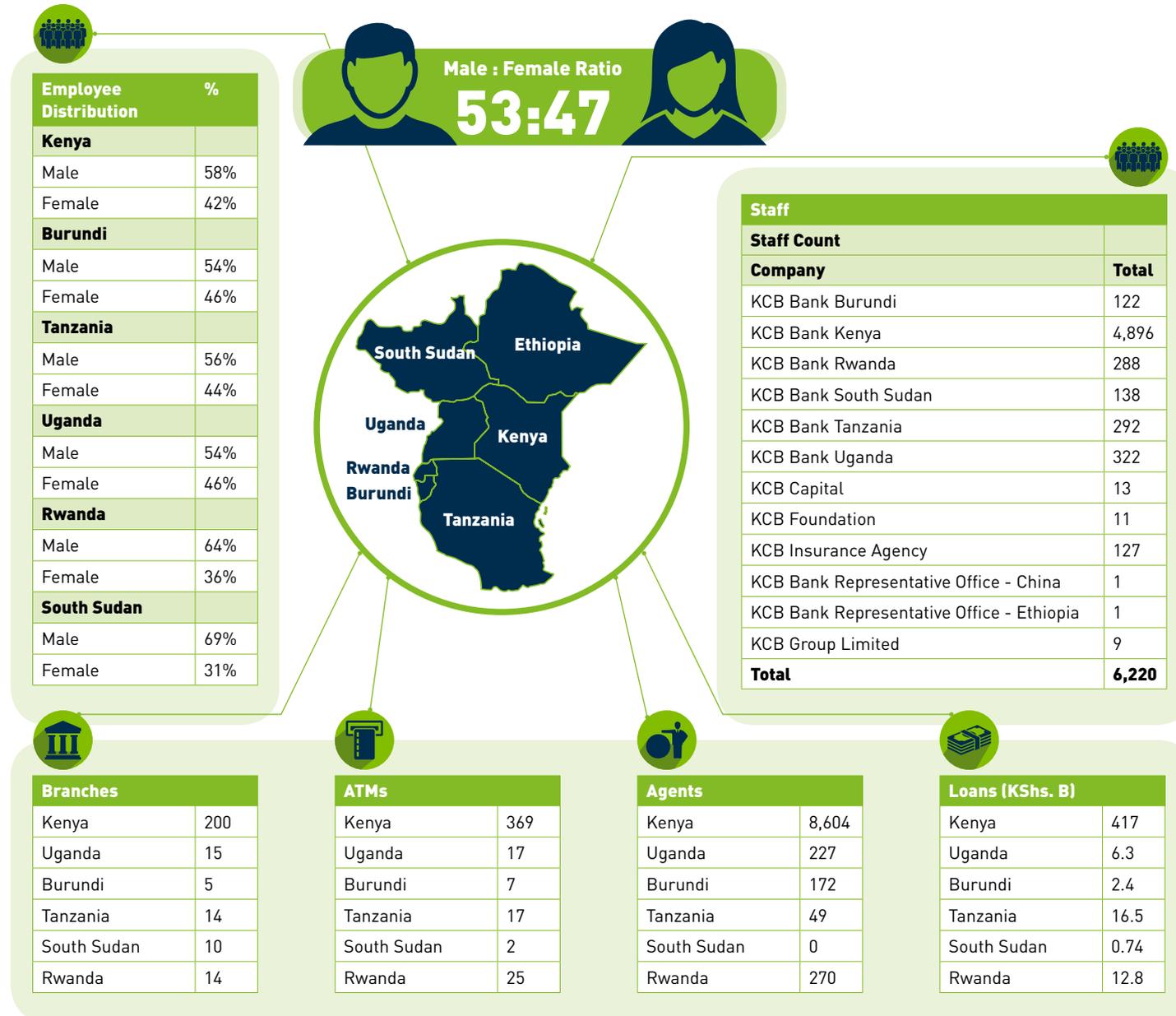
 **6,220 Staff**  
17.4 million customers



### Global Reporting Initiative

- GRI 102 General Disclosures: 102-41, 102-42, 102-43, 102-44, 102-46, 102-47
- GRI 103: Management approach: GRI103-1, 103-2, 103-3
- GRI 201: Economic performance
- GRI 202: Market Presence

## Inclusive Progress and How We Create Value



# Our Material Topics

Every year, KCB undergoes a materiality review to identify the challenges and concerns our stakeholders face or anticipate facing when operating within our sector. This year, our material assessment was refreshed through a rigorous four phase process, which included: the identification of issues/challenges faced; analysis of their impact on business;

assessment of stakeholder interest and a review and validation of this process.

Stakeholder identified issues were evaluated based on the business impact and stakeholder interest and importance. Once categorized, based on KCB's strategic themes, a materiality matrix was developed rating the importance of the issues to both KCB Group and the Stakeholders.

**Our material topics aligned with our Sustainability Pillars**

**SOCIAL STABILITY**

- Talent Management
- Customer Centricity
- Shared Value, Diversity and Inclusivity

**ENVIRONMENTAL STABILITY**

- Shared Value: KCB Green Agenda/SEMS

**ECONOMIC STABILITY**

- Business Growth
- Operational Efficiency

**FINANCIAL STABILITY**

- Corporate Conduct
- Risk Management



## Inclusive Progress and How We Create Value

The material issues identified above are described below in relation to our sustainability pillars

	Material Topic	Issues Raised	Our Strategic Response
	Material topics relating to <b>SOCIAL STABILITY</b>	Issues Raised	Our Strategic Response
	<b>Talent Management</b>	Capacity, Alignment, Staff Retention, Nurture, Capacity-Building, Succession, equipping for Future, Placement – matching competencies, Remuneration, Promotion, Disability consideration, Strategy engagement, competence, Rewarding.	We <b>develop and train our staff</b> to equip them with the <b>skills needed</b> to respond and engage with our stakeholders. We do this in an environment that ensures their <b>health &amp; wellness</b> and <b>equitable remuneration</b> .
	<b>Customer Centricity</b>	Trust, Culture, One Stop shop, Seamless experience, Brand consistency, Accessibility, Relationships, Agility, Dynamism, Innovation, Flexibility.	We are committed to making our <b>customers' experience seamless</b> while protecting their privacy and data. We provide <b>innovative, unique &amp; affordable products</b> tailor-made to customers' needs and ensuring their ease of use and efficiency.
	<b>Shared Value, Diversity and Inclusivity - Social</b>	Youth, Women, SME and Local Procurement. Equity & Parity in Remuneration, Disability consideration, personalized experience, financial inclusion.	We strive to provide <b>economic empowerment</b> , through various avenues, including supporting start-ups, SMEs, sponsorships, and scholarships.
	Material topics relating to <b>ENVIRONMENTAL STABILITY</b>	Issues Raised	Our Strategic Response
	<b>Shared Value, Diversity and Inclusivity - Environment</b>	Our Carbon Footprint and our resource consumption and indirect impact on the environment through our lending portfolio.	We are targeting to become <b>Carbon Neutral by 2028</b> . KCB adopted a <b>Green Agenda</b> to lower our own environmental footprint in electricity, fuel, paper and water use. We are <b>greening our portfolio</b> through <b>responsible lending</b> and minimizing our E&S risk with our Social and Environmental Management System (SEMS) that we apply to our loans. We measure our performance in all these efforts with our <b>Ten Point Action Plan</b> scorecard.

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## Inclusive Progress and How We Create Value

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	Material Topic	Issues Raised	Our Strategic Response
	Material topics relating to <b>ECONOMIC STABILITY</b>	Issues Raised	Our Strategic Response
	<b>Business Growth</b>	Strategy and Execution, Shareholder Value, Market Value, Sustainable Growth, Portfolio Diversification, Partnerships, Capacity, Region, Nurturing and creating opportunities, financial inclusion.	Our business <b>growth strategy</b> is focused on developing and maintaining <b>transformative partnerships</b> to help drive sustainable economic growth. We leverage our partnerships with customers and key stakeholders to develop the <b>innovative products</b> our markets need and thereby maximize <b>shareholder value</b> .
	<b>Operational Efficiency</b>	People, Process (Responsiveness (TAT), Technology, Reliability, Convenience, Culture.	Our service providers are key to our own performance. To ensure efficiency we use our P2P - Procure to Pay system that facilitates the onboarding, retaining and payment of partners in efficient time to put them in a sustainable position.
	Material topics relating to <b>FINANCIAL STABILITY</b>	Issues Raised	Our Strategic Response
	<b>Corporate Conduct</b>	Governance, Ethics, Accountability, Culture (Trust), Regulatory Compliance, Transparency, Structured Engagement, Communication, Professionalism, Confidentiality, Integrity, Values, Brand consistency.	We play a leading role in the financial system and therefore must be <b>compliant</b> with respect to laws and regulations to set the standard for corporate conduct and <b>governance</b> . <b>Transparency</b> and clarity in disseminating useful and relevant information to our stakeholders in a timely manner forms a key part of our overall conduct. Maintaining the highest level of <b>ethics and integrity</b> in our businesses and communities is essential for trust and brand reputation.
	<b>Risk Management</b>	Succession, Strategy engagement, Prudence, Proactive and not Reactive, Anticipation, Planning, Compliance, Portfolio Diversification, Audit, Relevant Policies, Monitoring the environment (PESTEL), Due diligence in Emerging Trends/Markets.	We have integrated our social and environmental risk management into business processes allowing the Group to avoid and manage loans with potential <b>social and environmental risks</b> by conducting social and environmental due diligence prior to loan disbursement. Risk forms part of every business and the key material topics pertaining to risk management includes actively coping with pertinent <b>legislation</b> as drafted in parliament or by way of civil procedures. As most banking moves to online platforms we strive to <b>reduce system down-time</b> while also ensuring efficiency in responsiveness and resolution of issues. In addition, we are committed to raising vigilance and awareness of <b>cyber-crime and fraud</b> risks through training and proactivity to secure our business ecosystem.

# Our stakeholders and how we engage

**E**ngagement with our stakeholders is our prime avenue for evaluating the Group's progress, performance and development needs. We participate in and sponsor several thought leadership discussions and workshops per year aimed at building a more robust economy and society in which everyone has the opportunity to thrive.

We launched KCB PowerTalk Series and an exclusive bi-quarterly engagement session for our valued corporate clients as part of our engagement strategy. In addition, KCB hosts annual conferences during which we engage with sustainability practitioners from corporations around the country to ensure industry specialists are well informed and trained on sustainability matters.

Our relationship with the regulator further enables us to engage frequently on risks and opportunities facing the wider financial services industry.



**We participate in and sponsor several thought leadership discussions and workshops per year aimed at building a more robust economy and society in which everyone has the opportunity to thrive.**



**KCB sponsored two of the KBA forums in 2018 aimed at engaging corporates in accomplishing the SDGs and exchanging information about relevant private sector initiatives.**



KCB Group CEO Joshua Oigara (left) during one of the PowerTalk sessions.

KCB is also a supporter of the Parliamentary Caucus Group on the Sustainable Development Goals, championed by Kenya Bankers Association.

KCB sponsored two of the KBA forums in 2018 aimed at engaging corporates in accomplishing the SDGs and exchanging information about relevant private sector initiatives.

We have additional engagement in various media forums and have ongoing exchanges with our stakeholders in Biashara Club—KCB's club geared to supporting SME growth through

information exchange such as seminars and workshops and the Developers Club—a sector specific club that brings together different players in real estate offering them an opportunity to learn, network and broaden their business scope.

In 2019, we plan to have more public participation and engagements through face-to-face events to receive feedback from an even wider array of stakeholders.

Our frequent engagements with our stakeholders are central to ensuring a prosperous business.

# Our Stakeholders



## Investors

- Shareholders
- Fund Managers
- Analysts



## Regulators, key players & government

- National Treasury
- Central Banks
- Capital Market Regulators
- Securities Exchange
- Bankers Associations



## Customers

- Retail
- Corporate
- Asset Manager
- Intermediaries



## Employees

- Long-term employees
- Short-term employees
- Executives



## Service Providers

- PR Agencies
- Marketing Agencies
- Photography Agencies
- Caterers
- Cleaning Agencies
- Printers



## Communities

- Beneficiaries
- Corporate Social Investment
- Partners
- Media
- Advocacy Groups

## Our Stakeholders and How we engage



The Principal Secretary State Department of Planning Dr. Julius Muia (third left), cuts a ribbon to launch the Association of Sustainability Practitioners in Kenya. Also present are, from left, Climate Innovation Centre, CEO-Kenya, Edward Mungai, Kenya Association of Manufacturers Head of Consulting, Joyce Njogu, KCB Group Head of Corporate & Regulatory Affairs, Judith Sidi Odhiambo, Safaricom's Head of Corporate Responsibility, Sanda Ojiambo and Former Danish Ambassador to Kenya, Ambassador Geert Andersen. The launch took place during the 2018 Sustainability forum in Nairobi.



