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03/08/20

GENERAL ASSEMBLY
MEMBERS LAID

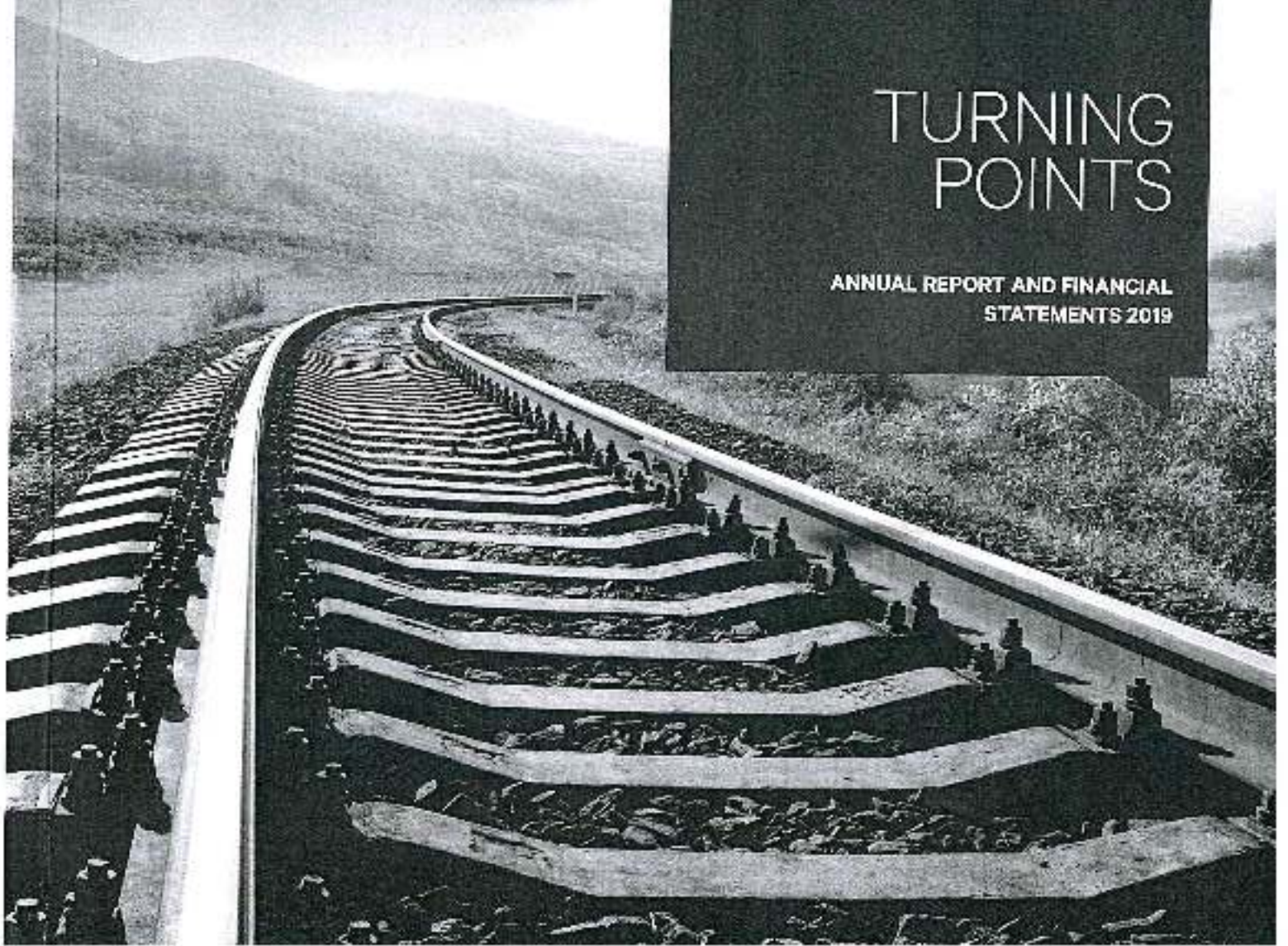
DATE	05 AUG 2020	DAY:



KENYA BANKERS
ASSOCIATION

TURNING POINTS

ANNUAL REPORT AND FINANCIAL
STATEMENTS 2019



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TURNING POINTS

From breakthroughs on policy bottlenecks to market players coming together to create shared value through innovative digital lending platforms, 2019 was shaped by turning points that will define the banking industry's responsive course for years to come.

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NATIONAL ASSEMBLY
RECEIVED

03 AUG 2020

SENIOR DEPUTY CLERK
LEGISLATIVE & PROCEDURAL SERVICES
P.O. Box 41842 - 00100, NAIROBI

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ABOUT KENYA BANKERS ASSOCIATION

BACKGROUND INFORMATION

Kenya Bankers Association (KBA) was registered as an industry Association on 15th July 1992 by the Registrar of Trade Unions. In its formative years, the main aim of the Association was to cater for the interests of the member banks in negotiating terms and conditions of service of its unionisable employees and as far as possible standardize management practices so as to ensure harmony in the industry.

Over time, the ambition of the Association evolved to include promoting industry development and economic growth by engaging the government and the primary sector regulator, Central Bank of Kenya (CBK). This KBA ambition was reinforced in 2012 when the Association launched its new brand and ambition statement: One Industry, Transforming Kenya.

To reinforce the banking industry's ability to be a primary driver of the economy's development aspiration, the mandate of the Association was redefined and enshrined in the KBA 2014-2018 Strategic Plan. The core focus was broadened to include lobbying and advocacy, and championing industry development and innovation by coordinating the members and partnering with stakeholders on strategic initiatives. To support the Association's new mandate, KBA's values, vision and mission were redefined.

As the umbrella body of the institutions licensed and regulated by CBK with a current membership of 46 financial institutions representing total assets in excess of USD 37 billion, KBA continues to reinforce a reputable and professional banking sector in a bid to best support Kenyans who entrust their ambitions and hard earned resources with its member banks.

KBA Core Values

Leadership, Innovation, Knowledge and Ethics.

KBA Vision

A vibrant and responsive banking industry.

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KBA Mission

To promote a competitive banking environment by championing industry development through thought leadership, research, innovation and advocacy.

KBA Structure & Governance

KBA is an association of the 46 member banks and Secretariat that is situated at International House in Nairobi. The banks constitute the General Body and are represented by their Managing Directors or Chief Executive Officers.

The KBA General Body elects a Governing Council that is comprised of a minimum of 12 CEOs who represent the members and oversee the Secretariat's operations, programs and budget. Mr. Joshua Ogora is the current KBA Chairman and Chair of the Governing Council.

The KBA Secretariat has a full-time staff complement of 18 employees who manage day to day operations under the leadership of Chief Executive Officer, Mr. Habi Ojaka.

KBA activities are managed by the Secretariat, which works in consultation with the following Committees and Sub Committees:

1. Operations & Technical Services Committee
 - Cleaning House Sub Committee
 - National Payments Sub Committee
 - Credit Sub Committee
 - Islamic Finance Advisory Sub Committee
2. Bank Fraud & Risk Committee
 - Bank Security Sub Committee
 - Bank Forensics Sub Committee
 - Bank IT Systems, Risk & Security Sub Committee
3. Legal Affairs Committee
4. Finance & Audit Committee
 - Tax Sub Committee
 - Financial Markets Sub Committee
5. Compliance Committee
6. Human Resources & Ethics Committee
7. Public Relations Committee

PROMOTING
INDUSTRY
DEVELOPMENT
AND ECONOMIC
GROWTH BY
ENGAGING THE
GOVERNMENT
AND SECTOR
REGULATORS

AT A GLANCE

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82

committee meetings

held in conjunction with the association's mandate

Industry Lobbying, Policy and Standards

2019

2018

2017



4,380hrs

10,240hrs

10,650hrs

16

EMPLOYEES



KBA Secretariat

120+
MILLION
KBA audience reach



TRAINING AND CAPACITY BUILDING AREAS

Clearing House Operations

Customer Service

Cybercrime

Data-based Product Development

FinTech's and Third-Party Integrations

Foreign Account Tax Compliance Act (FATCA)

FX Global Code

International Financial Reporting Standards (IFRS) 16

Security and Business Resumption Planning

Sustainable Finance

Tax Matters (Withholding, Custom Duty, VAT, etc.)



20

convened and sponsored events

by KBA to facilitate policy engagement and industry growth and development

Sustainable Finance Initiative



28,523
Bank Staff
TRAINED

COUNTY ENGAGEMENTS



10

COUNTIES

- Embu
- Kiambu
- Kisumu
- Kisii

- Meru
- Mombasa
- Nairobi

- Nakuru
- Nyahururu
- Nyari



Easy. Affordable. Instant.

Ksh 165 Billion
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KEY POLICY ENGAGEMENTS

Banking (Amendment) Act, 2016

Bank Assurance (Draft) Regulations 2018

Banking Penalties (Draft) Regulations 2017

Capital Gains Tax

Date Protection Bill 2019

Draft Protocol to the Convention on International Interests in Mobile Equipment on Matters Specific to Agriculture, Construction and Mining Equipment

Employment Act Bill 2019

Financial Markets Bill 2018

Financing of Micro, Small and Medium-sized Enterprises

Guidelines on Cash Deposits and Withdrawals

Housing Fund Regulations 2018

Industry Fraud and Cybercrime

Insolvency Bill 2018

Lands Act

Law of Contracts Bill 2019

Ministry of Lands Digitization Taskforce on Electronic Land Transactions

Mobile Equipment on Matters Specific to Agricultural, Construction and Mining Equipment

Movable Property Security Rights Act

National Payment Systems Act

National Policy and Draft Bill on the Credit Guarantee Scheme

Public Finance Management Bill 2019

Retrospective Imposition of Excise Duty and VAT

Robin Hood Tax

Unclaimed Financial Assets



KBA REPRESENTATION ON BOARDS, COMMITTEES AND TASKFORCES

REGULATORY

Auctioneers Licensing Board

ICPAK Taskforce on IFRS 9 Implementation

National FATCA Taskforce

National Taskforce on AntiMoney Laundering and Combating Financing of Terrorism (NTF)

SECURITY

AntiMoney Laundering Advisory Board

Central Bank / Communications Authority Computer Incident Reporting Team (CIRT)

KEPSA Security Sector Board

National Counter-Terrorism Task Force

INDUSTRY STABILITY, GROWTH & DEVELOPMENT

Capital Markets Authority Master Plan Working Group

Court Annexed Mediation Accreditation Committee

Credit Information Sharing (CIS) Kenya Board

East African Community's Technical Working Group

Federation of Kenya Employers Board

Higher Education Loans Board

International Chamber of Commerce (ICC)

Judiciary's Business Court Users Committee

Kenya Deposit Insurance Corporation Board

KEPSA Gender Sector Board

Kenya Private Sector Alliance (KEPSA) Board

KEPSA Public Finance Sector Board

Kenya School of Monetary Studies Board

Ministry of Lands Taskforce

National Research Fund

National Taskforce on Commodity Exchange

National Treasury Taskforce on the SME Credit Guarantee Scheme

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KBA MEMBERS

In addition to widening the Association's scope, KBA has over the years recorded a commendable increase in membership. KBA proudly appreciates the leadership and involvement that each of the members continue to lend to the Association.

KBA MEMBERS AS AT 31ST DECEMBER 2019

- | | |
|--------------------------------------|---|
| 1. Aha Bank Kenya Ltd | 24. Imperial Bank Ltd (In Receivership) |
| 2. African Banking Corp. Ltd | 25. I & M Bank Ltd |
| 3. Bank of Africa Kenya Ltd | 26. Jemi Bora Bank Ltd |
| 4. Bank of Baroda (K) Ltd | 27. KCB Bank Kenya Ltd |
| 5. Bank of India Ltd | 28. Kenya Women Microfinance Bank Ltd |
| 6. Citibank N.A. Ltd | 29. Mayfair Bank Ltd |
| 7. Consolidated Bank of Kenya Ltd | 30. Middle East Bank (K) Ltd |
| 8. Co-Operative Bank Kenya Ltd | 31. M Oriental Bank Ltd |
| 9. Credit Bank Ltd | 32. National Bank Ltd |
| 10. Development Bank (K) Ltd | 33. NCSA Bank Kenya Plc |
| 11. DTB Kenya Ltd | 34. Paramount Universal Bank Ltd |
| 12. DIB Bank Kenya | 35. Postbank Ltd |
| 13. Dubai Bank Ltd (In Receivership) | 36. Prime Bank Ltd |
| 14. Ecobank Kenya Ltd | 37. Rafiki Microfinance Bank Ltd |
| 15. Equity Bank Ltd | 38. SBM Bank Ltd |
| 16. Family Bank Ltd | 39. Sidian Bank Ltd |
| 17. Faulu Microfinance Bank Ltd | 40. Spira Bank Ltd |
| 18. First Community Bank Ltd | 41. Stanbic Bank Ltd |
| 19. Guaranty Trust Bank Ltd | 42. Standard Chartered Bank (K) Ltd |
| 20. Guardian Bank Ltd | 43. Transnational Bank Kenya Ltd |
| 21. Gulf African Bank Ltd | 44. UBA Kenya Bank Ltd |
| 22. Habib Bank A.G. Zurich Ltd | 45. Victoria Commercial Bank Ltd |
| 23. HF Group Kenya Ltd | |

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KBA GOVERNING COUNCIL

The KBA Governing Council is elected to represent three industry categories – large, medium-sized and small banks – as defined by the KBA Constitution.

Governing Council Members as at December 2019

CHAIRMAN



**JOSHUA
OIGARA**
KCB Bank

VICE CHAIRMAN



**JOHN
GACHORA**
NCBA Bank



**GERALD
WARUI**
Equity Bank



**DR. GIDEON
MURIUKI**
Co-Operative Bank



**KARIUKI
NGARI**
Standard
Chartered
Bank Kenya



**NASIM
DEVJI**
DTB Kenya



**JEREMY
AWORI**
Absa Bank Kenya



**KIHARA
MAINA**
I & M Bank



**REBECCA
MBITHI**
Family Bank



**MARTIN
MUGAMBI**
Citibank



**MOEZZ
MIR**
SBM Bank



**OLABAYO
VERACRUZ**
Guaranty Trust
Bank



**ABDALLA
ABDULKHALIK**
Gulf African Bank



**PETER
MAKAU**
DIB Bank Kenya



**ISAAC
MWIYE**
Middle East
Bank Kenya

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KBA COMMITTEE REPRESENTATIVES



**GERALD
MUNYIRI**
Equity Bank



**WAMBUI
KAGUONGO**
ABC Bank



**ROBLEY
NGOJE**
KCB Bank



**GLADYS
WARIRAH**
Standard
Chartered Bank



**SURAJ
SHAH**
DFB Kenya



**BRIAN
KOLETIT**
Citibank



**BETTY
CHUMA**
Stanbic Bank



**PHILIP
WAMBUA**
ABC Bank



**LABAN
OMANGI**
Absa Bank



**JUNE
OPIYO**
Stanbic Bank

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BANK FRAUD AND RISK Sub-Committee

Chair Equity Bank
(Gerald Muganyizi)
Vice Chair NCBK Bank
(Sionene Jelele)
Secretary Kenya
Bankers Association
(Fidelis Muis)

CLEARING HOUSE Sub-Committee

Chair Citibank (Brian Kolarik)
Vice Chair NCBK Bank
(Michael Muchison)
Secretary National
Bank of Kenya (Calab Ogutu)

COMPLIANCE Sub-Committee

Chair Absa Bank
(Ladson Omengi)
Vice Chair DIB Bank
Kenya (Deisy Namayi)
Secretary Kenya
Bankers Association
(Kennedy Mutisya)

CREDIT Sub-Committee

Chair Absa Bank
(Cristine Mwangi-
Merandu)
Vice Chair ABC Bank
(Donilace Kisiko)
Secretary Kenya
Bankers Association
(Jared Osoro)

FINANCE AND AUDIT Committee

Chair Standard
Chartered Bank
(Gladys Wannan)
Vice Chair Middle East
Bank (Mary Gitoh)
Secretary Kenya
Bankers Association
(Kennedy Mutisya)

FINANCIAL MARKETS Sub-Committee

Chair ABC Bank (Philip Wambua)
Vice Chair Absa Bank
(Anthony Kirui)
Secretary Co-op Bank
(Mutahi Karoro)

HUMAN RESOURCES AND ETHICS Committee

Chair KCB Bank
(Robley Ngoin)
Vice Chair (Ms
Wangari Gathii)
Secretary Kenya
Bankers Association
(Reinold Mwanja)

IT SYSTEM RISKS & SECURITY Sub-Committee

Chair NCBK Bank
(Kabuthia Rungu)
Vice Chair Vacant
Secretary Gulf African
Bank (Wilson Mjema)

LEGAL AFFAIRS Committee

Chair Stanbic Bank
(June Opiyo)
Vice Chair NCBK Bank
Kenya (Shava Aterony)
Secretary Kenya
Bankers Association
(Raimond Motonyo)

NATIONAL PAYMENTS Sub-Committee

Chair DTB Kenya (Sura)
Shah)
Vice Chair DIB Bank
Kenya (Mark Odoyo)
Secretary Kenya
Bankers Association
(Fidelis Muis)

OPERATIONS AND TECHNICAL Committee

Chair DTB Kenya (Sura)
Shah)
Vice Chair DIB Bank
Kenya (Abubakar Ali)
Secretary Kenya
Bankers Association
(Fidelis Muis)

PUBLIC RELATIONS Committee

Chair Stanbic Bank
(Wills Argire)
Vice Chair ABC Bank
(Wambui Kagwangi)
Secretary Kenya
Bankers Association
(Nun/Mugambi)

TAX Sub-Committee

Chair Stanbic Bank
(Betty Chuma)
Vice Chair Absa Bank
(Peter Mungeli)
Secretary Kenya
Bankers Association
(Kennedy Mutisya)

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MANAGEMENT PROFILES



Dr. Olaka was appointed as Chief Executive Officer of the Kenya Bankers Association (KBA) in October 2010. He is responsible for the strategic direction of the Association, covering industry advocacy, development and sustainability. Previously he was the Director of Operations of the East African Development Bank (EADB) based in Kampala after serving as the Resident Manager in Kenya. He earlier served the bank as the Head of Risk Management and as the Chief Internal Auditor.

Before joining the Bank, he had been with Banque Indosuez (now Bank of Africa) as the Internal Auditor. He started his career at the PricewaterhouseCoopers, Nairobi in the Audit and Business Advisory Services Division. He sits on a number of boards representing the KBA. These are Kenya School of Monetary Studies, Kenya Depository Insurance Corporation, Higher Education Loans Board, National Research Fund, Federation of Kenya Employers, and the Anti-Money Laundering Advisory Board (as alternate to KBA Chairman). He chairs the Public Finance Sector Board of the Kenya Private Sector Alliance (KPSA). He also sits on the board of Centre for Corporate Governance.

He holds a Doctor of Business Administration from USIU-Africa, a First Class Honours BSc degree in Electrical Engineering from the University of Nairobi, and an MBA in Finance from the Manchester Business School in the UK. His DBA dissertation was on the influence of strategic leadership on the implementation of strategy in the commercial banks in Kenya.

He is a member of the Institute of the Certified Public Accountants of Kenya (ICPAK) and the CFA Institute. He is an alumnus of the Strathmore School of Accountancy and has a good command of the French language.

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Mr. Muiia is the Director of Technical Services, Kenya Bankers Association. He is responsible for the coordination of industry initiatives geared towards enhancing technology and operations for the banking industry.

He has been instrumental in implementing projects that resulted in the modernization of the National Payment systems, having been involved in the development of the first two Central Bank of Kenya's National Payment Systems Strategies, and the formulation and drafting of The National Payments Systems Act 2012 and its regulations.

In his role at the Association, Mr. Muiia led in the modernization of the Banking Payment Systems from the Automated Clearing House implementation and the Cheque Truncation System, migration of Kenya's Payment Cards system to the EMV standard and the development of the Credit Information Sharing Mechanism in Kenya (CRIS).

Mr. Muiia has represented the Banking industry in a number of national initiatives like the Kenya Credit Guarantee Scheme development with the National Economic and Social Council (NESCC), the formation of the Payments Association of Kenya among many other Government task forces and committees.

Mr. Muiia has a wide range of knowledge in systems development and implementation, having worked in both the insurance and banking industries for more than 25 years.



Ms. Mugambi has been the Director of Public Affairs and lead on the Sustainable Finance Initiative since April 2015. She has wide experience in the banking industry having served as spokesperson and head of corporate and investor relations at Barclays. Previously, she has held management roles supporting Fortune 100 companies in the US, including fast moving consumer goods, telecommunications, forest products and healthcare companies. She has spearheaded several strategic KBA initiatives, including designing the Kenya Green Bond Program which saw Kenya become the first country in East and Central Africa to raise a corporate green bond.

Her contributions towards policy formulation have led the banking industry towards adopting numerous progressive practices, particularly in the area of Sustainable Finance. For her contributions, she was awarded the Fellow of the Kenya Institute of Bankers (FKIB) designation in 2015, becoming one of the youngest women bankers to earn the prestigious designation. She was recognized in 2016 by the Bloomberg Fellowships program and U.S. President Barack Obama as an emerging African leader.

Winner of the Africa Sustainability Leadership Award (2013) and CEO Magazine's Most Influential Woman in Africa - Fidelis (2010), Nuru has served on the statutory Judiciary Mediation Accreditation Committee and is currently a member of the National Treasury Taskforce on the SME Credit Guarantee Scheme. She is a founding member of the Kenya Chapter of Grace Mache's New Faces/New Voices Pan African network that promotes women's economic empowerment. She graduated with honors in Business Administration from Kennesaw State University (GA) and has an Executive MBA degree in Strategy from Georgia State University, Atlanta.

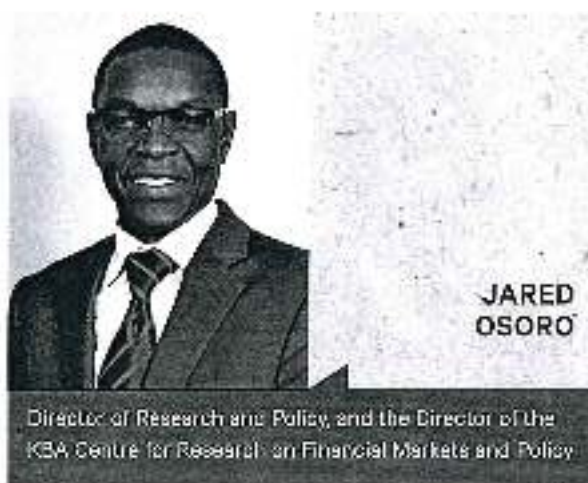
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Mr. Mutisya was appointed to the position of Chief Finance Officer in December 2012. He is a seasoned professional with 20 years of experience rotating through multiple roles within the finance function in East Africa company controlling project finance, treasury, financial planning and analysis.

In his career he has worked in various industries including banking, telecommunication, fast-moving consumer goods (FMCG) and insurance. He has held various positions, most recently Finance Manager at the Monarch Group of companies.

He earned a Bachelor of Arts degree in Economics and Business Studies from Kenyatta University and is a member of the Institute of Certified Public Accountants of Kenya (ICPAK).



Mr. Osoro was appointed in January 2013. He has over 15 years' experience as a practicing economist in the financial sector.

Before his current appointment, he served as Bank Economist for the East African Development Bank, a position he held for more than 10 years. His professional interest is in the areas of International Macroeconomics, Financial Economics, Economic Policy and Modeling, and Development/Project Financing Economics. Attending to this interest, he has published numerous essays for a technical audience as well as for a wider readership.

He holds a Master of Science Degree in Economics from the University of Zimbabwe and a Bachelor's Degree in Economics from the University of Nairobi, and has received post graduate training in Project Financing Economics from Bedford University (United Kingdom), and Development Evaluation Economics from World Bank and Carleton University (Canada).



Mr. Raimond Molenje joined Kenya Bankers Association in August 2012 as Head of Legal, Human Resources and Industrial Relations. He has over 15 years' experience in the dual areas of legal practice and human capital advisory, having worked as a practicing advocate, corporate in-house Legal Counsel at a government parastatal, and in several legal, HR and labour relations roles. He most recently served as HR Advisor at De La Rue Currency and Security Print.

Prior to that, he was Legal Manager at Federation of Kenya Employers (FKE) before joining Equity Bank Group as HR Manager, Employee Relations. Molenje is an Advocate of the High Court of Kenya, Commissioner for Oaths and Notary Public. He is passionate about training and capacity building and as such serves as Board Member and Lecturer at the College of Human Resources Management.

He is also a Board Member with Auctioneers and Licensing Board as well as Mediation Accreditation Committee of the Judiciary. He is a practicing member with both Law Society of Kenya (LSK) and Institute of Human Resource Management (IHRM). He holds a Bachelor of Laws (LLB) degree from the University of Nairobi, and Post graduate Diplomas in Law from the Kenya School of Law, and International Human Resource Management from Cambridge International College, UK.

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NOTICE OF THE ANNUAL GENERAL MEETING

25th May 2020

**THE CHIEF EXECUTIVE OFFICERS
OF KBA MEMBER BANKS**

Dear Sirs/Mesdames,

NOTICE OF THE 56TH ANNUAL GENERAL MEETING TO BE HELD ON THURSDAY 25TH JUNE 2020 FROM 2:30PM (Virtually – Teams Link)

Notice is hereby given that the 56th Annual General Meeting of Kenya Bankers Association will be held on Thursday 25th June 2020, from 2:30pm, virtually through Teams platform.

AGENDA

1. Constitution of the Meeting and adoption of the Agenda
2. Confirmation of minutes of the 57th Annual General Meeting held on 27th June 2019
3. Matters arising from the minutes of the 57th Annual General Meeting.
4. Adoption of the Chairman's Report.
5. IPSL Update
6. Consideration of the Audited Financial Statements for the financial year ended 31st December 2019.
7. Election of Members of the KBA Governing Council.
8. Any Other Business.

Yours Faithfully,



Dr. Fabri Okoko
Chief Executive Officer

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CHAIRMAN'S
MESSAGE

CHAIRMAN'S MESSAGE



Joshua Ogara
Chairman

Responsive lending underpinned the banking industry's trajectory in 2019; the year 2020 presents us with unique challenges which will require a collaborative approach to create value for the economy through policy interventions and customer-centric initiatives.

The year 2019 will undoubtedly be considered a significant turning point in the recent annals of Kenya's banking industry. It was the year of landmark customer-centric initiatives, as well as far-reaching changes in the regulatory space. In addition, 2019 saw the industry commendably maintain its resilience path which ultimately culminated in success, considering the market dynamics that prevailed during the business period.

At the year's onset, for example, the macro-economic environment was still reeling in hampered overall growth – largely associated with the Banking Amendment Act (2018), particularly from the perspective of credit access for the important micro-level growth drivers of the economy. The situation called for further operational and strategic realignments to meet the emerging regulatory and market needs.

It was, thus, plausible that the industry developed a raft of innovative solutions intended to reinvigorate growth, acknowledging the important interdependence between the welfare

of small enterprises and the overall performance of the economy. This deliberate focus became the industry's overriding and consistent determination for the year.