The panellists, from right, Safaricom Head of Supply Chain Management, Francis Murabula, KCB Head of Procurement, Christopher Tiren, Extra Dimensions Director & CEO, Everlyn Wambui Njoora, UN Global Country Manager, Judy Njino and the Moderator, CEO, Kenya Climate Innovation Centre, Edward Mungai. This was during the 4th Annual KCB Suppliers conference at Radisson Blu hotel.

## Our Value Creation

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



SDGs



Decent work and economic growth



Peace, justice and strong institutions



Industry, innovation and infrastructure



No poverty



Reduced inequalities



Partnership for the goals



Responsible consumption and production



Sustainable cities and communities

### OUR CAPITALS



#### FINANCIAL

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



#### MANUFACTURED

- 88% Out of branch transactions



#### INTELLECTUAL

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



#### HUMAN

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



#### SOCIAL

- 17.4 million Customers
- Strategic Partnerships



#### NATURAL

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

### PROCESSES

#### Customer Centricity

- NPS score of 43% in 2018

#### Operational Efficiency

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

#### Talent Management

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

#### Drive Shareholder value

ROAE of 22.0% in 2018

#### Business Growth

- Market Share of Loans: 17% in 2018

#### Growth in Digital Financial Services

- NFI Contribution of 32.2% in 2018

Social Stability

Environmental Stability

# Highlights

> 31.3%

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

> 18.2%

Of our wealth created is distributed in Government Taxes.

> 24.4%

Of our wealth created is retained to support future business growth

Our value creation is underpinned by our Sustainability Framework, the SDGs impact measurement and performance targets in our Ten Point Action Plan. Aligning our strategy and cross cutting social, environmental, economic and financial aspects with global and financial sector frameworks are essential to our ability to deliver long term value.

## OUTPUTS

### Accounts

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

### Payments & Transactions

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

### Loans

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

### Investments

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

### Forex

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

### People

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

## OUTCOMES



### Investors

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



### Employees

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



### Regulators

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



### Customers

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



### Communities

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

## Underpinned by our Sustainability Framework

Economic Stability

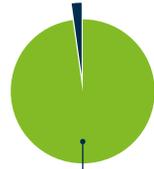
Financial Stability

# Mainstreaming and Measuring Sustainability

**K**CB Group has been reporting on its sustainability-related contributions for over a decade. Over the last few years, we have focused on entrenching and mainstreaming sustainability into all aspects of the bank's operations.

As a result, our most recent 2018 internal staff sustainability survey revealed that 98% of employees (out of 1,570 respondents) were familiar with the term "sustainability." Eighty percent of the respondents were familiar with the adoption of the Sustainable Development Goals (SDGs). Although 93% of staff agreed sustainability had great personal meaning, only 67% of employees were familiar with Group-sponsored sustainability initiatives. During our 2018 materiality analysis, internal stakeholders considered creating shared value items lower on the materiality scale. However it still crossed the threshold of importance for inclusion as a material topic.

One of our goals for 2019 is therefore to communicate our efforts more frequently and enhance our relevant e-Learning platform. Our focus in the coming year will also be to improve on our positive and negative impact reporting overall through an expanded social return on investment study and to enhance our progress reporting specifically pertaining to achieving the SDGs.



**98%**

of employees (out of 1,570 respondents) were familiar with the term "sustainability."

Eighty percent of respondents were familiar with the adoption of the Sustainable Development Goals (SDGs).



**67%**

Although 93% of staff agreed sustainability had great personal meaning, only 67% of employees were familiar with Group-sponsored sustainability initiatives.



Adopt Sustainability Framework & Implement ESG considerations in lending process (Approval of Group SEMS policy)

2015



2016

Focus on Supply Chain Sustainability (Suppliers Code of Ethics & Global Banking Alliance for women)

Adopt and integrate 8 SDGs, and conduct 1st social return on investment (SROI) study. Develop part of UNEP FI Responsible Banking Principles

2017/2018

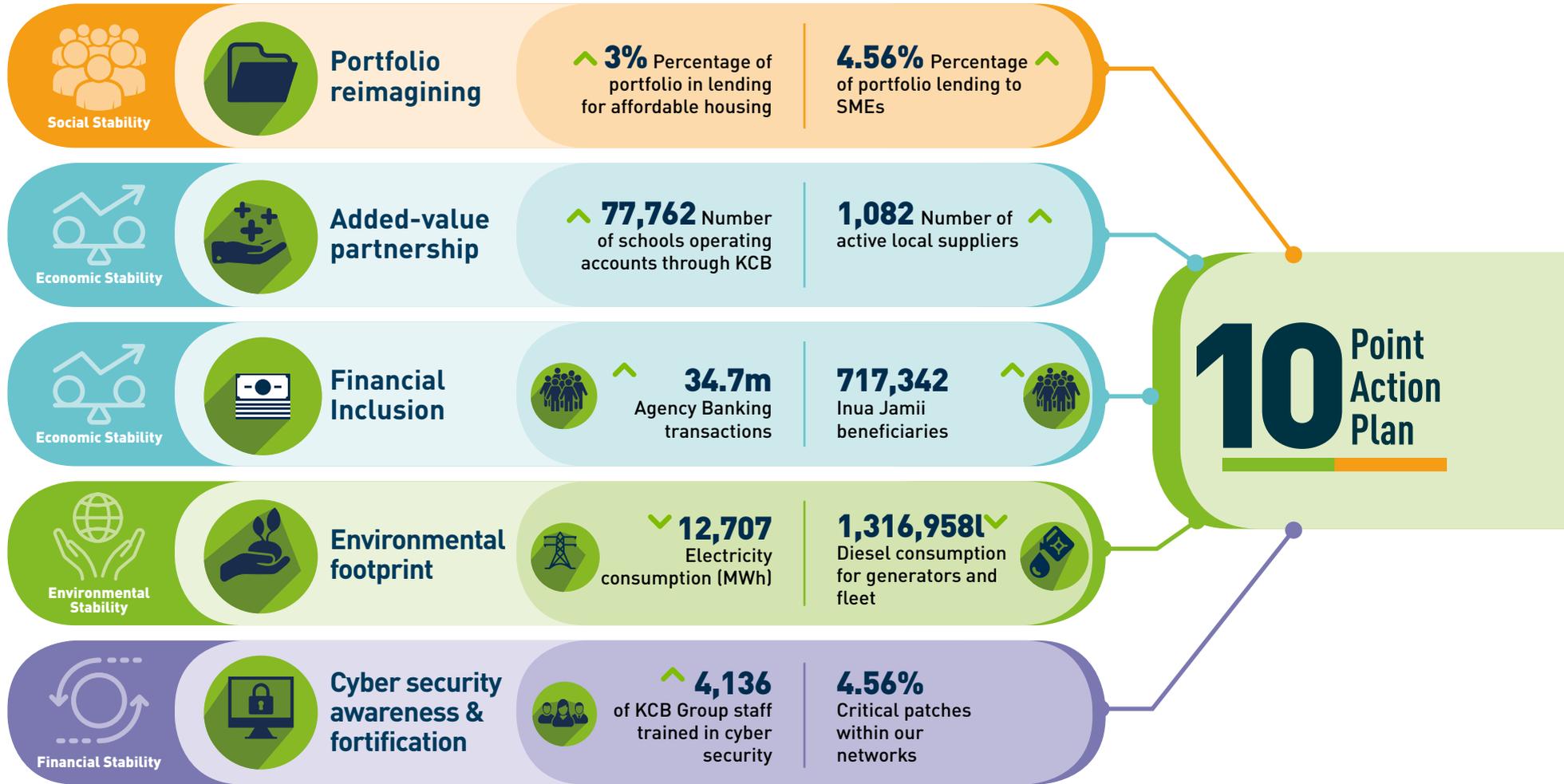


2019-2030

Adopt UNEP FI Responsible Banking Principles in 2019  
2nd social return on investment (SROI) study (Expanded) in 2019  
Green Bonds by 2020  
TFCD disclosure by 2020  
Grow Green Portfolio by 15% by 2023  
Carbon neutral by 2030  
Access to finance for all by 2028

# Our Ten Point Action Plan – Measuring Our Performance

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



**4,582** <sup>^</sup> No. of employees trained on sustainability awareness

**4.10%** Staff attrition rate



**Talent management and diversity**



Social Stability



**250** <sup>^</sup> No. of scholarships under Scholarship Programme

**86%** <sup>^</sup> Proportion spent on local procurement



**Empowering youth and community**



Social Stability



**5** <sup>^</sup> 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



**84** <sup>^</sup> No. of social-environmental assessments undertaken

**KShs.126.7B** <sup>^</sup> Value of facilities that have undergone social & Environmental Assessments

**Responsible lending**



Environmental Stability



**10** <sup>^</sup> Number of employee dismissals relating to fraud

**319** <sup>^</sup> No. of unsuccessful internal fraud attempts



**Ethics & integrity**



Financial Stability



### SDG Vision Statement

Through sound systems and partnerships, KCB Group is reimagining societal values. This vision includes a world free from poverty and inequality, resulting from employment and growth opportunities, which arise from enhanced innovation and infrastructure. We see a future of cities that are thriving sustainably and adhering to the principles of responsible consumption and production.



**Over the past year we mapped new SDG-related key performance indicators to the relevant departments and established relevant targets. Moving forward, this results-driven approach will ensure proper integration of our sustainable development goal commitments enabling us to update our corporate strategy accordingly.”**

- KCB Head of Strategy, Reginald Kikwai

# Integrating Sustainable Development Goals into our corporate strategy

**K**CB Group is committed to supporting achievement of the United Nation's Sustainable Development Goals. In 2017, we committed to contributing to the achievement of eight of them. The eight goals were prioritized through a rigorous internal stakeholder engagement process. This year, we focused on aligning the SDG targets with our business strategy and our Ten Point Action plan.

To effectively mainstream the SDGs within KCB Group, our Strategy Team mapped each adopted goal to the most appropriate department.

This will ensure tracking and accurate reporting on the progress of the goals we committed to address.

Some departments may report on more than one goal at a time depending upon their area of practice.

KCB Group is renewing its business strategy next year and this alignment with the strategy team will further ensure the entrenchment of the SDGs into our updated core strategy.

Although the Group did not reach all SDG-targets set for 2018, we have flagged these areas as those that will receive further attention in 2019.



## Our selected SDGs and how they relate to our Material Topics

Sustainable Development Goals		1 NO POVERTY	8 DECENT WORK AND ECONOMIC GROWTH	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	10 REDUCED INEQUALITIES	11 SUSTAINABLE CITIES AND COMMUNITIES	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	16 PEACE, JUSTICE AND STRONG INSTITUTIONS	17 PARTNERSHIPS FOR THE GOALS
KCB Material Topics	 <b>Social Stability</b>								
	Talent Management	■	■		■				
	Customer Centricity		■	■					■
	Shared Value, Diversity and Inclusivity-Social	■	■		■				■
	 <b>Environmental Stability</b>								
	Shared Value, Diversity and Inclusivity-Environment				■	■	■		■
	 <b>Economic Stability</b>								
	Business Growth	■	■	■	■				■
	Operational Efficiency			■					
	 <b>Financial Stability</b>								
Corporate Conduct							■	■	
Risk Management							■		

# (Our Society)



# Our Society: Culture, Customers, Colleagues and Communities

## Our Culture

Our values: INSPIRE, SIMPLE & FRIENDLY, inform our approach to everything we do. Our purpose is to *simplify your life*. We achieve this through our customer centric driven outlook on products and services.

This guides our culture of always putting the customer first. We promote transparency, disclosure, integrity and adherence of the laws and regulations as the cornerstones of supporting our customer centred culture.

## Our Customer Experience

Over the past few years, KCB has moved from a product-centered to a customer-centered organization. We are committed to meeting our customers' needs through differentiated affordable and accessible service.

Our customers' experience is at the heart of what we do. We want to offer our customers a seamless banking experience. At every touch point we aim to enhance their experience—whether in the traditional branch environment or in the digital space.