In this light, the industry pooled its synergies together and continued to initiate novel digital lending solutions targeted at enhancing enterprise growth and deepening financial inclusion. On this note, I gratefully acknowledge all our member banks for the efforts, which continued to host Kenya's flag high above our regional peers in the area of digital finance. I am firmly convinced that this impressive trend-setting scoreboard informed the hosting in Kenya of the inaugural Afro-Asia Fintech Festival that was held in Nairobi in July, 2019. Besides providing a great networking opportunity with global and local thought leaders, the festival facilitated the sharing of insights on ways of nurturing fintech ecosystems in Kenya and beyond. It was encouraging to see banks sponsor the event and showcase the industry's ground-breaking innovations.

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KBA Chairman Mr. James Opono (center), Vice Chairman Mr. John Gachua (left) and CEO Dr. Wabiri Ojwa during the 2019 Annual General Meeting.



The Kenya Association of Manufacturers Vice Chairman Mr. Isaac Kung'u, GSK Africa Area Managing Director and KBA Steering Council member Mr. Andrew Akhikwe, KBA's former President SME Partner Mr. Anna Mutuku and Parliamentary Caucus on SME and Business Chair Hon. Gideon Gicheru in a panel discussion during the launch of the Association's 2019-2022 Strategic Plan.

In the regulatory arena, the year 2019 marked the repeal of the Banking Amendment Act, a move that was facilitated by the introduction of the Finance Bill 2019. A significant milestone triggered by the advocacy initiatives conducted by the Kenya Bankers Association, the development heralded a new era of responsive and responsible banking. I am happy to note that the industry has continued to work with customers with an aim to facilitate access to affordable credit and enhance customer satisfaction.

Notably, these efforts resonate with the industry's Strategic Plan for the period 2019 to 2022, whose objectives include deepening financial inclusion by facilitating affordable banking services through tech-driven innovations and enhanced operational efficiency in the sector. Banks' initiatives have also sought to meet the regulatory requirements outlined by the Central Bank of Kenya (CBK) Banking Sector Charter, particularly on the adoption of customer-centric business models, risk-based credit pricing, transparency, as well as information disclosure and entrenchment of ethical culture.

PROMOTING ENTERPRISE DEVELOPMENT

The importance of Micro, Small and Medium-sized Enterprises (MSMEs) cannot be gainsaid. Since MSMEs are invaluable catalysts of growth, the banking industry continued to support the enterprises throughout 2019—despite policy bottlenecks. Recognising that small businesses contribute an estimated 40 percent to the National Gross Domestic Product, and create more than 70 percent of employment, underlines the need to continue exploring ways of further supporting enterprises towards promoting sustainable economic development.

To this end, the industry has rolled out a wide range of products designed to meet the unique needs of MSMEs. These include the Staw product that was developed by four of our member banks. Similarly, in conjunction with promoting industry efforts on enterprise development, KBA had the inaugural Inua Bishara Day which was officiated by His Excellency President Uhuru Kenyatta. The event was attended by approximately 4,000 participants cutting across the MSME sector and

our stakeholders, including industry associations, the Kenya Chamber of Commerce and Industry, the Government and development finance agencies. The MSME showcase was a first for the banking industry. The forum highlighted the industry's unity of purpose with regard to building the value proposition for the business community. It was a great success and we look forward to hosting more such fora.

SHOWCASING INDUSTRY VALUE PROPOSITION

In a bid to showcase how banks create shared value and bolster KBA's lobbying and advocacy agenda, the industry unveiled various reports that tracked our sector's contribution to the economy. These reports included the Total Tax Contribution Report, which was published by KBA in partnership with PwC. The survey provided valuable insights about the role the industry plays in mobilizing tax revenue for economic development. From the responses of 38 banks, we were able to establish that the industry contributed excess of KSh. 109 billion in 2017 and KSh. 81 billion in 2018, including through corporation tax, VAT,

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Mr. Digenet speaking during the Inaugural KBA 10th Annual Day SME Awards. The event was presided over by the President of the Republic of Kenya and attended by the Attorney General, the Deputy President and the Deputy Secretary General, Hon. Peter Mwangi, Governor of Kenya, Hon. Patrick Ngunjiri, Head of Public Service for Joseph Kabwe and US Ambassador to Kenya, Ms. Cynthia McCarroll, among others.

withholding tax and PAYE. This is a tremendous contribution to the fiscal budget. I have no doubt that this report will continue to enrich and reinforce discourse on the sector's relevance to the economy and inform tax policy frameworks moving forward. Set to be published for the next three years, the report will certainly augment KRA's and member banks' knowledge base in engagements with diverse stakeholders from a fact-based perspective.

Smarterly, KBA released the Kenya Banking Industry Shared Value Report which revealed that banks contributed approximately KSh 2.1 billion in Corporate Social Responsibility (CSR) in 2018 and about KSh 6.7 billion in the last three years. Among the top ranking social investment areas for banks include Education, Health and Environment. The report was launched by the KBA Governing Council in Parliament during an open day event convened by the Kenya Parliamentary Caucus on Sustainable Development Goals (SDGs). The findings of the study continue to make the Association's advocacy efforts in ensuring parliamentarians remain alive to the fact that the industry is creating long term value for society and the environment.

In addition, KBA unveiled the State of the Banking Industry Report. This research, with key findings that were underpinned by an assessment covering 15 years of industry performance, sought to contribute towards the understanding of the banking industry in a comprehensive manner that also addresses our various external stakeholders. The report analyses aspects of the market including policy and regulation, business environment and stakeholder expectations recognising the extent to which they are linked. To be published annually, the report will continue to offer insights on the significance of regulatory and market developments on banking sector performance.

Our lobbying efforts are only as strong as the proof points we are able to provide the KBA Secretariat team. The Secretariat team will continue to engage in research-based advocacy, and we encourage all members to provide information when called upon to do so. We thank the member banks for supporting these efforts which ultimately ensure industry growth and development.

RESPONSE TO THE GLOBAL PANDEMIC

As we look forward to the year 2020, we already have seen signs that the year will be another extra ordinary year for the industry. I believe the Coronavirus pandemic (COVID-19) is one of our greatest challenges of the 21st Century.

I'm proud of how KBA has quickly partnered with the Central Bank of Kenya to develop policy interventions and align to support all our industry staff, customers and stakeholders. While its early days, we already see the Kenyan spirit of umjaja coming through. So much of our world has changed in a very short time but what remains constant is that which makes us Kenyans: we smile in the face of adversity, and we do not hesitate to help when called upon. Banks and bankers have been stepping up to support the national effort during the health crisis. As an industry, we have been educating our stakeholders through the Komesha Corona campaign and KRA Go Digital Banking campaign. We also committed to raise KSh 1 billion for the National COVID-19 Emergency Fund which was established by His Excellency President Kenyatta and is overseen by stakeholders representing the private sector.

I am deeply thankful to all the CEOs who have stepped up and answered the call. So far, we have been able to raise approximately KSh 1.7 billion for the COVID-19 Fund.

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Members and staff of the 100th set up by banks during the 100th Stawi Day organised by the Association. Some of the banks supplied SME products in the event.

We sincerely thank all the banks for their contributions. We know more donations are coming in and we welcome members to continue supporting the national effort. Banks have also gone above and beyond the call of duty to work with their clients to cushion them from the adverse effects of the pandemic. Estimates from Central Bank indicate that within the first 2 months of the first COVID case in Kenya, banks had restructured more than KSh. 62 billion worth of facilities. This is quite commendable, and we encourage the members to continue to work with their clients, together we will win.

APPRECIATION

As I conclude, I would like to note that the theme for this annual report, Turning Points, signals changes in the sector regarding regulatory shifts that occurred in 2019. It is also a rallying call for the industry to ponder the bearing of COVID-19 on existing business models. The Association through the Secretariat supported by the KBA Governing Council will continue to advocate for policies that will facilitate a conducive environment for banks to thrive.

Let me take this opportunity to appreciate the Vice Chairman, Mr. John Gachara, for always being available to provide guidance on industry policy matters. I thank the entire KBA Governing Council for their commitment and support which greatly helped the industry navigate challenges in 2019. On behalf of the Council, I thank all the member bank CEOs for their leadership and support of KBA activities.

Finally, I recognise the efforts by the KBA Secretariat, led by Dr. Hazi Ojaka, particularly with regard to supporting our member banks. It is encouraging that the industry has established continuing engagements and improved relations with stakeholders such as the National Treasury, Central Bank of Kenya, Capital Markets Authority, Retirement Benefit Authority, the Kenya National Chamber of Commerce and Industry, among other stakeholders.

I firmly believe that together we will maximize the opportunities and overcome the global health crisis and other challenges that face us in 2020. Stay safe, and God bless you all!

Joshua Ogembo
Chairman

CEO'S MESSAGE



Dr. Habil Ojaka
Chief Executive Officer

FINANCIAL HIGHLIGHTS

Unfavourable and difficult business environment in the economy and particularly within the banking sector continued to persist. The interest rate cap view regime has been prevalent over 11 months of the year. The unintended consequences of the law continued to limit credit access to the SME sector leading to reduced lending opportunities for the banking sector.

To mitigate against the harsh operating business environment, the Association spearheaded activities linked to lobbying and advocacy, as well as targeted communication to influence positive outcomes as outlined in this report. Following realization of the foregoing gains, we expect a better working business environment, and this would present more business opportunities for the sector to grow.

For the Association to undertake its activities and fund earmarked programs as budgeted, member banks contributed funding to the Association in form of subscription fees. During the financial year 2018, total income generated by the KBA Group is KSh. 49055 million in comparison to KSh. 33811 million generated in the FY 2017. The increase in total income represents a 150.7 percent increase from the previous year and is attributed to an increase in subscription fees supposed to fund increased level of activities.

The Association has made progress to broaden its income streams by introducing new service offerings that are provided via the subsidiary, IPSL. The subsidiary, IPSL, has made steady growth in increasing the transaction base for the users of its Pesalink platform (see IPSL report).

In 2018, IPSL focus was directed to expand its income stream base from P2P income to other sources such as aggregator fees and bulk transaction fees. As a result of adopting this strategy, the total income for the year posted an increase of 7881 percent closing at KSh. 2790 million in comparison to KSh. 1502 million earned in the year 2017. The usage of Pesalink has witnessed a significant increase by bank customers and we expect that this trend will be sustained in the coming years as various initiatives are implemented by IPSL, Board of Directors and the Management.

KBA Group expenditure allocation for the year is mainly distributed to fund Administrative expenses (KSh. 324.72 million), Projects (KSh. 224.03 million), Establishment (KSh. 14300 million) and Finance costs (KSh. 64.74 million). It is worthy to note that the level of activities in the year were heightened as compared to the previous year which resulted in a cost increase by 8.3 percent compared to FY 2017.

A summary of both the revenue distribution and expenditure utilization for the KBA Group for the year is outlined as illustrated on the next page.

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REVENUE DISTRIBUTION



CONSOLIDATED EXPENDITURE OF KBA AND IPSSL

	31.12.18 KSh	31.12.18 KSh
Project Related Expenditure	224,682,431	169,191,982
Administrative Expenses	327,718,984	377,437,324
Establishment Expenses	143,060,507	136,248,034
Finance Expenses	64,740,719	75,898,198
Total Expenditure	757,229,165	698,980,198

KBA ACTIVITIES

POLICY ENGAGEMENT

KBA continues to lead on key policy engagements on behalf of the banking industry and broader financial services sector. These include with the Ministry of Lands' Digitization Workforce that is mandated to develop regulations to facilitate the digitization of the land registry. The project will see property registration at the Nairobi registry reduce from 73 working days to 12 working days. KBA is also engaging the Ministry to ease the transfer of mortgages. Other regulations include the Insolvency Bill and Regulations 2018, Law of Contracts Bill 2018, Bancassurance (LRA) Regulations 2018, Unclaimed Financial Assets, Data Protection Bill 2018, Employment Act Bill 2018, Public Finance Management Bill 2018, and Financial Markets Conduct Bill 2018. In line with the Affordable Housing pillar of the national Big Four

Agenda, KBA participated in the review of the Housing Fund Regulations 2018. KBA also engages with the National Treasury on Fiscal Budget submissions.

LEGAL AFFAIRS

KBA continued to successfully represent the banking industry's collective challenges arising from diverse legislative and regulatory bodies. During the period, KBA successfully petitioned the Courts in the following court cases:

- Petition against the Next of Kin law requiring the maintenance of next of kin details for all customers with KSh. 1 million penalty for each account in violation.

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L-R: KBA General Manager Authority of Kenya Treasury Mr. Brian Njoroge, outgoing KBA President Mr. Martin Waini, Chairperson Mr. Maurice Karoro, KBA CFO Mr. Peter Mutea and KBA Chief Finance Officer Mr. Kennedy Mbatia during the signing of an MOU aimed at promoting development in the financial markets.



L-R: KBA Research and Policy Director Mr. Jairo Okoko, World Bank Financial Sector Consultant Mr. Justin Kwana, KBA Deputy Chief of Regulation Mr. David Akumu and KBA Head of Legal, HR and Industrial Relations Mr. Raymond Mwangi after a consultation meeting on the rollout of regulatory stamp.

- Petition against the law barring the current industry best practice on withdrawal and deposit control measures aimed at curbing money laundering and
- Petition by Boniface Oduor leading to the declaration of the interest rate capping law as unconstitutional in March 2019.

Other petitions that were ongoing included the challenge to the retrospective imposition of Expose Duty on bank charges and the petition to allow payment and processing of Stamp Duty on the Tax system without the conditional requirement of payment of Capital Gains Tax. In all these cases, KBA works to ensure that the legal rights of banks are protected while recognizing the concerns of our external stakeholders.

INDUSTRIAL RELATIONS

KBA successfully negotiated the Collective Bargaining Agreement for all unionisable staff within the industry for the two-year period 2019-2021 with the Banking Insurance and Finance Union (BIFU), leading to enhanced benefits and conditions of employment for all unionisable staff in the industry. We are proud of our long history that spans over two decades of fostering harmonious industrial relations with no single collective dispute registered between KBA and the Union.

CLEARING HOUSE OPERATIONS

KBA owns and operates the Automated Clearing House in conjunction with the Central Bank of Kenya. During the year, the Clearing House operations saw marked improvement through various efficiency projects. Automated direct debit processing was introduced with a view to reduce the turnaround time for direct debits mandate processing from 14 days to 4 days. The migration of the Domestic Foreign Currency Clearing aligning the clearing cycle to the local currency cycle was also successfully implemented. The Automated Clearing House Sub-Committee carried out successful scenario testing at the disaster recovery site, and hosted a refresher training on clearing processes and procedures, as well as the KBA dispute arbitration process. The year closed with KBA Associate Member Micro Finance Banks directly accessing the Clearing House.

CURRENCY CENTRES

KBA in partnership with Central Bank of Kenya has commenced the establishment of the Kisumu Currency Center which will be hosted by Absa. KBA continues to partner with CBK on maintaining currency centers in Meru, Nyeri and Nakuru, and refurbished the centers during the year. KBA members have been instrumental in supporting the centers, enhancing cash management efficiency in the regions. KBA in conjunction with the CBK Currency Department also conducted trainings for banks' currency staff in Nairobi, Mombasa, Nyeri and Meru.

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Dr. Oduka stands with some of the Members of Full-Scale KYC that attended the forum where the Banking Industry Shared KYC Registry was launched at the Kenyan Parliament.

CYBERSECURITY AND INDUSTRY RISK MITIGATION

The Communications Authority of Kenya and KBA are working to establish a sector-wide framework to combat Cybersecurity threats and a sector Network Security Operations Control strategy is being considered. Meanwhile, KBA is championing a standardized incident reporting framework. The Association continues to engage in best practice sharing towards supporting industry capacity to mitigate system risk. Recent engagements include a study tour to Nigeria to study the country's risk mitigation practices. Nigeria has in place a system which centrally stores biometric identification and authorized signatories. As a strategy to contain fraud, this system is shared across all commercial banks' agents to facilitate real-time KYC checks before a transaction is processed. The findings of the visit will inform a Technical Working Group on Shared KYC, a project that has been supported by the KBA Governing Council.

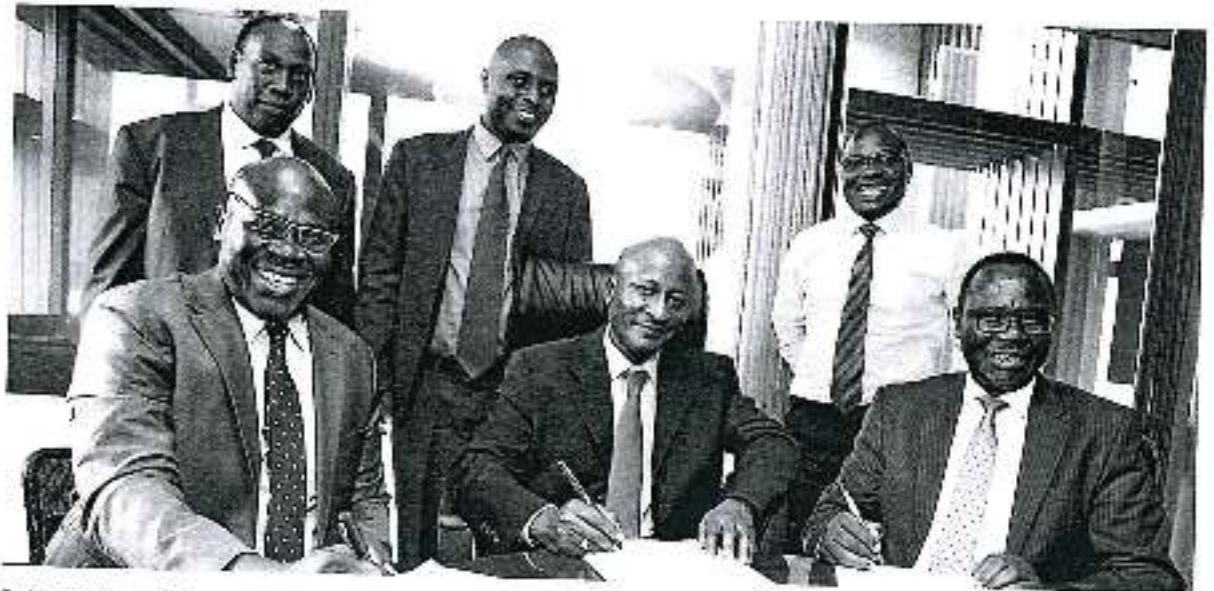
MOVABLE COLLATERAL REGISTRY

The online movable collateral registry was established to facilitate access to credit from financial institutions by use of one's movable assets such as motor vehicles, livestock and household items. The registry enables online searches, registrations, and amendments or cancellation of notices through the e-Citizen platform. As of the end of January 2018, there were 183/87 loans registered with assets worth KSh. 265 billion and more than 13,000 searches were conducted since the launch of the registry in May 2017. KBA, FSD Kenya and World Bank conducted a user assessment survey for the Collateral Registry stakeholders, including all banks. The report was submitted to the Attorney General's Office towards improving on the system which helps to stimulate access to credit.



Participants in the biometric data and shared KYC development workshop that was attended by more than 50 senior bank managers.

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Banking Association and Finance Union (BAFU) and KBA representatives' management during the signing of a Collective Bargaining Agreement (CBA) for the period between 1st March 2019 to 28th February 2021. The CBA provided for a permanent salary increase for the unreasonable employee and improve benefits including medical cover, leave, leave and other work allowances.



L-R Standard Chartered Bank Client Experience Lead Mr. Othman Kari, KCB Chief Operating Officer Mr. Samson Malonza, Credit Bank CEO Mr. Zeyi Kony, Equity Bank Customer Care Manager Ms. Susan Makenzie and KBA Communications and Public Affairs Director Ms. Auna Njumbi during the presentation of certificates to banks recognized for customer service excellence in 2018 Equity Bank, Standard Chartered Bank and Credit merged (top view), respectively.

CUSTOMER SERVICE

KBA in conjunction with the Institute of Customer Service carried out a survey to gain insights on sentiments from bank customers. More than 11 thousand responses were received by the Association and the results of the survey were released. Overall, banks were rated by the banking public as having improved in the area of customer service and user experience. The banking public also valued industry efforts to enhance digital banking platforms, with an emphasis on mobile banking.

CAPACITY BUILDING

During the year, KBA facilitated numerous capacity building workshops for the member banks, the topics covered include IFRS 16 and the FX Global Code. KBA partnered with PSD-Kenya to host a two-day training on data analytics. The "Data and the Future of Finance" training centred on the demand-side data, supply-side data and real economy data that banks can utilise to create innovative market strategies and design more relevant products that address the unmet needs of consumers. KBA also continues to support the Leading Women in Banking and Finance initiative which aims to promote diversity at senior levels within the industry.

Dr. Hazi Oluka
 Ch. of Executive Officer

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L-R Kenya Parliamentary Committee on Bills and Business Committee Chairperson Dr. Daniel Oulanda, Gulf African Bank Managing Director and KBA Governor Charles Mwangi, Mr. Joseph Abdu Kwakki, KBA Chairman, Mr. James Otiaka, KBA CEO, Dr. John Oloo, Kenya Association of Manufacturers Vice Chair, Mr. Michael Ngunjiri and Chair of the President SME Advisor Mr. Amos Mutahi during the launch of the Association's 2018-2023 Strategic Plan.



L-R KBA Research Officer Mr. Jesse Kivungu, Research and Policy Director Mr. Jacob Oloo, Mr. Mike Stanik, Bank Register Registrar Mr. John Oloo and Mr. Othman Head of Treasury Mr. Nassef Ajami during the release of the State of the Banking Industry Report.



Dr. Oloo, Mr. Othman and Mr. Ajami during the launch of the Association's Strategic Plan.



KBA Chief Finance Officer Mr. Kennedy Mwangi speaks during the Data Protection for Financial Institutions workshop that was organized by the Association for member banks.



L-R PwC Partner Assurance Somnath Joshi of Kenya Chief Executive Officer Mr. Fred Oloo, KBA Member Services Officer Mr. Eric Akhavan and KBA Accountant Mr. Arnold Mwangi during 2018 PwC awards. The Association emerged first in the SME category.

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Mr. Frederick Oluo has with addresser participants during the inaugural Asia Summit Day.



Central Bank of Kenya Governor Dr. Patrick Njoroge and Deputy Governor Ms. Silvia Mwaligwa were among the guests who attended the Treasurer meeting organized by the Association.



IFRS 9A Commission and Paolo Africa Justice Mr. Auro Mugambi, IFA CEO Ms. Agnes Gathwa, IFA Chairman Mr. Joshua Opara, KRA CEO Dr. Paul Oloo, Research and Policy Director Mr. David Oloo and AIC Commission Mr. Peter Mwangi during the research conference.



Investment Advice by Deputy Commissioner for the Policy and Tax Authority Mr. Gordon Mwangi given during the unveiling of the Total use Contribution of the Kenya Banking Sector report.



Mr. Oloo makes a presentation during the Moody's Analysis Forum on Financial Markets.



The Republic's Association of Banks convened a forum to discuss ways of boosting efficiency and inclusion in various services. The Association was moderated by KBA Customer Services Director, Mr. Paul Mwa, who stressed that the prize driven by competition has increased convenience for customers.

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REPORT ON
INTEGRATED
PAYMENTS SERVICES
LIMITED (PESALINK)

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REPORT ON INTEGRATED PAYMENTS SERVICES LIMITED (PESALINK)



JFEL Managing Director and KBA Governing Council Member Ms. Nasir Duffin with the visiting Pesalink team during the AfCFTA Future Festival

The biggest revolution in the global payments industry in the last decade has probably been the advent of Real-Time Payments. The banking industry in Kenya has not been left out on this journey. In 2017, the industry, under the auspices of the Kenya Bankers Association launched a Real-Time Payment platform for the entire banking industry called Pesalink.



JFEL CEO Agnes Gathuru was a panelist in a forum hosted by Metro on payment security. During the session, Ms. Gathuru shared her insights on the role of internet hygiene in the payments space, why it is a challenge for systems, ways to detect and respond to fraud and making customer trust into secure, frictionless payments.

At the time of Pesalink's launch, there were less than 10 instant payment switches globally. Today there are over 45, with about 70 more in development across the world. Indeed, Real-Time Payments, Instant Payments, Faster Payments or whatever we choose to call them, are the future of financial services. These implementations provide a shared payment infrastructure that facilitates financial inclusion, help drive digital transformation initiatives, reduce transaction cost and provide immediate value into bank accounts.

Unlike traditional inter-bank transfers which involve batch processing of transactions, 2-3 business days for settlement and deferred credit into beneficiary's account, Pesalink provides a competitive advantage for bank customers, merchants and corporates for real-time transfer, within seconds at a low fee, immediate value and same-day settlement capabilities. This has continued to be an exciting reality for 2.5 million Kenyans already subscribed to the services.

In 2019, we continued to focus on 3 main pillars:

- Building trust and confidence in all our stakeholders
- Increasing customer awareness
- Securing the ecosystem

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SERVICE AND PRODUCT INNOVATION

PesaLink continued to invest in our people and systems with product and technology innovations which saw the continued movement in the PesaLink customer journey as well as performance of the service. Some of our milestones in 2019 include:

1. Transfer Advice (Receipt) to both sender and receiver as a payment confirmation downloaded in PDF format.
2. Instant notification for successful transactions.
3. Supporting banks to improve on their internal processes by providing a transaction portal to view transactions online real-time.

One of the value additions was the ability for customers to link up to 5 different bank accounts in 5 different banks using their mobile number making it convenient for them to transfer funds. The largest growth area has been the uptake of the service by merchants collecting payments via PesaLink and directly into their preferred business accounts at no extra cost. This greatly reduces their costs of doing business and they are able to receive value instantly to purchase stocks, business expenses etc. This is an area that we are keen on growing in 2020.

The year also saw a 75% growth in transaction processing when compared to 2018. The most popular component of the service has been P2P accounting for 50% and the other 20% being driven by merchants and partner aggregators of payments.

The year also saw a 75% growth in transaction processing when compared to 2018.

SECURITY

Cyber security continues to be a vital function in our business and as a custodian of a critical platform for the Kenya banking industry, we continue to put measures in place to ensure that our app-system is secure from cybersecurity risks and attacks.

In 2019, we carried out another round of IT Security audits on all our partners in order to ensure that all players in the ecosystem maintain a minimum-security threshold to securely offer instant payments in their environments while also ensuring that they do not introduce vulnerability to other players.

We all emerged more secure from this rigorous process as any identified gaps were quickly remediated. Fully understanding how dynamic cybersecurity threats are, we subject our systems at PesaLink to vulnerability scans and penetration testing throughout the year and use the findings to further harden our environment and deploy technologies that allow us to monitor transactions 24/7. This fitness check has been an ongoing exercise to continually ensure confidence and trust in the ecosystem as well as the integrity of transactions by all stakeholders.

OPTIMIZATION AND EFFICIENCY

To ensure improved operational efficiency in processing PesaLink transactions across banks, we developed and circulated minimum technology and operational standards and the level of compliance by banks have been impressive while others are the advanced stage of optimizing their technology stack. Banks have also adopted PesaLink for processing bulk transactions and enhancing operational efficiency at the back end of banks.