We request feedback from our customers about their experience on a daily basis. We want to



We ask our colleagues to ensure their behavior passes these tests:

- I am a **LEADER**
- I find **SOLUTIONS**
- I drive **EFFICIENCY**
- I **SIMPLIFY** work
- I **LISTEN** and **CARE**
- I am **POSITIVE** and **COMMITTED**



**KCB Group topped the financial sector as the best in customer service, driven by the bank's uptake of social media in customer experience management.**

**2018 M-Survey Customer Loyalty Industry Benchmark Report**

**KCB won an award for best corporate relations award in 2018. Public Relations Society of Kenya**



Global Reporting Initiative

- GRI 102: General Disclosures
- GRI 401: Employment
- GRI 403: Occupational Health and Safety
- GRI 404: Training and education
- GRI 405: Diversity and Equal Opportunity
- GRI 406: Non-Discrimination
- GRI 408: Child Labour
- GRI 409: Forced or compulsory labour
- GRI 412: Human rights assessments
- GRI 413: Local communities
- GRI 414: Supplier Social Assessment
- GRI 417: Marketing and Labelling
- GRI 418: Customer Privacy
- GRI 418: Socioeconomic compliance
- Financial Sector Supplement: FS6, FS7, FS8, FS13, FS14

ensure KCB is the provider of all their financial needs. From our Cub accounts through to our corporate accounts, every customer is important, and we work hard to understand each customer's profile.

As the largest bank in the East Africa region, KCB is well positioned to help address complex societal issues. We aspire to build relationships and **trust** with our customers and gauge our performance in relation to our peers through customer surveys.

We are simplifying our customers' world through digitization to provide a similar or better, personal, instant and seamless experience just as they would find if they stepped into any of our branches.

In addition, KCB Bank Group has the widest network of Automated Teller Machines in East Africa — 946 ATMs. We have 16,642 agents and POS/merchants. Since April 2018, we rolled out 68 **Intelligent Bank ATM's** that allow customers to deposit cash into their accounts and we received KShs.22.5 billion in deposits. We received KShs.153 billion through deposits with our 9,300 agents located throughout the East African region.

To enhance the in-branch experience, we implemented electronic queue management in 50 of our branches to simplify and improve the overall customer experience. We plan to roll out this technology in more branches next year.

We are also empowering people with access to financial information and education through our **digital** communication channels. Our continuous investment in technology resulted in an improvement in **system uptime to 99.9%** in 2018 effectively guaranteeing reliability.

According to the 2018 customer surveys, last year saw a remarkable improvement in customer service, product development and **transparency**. However, we are lagging behind in customer issue resolution, which has been affected by system stability and turnaround times. This will be a focus area in 2019.



946

Number of Automated Teller Machines

68

Number of Intelligent Bank ATM's that allow customers to deposit cash into their accounts and see the balance reflected instantly.



According to the 2018 customer surveys, last year saw a remarkable improvement in customer service, product development and transparency.

We strive to offer delightful and memorable experiences to our customers at our various touch points and as such, we have adopted the 4E's model of customer experience excellence.

The 4Es are:

**Emotions** – At every touch point, upon any customer interaction, emotion is the real product that the customer carries back home. Positive experiences lead to more promoters and these positive customer experiences play a decisive role in customer retention.

**Executions** – These are the ways of getting tasks done which is of importance to the customer. We strive to be fast and agile in our delivery, while being responsive in our product offerings.

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



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

**Efforts** - This is having the customer's interest at heart as we seek to deliver on their expectations. We strive to ensure that our customers' experiences are effortless as increased effort exerted diminishes the customer experience/emotion.

**Expectations** – These are an integral part of the customer emotion and when expectations are exceeded, customer experiences / emotions shall be positive. To effectively serve our customers, we have to anticipate what they expect from us.

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



KCB staff during the 2018 Customer Service Week



The Net Promoter Score (NPS) is a global business advocacy indicator that we have used to benchmark ourselves on customer excellence. KCB Group's NPS was 45%, well above the industry average of 20%. The Group's NPS for customer excellence peaked at 40%, against an industry average of 21% and against our own internal – and quite ambitious – target of 60%.

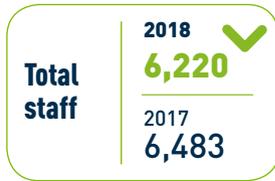
The introduction of an electronic customer relationship management system has created a central repository that allows teams across the business to have a view of customer concerns for tracking and resolution. In addition, we have other channels for interacting with our customers including a 24-hour call centre and social media platforms. As a result, staff are ultimately responsible in driving customer satisfaction.

Moving forward, our focus will be on leveraging big data and artificial intelligence to create insights and understand our customers better so that we can continue providing unique propositions to them.

### Our Colleagues

We depend on our staff members to accomplish what the Group set out to contribute to society. It is therefore our priority to support our staff in the best possible way to complete their tasks and help them grow as individuals and leaders. To help build a highly motivated team, we conduct a bi-annual employee engagement survey to assess how our staff view our organization. We use this information to develop desired employee development and capacity building programmes.

In addition to upward mobility orientated development programmes, KCB also provides lateral and/or rotational development and



career opportunities for employees in various roles to help them better understand their position within the Group.

**Diversity** is an important ongoing goal and we aim to fill at least 15% of all new positions with the under 30 population.

In 2018, women accounted for 50 percent of managerial positions held (meeting our target two years early), while our staff comprised 75% under 40 years of age.

Having a capable and well-informed workforce is essential for business. We therefore develop our staff through the most relevant **capacity building and training** opportunities. Employees are taught about sustainability, ethics, anti-money laundering and cyber-security, risk management and business continuity management.

In 2018, the Group provided training in sustainability for our corporate, retail, credit and audit business units. Each of these units is critical to the Group's mission of integrating sustainability into its operations.

The Credit Team is critical as it assesses and approves loans. We rely on our Corporate team to ensure that, as much as possible, sustainability measures are carried through to our largest clients.

Meanwhile, our Retail Banking team is key to supporting SMEs identify and mitigate environmental and social risks. In conjunction with the IFC, environmental and social trainings also took place in both in the classroom and client sites.

Staff undergo annual performance reviews and mandatory sustainability-

related training. In order to operationalize and incentivize our goals, all staff have at least one **sustainability-related key performance indicator** with corresponding target in their performance scorecards.

We strive to acknowledge the efforts of our staff in supporting achievement of the Group's sustainability goals.

In 2018, the Group introduced the Sustainability award category under the Simba Awards. The winners included KCB Hola Branch who scooped the award for Best Branch in Sustainability; KCB South Sudan received the award for the best subsidiary and KCB Headquarters was awarded Best Region in Sustainability.



**KCB is committed to making financial services more accessible and improving financial literacy. We are exploring possibilities that would enable our customers to access our academy in the same way as it is used by staff, through the offering of financial literacy programs.”**

-Annastacia Kimtai, Director, Retail Banking



KCB Headquarters staff receive the award for the Best Region in Sustainability at the 2018 KCB Simba Awards ceremony.



KCB Hola Branch staff receive the award for the Best Branch in Sustainability at the 2018 KCB Simba Awards ceremony.



KCB South Sudan staff receive the award for the Best Subsidiary in Sustainability at the 2018 KCB Simba Awards ceremony.

**Employee benefits:** Full time employees receive benefits that part-time employees do not receive. These benefits include bonus eligibility, medical benefits for dependents, loans at concessionary rate, club membership, allowances, overtime and pension.

Parental leave is offered to both female employees (90 business days, plus another 6 months of flexi-work) and male employees (14 business days). Creche (for nursing mothers) at head offices.

KCB tracks and handles cases of discrimination according to our Group's **anti-discrimination** policies and procedures and the employment law. We also track the incidences of discrimination that were reported within KCB based on race, religion, gender, sexual orientation, age, disability, migrant status and HIV/AIDS status.

Ensuring the **health, safety and wellness** of our staff is how we "invest" in our human capital. Employee wellness programmes including leave programmes, prayer rooms, medical insurance and annual check-ups in conjunction with insurance provider, AAR.

Mothers returning from maternity leave are eligible to arrange for flexible working hours.



**KCB tracks and disciplines discrimination internally according to our Group's anti-discrimination policies and procedures and employment law.**

Case study

## Building success from the inside out

**W**omen have made great advances in the world of work. However, women in construction are certainly a minority.

A male dominated industry or occupation contains 25 per cent or less women in total employment, and while women have made headways in certain occupations, there are still a number of industries where women deal with the challenges of being a minority. However, this has never been much of a problem for Rose Muthoni Wachira. She fit right into a career that she says inspires her to get out of bed each day. As a woman in the demanding construction business, Rose says what has kept her on top of her game is staying true to values of honesty, integrity, hard work, customer care and loyalty. "I know that for many women, running a successful



business is especially difficult while also investing the time and energy needed to successfully manage financial, operational and personal matters," says Rose. Her path to success has been facilitated by her financial partner – KCB Bank. "KCB Bank has opened up opportunities for me that have been key to the success of my construction business," says Rose.

She has attended workshops and trainings facilitated by the bank's SME focused platform, KCB Biashara Club, and attributes the growth of her business to the knowledge and skills attained from the sessions.

She says more than anything, women should also focus on investing in themselves and in the things they are passionate about.

"Investing in yourself is one of the best return on investments you can have. Whether it's investing in learning a new skill or developing yourself personally or professionally, it always pays," she says.

## Invest in self to prosper

**E**mma Gathoni Wachira is an advocate of the High Court. She practices Conveyancing and Commercial Law at her law firm situated in Nairobi, Hurlingham. Every day when she gets up to go to work, two things are usually at the back of her mind; one, that at the end of the day she will feel that she did something constructive, and two, that she positively contributed to the society, country and economy.

Gathoni left employment to start her own law firm. Together with her friend Joan Mutabari, they took an entrepreneurial leap and started Joan Emma Advocates. The two have a combined experience of close to 18 years. With so many people depending on them and their company, from employees, partners, clients to mentees who look up to her, she cannot afford to slip up.

She says that after they established their firm, they went out on a search for a suitable and convenient banking partner. They opened an account with KCB Hurlingham Branch at Priory Place. She says banking with KCB Bank is the one of the best decisions she has made. "KCB goes out of their way to help their customers, it conducts trainings and organises networking forums. Through the KCB Biashara Club, I have gone on business trips and met people in diverse careers and I've been able to network and get business," says Gathoni. "They hold trainings for entrepreneurs to



build themselves, they advise on business opportunities and help entrepreneurs expand their businesses," she adds.

She says it is through such trainings and networking that more and more women are making a mark and breaking new ground in various professions. She says this is what has helped grow their law firm.

"Women are sensitive, understanding and more practical in analysing a situation or a legal matter and work with clients step by step," says Gathoni of the values that have pushed her firm to excellence. She lives by her mantra, "always give your best in all situations. You might just surprise yourself at how far you can get and how much it pays."

The Group also employs a full-time clinical officer available to provide counselling and support in cases of any mental health needs, while a panel of experts and doctors are readily available to staff.

Meanwhile, the bank's health and safety manager ensures adherence to KCB's Health and Safety policy.

The KCB wellness programme facilitates the training of wellness champions to assist employees and family members to make voluntary behavioral changes which reduce health and injury risks and enhance individual productivity and well-being.



**Employee wellness programmes including various leave programmes, prayer rooms, medical insurance and annual check-ups in conjunction with insurance provider, AAR.**

Sports

**KCB SPORTS SPONSORSHIPS**

ACTIVITY	No. Players	No. Events 2017	2017 KShs. Spend	2018 KShs. Spend
Football	24	32	30	34
Rugby	40	16	37	41
Chess	12	8	4	6
Women's V. Ball Team	20	20	10	20
KNRC		7	17	16
Auto X		9	3	4
Road To Masters Golf		0	0	5
Karen Masters Golf		1	38	55
Rhino Charge		1	6	7





A series of KCB Sports sponsored events ranging from chess, football, MotorCross, golf, rugby and women's volleyball.

## Our Communities

Over the years KCB Group has also supported local communities through numerous philanthropic and corporate social investment activities, with focus on education, enterprise development, health, environment and humanitarian intervention.

Our efforts in increasing access to finance contributes to achievement of SDG #1 No Poverty. Being a regional financial institution, we also contribute to this SDG through our ability to increase access to finance to all. We aim to empower and improve the quality of life for customers through the provision of affordable and appropriate insurance solutions. The bank targets access to finance for SMEs and women in support of SDG #10 Reduced Inequalities.

KCB Foundation—one of the Group's main avenues for community engagement—has sharpened its focus to help drive shared value for the Bank's customers, shareholders, employees, communities and society by creating business value while prompting positive social change.