CUSTOMER AWARENESS AND SATISFACTION

In the year 2019, we carried out various initiatives targeting both P2P and banks in an effort to build confidence and drive usage of the service. We ran marketing campaigns on all media including several radio stations and television. In addition, we also put out different communication on various digital channels. This saw an increase in usage evidenced by a 75% growth in value successfully delivered and a 6350% growth in number of transactions as compared to 2018. Meanwhile, 30-days active users grew by 4340%.

PesaLink also partnered with the Eastleigh District Business Association and 8 banks with branches in Eastleigh to educate its membership on the advantages of going cashless. This very successful campaign saw PesaLink and EDBA host joint townhalls and our agents visit merchants door to door on an education campaign that aimed to take the war on cash head on.

Another initiative aimed at providing insight into our customers was the introduction of a real-time Net Promoter Score (NPS) survey. Customers who completed PesaLink transactions were polled on their user experience. Our average score for the 6 months of the survey is 62%. The overall results have then been distributed with each bank receiving its individual score and customer feedback. We have used this data to build a plan for improved customer journeys with each bank that we are now in the process of working with the banks to implement. We intend to continue with these initiatives in the year 2020 for greater impact.

OUTLOOK FOR 2020

The 2020 is significant for PesaLink. Various initiatives and improvement strategies are in the pipeline to position PesaLink as a shared service platform for the entire banking industry through which digital transformation initiatives of banks can be accelerated at a reduced cost and improved efficiency with an expected output for banks which includes high revenue stream, better customer satisfaction, higher velocity of money within the ecosystem and improved operational efficiency.

We look forward to greater performance in the days ahead.

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REPORT FROM THE KBA CENTRE FOR RESEARCH ON FINANCIAL MARKETS AND POLICY®



With Research and Policy Director Mr David Omondi, members of the discussion during the launch of the State of the Banking Industry Report

OPERATING ECONOMIC ENVIRONMENT

The KBA Centre for Research on Policy and Financial Markets® continued to support the banking industry's strategic policy engagement through its analytical work on various market and policy dynamics. With the operating environment as demonstrably inclined towards more regulation of the banking industry, the Centre spearheaded the KBA research agenda towards modalities of navigating the market in a manner that can allow an efficient accomplishment of the intermediation mandate of banks.

The regulated interest rates regime that had been in place for nearly three years – the Banking (Amendment) Act having been enacted in 2018 – came to an end with the repeal of the capping law in November 2020. On the back of dwindling growth in credit to the private sector that was largely attributed to the interest rate controls, the economy's growth was driven basically by Government fiscal programmes.

Whereas the macroeconomic conditions as seen in inflation and foreign exchange trends were largely stable, the Monetary Policy Committee (MPC) of the Central Bank of Kenya (CBK) remained vigilant, leaning towards more accommodation. The MPC acknowledged the impairment of its policy framework by the interest rates regulation and was evidently sanguine of its efficacy soon after the repeal of the Banking (Amendment) Act to remove the caps as demonstrated in its signal of lowering the Central Bank Rate (CBR) in its last decision of 2020.

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64. Joshua Ojiambo, KBA Deputy CEO (left), Peter Mbatia, KBA CEO (middle) and HF Group CEO (right) during the 8th Annual Research Conference.

RESEARCH AND POLICY ENGAGEMENT

1. The 8th Annual KBA Banking Research Conference
 The KBA Centre for Research on Financial Markets and Policy successfully hosted the 8th Annual KBA Banking Research Conference on September 12th and 13th, 2019. The Research Conference is the Centre's a flagship event through which ideas and insights in areas of interest to the banking industry are facilitated.

The theme of the Conference was: *Banking Industry Growth and Stability Dynamics – Market Power, Financial Technology and Optimal Intermediation*. The goal of the Conference was to stimulate a deeper understanding of how the structure of the banking industry can influence market competition and consequently the efficiency of credit allocation to the real economy.

Emerging analytical work on the link between market structure, credit allocation and overall economic performance hinges on the aspect of market power as could be influenced by the relative size of market players. The Conference provided a forum of extending the analysis on this broad area of study in two linked directions:

- The first is the extent to which organic growth and mergers and acquisitions in the banking industry is shaping market competition. The interplay between these aspects is a potential harbinger of changes in

market concentration and power. There is therefore a case for an empirical investigation on market concentration, potential consolidation, and what that portends for the intermediation process.

- The second is the extent to which partnerships with non-bank actors, notably financial technology firms and mobile network operators is shaping market power, competition and intermediation. An area of empirical interest will be that of the interrogation of the possible link of the market power amongst the non-bank players to the market power amongst banks.

The connection between the two areas of analysis is born on the back of financial technology increasingly changing the shape of banking industry in the sense that competition in the provision of financial services is well beyond the formal regulated institutions. While there are regulatory differentials, customer expectations are not asymmetrical.

Further, financial technology presents opportunities as well as challenges to market players – especially banks – that need to be rigorously examined and understood. The interaction of these two segments – banks on the one and financial technology players – is likely to shape the extent of market realignment and has both growth and market stability dimension.

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KBA Governor Mr. Ojiambo, bank CEOs Dr. Othman and Mr. Oduro (left) with some of the researchers who presented papers at the 8th Annual Bankers' Research Conference. Pictured include Vice Bank CEO Mr. Jeremy Akumu, Co-CEO bank equity investor Mr. Anthony Akumu, and KBA Governor Governor Mr. Joseph Ojiambo.

The eight (8) papers presented at the conference were:

1. *Market Power and Intermediation Efficiency: Bird Spots and Empirical Gaps* by Jared Oduro and Kiplangat Josea – KBA Centre for Research on Financial Markets and Policy⁴.
2. *Do Mergers and Acquisitions impact Bank Lending Behaviour in Kenya?* by Farida Abdul – Kenyatta University and Rogers Ochenge – Embu University
3. *The Effect of Mobile Money on Banking Sector Stability in Kenya* by Samuel Tiriongo and Peter Wamwele – Central Bank of Kenya.
4. *The effects of Fintech on Bank Market Power and Risk Taking Behaviour in Kenya* by David Murithi Ndwiga – Independent Researcher.
5. *Is the Evolution of Fintech/Digital Financial Services Complementary to Bank Performance in Kenya?* by Rosalina Mwaeni, Anne Kamau, Leonard Kipyegon and Louis Wandera – Central Bank of Kenya.
6. *Bank Stability and Competition – The case of Kenya* by Raphael Agung, Faith Atiti and Stephanie Kimani – NCBA Bank
7. *Banking Sector Competition and Efficiency in Kenya* Samuel Kiemo and Anne Kamau – Central Bank of Kenya
8. *Fintech and Banks Collaboration: Does it Influence Efficiency in the Banking Sector?* by Davis Bundi Ndwiga, University of Nairobi.

II. Publications

a. KBA Working Paper Series

Arising from the Conference and the KBA Working Paper Series publications. As at the end of the year under review, thirty (30) papers had been published in the series, drawing from the presentations of all the conferences so far hosted

by the Centre. These papers are an authoritative source of knowledge that forms the basis of engagement with wider stakeholders – regulators, Government, international partners and academics.

b. The KBA Economic Bulletin

This is a quarterly publication that is an easy read with a succinct overview of the state of the economy and its outlook. During the year, four (4) issues of the KBA Economic Bulletin, volumes 20 – 24, were published. The Bulletin has received positive feedback from the wide readership that it is now drawing.

c. Regular Research Notes

These are often issued regularly and the timing is such issuance is largely – but not exclusively – around the timing of the meetings of the monetary policy committee (MPC) of the CBK meeting. During the year seven (7) Research Notes – Note 34 to Note 40 – were issued and published.

iii. KBA Housing Price Index (KBA-HPI)

Subsequent to the presentation of the conceptual framework that underpins the KBA housing price index (KBA-HPI) during the 8th Annual Research Conference and the launch of the Index in February 2015, the KBA-HPI was consistently published every third week following the end of a given quarter.

The index has received wide recognition and positive acknowledgement. The KBA is at an advanced stage of having the Index, together with abstracts of its publications, pushed on an international platform.

For more information about the Centre for Research on Policy and Financial Markets⁵ please visit <http://www.kba.or.ke/research-center>

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REPORT ON CREDIT INFORMATION SHARING



CIS Kenya Chief Executive Officer Mr. David Gatunga (left) during the stakeholder consultation exercise.

In 2019, the Credit Information Sharing Kenya (CIS-Kenya) rolled out a number of initiatives which sought to address various industry needs. The initiatives focused on the CIS mechanism, regulatory dynamics, and the convergence of the CIS mechanism with risk-based pricing models.

As part of the Ease of Doing Business assessments, the World Bank undertakes reviews on ten different aspects of every country's business environment. In the results released in November 2019, Kenya recorded an improved ranking in the Ease of Doing Business end of the ten areas of assessment. Kenya's best performance was in the "Getting Credit" indicator where a score of 95 of the possible 100 points was registered. A big contributor to this high rating was the "Depth of Credit Information Index" where Kenya scored the maximum 6 out of 8 points and the "Credit Bureau Coverage of the Adult Population" rose to an impressive 95.4 percent.

CIS MECHANISM ON POLICY AND REGULATORY DYNAMICS

In 2019, CIS Kenya worked with the National Treasury towards development of CIS National Policy that will guide all future legal and regulatory reforms around CIS. A draft CIS National Policy was presented in a Stakeholder Dissemination Workshop on 13th September 2019. The revised draft will, as part of the next phase, be exposed to broader public consultation in 2020.

One of the most significant issues that the draft policy will seek to address is the introduction of a comprehensive regulatory oversight for CIS that encompasses all contributors of data to credit bureaus. The current version of the draft is available at <http://www.ciskenya.co.ke/draft-cis-national-policy/>

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Participants engage in a discussion during the CIS-Kenya CIS Mechanism workshop.

CIS MECHANISM CONVERGENCE WITH RISK-BASED PRICING

As recognized in the Kenya Banking Sector Charter, the use of credit bureau scores in determination on risk attributable to individual borrowers is expected to be a key differentiating factor in loan pricing. This is especially relevant in the liberalized interest rate regime that followed the removal of interest rate caps in November 2018.

In order to enhance the predictive value of credit bureau scores, the data that informs the scores must reflect high degree of accuracy, comprehensiveness and timeliness. This is especially true in the Kenya landscape where digital lending has grown tremendously. As a response to these trends, CIS Kenya contributed to the move to daily submission of data to credit bureaus by leading industry efforts around revision of the credit bureau Templates that were issued by the Central Bank in June 2018. As part of the preparatory capacity building initiatives, CIS Kenya conducted various workshops leading to the launch of daily submissions in September 2019.

CIS KENYA 2019 HIGHLIGHTS

DEVELOPMENT OF A DATA VALIDATION AND SUBMISSION TOOL

This transformational tool (referred to as CIS ValiData), was developed by CIS Kenya in the second half of 2018 as a solution to the persistent data quality and data submission challenges observed over the years. The CIS ValiData, due to launched in 2020 has three main features. First, it will facilitate data validation within institutions before submission based on

standard industry agreed data validation rules. Second, it will allow for simultaneous submission to the three bureaus at the click of a button and third, it will allow for monitoring of data quality and provision of data quality support by CIS Kenya as part of its contribution to improving data quality.

ESTABLISHMENT OF THE CIS E-LEARNING CENTER

CIS Kenya established an E-Learning platform that aims to enhance CIS knowledge and strengthen Compliance, interpretation of Credit Reports and introduction to Risk-Based Pricing. The Learning Center (<https://www.ciskenya.org/>) complements institutional capacity building in credit risk management and related areas, in response to changes in regulation, technology and business models.

IMPLEMENTATION OF A SUSTAINABLE FINANCE TOOL FOR NON-BANK FINANCIAL INSTITUTIONS.

With the support of WWF Kenya, CIS Kenya developed a customer appraisal tool to assist MFIs in implementation and measurement of SF factors.

STAKEHOLDER ENGAGEMENT ACTIVITIES IN 2019

In addition to organizing workshops around new data submission approach, CIS Kenya led industry engagements towards development of a Communication Strategy that was developed in 2019. This strategy will inform the 12-month-long CIS Financial Literacy and Public Awareness Campaign in 2020/21. The campaign will provide an opportunity for the public to understand the operations of credit bureaus. Lenders will contribute to this campaign by articulating specific benefits due to borrowers arising from positive scores.

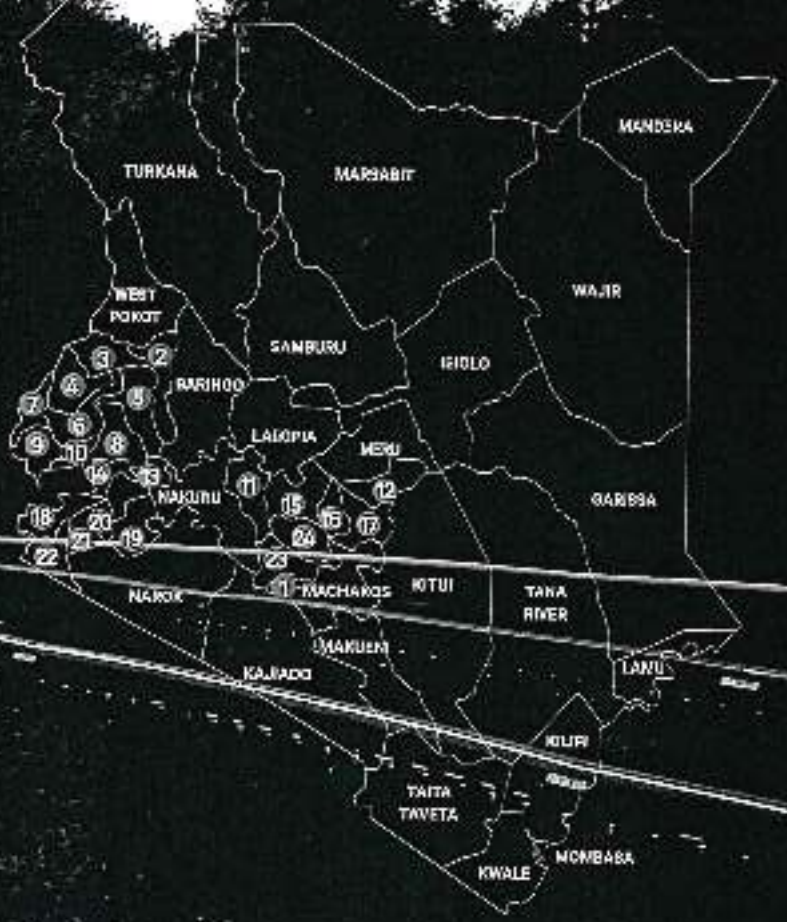
SUMMARY AND WAY FORWARD

Due to the growing interest in the linkages between CIS and related credit infrastructure, CIS Kenya will take a lead in promoting conversations on comprehensive reforms affecting credit bureau infrastructure, collateral registries, credit guarantee schemes and insolvency regimes. This approach will inform the deliberations of the 8th Africa CIS Conference to be held on 13th - 14th February 2020 in Nairobi and other CIS Kenya workshops going forward.