The Foundation's flagship programmes include KCB Scholarships (targeting youth), 2jijiri (targeting out of school youth by offering them training in agriculture, domestic services, beauty and personal care, automotive engineering, building and construction). The Foundation also focuses on Mifugo ni Mali, a programme that works to develop linkages in livestock value chains in Kenya's arid and semi-arid regions. Today, shared value, CSI and philanthropy comprise 80%, 15% and 5% of the Foundation's activities respectively.

During the year under review, we sponsored numerous events focusing on leadership development, sports, education, youth development, business skills, social protection and health at a cost of over KShs.200 million.



# KShs. 200m

During the year under review, we sponsored numerous events focusing on leadership development, sports, education, youth development, business skills, social protection and health at a cost of over KShs.200 million.



## Over 100

Number of events sponsored  
in 2018

Another KShs.17 million went towards women empowerment related programmes such as the Joyful Women's Organisation annual event.

The Foundation works with like-minded partners corporations and organizations to help make these initiatives possible.

According to a recent internal brand health study, KCB Group has had a tremendous growth in its "meaningful perception" category owing to its ability to deliver on both functional and emotional needs. "Brand love" has also significantly grown in the last three years. This we partly attribute to impactful initiatives such as KCB 2jijiri, which has enhanced emotional attributes for the brand as well as sponsorship of different sports including rally, football, rugby, volleyball, athletics, golf, basketball and netball. During 2018 we sponsored numerous sporting events and contributed over KShs.188 million.

KCB M-PESA has also played a great role in driving affinity for the brand in meeting customers' day to day needs.

In 2018, KCB Group partnered with Kenyatta University and Safaricom foundation in increasing awareness and providing learning opportunities to persons living with disability by enrolling them in the M-PESA Foundation Academy.

### Case study

## Re-inventing farming using science

In a span of six months, Grace Kimani went from sitting idle at home to having a guaranteed five-year vegetable supplies contract with Tuskys Supermarket.

This transformation happened after she graduated from Miramar International College in Kikuyu with a certificate in agribusiness. Grace partnered with six of her classmates to form Vabiz Enterprises which specialises in growing tomatoes using the hydroponics farming technology - a soil-less method of farming where plants are grown using only a mineral nutrient solution. The method enables crops to mature within a short time, and are usually free from soil borne diseases.

Grace and her business partners are beneficiaries of the Skills and Enterprise Development project, an initiative between KCB Foundation's 2jijiri programme and the German Agency for International Cooperation (GIZ).

After undergoing training for three-months, the group qualified for a loan and used the money to construct a greenhouse. They started off with 1,200 stems of tomatoes, which, through meticulous adherence to hydroponic farming techniques, managed to yield over 600kg of tomatoes after

six months. They recently partnered with San Valencia Hotel who are their anchor client in addition to the five-year supplies contract with Tuskys.

Grace attributes her success to the opportunity offered by KCB Foundation, without which she would not have known about hydroponic farming.

"Hydroponic farming has changed my perception of farming since it is clean farming and not labour intensive. It's something you can handle whether you are working in the office or have other things to do," Grace adds.

Her success story is similar to that of Simon Muriithi, a member of the Greenlife Veggies, who together with his five friends, have embraced farming lentils through hydroponics technology after graduating from Miramar International College.

By his own admission, KCB Foundation has supported them comprehensively through providing seedlings, nutrients, construction materials for the green-house and financial literacy.

Prof. Dominic Mwenja, President of Miramar College is excited about being part of the program. He says the young farmers need to be exposed to modern methods of farming which are not affected by changing weather patterns.



The KCBF 2jijiri agribusiness program, Professor Mwenja says, aims to disprove the old stereotypes of farming in terms of age, where the average Kenyan farmer has been over 50 years to having 18-year-old's youth embracing farming.

In hydroponic farming, plant growth and productivity is controlled by the type and amount of nutrients added to the water. The technology enables farmers to achieve predictable yields for vegetables in shorter periods compared to traditional methods of farming.

With this system, the farmer is unaffected by seasons, adverse weather conditions or climate change, which have all given rise to severe food insecurity in Africa.



**In hydroponic farming, plant growth and productivity is controlled by the type and amount of nutrients added to the water.**

## KCB Foundation Highlights

### 2Jiajiri Beneficiaries

**23,059**  
Beneficiaries



**13,953**  
Agribusiness



**1,145**  
Domestic  
Services



**1,383**  
Automotive  
Engineering



**4,459**  
Building and  
Construction



**2,119**  
Beauty and  
Personal Care



### Mifugo Ni Mali



**36,391**

Number of cattle tagged using  
RFID technology



**KShs.55m**

Amount of money repaid by  
Cooperatives in ASAL



**36,000**

Number of farmers reached  
through Mifugo Ni mali



**KShs.25m**

Amount of money raised for  
livestock keepers through auction



**KShs.123m**

Amount of money disbursed as loans  
to Cooperatives in ASAL Counties



**10**

Number of counties the Mifugo  
Ni Mali programme is being  
implemented



**2**

Number of livestock  
markets constructed



**74**

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



Our **Clients' Shared Value**

**Our Society**

## Sustainable manufacturing: a story of building communities



**S**avannah Cement is one of the region's largest cement manufacturers having consistently produced quality cement for the last six years. But it is their effort towards reducing their environmental impact that makes their story worth telling.

Cement is a greenhouse gas intensive product whose production also entails intensive water and energy consumption. As such, Savanna Cement has invested in solutions to balance the growing demand for cement with its environmental implications which has resulted in a reduction of carbon dioxide emissions.

For example, to reduce energy consumption, the company invested in roller press technology in the plant, which

resulted in a significant reduction in energy consumption. The plant uses 27 kWh/T while the average power requirement in the cement industry is 35 to 42kWh/T.

The Athi River-based cement manufacturing company has been a valued KCB Bank corporate client since its inception. Using funding from the bank, the manufacturer procured Variable Frequency



**To minimize release of cement dust into the environment, the company incorporated pulse jet bag filter units across the entire production line.**

Devices that were installed in the high energy demand devices to reduce energy consumption.

The company has also erected structures that allow natural lighting and ventilation which reduces the need for electricity. This, coupled with the installation of Light Emitting Diodes (LED) bulbs whose electricity consumption is considerably lower, has improved energy efficiency.

The company has a dedicated energy management committee that spearheads the energy management strategy. The team carries out quarterly energy audits and capacity building.

The company is also in the process of substituting the use of natural coal with rice husks which will not only reduce energy costs,

but also cut down on carbon emissions.

Savannah Cement has a robust waste management strategy. Waste water is recycled using two bio-digesters each with a 5,000 litre capacity. Additionally, weekly inspections of the water systems reduces waste through leakages.

To minimize release of cement dust into the environment, the company incorporated pulse jet bag filter units across the entire production line.

As a result, the improved air quality has led to a better working environment, thus promoting the wellbeing of employees.

Savannah's employees play in big role in advancing the company's sustainability agenda. The company supplies tree seedlings, and each employee plants 50 trees every year around the factory. These trees are maintained using the recycled water.

Savannah is in the process of putting up a new processing plant which will incorporate waste heat recovery technologies to increase energy efficiency.

The manufacturing company's membership in the Kenya Green Building Society has created a benchmarking opportunity to share their sustainability practices with their local peers. Through this platform, Savannah has been advocating sustainable manufacturing practices and responsible green constructions.

The Society also enables the training of green building professionals to develop 'green' buildings.



**5,000lts**

Waste water is recycled using two bio-digesters with a capacity of 5,000 litres each.

## Gearing towards a sustainable future

**T**ransport and Lifting Services, also known as TNL, was founded in 2000. In 2006, the company officially began working on a growth strategy that involved the provision of additional offerings within the logistics sector. This led to the company's venture into vehicle sales specializing in Heavy Commercial Vehicles in 2008.

In 2011, with support from KCB Bank Kenya, the company achieved significant growth that saw them feted in the Top 100 Small to Medium Enterprise (SME) awards.

According to Caroline Wanjiku Ndonge, a marketer with the company, TNL was ranked 36 out of 300 mid-sized companies in the 2011/2012 Top SMEs awards.

Today, TNL has two main divisions – Motor and Animal Feeds division.

In the Motor division, TNL deals in sale of commercial vehicles, agricultural equipment, AdBlue, vehicle tracking and tyres.

The company is also recognized as established customs clearing agents.



**We were ranked position 36 out of 300 mid-sized companies in the year 2011/2012 Top SMEs awards,"** stated Caroline Wanjiku Ndonge, Marketer, TNL.

The Animal Feeds division manufactures animal feeds from their factory in Kiambu.

According to Caroline, "TNL is committed to the highest quality and standards. We supply a wide range of animal feeds which are of high nutrition standards and beneficial to livestock and results in better health and production."

TNL is also a certified dealer and distributor of AdBlue, an emission control additive used in diesel engines using the Selective Catalytic Reduction (SCR) technology. This technology enables

the reduction of harmful emissions.

"Using AdBlue reduces fuel costs and increases engine life saving on maintenance cost and ensures consistency in engine performance," says Caroline.

"KCB financing has positively impacted our business over the years and this has enabled us stock AdBlue," adds Caroline.

TNL is implementing various sustainability initiatives within the organisation.

TNL also uses bio-degradable detergents for cleaning the premises. They are actively involved

in ensuring that there is waste reduction in the premises and safe disposal of oils and fuels. They endeavor to provide a safe working environment by ensuring that the technical team wear safety gears while carrying out their duties.

The company is committed to the following Sustainable Development Goals (SDG):

**SDG 3: Good Health and Well-being.** They aim to reduce illnesses and death caused by air pollution. They have ensured that their employees have insurance.

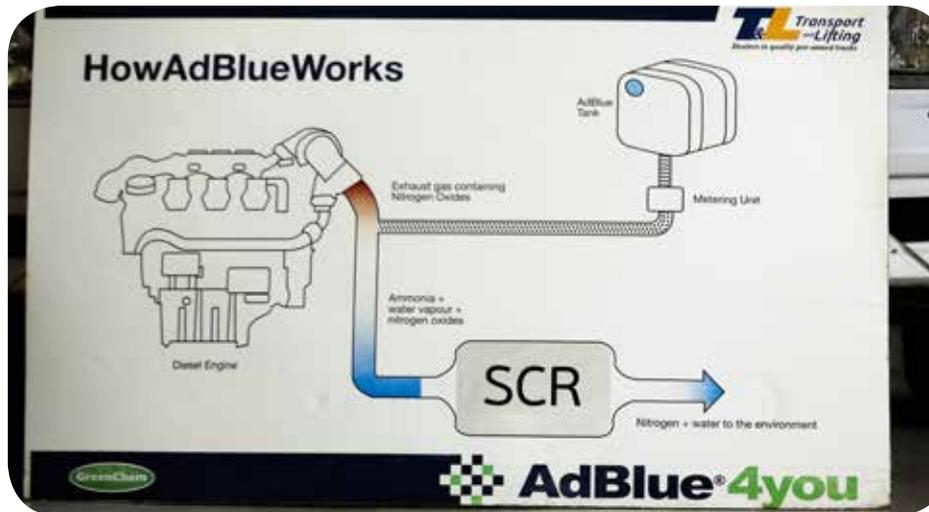
**SDG 5: Gender Equality.** They have taken affirmative action to ensure gender balance in the workplace by employing women as well as giving them equal consideration for senior positions.

**SDG 6: Clean Water and Sanitation.** They ensure that there is safe and affordable drinking water for all and access to adequate sanitation and hygiene for all.

**SDG 8: Decent work and Economic growth.** They provide employment opportunities to women and men, youth and persons with disabilities

**SDG 11: Sustainable cities and communities:** They aim to reduce adverse environmental impact by reducing pollution from emissions

**SDG 12: Climate action.** They ensure that their products and services are produced with minimum harm to the environment.



## Strategic partnerships spur real estate growth

**A** 2018 Knight Frank report has ranked Kenya as the fastest-growing real estate market in sub-Saharan Africa.

Residential homes, apartments and malls are the most active housing segments. However, there is still a shortage in supply of affordable housing.

This is the need that Erdemann Property Limited, a construction company, purposed to meet since its formation in 2003.

The company's key objective is provision of decent, low-cost houses for Kenyans. Today the company has 4,000 housing units under its portfolio. In August last year, the developer completed 2,173 units in a record time of 30 months.

"When we started 16 years ago, our main objective was to be a differentiator in the market. We envisioned a time when housing was not a preserve for the rich but a human necessity affordable to all," said John Rajwai Head of Planning during a tour of the Great Wall Garden estate which sits on a 30-acre piece of land in Athi River.

But they would not have achieved



**4,000**

The company's key objective was provision of decent, low-cost houses for Kenyans. Today the company has 4,000 housing units under its portfolio.



We achieve more when we pool our resources together. With KCB Bank as our partner, we have delivered on the promise of providing affordable homes to the masses.



these successes on their own. The company has cultivated strategic partnerships with industry leaders like KCB Bank, which helped the developer construct Metro Fair View Towers in 2011, Seefar Apartments and the Great Wall Apartments both in 2014.

"We achieve more when we pool our resources. With KCB Bank as our partner, we have delivered on the promise of providing affordable homes," says John.

As the leading financial solutions

provider in the region, KCB Bank continues to be a key enabler for developers to access well planned, strategic development sites and unrivaled financing options to fit their project timelines.

The bank also supports their customers with mortgages which facilitate acquisition of homes.

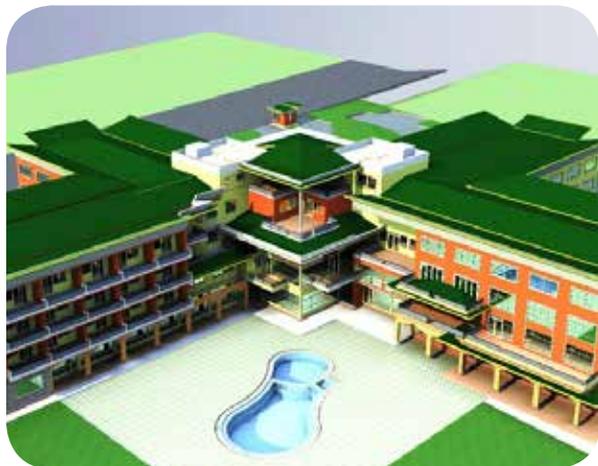
Early this year, the bank launched a one-stop centre to facilitate ease of the property acquisition process charting a new path in the sector.

# Uganda looks set for economic take-off

Uganda is experiencing a rebound in its economic growth which the Bank is expected to support through project financing.

The extraction and marketing of oil will spur economic growth and development and boost SMEs that will provide support services to the sector.

In addition, the government is pushing for foreign direct investment. In 2019, KCB Bank is expected to scale down its intervention in the real estate sector and focus on other sectors such as hospitality and health care (hospitals).



**Project Financed:** 44 apartments  
**Location:** Kololo  
**Client:** Visare Uganda Limited  
**Financing by KCB Bank:** USD 2.5 Million

Each apartment has four bedrooms, inclusive of a servant's quarter. The total cost of the project is \$8.62 million. KCB Bank has funded \$2.5 million. The project started in 2016 and is set for completion in 2019.

**Project Financed:** 4 star premium business hotel  
**Location:** Namanve Industrial Area (Business Services Wing)  
**Client:** Mada Holdings Uganda Limited  
**Financing by KCB Bank:** USD3 million

The hotel will have 111 rooms. The total cost of the project is \$10.667 million. KCB Bank has funded 28 percent of the total amount, which is about \$3 million. The hotel will be located in Namanve Industrial Area. The hotel is strategically located near the airport and is set to be completed in July 2019.

## Growing manufacturing in Tanzania

**K**CB Group has committed its resources to support entrepreneurs in Tanzania which is in line with the government's objective of nurturing industrialization.

In 2018, the bank funded four projects spearheaded by KCB customers valued at TShs170 billion.

The bank funded the third stage of a rural electrification project and worked with its customers, who are contractors hired by the government, to supply electricity in seven regions in the country.

The bank also financed a construction company that facilitated the expansion and modernization of the Aga Khan Hospital. The renovation will allow purchase of state-of-the-art medical equipment that will enhance the provision of medical services and increase efficiency.

KCB Bank Tanzania also provided funds to the Tanzanian Post Authority, a government owned agency, to the tune of TShs.13 billion. The money was used to improve efficiency at the Authority by constructing a building to house all its offices.

The construction of a third terminal at Nyerere International Airport in Dar es Salaam to a tune of TShs.8 billion was also funded by the Bank.

To increase production capacity



of a cement factory owned by Armsons Group - from the previous capacity of 600 to 2,400 tonnes per day - KCB Bank partially funded the project. The bank has also supported the expansion of their wheatmill which has improved production from 150 to 500 tonnes per day.

In 2019, KCB Group aims to

continue funding projects in the construction sector.

The bank's objective is to also on-board and finance the supplier of the construction services and venture into supporting the government further by promoting local manufacturers.



# \$73m

Amount of financial support offered by the bank for four projects spearheaded by our customers



KCB Group has committed its resources to support entrepreneurs in Tanzania as it aims to achieve its objective of nurturing industrialization.

# Agribusiness proposition for smallholder farmers

**K**CB Bank Rwanda is implementing an innovative five-year programme in partnership with The Mastercard Foundation dubbed MobiGrow. The programme is designed to benefit 350,000 smallholder farmers in a bid to support agricultural and rural development through capital lending.

MobiGrow aims to provide financial inclusion opportunities for smallholder farmers in crop and dairy value chains with the overall goal of improving the livelihood status of smallholder farmers in Rwanda.

The programme, which started in October 2016, has recruited 224 cooperatives and Farmer Producer Organizations (FPOs) housing 89,991

smallholder farmers. As of October 2018, 61,435 farmers had received training on Good Agricultural Practices (GAPs) and 134 cooperatives and 3,438 smallholder farmers had opened accounts with the Bank. KCB Rwanda is currently offering loans to farmers and dairy value chains.

MobiGrow attracted a lot of interest from smallholder farmers thereby growing the Bank's market share and reputation of providing solutions to problems which directly impact the community.

KCB Bank is quickly becoming the leading bank in agri-financing in Rwanda, with an opportunity to grow in the market and partner with regional and international players to boost agri-financing as well as food security in Africa.



**350,000**

Smallholder farmer beneficiaries



**224**

Recruited Cooperatives and Farmer Producer Organizations







### SDG 1 NO POVERTY

#### Measurement | Results to date



## KShs.166.4 million

**Poverty reduction:** Total investment in Zjajiri.



## 717,342

**Inua Jamii beneficiaries:** Number of beneficiaries since 2014.



## KShs.54 billion

**Financial inclusion:** The value of loans processed over the digital platform. The average loan was KShs.5,000.



## 3%

**Property ownership:** Percentage of loan portfolio in affordable housing loans. We target a 15% increase over the next five years.



## KShs.622 million

**External shock reduction (Bancassurance):** Value of Bancassurance claims settled



### SDG 8 DECENT WORK AND ECONOMIC GROWTH

#### Measurement | Results to date



## KShs.54 billion

**Economic productivity:** Our new Fintech platform launched in 2018 enabled mobile banking transactions increase to KShs.54 billion (Mobicrow, KCB M-Pesa, M-Benki)



## 23,221

**Productive employment:** Number of youth who have benefited from vocational training and/or educational support since 2016.



#### Reducing youth unemployment:

KCB Foundation supports youth entrepreneurs through scholarship programmes, hiring practices and MSME products & product development.



### SDG 10 REDUCED INEQUALITIES

#### Measurement | Results to date



## 40%

**Income growth:** KCB targets the unbanked and the youth to provide financial access and therefore growth for the bottom 40% (new indicator-impact to be included in 2019 reporting cycle)



## 236 women

**Inclusion:** We target youth and women MSME and distribute benefits through the Inua Jamii programme to the elderly and disabled. 236 women completed our 2018 Women in Leadership Training program. More than 1,000 women have undergone training since 2014.



#### Equal opportunity outside of KCB:

KCB engages with government to produce equitable inclusion regulations in the financial system. (New indicator- impact to be included in 2019 reporting cycle)

# (Our Environment)



Society and business cannot function without a conducive environment. The threat of Climate Change increases instability and contributes to poverty, fragility, and migration. As a financial institution, we are committed to combating climate change.

We demonstrate this commitment not only through the Group's Green Agenda, but also through the integration of our social and environmental management system into our operations, as well as our aim to increase our green financing portfolio. We are further striving to become Green Climate Fund accredited, issue a green bond by 2020, and become carbon neutral by 2028.

As a financial solutions provider, our direct environmental impact is not nearly as high as our potential indirect impact through the clients and customers we serve with our products and services.

KCB is guided by, and embraces strong social, environmental and corporate governance principles as well as principles of fairness, transparency and accountability.

Since 2015, KCB has incorporated a **Social and Environmental Management System (SEMS)** into its lending process in order to identify and prevent potential social and environmental risks and/or negative impacts.

SEMS consists of procedures, management commitments, delineation of roles and responsibilities and guidance that we follow to review and manage



Climate Change



23%

In 2018, KCB Group lowered its Carbon Footprint by 23% compared to last year, even better than our target of 15%

The effects of CLIMATE CHANGE are already visible. Kenya's economy and workforce are heavily reliant on agriculture and this sector is especially vulnerable.

We believe financial institutions can play a role in meeting the 2030 targets set out in the 2015 Paris Agreement and the 2018 Paris Rulebook.

Aside from minimizing their own carbon footprint, financial service providers should strive to finance more climate smart projects.

At KCB, we are already

reimagining our portfolio to incorporate more climate change related impact loans.

KCB is also annually reducing its carbon footprint to meet our goal of becoming carbon neutral by 2028.

To achieve this, KCB has launched a Carbon Neutral project. The outcome of the project is expected to show our impact in the upstream and downstream operations of the bank in 2019.

We hope that this project will be a benchmark for other corporates.




**Global Reporting Initiative**

- GRI 102: General Disclosures
- GRI 204: Procurement Practices
- GRI 302: Energy
- GRI 305: Emissions
- GRI 306: Effluents and waste
- GRI 307: Environmental Compliance
- GRI 308: Supplier Environmental Assessment



**15%**  
 We are targeting to grow our green lending portfolio by at least 15% over the next three years.



**KCB hosts annual supplier conferences to create awareness of its sustainable procurement policies. This opportunity enables us to engage and obtain feedback from our suppliers.**

the social and environmental issues and risks associated with our investments. The system is applied to all project financing instruments offered by KCB Group and covers the social and environmental dimensions of sustainable development.

KCB embraces a rights-based approach in the design and implementation of its projects and conforms to the precautionary principle while actively advocating on behalf of vulnerable and marginalized groups through the application of the principle of free prior and informed consent (FPIC), and gender equality and non-discrimination.

The Bank expects clients to assess and manage the environmental and social issues associated with their projects so that they meet the applicable performance requirements.

IFC's Performance Standards and the World Bank's Environmental and Social Standards were incorporated into KCB's SEMS policy.

Initially, SEMS evaluation was only applied to our corporate department for loans above KShs.500 million, but it has now been expanded to include SME loans above KShs.100 million. In 2018, we screened 84 loans worth KShs.126 billion.

For enhanced quality control we are targeting at least one Environmental and Social (E&S) assessment visit per quarter per Corporate Relationship Manager to verify compliance.

Since the launch of KCB's Green Agenda in 2009, which focuses on reducing our direct environmental footprint, we have taken the initiative to become a responsible consumer and producer.

The Green Agenda is our 24-point

blueprint for green office practices, focused on minimising resources utilization and environmental impact of the business.

The Green Agenda supports our efforts to become Carbon Neutral by 2028. KCB will therefore continue to improve upon greening our operations, energy, procurement and offices to achieve this goal.

**Local and diversified procurement** is a priority for KCB Group. However, it can at times be challenging to locally source goods and services that are aligned with our sustainability requirements. We have therefore updated our supplier requirements to include measures and processes that encourage our suppliers to build upon sustainable practices.

KCB also hosts annual supplier conferences to create awareness of its sustainable procurement policies. This opportunity enables us to engage and obtain feedback from our suppliers. To date, 100% of our suppliers have signed our Group Code of Ethics.

In 2018, we identified and tracked the Group's green assets—assets which have social, environmental and/or economic value—and green asset potential. We identified over USD48 million of current pipeline green finance projects and over USD137 million worth of potential green financing in various sectors including transport, agriculture, renewable energy and energy efficiency.

This exercise is also preparing KCB to become an issuer of green bonds and accredited for the Green Climate Fund. We are targeting to grow our green lending portfolio by at least 15% over the next three years.



## 2018 E&S Screening Highlights



**84**

Number of social-environmental assessment undertaken



**KShs.126.7 billion**

Value of facilities that have undergone social-environmental assessments



For enhanced quality control we have factored in at least one E&S visit per quarter per Corporate Relationship Manager in 2019

**USD48 million**

Current pipeline of green finance projects. Over USD137 million worth of potential green financing in various sectors including transport, agriculture, renewable energy and energy efficiency exists.