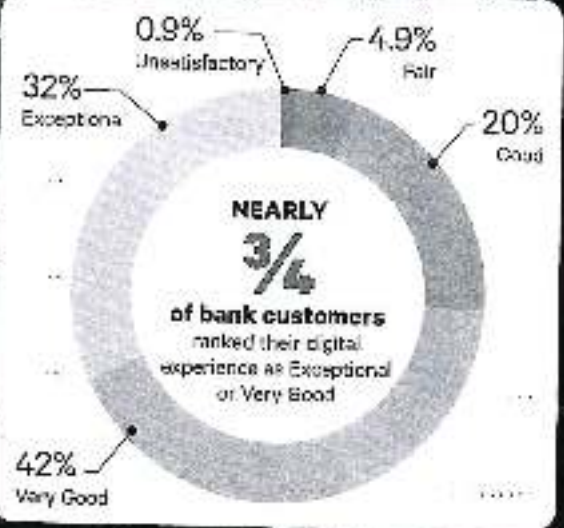
SOCIAL
RESPONSIBILITY
REPORT

CSR HIGHLIGHTS



- TRAINING REACH**
- | | |
|------------------|---------------|
| 1. Nairobi | 13. Kencha |
| 2. Kiyo-Marakwet | 14. Kisumu |
| 3. Trans Nzoia | 15. Nyeri |
| 4. Bungoma | 16. Kirinyaga |
| 5. Uasin Gishu | 17. Embu |
| 6. Kakamega | 18. Homa Bay |
| 7. Busia | 19. Bonnet |
| 8. Nandi | 20. Nyamira |
| 9. Siaya | 21. Kisii |
| 10. Vihiga | 22. Migori |
| 11. Nyandarua | 23. Kambu |
| 12. Tharaka | 24. Murang'a |

CUSTOMER SERVICE SURVEY



KSH.4.3 BN

KENYA'S FIRST GREEN BOND BY ACORN HOLDINGS

SOCIAL RESPONSIBILITY REPORT

Today, advancing sustainable development is no longer a luxury but an essential factor to safeguard long-term business success. Globally, financials are increasingly aware of their unique position in accelerating positive change in their communities. They are integrating into their business strategies innovative ways to promote sustainable economic development.

Likewise, Kenya's Banking Industry is making commendable progress in re-orienting its business priorities from maximizing private gains to being more socially and environmentally conscious. Presently, banks are aligning their business goals to deliver enhanced benefits for Profit, People, and Planet. In 2018 alone, banks in Kenya spent approximately KSh. 2.1 Billion in Corporate Social Investments (CSI) to address environmental degradation, health and education gaps in the country. Additionally over the years, KBA member banks have continued to initiate programs that uplift the underserved segments in society from poverty. Such initiatives are fortifying the industry's stance in its pursuit to balance shareholder demands with socio-economic and environmental concerns.

To help bolster member banks' initiatives, the Association has led key industry-wide programs, education and consumer awareness campaigns that have positively impacted millions of Kenyans. The following are highlights of the initiatives that were driven by the Association in 2018.

FACILITATING THE ADVANCEMENT OF FINANCIAL LITERACY

A key element in ensuring a robust financial system is secured greatly hinges on the back of having a financially enlightened consumer. Banks have invested considerably in financial literacy programs as a means to empower the public to make informed and sound financial decisions.



Over the years, KBA has supported its members in this endeavour by coordinating the Global Money Week (GMW) campaign. The campaign is designed to encourage children and youth to learn about the importance of managing money wisely. In addition, the campaign has a component that enables participants to gain an understanding of ways to create livelihoods and enlightens them on the benefits of pursuing entrepreneurship in the future.

In 2018, a total of 252 students took part in a job shadow exercise in various banks to mark the GMW. Through the job shadow exercise, the students, in addition to learning about financial management, were able to gain insights on the various career opportunities available in the banking industry.



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Left to Right: Kenya Governor Mr. Wycliffe Wainaina, KBA CEO Dr. Mueli Chiles, Central Bank Governor Dr. Patrick Njoroge, Executive Director Association Executive Director Mr. Alno Kariuki, Rembert Kenya CEO Ms. Wambui Mwangi, Visa Country Manager for Kenya, Visa, Airtel, and MasterCard Business Head for East Africa Mr. Arden Akoo along the launch of the Kaa Chonjo campaign.

In the same year, KBA successfully concluded the Youth in Business (Y-Bizna) three-year program that was designed to empower over 300 young men from informal settlements to engage in meaningful work to improve their living standards and consequently, reduce the number of crime incidences in the country. Through the program, a KSh. 1 million revolving fund was established, and 21 youths were able to access the capital to start or expand their businesses. The beneficiaries from the program were drawn from Mathere, Huruma and Kariakangi Slum in Nairobi, as well as, Kasuni Slum in Mombasa. KBA partnered with Kenya Community Development Foundation (KCDF), Youth, Arts, Development and Entrepreneurship Network (YADEN) in Nairobi and Dream Achievers Youth Organization (DAYO) in Kisumu, Mombasa to implement the program.



400
MILLION
PEOPLE
REACHED
ONLINE

PROMOTING CARD, MOBILE, AND ONLINE SECURITY

Since 2012, KBA has been at the forefront in leading the industry in the promotion of card, mobile and online safety awareness messages through the "Kaa Chonjo" Campaign. In 2019, the Association in collaboration with banks MasterCard, VISA, Airtel, Retail Trade Association of Kenya (RETRAK), PostLink and Consumer Gracious Association (CGA) educated the public on how to safeguard their Personal Identification Numbers (PINs) and passwords while transacting. The campaign garnered an approximated online reach of close to 400 million people. On mainstream media the campaign had a reach of over 7 million people.

To boost our reach further, KBA together with the CGA held a roadshow in Roysambu, Githuruni 45, Ruiru, Luja, Thika, Keraji, Sebesebe, Maragua, Mwarong, Sagana, Kagia and Kutus towns. Through the roadshow 150 posters and 1700 flyers were distributed. As a result of the awareness campaign, card and ATM fraud-related cases have been on the decline due to increased levels of awareness.

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The first group of Inuka SME programme participants was issued with completion certificates in an event held in Nairobi in 2018.



inuka ENTERPRISE
2,844
MSMEs
TRAINED

INUKA ENTERPRISE PROGRAM – A PATHWAY TO BUSINESS EXCELLENCE

Micro, Small, and Medium-sized Enterprises (MSMEs) are the bedrock of Kenya's economy. About 80 percent of jobs in Kenya are created by MSMEs. Despite their vital role in economic development, many enterprises continue to grapple with access to affordable credit and markets.

As a means to address this challenge, KBA launched the Inuka Enterprise Program in October 2018. The program was designed to de-risk MSMEs to enhance their ability to access credit from banks and also educate them on ways to expand their market reach.

In the same year, the Association signed a memorandum of understanding (MOU) with the Kenya Chamber of Commerce and Industry (KNCCI) to train its members under the Inuka Enterprise Program. Among those trained in 2018 included bank customers, bank employees and KNCCI members. To date, the banks that have supported the program include DTB Kenya, Guif

African Bank, First Bank, Equity Bank, Credit Bank and National Bank.

The year also afforded the Association an opportunity to develop a Marketplace feature on the Inuka Enterprise Program e-learning platform. Through the Marketplace page, Inuka members were able to showcase their services and products in order to increase their sales and tap into new markets. In the last two years, a total of 2,844 MSMEs were reached through online and face-to-face training under the program.

In recognition of the efforts the Association has put in place to support MSMEs, in 2018, the National Treasury appointed a KBA representative to act part of a task force that will spearhead the establishment of the National SME Credit Guarantee Policy and operating company. The scheme will enable the State and investment partners to guarantee commercial loans in order to address Kenya's depressed credit market. Last year, KBA led in the collection of feedback from member banks on a feasibility study that was seeking to determine the value proposition of the credit guarantee scheme. The task force is at an advanced stage in establishing the scheme.



Kenya National Chamber of Commerce and Industry President Mr. Ernest Agwa (right), Dr. Othman KNCCI Board Chairman Mr. James Mwangi (left) signing of an MOU for cooperation in enterprise development.

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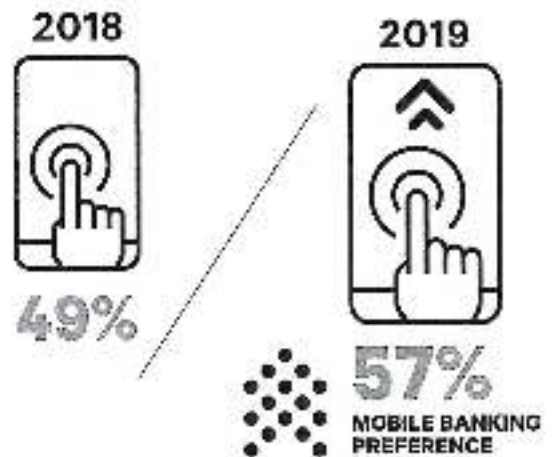
A training session for farmers through a face-to-face workshop as part of the Inua Enterprise programme.



L.R. Medbank Regional Representative Mr. Jay Vithalraj, Kencom Senior Credit Manager Mr. David Wain, and Kencom Mr. Kwana Mburu, KNCCI Trade Research and Policy Manager Mr. Onepus Njoroge and Mr. Anthony Njiru, KMA Senior Commercial Officers discuss strategies of ensuring business growth.

ENHANCING A CUSTOMER CENTRIC CULTURE IN THE INDUSTRY

Since 2018, KSA has conducted customer satisfaction surveys with the intent of enhancing the banking public's experience. The survey has been instrumental in giving the industry insights on how to deepen customer centricity. In 2019, KSA carried out the annual survey and over 11 thousand respondents shared their feedback. In the findings, the industry received a commendable satisfaction level rating of 83 percent. Out of the respondents surveyed, 32 percent indicated their digital experience was 'Excellent' with 42 percent scoring banks' digital services as 'Very Good'. The survey also revealed that use of mobile banking rose to 57 percent in 2019 from 49 percent recorded in the previous year. KSA has for the last two years collaborated with the Association's Customer Service Working Group to develop the survey instrument. The annual exercise has been instrumental in enabling banks to gather the public's sentiments on their service delivery.



FUTURE OF FINANCE TRAINING

In 2019, KSA in conjunction with Financial Sector Deepening (FSD) Kenya designed a two-day training to equip bank Retail Strategy Managers and Retail Product Managers with knowledge of designing relevant and sustainable products. The training also focused on FinAccess data, as well as other socio-economic data that are designed to aid banks in designing relevant products for the majority of society, and key subgroups such as women. The training was attended by over 30 senior bank officials. The interactive session enabled the participants to have insights on data-based approaches to inform their product development strategies. The program was facilitated by international experts from CGAP, CENFRI and Usable Data.

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LEADING WOMEN IN BANKING AND FINANCE INITIATIVE

The world over, companies are gaining an appreciation of the immense opportunity a diverse leadership set-up has to offer. They are taking into consideration their ability to tap into new and innovative viewpoints to spur creativity and profits as a result of promoting gender diversity in leadership. With this as a cause, since 2016, KBA has actively coordinated various forums to build the capacity of bank female officials to take up board, executive and senior management positions. The initiative also seeks to advance dialogue and establish solutions to obstacles

that have hindered women's capacity to scale higher in their career pursuits. In 2019, KBA held four quarterly forums and reached over 70 senior bank female officials. The topics covered included "State of Women in Leadership in Africa", "Emotional Intelligence in Leadership: A Valuable Leadership Attribute" and "Reflections: Thought Patterns that Inhibit Inclusivity". Last year's participants reported new perspective on their approach to management.



KBA Director of Corporate Governance and Public Affairs Ms. Nura Mwangi, making remarks during a Leading Women in Banking and Finance Initiative forum.

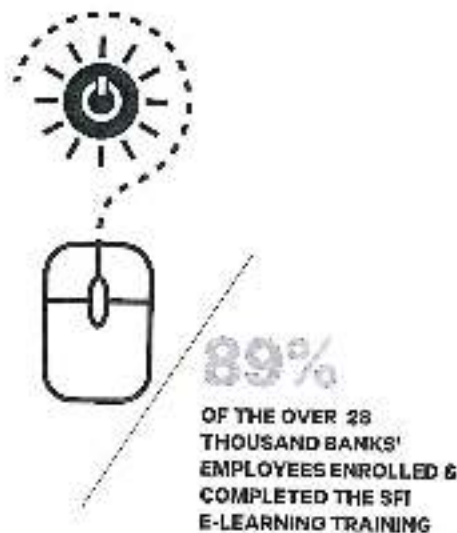


L to R: Quak Bank Chief Executive Officer Ms. Betty Kari, Quak Bank Chief Bank Officer Ms. Deborah Odigbo and DTB Kenya Managing Director Ms. Helen Deng, during a forum to help to establish Odigbo's growth as she returned to DTB Headquarter.