## Our Clients' Shared Value

VILLAGE MARKET



## Sustainability is at the core of our business

**B**usiness sustenance depends on the communities who give them a licence to operate. This dictum saw the Village Market, a shopping complex that houses hundreds of shops, restaurants and other outlets, finance the expansion and beautification of the road leading to the complex for better access by its customers.

“We look at the Village Market beyond its physical boundaries and consider the surrounding areas as part of the business,” said Hamed Ehsani, its Managing Director.

For 27 years, the Village Market has been a part of this community, growing from just 30 shops in 1992 to more than 150 outlets. The growth in business activity, coupled with an increase in human traffic consequently led to increase in the amounts of waste generated.

“Managing the waste was becoming taxing, and we decided to look around the globe for the latest trends in waste management that we could adopt,” says Hamed.

After extensive research, the business adopted a membrane system to filter liquid waste to ensure that discharge to rivers is safe and can be reused for irrigation.



Solid waste, mainly plastic and paper, on the other hand, required a different approach.

“We have made arrangements with companies that collect and recycle,” he adds.

KCB Group financed the procurement of its state-of-the-art waste management system.

Likewise, recycling is key to the business, and is a practice that the business encourages through exhibitions of art made from recycled materials.

“On weekends, there is a dedicated space for people with environmentally sustainable projects to showcase their products,” he adds.

The facility aims to be a benchmark for other market players not just by setting standards they can follow, but by inspiring the

**150**

**For 27 years, the Village Market has been a part of this community, growing from just 30 shops in 1992 to more than 150 outlets.**



**Managing the waste was becoming taxing, and we decided to look around the globe at the latest trends in waste management that we could adopt” Says Hamed**



same thinking to contribute to the betterment of society.

When the plastic ban came into effect in Kenya, the Village Market was one of the first companies to support the move, and in a most unique and innovative way. The business called upon its customers to bring in old jeans, from which they made reusable shopping bags.

One of the biggest challenges companies face in integrating sustainability into their operations is the financial implications involved. .

Fortunately, KCB Group has always come to the rescue. “Finances are always an issue. We invested heavily into installing solar panels at the Village Market, the Tribe and the Trademark hotels to significantly reduce power costs for our clients.

“We are happy to have a banker like KCB Group who not only understood our vision the business had, but also supported the business with access to finance,” says Hamed.

## Powering the winds of change

**F**or a long time, the northern part of Kenya – Turkana to be specific, has been synonymous with drought and cattle rustling.

Unknown to many is that the area is home to the continent's largest renewable energy project, the Lake Turkana Wind Power Project.

To evacuate power from the project to the national grid, government commissioned construction of the Loiyangalani–Suswa power transmission line, a 435-km line traversing six counties – Marsabit, Samburu, Laikipia, Nyandarua, Nakuru and Narok.

The Kenya Electricity Transmission Company Limited (KETRACO) started construction of the line in August 2014. But it was only until KCB Group came on board at the beginning of 2018 that construction was expedited. KCB financed the project to the tune of USD94 million.

The funding facilitated the procurement of outstanding construction materials which enabled the successful completion of the project in September 2018. Other financiers include the government and development partners through concessional funding.



# 100%

**KETRACO is 100% Government owned and being a state corporation, it is regulated under the State Corporations Act, Cap 446.**



**Data from the Kenya National Bureau of Statistics (KNBS) indicates that installed geothermal power capacity has almost tripled from 241MW in 2013 to 685MW in 2017.**





Kenya is currently ranked top in Africa and ninth globally in geothermal power generating capacity and has emerged as a model of how developing countries can leverage on innovative financing products to execute capital-intensive renewable energy projects.

Data from the Kenya National Bureau of Statistics (KNBS) indicates that installed geothermal power capacity has almost tripled from 241MW in 2013 to 685MW in 2017.

This is in line with the government's

commitment to attaining the Sustainable Development Goals (SDGs) by 2030; the Loiyangalani–Suswa electricity transmission enables attainment of SDG-7 on Affordable and Clean Energy.

The Turkana wind power project comprises of 365 wind turbines each with a capacity of 850kw that have all been connected to the national grid. The 400kV Loiyangalani–Suswa line will evacuate 310MW from the Lake Turkana Wind Power Project.

This is not the only project that KCB Group has partnered with KETRACO to finance.

The bank also financed the Nairobi–Mombasa electricity transmission line that was completed in 2010 to the tune of USD45 million.

As the government gears towards achieving 100 per cent green energy activation, among the priority projects to be completed is the 300-km Olkaria–Kisumu transmission line that will evacuate 400kV geothermal power to the national grid.

Some of our green finance projects include:



**Power Co-generation:**

**(KShs.1.1 billion)** Butali Sugar Mills Ltd expanded its processing capacity from 1,650 tonnes of cane per day to 2,500 tonnes of cane per day. Apart from increasing sugar production, the project entailed power co-generation from bagasse, (the dry residue left after the extraction of juice from sugar cane), which was enhanced from the existing 5MW to 11MW. Power generated from this project is used to run the factory complex and the staff housing.

**2,500tn**

Butali Sugar Mills Ltd expanded its processing capacity from 1,650 tons of cane per day to 2,500 tons of cane per day.



**Green Climate Smart/  
Sustainable Finance:**

**(USD 16 billion)** Kwale International Sugar Company Ltd co-generates 18MW of power from bagasse by-products that drive turbines, which in turn, run a generator. Out of this, 8.5MW of power is used in the milling plant to reduce reliance on electricity, while the remaining power is to be injected into the national grid under a power purchasing agreement. The company employs over 2,600 employees across its farms and factories. It also established a dispensary within its premises to cater for its employees, which will soon open its doors to the surrounding community. They have also established two schools for which they provide food and water.





### SDG 11 SUSTAINABLE CITIES AND COMMUNITIES

#### Measurement | Results to date



**3%**

**Increase access to affordable housing:** 3% of our lending portfolio was in affordable housing.



**KShs.622 million**

**Reducing direct economic loss:** The value of Bancassurance claims settled



**15%**

**Sustainable buildings:** KCB provided loans for green building projects and will track the value of these loans in 2019.



### SDG 12 RESPONSIBLE CONSUMPTION

#### Measurement | Results to date



**23%**

**Efficient use of natural resources:** Reduced our Carbon Footprint by 23% and we target to be Carbon Neutral by 2028. Reduce our resource consumption (Water & paper) by 5% per year



**Reduce waste generation:** To reduce our environmental impact, we will continue to review our waste management practices. (New indicator-impact to be included in 2019 reporting cycle)



**84**

**Encourage companies:** Number of corporate clients undergoing SEMS assessments



**1,085**

**Public procurement:** Number of active local suppliers



**86%**

**Local spend on procurement:** 86% of procurement budget

The background of the slide features several stacks of coins of various denominations, including silver and copper-colored ones, arranged on a dark wooden surface. The lighting is dramatic, highlighting the texture of the coins and creating soft shadows.

# (Our Economic Stability)

A stable economy requires equitable access to financial products and services for a diverse and multi-faceted society. Our product offering contributes to this goal. The Group's economic stability depends upon it.

To strengthen our offering, KCB leverages partnerships, technology and regional knowledge. This year we added several innovative financial services solutions, many in partnership with other reputable organizations.

The interest rate cap that came into effect in 2016 had a significant negative affect on access to credit especially for SMEs.

World Bank research has shown that since 2016 there has been a significant decline in aggregate lending, an increase in non-performing loans, and a change in composition of lending away from small and medium enterprises toward safer corporate clients.

KCB is closely involved at industry level discussions to address these negative unintended consequences of the Interest Rate Cap.

To compensate for some of the negative impacts, government is providing guarantees for lending to SMEs. To support this sector further, KCB has announced our commitment to provide loans valued at KShs.50 billion at a concessionary interest rate to MSMEs over the next 5 years.



KCB Group CEO and MD Joshua Oigara (second left) with UnionPay International CEO Cai Jianbo during the launch of the Union Pay App. Customers can now make payments from the App on KCB Point of Sale (POS) terminals. Looking on is KCB Bank GCOO Sam Makome, Director Retail, Annastacia Kimtai, and Dennis Njau, Head of Channels (centre).

SUSTAINABLE DEVELOPMENT GOALS

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE 17 PARTNERSHIPS FOR THE GOALS



50b

Amount of money KCB has committed to MSMEs over the next 5 years.



Global Reporting Initiative

- GRI 103: Management Approach
- GRI 201: Economic Performance
- GRI 202: Market Presence
- GRI 203: Indirect economic impact
- GRI 205: Anti-corruption
- GRI 206: Anti-Competitive behavior

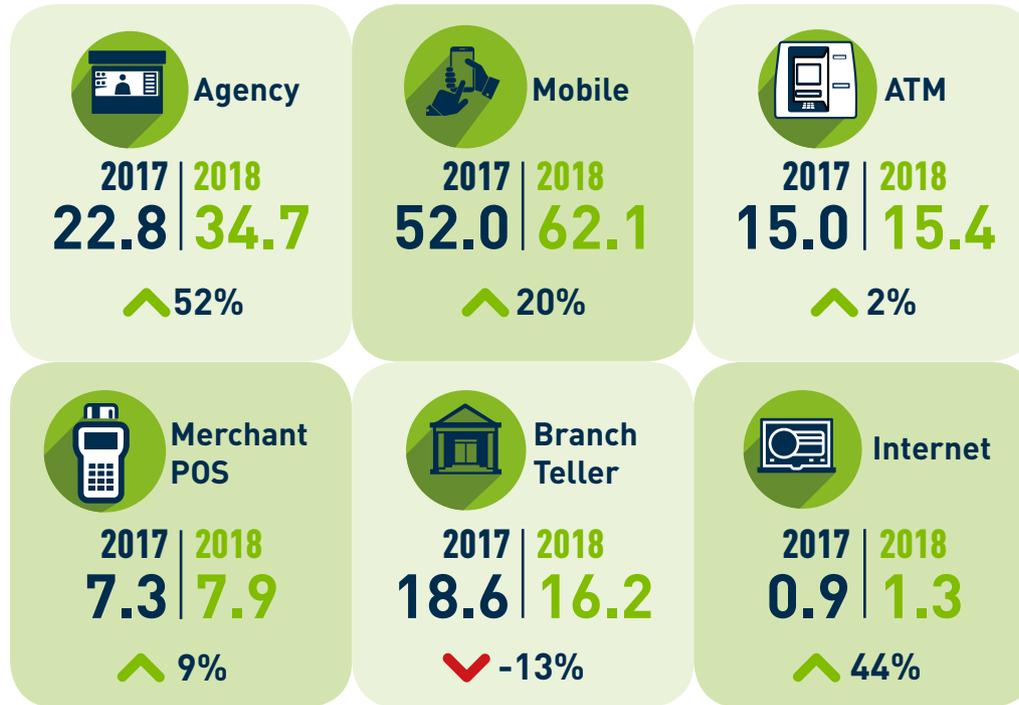


13

KCB Group was acknowledged among the world's top digital banks, ranking 13 of the Top 100, securing a Power Score of 89 out of a possible 100.

Hambourg-based, Digital Banking's Top 100 Digital Banks

### Channel Transactions (Millions)



#### Affordable housing:

KCB Bank Kenya formally signed up for the Kenya Mortgage Refinance Company (KMRC), a non-deposit taking entity meant to unlock the potential for long-term mortgages and make home ownership more affordable.

KCB is one of the main shareholders of the company whose main role is to provide long term funding to primary mortgage lenders (banks, MFIs and saccos) to increase availability and affordability of mortgage loans. KMRC will be owned by the state, commercial banks and financial co-operatives as a limited liability company.

KCB is also engaged in the discussion around the critical issues of digitization of land ownership to streamline the loan application process for affordable housing.

Currently, 3% of our loan portfolio is in affordable housing.





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

December  
**KShs. 10.1billion**

February  
**KShs. 2.9billion**

Mobile Loans Advanced



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



every 24 hours

**KShs. 149,068,732**

every hour

**KShs. 6,211,197**

every minute

**KShs. 103,519**

2014  
**KShs. 9.0billion**

Agency Banking Deposits

**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**

2018  
**KShs. 153.3billion**

**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



**Access to finance:**

We provide inclusive access to finance through innovative products and partnerships. Our flagship KCB Foundation programmes, Mifugo ni Mali and 2jiajiri are one way in which we contribute to the fight against poverty. In 2018, we expanded our youth empowerment agenda to Rwanda through the KCB Foundation's Igire programme, which is almost similar to 2jiajiri. The bank also targets access to finance for SMEs and women who were previously overlooked. Our products and programmes are key vehicles for inclusive access to finance and integral to enhancing overall economic stability.

## Mifugo Ni Mali programme creates shared value among dairy farmers

**R**esidents of Mumberes in Eldama Ravine Sub-County, Baringo County are reaping the benefits of value addition from the milk they supply to a local farmer's society. The 3,300-member Mumberes Farmers Cooperative Society has ventured into value addition, thanks to support from KCB Foundation's Mifugo Ni Mali programme. The Society is now processing yoghurt and fermented milk.

Mumberes, which was formed in 1972 by a handful of members, has now grown to become one of the largest co-operative societies in Baringo County.

"In the beginning, we used to collect only 50 litres of milk. Now we are collecting over 13,000 litres of milk per day from our members. We pasteurise the milk and supply 80% of the collection to our main processor while we use the remainder to process yoghurt and fermented milk," says the Society's Manager David Kimutai.

The Society received a discounted loan of KShs.3.5 million from the KCB Foundation Mifugo Ni Mali programme, money that was used to purchase a milk pasteurizer and to sink a borehole.

Given that milk processing is a water-intensive activity, the society sank a 150-litre borehole to meet its water requirements.

"We were spending a lot on water given





**KCB Foundation has been critical to our growth. The dairy farming benchmarking support has widened knowledge of our farmers and we are seeing the results from the high standards our members have set for themselves,”** says Mumberes Farmers’ Co-operative Society Manager David Kimutai



**13,000lts**

From 50 litres, we are now collecting over 13,000 litres of milk per day from our members.

the nature of our undertaking. It is for this reason that we decided to invest in a borehole” says David.

He adds that as a result of water availability, their operational costs have drastically reduced, resulting in more earnings for the members.

The society also generates additional income from selling water to 200 households, schools, and supplying the commodity to the nearby Equator shopping centre.

“We are determined to clear the loan this year and apply for another one to enable us to expand our investment,” he says.

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

“KCB Foundation has been critical to our growth. The dairy farming benchmarking support has widened knowledge of our farmers, the results of which are evident,” says David.

The society’s earnings have helped it diversify into other agribusiness investments including operating an agroveter, artificial insemination services and real estate.

**Inua Jamii:** KCB partnered with the government of Kenya to help disburse payments under its national social protection system through three cash transfer programmes in 47 counties. The programmes target orphans and vulnerable children, the elderly and persons with disabilities.

The beneficiaries receive a monthly stipend. The stipend addresses social risks and reduce economic vulnerability. During the year in review, the programme has supported the disbursement of over **KShs.12.8 billion** to some **717,324 beneficiaries**.

**MobiGrow:** The Mobigrow platform enables smallholder farmers across East Africa to access credit, savings, and insurance immediately through their mobile phones. Pastoralists in arid and semi-arid areas and smallholder crop and dairy farmers in high potential value chains are targeted under this



**The key highlight for us in 2018 was the Women Value Proposition plan. It grew from 5 to 23 branches with deposits of KShs. 3.1 billion, a loan book of KShs. 5.16 billion and Non Performing Loan Ratio of 0%. We attribute our successful NPL ratio to having trained over 1,400 women SMEs before offering them the loans.”**

-Annastacia Kimtai, Director Retail Banking

scheme. The banking system also links smallholder farmers to other players across the agricultural value chains from inputs to markets thereby boosting their creditworthiness.

The programme was developed in partnership with the Alliance for a Green Revolution in Africa and is largely funded by the Mastercard Foundation. Since its launch, **Mobigrow is valued at KShs.80.8 million.**

**KCB M-Pesa:** A prime example of a transformative partnership, KCB

M-PESA is the result of a collaboration with Safaricom to offer small-value, short-term mobile loans to customers. Enabling customers to save or access loans through their mobile devices, it offers attractive low interest rates. Today there are over **13 million KCB M-PESA registered users.**

**Jaza Duka:** In conjunction with Mastercard and Unilever, we rolled out an overdraft facility (essentially, a virtual credit card) to Unilever merchants enabling them to make purchases from

Unilever distributors. This product—which has so far signed up **30,000 storekeepers**— allows them to stock goods on credit from the Bank based on a credit score derived from inventory turnover. By joining Jaza Duka, the retailer is able to access quick credit and a simple and efficient payment system.

**Women in Business:** During the year under review, we launched a value-added product specifically for Women in Business through 23 of our KCB branches. The programme offers business and financial education alongside banking products for business.

**KCB SAHL Banking:** KCB offers Islamic banking in conformance with Shariah requirements. It contributes to our long-term vision of embracing innovation to reach more citizens across the region who have been otherwise left out of the traditional banking system. Our SAHL banking products have posted a **35% growth** in profit.

**Elimisha:** Launched in February 2018 in partnership with Liberty Life Assurance Kenya Ltd, Elimisha is a life assurance product specially designed as an insurance cover against financial loss due to death and permanent disability.

It provides assurance to parents and guardians that their children will have access to finance in the event of their death. Through Elimisha, KCB guaranteed education for over 7,000 children through a simple and affordable savings plan within the first year.



KCB Group CEO and MD, Joshua Digara, ICT Cabinet Secretary Joe Mucheru and Safaricom CEO Bob Collymore during the relaunch of KCB M-PESA in November 2018.



From Left; Mastercard Head of East Africa Region, Adam Jones, KCB Head of Channels, Dennis Njau, Shalom General Shop Owner, Sarah Macharia and Unilever Sales Director for East Africa, Luck Ochieng during the launch of Jaza Duka. The partnership allows shop owners to access credit from the bank and buy Unilever products.

**UnionPay.** The Bank entered into a partnership with UnionPay. The partnership enables KCB to offer processing and settlement services for UnionPay cardholders across the globe.

To make banking more available in rural areas we use agency banking outlets. In 2018, there were **16,642 Points of Sale** and we processed 34.7 million transactions through these outlets.

Our new Fintech Platform, launched in September, has driven financial inclusion by providing banking services to underserved populations. Loans of over KShs.54 billion were provided in 2018 through this platform. The majority of these were micro-loans averaging KShs.5,000.

**KCB Insurance,** a subsidiary of KCB Group, has as its mission “To empower and improve the quality of life for our customers through provision of affordable, value-adding and appropriate insurance solutions focusing on micro, retail and small and medium enterprises.”

Through partnership with insurance providers, KCB has launched several insurance products that support our mission under the **Bancassurance** umbrella. The offering includes insurance solutions suited for the agriculture, healthcare, motor vehicle, life assurance, and pension sectors, in addition to its already existing portfolio of risk management and professional insurance advisory services to its corporate clients.

**KCB Capital,** another subsidiary of KCB Group, is the Group’s investment



**MSME EMPOWERMENT**  
SMEs are 4.56% of KCB's total loan portfolio



**KShs.3.1b**

Deposits from 1,400 women SMEs.

arm and offers both advisory and brokerage services. We provide strategic and financial advice to meet the growing and dynamic needs of the Group's institutional and individual clients, as well as governments.

KCB Capital has been instrumental in helping introduce KCB Foundation activities to its corporate clients that share similar values. Part of its execution is to evaluate environmental, social and governance risks in all its investment decision making.

**A**ccess to financial products and services for SMEs is especially crucial for a healthy economy and job creation.

KCB has committed KShs.50 billion over the next five years for MSMEs at a concessionary interest rate.

KCB offers a wide array of products for its established small business clients and in addition, through KCB Foundation, is nurturing entrepreneurs to become SMEs through 2jijiri. KCB is determined to provide a friendly seamless experience for SMEs to grow and fund their businesses. Our products are based on the needs of MSMEs and include:

**LPO financing:** Financing

against a local purchase order from any reputable organization to enable an entrepreneur to deliver the goods/service.

**Invoice Discounting:** Offers financial backing against issued invoices while the entrepreneur awaits payment.

**Mobigrow:** A platform that enables smallholder farmers across the East African region to access credit, savings, and insurance immediately through their mobile phones.

**Biashara Club & Biashara Smart:** KCB partners with Safaricom to offer a suite of services aimed at helping small business owners open a bank account, purchase a website

domain and pay for mobile usage though the business. The solutions package also offers small business owners access to additional tools for business, such as M-PESA, insurance, business tips and payroll processing services.

**SME Agri Solutions:** Mavuno Tea Loan (seasonal credit for farm inputs), Dairy Installment Loan (individual farmers and cooperatives in need of working capital), Dairy Herd Improvement Loan (semi working capital loan to boost production), Mavuno Sugarcane Working Capital and Advance Payment Loan (targets sugarcane farmers contracted by reputable sugar companies looking for working capital)



### Adopting franchising model to kick-start businesses

KCB Foundation partnered with the East African Business Council (EABC) and Ashley's Hair and Beauty Salon to support 2jjajiri beneficiaries to establish business ventures through the franchising model. This model helps to overcome the hesitance that the youth have towards running their own business and therefore has significant direct and indirect economic impact. Beneficiaries get the guidance and training to run their own business under the Ashley's brand instead of building their own brands. This addresses much of the risk and uncertainty an entrepreneur faces when starting a business. Initially the beneficiary is a co-owner with KCB and Ashley's but over time, the beneficiary buys back the business. KCB Foundation will finance and mentor the entrepreneur and EABC will help setup the business board and provide legal counsel.

Additional franchising agreements were reached with three other companies: Naivas (for the bakery business), Top Quality (carwash) and Sheffield Africa (laundromat business).



**SDG 9  
INDUSTRY, INNOVATION  
AND INFRASTRUCTURE**

#### Measurement | Results to date



**4.56%**

#### SME access to financial services:

Loans to SMEs is 4.56% of our portfolio with a target of increasing it annually. KCB has earmarked KShs.50 billion for MSMEs.



#### Sustainable infrastructure/ refitting:

KCB supports the government's four pillar agenda for economic development (affordable housing, health care, food security, and manufacturing). We continue to expand and improve our IT systems and Fintech offerings and increase our portfolio in green finance. (New indicator impact to be included in the 2019 reporting cycle)



**SDG 17  
PARTNERSHIPS FOR  
THE GOALS**

#### Measurement | Results to date



#### Enhancing global partnership:

KCB has formed partnerships with several reputable global organizations named throughout this report and strongly believes that collaboration is the only way to achieve the SDGs by 2030 (New indicator - impact to be included in 2019 reporting cycle)



#### Encouraging partnerships:

The core of the KCB business strategy is transformative partnerships. We encourage it across the Group. Collaboration is key to reaching the SDGs. (New indicator - impact to be included in the 2019 reporting cycle)



**Beneficiaries get training to run their own business under the Ashley's brand instead of building their own brand.**

# Our Financial Stability





**A**t KCB, we ensure financial stability through consistent financial performance, transparency, compliance, risk management and comprehensive governance practices. As a testament to our business practices, our profit before tax rose 16% to KShs.33.9 billion.

We play an important regional and international role in contributing to the stability of the financial system through our corporate conduct and risk management. We therefore engage with governments and regulators wherever we operate to ensure constructive dialogue and support evidence-based policy.

Fraud, illicit money flows, money laundering and cyber security are a major challenge for financial institutions around the globe. KCB follows a holistic approach in risk management and governance - from adhering to international best practice principles, compliance to laws and regulations to implementation of state-of-the-art systems, robust procedures and staff training.

Internally, the Group has a zero-tolerance policy for all forms of corruption, bribery and unethical business practices. KCB requires all employees, as well as service providers, to adhere to the Group Code of Ethical Conduct. As the biggest regional financial services provider, we support the strengthening of the systems and



**Global Reporting Initiative**

- GRI 102: General Disclosures
- GRI 103: Management Approach
- GRI 205: Anti-corruption
- GRI 206: Anti-Competitive Behaviour



**KCB's response to Financial Fraud and Anti-Money laundering**

KCB Group is committed to combating money laundering and financing of illegal and terrorist activity. We implemented procedures and processes to identify and verify customers through "Know Your Customer" policies. We also place obligations on staff and management to report certain information on suspicious activity in accordance with the Anti-Money Laundering Compliance Policy, which aims to protect our clients, our subsidiaries and the global financial system from the risks of money laundering and terrorist financing.

We strive to adhere to international AML protocols and to be fully compliant with all AML requirements. This is good for the bank and good for our customers. Our AML programme is overseen by a money laundering reporting officer.

The bank runs an annual mandatory AML e-learning course for all staff. The Human Resources and Compliance departments oversee this training.