SUSTAINABLE FINANCE INITIATIVE

Over the years, KBA has actively championed the entrenchment of the Sustainable Finance Initiative (SFI) Guiding Principles as a means to ensure the financial services sector is alive to the need to balance their financial goals with the economy's priorities and socio-environmental concerns. Some of the initiatives that were undertaken to ensure the successful implementation of the SFI Guiding Principles included:

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CAPACITY BUILDING

To ensure that the banking industry is well equipped to implement the industry-wide adopted SFI Guiding principles, the Association developed an E-learning platform. With the funding support from the FMO (Dutch Development Bank) and DCS (German Investor Corporation), a comprehensive curriculum was developed to deepen bank staffs' understanding of the importance of creating long-term value for their clients, firm, environment and the economy. In 2018, KBA continued to build the capacity of bank employees through the initiative which resulted in aiding the enrolment of 20,523 staff onto the e-learning platform. In total, 25,026 had completed the training as at December 2018. A new module on green bonds was also developed in 2019 by the Association with the support of the Green Bonds Program. Kenya continues to date, 3,735 bank employees were able to complete the training on the value of creating a green bonds market in the country. Below is a summary of the SFI enrolment and completion rate for member banks.

SFI E- LEARNING TRAINING ENROLMENT AND COMPLETION REPORT

NAME OF BANK	Percentage Registered	Percentage Completed
Absa Bank	87%	34%
Alicorn Banking Corp. Ltd	94%	45%
Bank of Africa	100%	98%
Bank of Baroda (K) Ltd	53%	43%
Bank of India	5%	2%
Citibank	53%	27%
Co-Operative Bank of Kenya Ltd	56%	40%
Commercial Bank of Africa Ltd	100%	98%
Consolidated Bank of Kenya Ltd	85%	51%
Credit Bank Ltd	85%	65%
Development Bank (K) Ltd	12%	7%
DTB Kenya Ltd	100%	99%
D2 Bank Kenya	83%	74%
Exocbank Kenya Limited	100%	94%
Eouly Bank Ltd	75%	59%
Family Bank Ltd	90%	57%
Faulu Microfinance Bank	90%	65%
Fidelity Commercial Bank (M)	3%	2%
First Community Bank Ltd	50%	61%
Guaranty Trust Bank Kenya Ltd	97%	95%
Guardian Bank Ltd	42%	37%
Gulf African Bank Ltd	100%	87%

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NAME OF BANK	Percentage Registered	Percentage Completed
Habib Bank A.C. Zurich	94%	100%
Housing Finance Company of Kenya Ltd	100%	87%
I & M Bank Ltd	100%	96%
Jamii Bora Bank Ltd	100%	94%
KCB Ltd	100%	84%
Kenya Women Microfinance Bank	6%	5%
Mayfair Bank	0%	0%
Middle East Bank (K) Ltd	80%	77%
Nations Bank of Kenya Ltd	80%	52%
NIC Bank Ltd	100%	90%
M-Oriente Commercial Bank Limited	95%	90%
Paragon Universal Bank Ltd	102%	99%
Postbank	6%	4%
Prime Bank Ltd	44%	35%
Rafiki Micro Finance	1%	0%
SBM	12%	7%
Adyar Bank	100%	92%
Spry Bank Limited	96%	84%
Stanbic Bank Kenya	86%	87%
Standard Chartered Bank C O Ltd	100%	100%
Trans-National Bank Ltd	10%	0%
UBA Kenya Bank Ltd	23%	21%
Victoria Commercial Bank Ltd	100%	70%

CATALYST AWARDS

To recognize the strides made by the Banking industry in implementing the SF1 Guiding Principles and to celebrate institutions that practice catalytic finance, the Association annually holds the SFI Catalyst Awards. In 2019, KBA celebrated firms that had shown leadership in integrating sustainable finance practices in their operations. The winners for the 2019 SFI Catalyst awards were feted during an awards ceremony that was presided over by the Governor of Central Bank of Kenya, Dr. Pauluk Njoroge.

Prior to the ceremony, a pool of sustainability experts were engaged by the KBA secretariat to analyse and assess 47 entries received from 14 progressive firms. The 2019 SFI Catalyst Awards judging panel consisted of:

1. Ms. Joyce Njogu - Head of KAM Consulting, Kenya Association of Manufacturers
2. Eng. Dan Ndonga - Co-founder of Mirroch (Returning Judge)
3. Mr. Sandy Okoth - Regional Sustainable Finance Expert, WWF
4. Dr. Peter Mutitu - Senior Lecturer, University of Nairobi (Returning Judge)
5. Prof. Kenneth Ameshi - Professor of Sustainable Financial Systems at the University of Edinburgh and Chair in Business & Sustainable Development Director at the Sustainable Business Initiative

The following is a summary of the winners of the 2019 SFI Catalyst Award:

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CATEGORY 1 BEST IN SUSTAINABLE FINANCE

Position	Bank
1 st Place	Standard Chartered Bank (K) Ltd
2 nd Place	Co-Operative Bank of Kenya Ltd
3 rd Place	Equity Bank Group

CATEGORY 2 A CLIENT CASE STUDY - Financing Small and Medium Enterprises

Position	Bank
1 st Place	Co-Operative Bank of Kenya Ltd
2 nd Place	Kenya Women Microfinance Bank
3 rd Place	Equity Bank Group

CATEGORY 2 B CLIENT CASE STUDY - Financing Commercial Client

Position	Bank
1 st Place	Equity Bank Group
2 nd Place	Commercial Bank of Africa Ltd
3 rd Place	Co-Operative Bank of Kenya Ltd

CATEGORY 2 C BANK CASE STUDY - Operations

Position	Bank
1 st Place	Standard Chartered Bank (K) Ltd
2 nd Place	Co-Operative Bank of Kenya Ltd
3 rd Place	Equity Bank Group

CATEGORY 2 D BANK CASE STUDY - Promoting Gender Inclusivity

Position	Bank
1 st Place	Kenya Women Microfinance Bank
2 nd Place	Equity Bank Group
3 rd Place	Standard Chartered Bank (K) Ltd

CATEGORY 2 E FINANCING THE INFORMAL SECTOR

Position	Bank
1 st Place	Equity Bank Group
2 nd Place	Co-Operative Bank of Kenya Ltd
3 rd Place	National Bank of Kenya Ltd

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Central Bank of Kenya Governor Dr Patrick Njoroge is joined by KBA CEO Dr. Hachi Oallo in presenting Co-Operative Bank an award during the Sfi Catalyst awards. The bank was recognized for the services rendered and best in its BNE finance category.



Co-operative Bank was recognized for its role in financing Greenwood Glens and cash financing the informal sector.



George Kibweo, Managing Director (SWFT) Managing Director for Cheung Okhogo along with the bank's management team receive an award for the most improved bank in Sustainable Finance and the best in economic gender inclusivity.



Co-operative Bank's Assistant Chief Executive Officer Mr. Alos Muli was awarded 2019 honors over an award for best performing officer (New Africa). The bank was best in sustainable finance and operations.



RBC - Dutch Development Bank Center Sustainable Finance with Bernabe Natsopoulos presents an award to representative MCB Bank during the 2019 Sfi Catalyst Awards.

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CATEGORY 3 MOST INNOVATIVE BANK	
Position	Bank
1 st Place	Equity Bank Group
2 nd Place	Standard Chartered Bank (C) Ltd
3 rd Place	Co-Operative Bank of Kenya Ltd

CATEGORY 4 BEST IN SUSTAINABLE FINANCE IN THE EAST AFRICA REGION	
Position	Bank
1 st Place	NCCA Bank
2 nd Place	KCB Bank Ltd

MOST IMPROVED BANK	
Kenya Women Microfinance Bank	

BEST OVERALL WINNER	
Position	Bank
1 st Place	Co-Operative Bank of Kenya Ltd
2 nd Place	Equity Bank Group
3 rd Place	Kenya Women Microfinance Bank

Speaking during the Awards Ceremony, Central Bank of Kenya (CBK) Governor Dr Patrick Njoroge said, Banks should focus on mainstreaming their operations with the future in mind. He also lauded the Green Bond Program – Kenya partners for actively encouraging the sector to embrace green finance.



CBK Chief Executive Officer Mr Samuel Mwangi presents the 2019 Annual Value Report to a Member of the Parliamentary Commission on NCA. The report showed that the banking industry paid 506 shillings to the National Government in excise of KSh 79 (1.6%) and has paid a fee of sh1000 in the contribution of the CBK.



Parliamentary 2019 Finance Chairman Hon. Dr Nelson Cheboi (left) Senate Speaker Mr Kenneth Lusio and KCB Chief Operating Officer Mr Samuel Mwangi during the award of the banking industry Shares which is held at Parliament premises.

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The KBA Y Buisa Bond Policy with Kenya (Kenya) interacted with the President Uhuru Kenyatta and Dr. George during the Inauguration Day ceremony.

GREEN BOND PROGRAM – KENYA

To actualize the intention of the SF1 Guiding Principles, KBA founded the Green Bonds Program-Kenya in partnership with the Nairobi Securities Exchange (NSE), the Climate Bonds Initiative (CBI), FSD Africa and HMO. The Program was developed to encourage the establishment of a green bonds market in the country. In 2019, through the program, Acorn Holdings Ltd issued East Africa's first ever certified green bond. The bond was structured by Stanbic Bank and guaranteed by GuarantCo. The property developer was able to raise KSh. 4.5bn to finance the construction of green and environmentally friendly accommodation for 5000 students. Banks were the most active investors in the transaction.

In the same year, the partners were able to engage the Parliamentary Committee on Finance and Budget with a proposal to introduce a tax exemption on green bond issuances in the 2019 Finance Bill. This proposal was assented by H.E. President Uhuru Kenyatta.

The year 2019 also provided KBA an opportunity to convene a workshop in conjunction with UNEP FI. During the workshop UNEP FI presented the Global Sustainable Banking Principles and the Sustainability Champions also reaffirmed the commencement of voluntary reporting on the SF1 Principles. Additionally, Sustainable Finance champions from KBA member banks reaffirmed the commencement of voluntary reporting on the SF1 Guiding Principles.



Ministry of Agriculture, Livestock, Fisheries and Cooperatives Minister, Bwalya Mwangi speaking during the Inauguration Day.

OUTLOOK

Corporate Social Investment (CSI) continues to be a driver of positive transformation in our world today. In response, the Banking Industry continues to refine its frameworks and allocate resources to align with the present needs and Kenya's realisation of the Sustainable Development goals and Paris agreement.

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Equity Bank Head of Customer Service Mr. Nixon Watoro receives an award during the Association's Customer Service Awards. The bank was named best equity customer service and best in the bank category.



Bank of Africa received an award from Kenya Bankers Association as the best in customer service in the Tier 1 category.



Equity Bank Chief Executive Officer Mr. Billy Kariuki (right) receives the Bank's recognition as the 2019 award and best in the Tier 1 category.



Bank of Africa Marketing Director Mr. Gordon Mungu and Head of Bank at the KBA booth during the unveiling of the Banking Industry Shares Value Report at Parliament grounds.



Stakeholders during the inauguration of the first corporate green building in East and Central Africa that was funded by Acom and constructed by Gemble Bank with financing by Standard Bank and others.

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Chairman of the Board, Ms. Joyce Njiru, receives a ceremonial cheque for KSh 4.5 billion on behalf of the bank's depositors from the Chairman of the Board, Mr. Richard Ngũgĩ.



Chairman of the Board, Mr. Richard Ngũgĩ, (right) and the customer service team receive the bank's recognition for the 21st consecutive year in the 2018 Customer Service Survey.



Kenya National Chamber of Commerce and Industry President Mr. Richard Ngũgĩ, DTB Managing Director Adam Ochi and CBA Vice Chairman Mr. John Ombaka took part in a panel discussion during the 11th Banking Day.



CBA Family Bank Managing Director, Ms. Rebecca Muthi, CBA Chair, Mr. Richard Ngũgĩ, DTB Managing Director, Mr. Adam Ochi, and CBA Vice Chairman, Mr. John Ombaka, along with the 2018 Chairman, Mr. Richard Ngũgĩ.

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CORPORATE
GOVERNANCE
STRUCTURE AND
REPORTS OF
THE COMMITTEE
CHAIRPERSONS

CORPORATE GOVERNANCE STRUCTURE AND REPORTS OF THE COMMITTEE CHAIRPERSONS

ROLES AND RESPONSIBILITIES OF THE GOVERNING COUNCIL

The affairs, business and funds of the Association are vested in the Governing Council which is the management and policy making body of the Association. It has all such powers and performs all such functions as may be necessary for carrying on the work of the Association or for realising its objects and purposes.

In addition to the powers expressly conferred by the Constitution, the Governing Council may exercise all such powers and on all such things and acts as may be exercised or done by the Association or by any law expressly directed or required to be done by the Association in a General Meeting.

THE GOVERNING COUNCIL IN PARTICULAR HAS THE FOLLOWING RESPONSIBILITIES:

1. To purchase, lease, hire or acquire premises for the use of the Association and to equip and furnish them for the objects and the purposes of the Association.
2. To create such offices and posts with such powers and responsibilities and on such terms and conditions and for such periods as may be deemed appropriate by the Governing Council, and to appoint a Chief Executive Officer, other officers and staff as may be necessary for the business of the Association on payment of such remuneration as may be determined by the Governing Council.
3. To establish a trust or trusts and appoint trustees thereof with the consent of the General Body and vest the funds or the surplus income or any property of the Association in the trustees in such manner as the Governing Council may from time to time think fit.
4. To frame or issue rules and procedures of working for the purpose of carrying on business and work of the Association as may be necessary from time to time with the approval of the General Body.