Completion statistics of our AML e-Learning course as at 31st December 2018:  
**KCB Bank Kenya: 98%**  
**KCB Group: 92%**



**16%**

**As a testament to our business practices, our profit before tax rose 16% to KShs.33.9 billion.**

processes that facilitate and enhance a healthy financial system regionally and around the world.

KCB Group applies uniform anti-money laundering policies in accordance with international best practices across all locations in which we operate. We take seriously any money laundering claims related to our operations, as was the case in South Sudan.

We have given our full cooperation to the United Nations Panel on Money Laundering to determine the facts and extent of the issues involved and remain committed to eradicating any form of fraud and money laundering.

KCB has, and will continue to comply with all requests for sanctions against individuals and entities listed by the United Nations Security Council and other internationally accepted watch lists.

In an effort to **promote responsible conduct**, KCB empowers staff members to recognize and identify fraudulent transactions through training. Anti-bribery, corruption, and anti-terrorism policies are in place, followed and monitored.

We also have an internal anonymous whistleblowing system enabling any staff member to anonymously report any irregularities. The whistleblower report goes through an internationally based consultant for evaluation before it is transmitted to KCB's Director of Human Resources.

*Governance and Risk Management*

The Board provides strategic leadership and spearheads **corporate governance** throughout the organisation. This brings increased confidence to investors, customers and staff.

Governance charters, policy structures and procedures are firmly embedded in KCB operations. We strive to strictly adhere to all local laws, regulations and guidelines. These include Corporate Governance Guidelines and Codes of Conduct prescribed by the Central Bank of Kenya, the Corporate Governance Guidelines of the Capital Markets Authority (CMA) and the Continuing Listing Obligations of the CMA as required by the Nairobi Securities Exchange, as well as those required by the Dar es Salaam Stock Exchange, Uganda Securities Exchange and the Rwanda Stock Exchange.



**We deliberately operate at a higher governance standard than what is required in an effort to influence local markets to adopt best practices.”**

– Joseph Kania, Group Secretary



**Governance and Ethics & Integrity**

**1,213**

No. of fraud cases reported

**894**

No. of unsuccessful internal fraud attempts

**10**

No. of employees dismissed related to internal fraud

**100%**

No. of our suppliers signed up to the code of ethics

**4,500**

No. of employees trained on AML & fraud

**4,136**

No. of staff trained on cyber security

**100%**

completion of annual mandatory ethics e-learning courses across the Group

**100%**

achievement of anti-money laundering awareness across group



Our Board operates under the KCB Group Board Charter and Governance Policies. The Board Charter prescribes rules and ethics for Board conduct. Our new chairman has reconstituted the board committees and we have reorganized the chairpersons and directors. We reduced the committees from six to five and rotated committee directors. This rotation of posts helps the Group ensure fresh perspectives.

The four FiRE Awards we received in 2018 highlight our commitment to financial reporting excellence as one of our key practices of sound corporate governance.

Environmental, social and governance related matters are governed by the Board and specifically the responsibility of the Risk Management Committee. We hold ourselves to the highest governance standards, both internally, as well as when working with external stakeholders.

The Group **Risk Management** Committee develops an annual risk profile that sets the lending parameter practices for the Group. KCB maintains a robust enterprise-wide risk management framework in line with Basel II and Basel III Standards. These include directive, preventative, compensating and detective controls covering credit, operational and market risk, as well as information, compliance and reputational risk.

Environmental and social topics permeate these risk categories from a bank and stakeholder perspective. Proper environmental, social and governance due diligence helps prevent financing activities that harm the environment and that could lead to reputational, market or operational risk.

Risk management is the day-to-day responsibility of each business unit. Each branch undergoes self-assessment to identify

their respective and unique risks and what controls would be sufficient to cover those risks. Staff are trained to detect, analyze and manage risk on a regular basis.

Risk is identified and discussed openly, and each subsidiary has a risk committee that is chaired by their respective CEO or Managing Director. At the Group level, we partner with each business to ensure that the risk controls are correctly applied. The Group Risk Committee is chaired by the Chief Risk Officer.

In September 2018, the Central Bank of Kenya issued fines to five local banks citing “failing to undertake adequate customer due diligence” leading to loss of public funds related to the National Youth Service. KCB Group was among those banks and received a KShs.149.5 million fine. KCB is committed to engaging with the Central Bank and adhering to reporting requirements.

We operate in an environment that is increasingly reliant on information technology and with that brings an accompanying security risk. KCB invests



**We anticipate new international data protection and management laws to be implemented in 2019 and we are preparing our systems to optimize and secure big data.”**



### Key Regulatory Changes

- Draft Financial Markets Conduct Bill to be considered in 2019
- IRFS9 Implementation in 2018
- 2018 Central Bank of Kenya Guidance Note on conducting money laundering/terrorism and financing risk assessment
- KBA's large cash transactions requirements: Bank customers planning to withdraw or deposit KShs.10 million and above in cash will now be required to give a three-days' notice and obtain clearance from their respective branch managers.
- Amendment to the Banking Amendment Act 2016 which brought about interest rate caps on the banking industry removed 70% floor on deposits

heavily in the latest systems and training in order to ensure **cyber security**. The Bank monitors all IT systems in real-time and conducts random quality checks to ensure consistent service and system integrity.

The IT systems are monitored at the following touch points: email channel, network perimeter, web content gateway and all end point computers.

In addition to monitoring systems, the bank employs the services of internal and external IS Auditors to provide information assurance. Their findings are ultimately reported to the KCB Group Board and the regulator.

We meet our security challenges head on by monitoring and regularly upgrading our state-of-the-art security systems to safeguard our customers' personal data. For the year under review we mapped various patches and noted that we had 4.56% critical patches and 11.93% important patches. We continue to be on high watch to counter any form of attacks and preserve the integrity of the bank's system.

We anticipate new international data protection and management laws to be implemented in 2019 and we are preparing our systems to optimize and secure big data. The Group has already 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 a systems breach.

We have also implemented a customer data and privacy model through which staff can only access certain information at a given time.

## Sustainability Related Risk management:

It is critical for us to have strong internal controls in place to protect shareholders, customers, employees and society from unwanted surprises, hence ensuring we run a sustainable business. Sustainability related risks are considered and integrated into all our investment and financing activities as well as in our advice to customers. We manage our sustainability risk along the same categories as our Group Risk Management Categories.

**Social Stability Risks:** Providing shared value opportunities, especially to the youth and women within the communities in which we operate, is a key approach in building social stability. We also provide sponsorship and philanthropic support where needed. Internally we promote women in leadership and target to have at least 50% female staff composition and have a large representation of staff under the age of 40. We have robust staff training programmes and skills development to build capacity. Reputational risks not only include ensuring ethical behavior and compliance but also treating our employees equitably and creating a good environment to work. (Information & Reputational Risk Categories)

**Environmental Stability Risks:** Climate change and environmental impact poses a serious risk to our business and our communities. We consider climate risks, policies, and impacts of our lending, as

50%

Internally we promote women in leadership and target to have at least 50% female staff composition and have a large representation of staff under the age of 40.

15%

Internally we have a goal to be carbon neutral by 2028 and to reduce our resource consumption by 15% annually.

well as corporate emissions. Our loans are screened for environmental and social factors and we complete E&S screening site visits. Internally we have a goal to be carbon neutral by 2028 and to reduce our resource consumption by 15% annually. We also target to reimagine our loan portfolio to incorporate more green finance. (Credit Risk Category)

**Economic Stability Risks:** We participate in industry wide engagement and engage with government around regulatory and policy risks. We provide entrepreneurial support to the youth in five sectors and have committed to increase lending to SMEs which we consider essential for ensuring stability in the economy. We support the government's big four agenda with the provision of access to finance with inclusive products. We have a goal of providing Finance to all by 2028.

(Market and Credit Risk Categories)

**Financial Stability Risks:** Governance and compliance are essential elements for a robust and healthy financial system locally and globally. We aim to train 100% of our staff in order to identify and prevent potential fraud or money laundering. Mandatory training in AML and anti-terrorism financing, fraud and cyber security is conducted annually. Systems to detect such crimes are continually upgraded and monitored. We support national, regional and international regulatory and best practice frameworks. We are a member of the UN Global Compact and KCB helped develop the UNEP-FI Responsible Banking principles which will further strengthen the financial systems globally. (Information, Operational & Compliance Risk Categories)

UNEP FI Principles for Responsible Banking

# Our commitment to UNEP-FI's Principles for Responsible Banking

**O**ur latest step in entrenching sustainability into KCB Group's overall business is our commitment to the United Nations Environment Programme - Finance Initiative's (UNEP-FI) Principles for Responsible Banking.

In November 2018, UNEP-FI and 28 banks from around the world launched the Principles for Responsible Banking

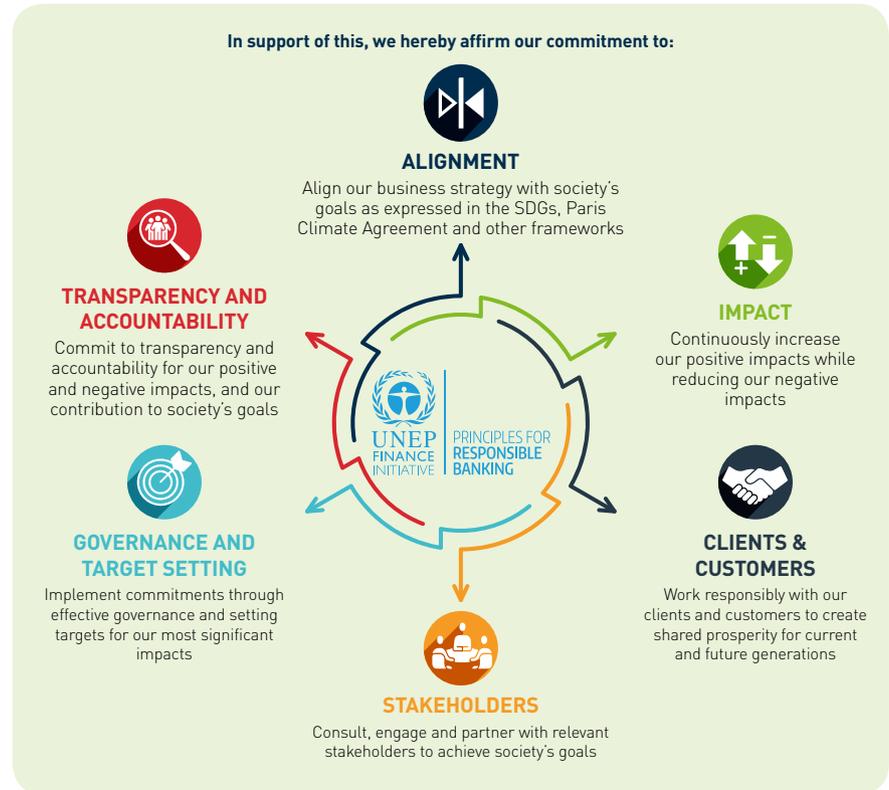


Adherence to the principles is important as KCB will be held publicly accountable against targets set for significant positive and negative social, environmental and economic impact.



**We believe responsible business is about establishing and nurturing the foundation of growth for the next generation. To succeed, financial institutions must action upon their written policies by integrating long-term value creation within their sustainable banking practices. UNEP-FI's Principles for Responsible Banking help pave a path towards achieving sustainable financial success."**

Joshua Oigara, KCB Group CEO & MD



for public consultation. KCB is the only bank from East Africa selected to join the group in this important international assignment.

The Principles for Responsible Banking will help define KCB's role and responsibility in shaping a sustainable future when it is signed in September 2019.

The Principles aim to ensure businesses are aligned with the objectives of the Sustainable Development Goals and the Paris

Climate Agreement. They further confirm commitment to creating value for both society and shareholders.

Adherence to the principles is important as KCB will be held publicly accountable against targets set for significant positive and negative social, environmental and economic impact.

We will progressively and proactively integrate and execute clear deliverables over the short, medium and long terms within our business strategy, aligned with these global principles.



## SDG 16 PEACE, JUSTICE AND STRONG INSTITUTIONS

### Measurement | Results to date



**894**

**Reducing corruption:** Number of unsuccessful internal fraud attempts in 2018.



**100%**

**Transparent institution:** Proportion of suppliers signed up to Code of Ethics



### **Representative decision-making:**

Members of the Executive Management Committee have regular meetings with staff to discuss issues of most relevance and rely upon departmental management teams to assist in driving the participatory process home (New indicator – impact to be tracked in 2019 reporting cycle)





( Inclusive **Progress** ) 2018 Report to Society