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4. To delegate any function or powers to Committees, Sub-Committees or person and to any Member, the Chief Executive Officer, other officers or employees on such terms and conditions as may be necessary and to revoke any such delegation if and when necessary.
5. The Governing Council may at any time invite any Member of the Association not being a Member of the Governing Council to attend or serve on the Council, or any Committee or Sub-Committee or may consult any outside person or authority if for any special reason such as a course may seem to it to be advisable.
6. To present a report on the working of the Association and a Statement of Accounts of the Association duly certified by the Auditors at the Annual General Meeting of the Association every year.
7. To appoint Bankers, Auditors, Advocates, Accountants, and other professional advisers to the Association.
8. Where an Associate Member converts into a branch of a foreign bank or locally incorporates an entity to enter the market, or wishes to become a member of the Automated Clearing House, the Governing Council will have the right to admit and convert such a Member into an Ordinary Member.
9. The Governing Council shall have the right to assess the level of costs incurred by the Association in generating the benefits accruing to Associate Members and use the same to determine the fixed annual subscription fee payable by such membership.
10. To call a General Meeting at any time should it think necessary to do so.
11. To do any or all things as may be necessary or expedient.

The property, assets and funds of the Association shall, subject to the liabilities thereof, be vested in the Governing Council of the Association and no Member of the Association shall, by reason of its membership, have a transferable or assignable share of interest therein, by operation of law or otherwise in any such property, assets or funds and in the event of any Member of the Association ceasing to be a Member in terms of Clause 22 of the Constitution or in any other way, its interest in such property, asset and funds shall cease and the same shall survive, accrue and belong to the other Members for the time being of the Association.

COMPOSITION AND TENURE OF THE GOVERNING COUNCIL

At the conclusion of every Annual General Meeting, one third of the members of Large Banks, one quarter of the Medium-size Banks and one half of Small Banks of the Governing Council shall retire from the Governing Council by rotation. The Members to retire by rotation shall be those who have been the longest in office. Where any of the Members have been in office for the same length of time, the Members to retire shall be decided by drawing lots.

The retiring Members shall be eligible for re-election and appointments.

A. a minimum, the Governing Council consists of the following:

- A. Six members representing the large banks
- B. Four members representing medium size banks
- C. Two members representing the small banks

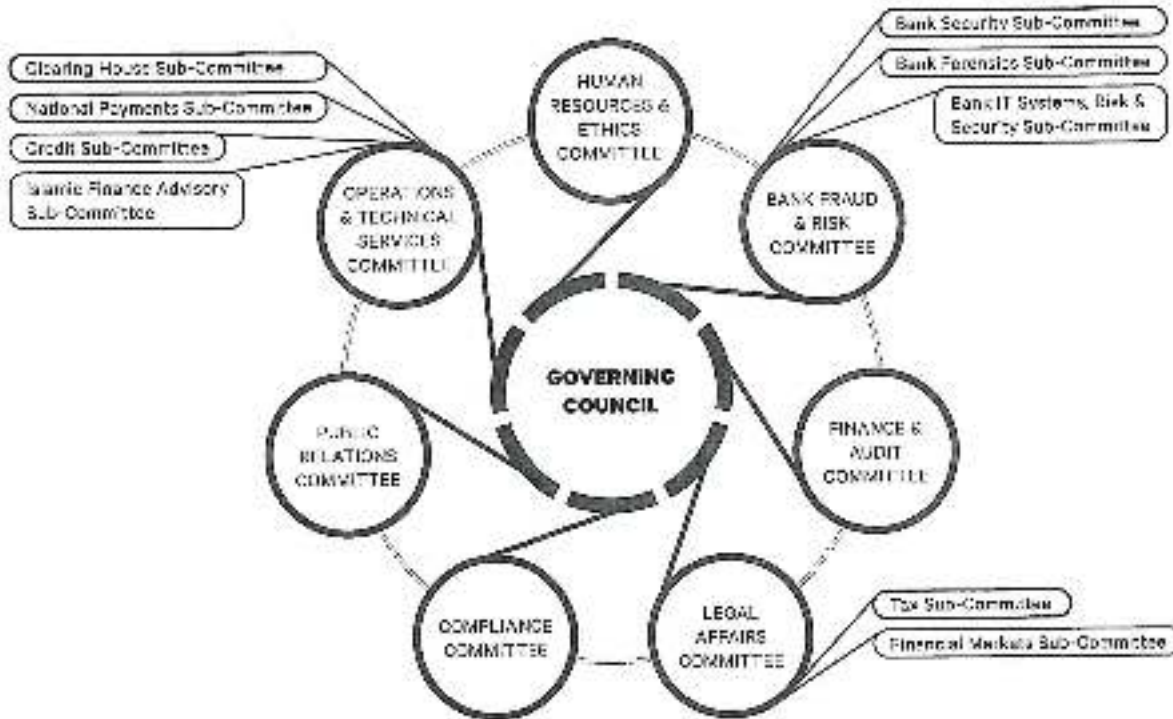
The Chairman and the Vice Chairmen of the Association shall come from the 22 members in A, B and C, above.

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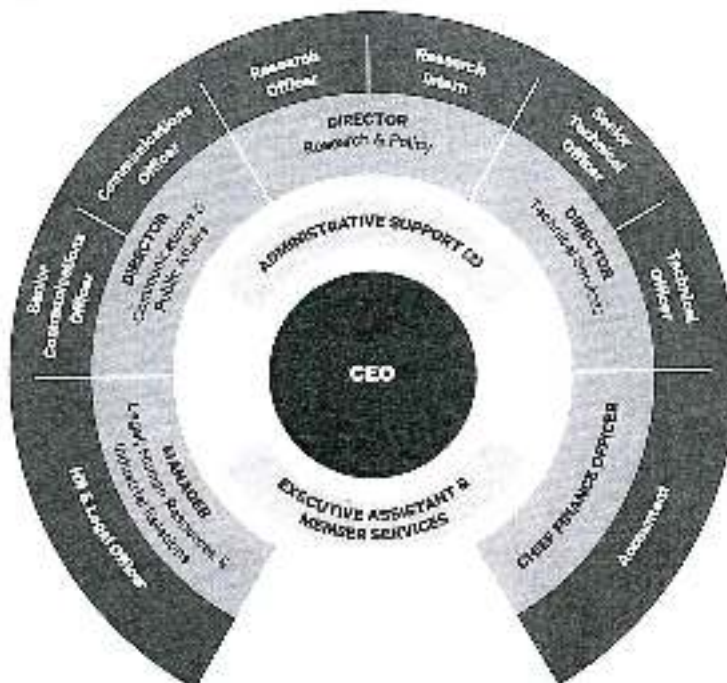
STRUCTURES TO BETTER SERVE MEMBERS & INDUSTRY

Over the years, KBA has enhanced its governance and organisational structures to improve the Association's ability to deliver on its mandate.

Governance



KBA Secretariat Organizational Chart



Full Time Employees 15

Interim 01

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GOVERNING COUNCIL MEETINGS

The Governing Council meets at least every quarter in a calendar year. During Council meetings, the members receive a report from the KRA Secretary including submissions from the Committee and Sub-Committees.

In the year 2019, a total of eight meetings were held, including three special meetings. At the 2019 Annual General Meeting, SBM Bank was elected to the Council.

JANUARY 2019 TO DECEMBER 2019

COUNCIL MEMBERS	Number of Meetings Jan-Dec 2019	Percentage
KCB Bank	7 of 8	87.5%
NCBA Bank	8 of 8	100%
Gulf African Bank	4 of 8	50%
I & M Bank	8 of 8	100%
Co-Operative Bank	8 of 8	100%
DTS Kenya	7 of 8	87.5%
Middle East Bank	6 of 8	75%
Equity Bank	5 of 8	62.5%
Family Bank	3 of 8	37.5%
OT Bank	2 of 8	25%
Standard Chartered Bank	8 of 8	100%
DIR Bank Kenya	6 of 8	75%
Abak Bank	7 of 8	87.5%
Citibank	5 of 8	62.5%
SBM Bank	3 of 8	37.5%

2019: Governing Council and KRA Committee members served as follows:

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CORPORATE GOVERNANCE

REPORTS OF THE COMMITTEE CHAIRPERSONS

KBA activities are managed by the Secretariat which works in coordination with six Committees and nine Sub-Committees. KBA Member Banks nominate representatives on an annual basis to serve on these committees which elect their officials. Member participation on a voluntary basis. The following are the reports:

NAME OF COMMITTEE	FINANCE & AUDIT COMMITTEE
Chairperson	Gladys Wanjohi - Standard Chartered Bank
Vice Chairperson	Mery Ombi - Middle East Bank
Secretary	Kennedy Muthya - Kenya Bankers Association
Committee Achievements in 2019	<ol style="list-style-type: none"> 1. The committee through the secretariat successfully obtained a High Court ruling that declared the requirement for banks to maintain Next of Kin registers invalid and unconstitutional. This ruling was delivered on 20th June 2019. 2. Provided a platform for the member banks to share experience and knowledge on industry wide challenges including implementation of IFRS 16 Leases which came into effect on 1st January 2019 and compliance with the Claimed Financial Assets Act. 3. Provided oversight to tax sub-committee, KBA 2020 budget review and approval and review of KBA 2019 management accounts and 2019 annual financial statements.
Committee Goals for 2020	<ul style="list-style-type: none"> + Support KBA Tax Sub-Committee to achieve its mandate in line with the terms of reference for the Sub-Committee. + Facilitate collation of views from member Banks on technical submission that they would want specific lobbying and guidance. + Provide oversight to KBA and IPSL Finance functions to undertake efficiently and effectively their respective mandates.

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FINANCE & AUDIT ATTENDANCE RECORD

COMMITTEE MEMBERS	Number of Meetings Jan-Dec 2019	Percentage
Stanbic Chartered Bank	4 of 4	100%
Stanbic Bank	1 of 2	50%
& M Bank	4 of 4	100%
Co-Operation Bank	1 of 2	50%
DTE Kenya	4 of 4	100%
Middle East Bank	4 of 4	100%
Bank of Africa	2 of 2	100%
Spice Bank	1 of 2	50%
NCDN Bank	1 of 2	50%
Abta Bank	1 of 2	50%
AEC Bank	1 of 2	50%
Equity Bank	1 of 2	50%
Family Bank	3 of 4	75%

The Finance & Audit Committee held four meetings between January and December 2019.

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NAME OF COMMITTEE	TAX SUB-COMMITTEE
Chairperson	Betty Chuma - Standard Bank
Vice Chairperson	Peter Mungai - Absa Bank
Secretary	Kennedy Mutisa - Kenya Bankers Association
Committee Achievements in 2019	<ol style="list-style-type: none"> 1. Successful launch of the FWC/KBA Total Tax Contribution (TTC) report for the banking industry. This was launched on 15th October 2019 during a breakfast session attended by national stakeholders and reported widely in various national newspapers. 2. Held an industry wide sensitisation workshop in conjunction with KPMG in November 2019 for update on the impact of the Finance Act 2019 on the banking sector. Other emerging tax matters impacting banking sector were discussed. 3. Made proposals and presentations to the National Treasury and the Parliamentary Committee on Finance and Trade on Finance Bill Act 2019 inclusions on the following items: <ul style="list-style-type: none"> • Definition of return on loan or exclusion from excise duty on interest related fees • Exemption from Excise duty on industry fees of banks • Tax on distribution out of untaxed profits (Infrastructure Bonds) • Rebate mechanism for services • Excise duty on card <p>Finance Act provided for exemption from excise duty loan related fees even though return on loan was not defined. It creates clarity for the members that loan fees are specifically exempted.</p> <p>Further, the Finance Act 2019 granted the application to have all income exempt under the Income Tax Act to be excluded from the distribution tax, therefore by extension granting our prayer of exempting distribution tax on Infrastructure Bonds.</p> 4. Made submissions to KRA and subsequently to the National Treasury for specific exemptions from PIN requirement for all bank accounts opened. The Finance Act 2019 provided a dispensation to allow the Commissioner to exempt some accounts from a PIN requirement on application. <p>KRA has made the application for exemption on behalf of the industry.</p> <ol style="list-style-type: none"> 5. Successfully contested in the High Court the applicability of Capital Gains Tax (CGT) application on forced sale transactions. KRA had demanded CGT on proceeds of forced sale for recovery of non-performing loans from some members. The High Court agreed with KBA that the lender does not have the obligation under the law to account for CGT. <p>KRA appealed the HC judgement which was upheld by the Court of Appeal.</p> <ol style="list-style-type: none"> 6. Through external legal counsel, filed in the High Court for a definition of the terms 'interest' and 'return on loan' within the context of the Excise Duty Act. <ul style="list-style-type: none"> • Enhance relationship with Kenya Revenue Authority through regular consultative engagements with KRA relationship team responsible for the banking sector <p>Organise in the first quarter a KBA Governing Council (GCOs) meeting/ courtesy call with Commissioner General of Inland Revenue Office Commissioner to highlight industry tax concerns.</p>
Committee Goals for 2020	

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NAME OF COMMITTEE	TAX SUB-COMMITTEE (CONTD.)
Committee Goals for 2020	<ul style="list-style-type: none"> • Read 2020 PwC/KEA TIC report for the banking industry and present to relevant national stakeholders. • Liaise with and provide all the necessary input on the High Court case on interpretation of return on loan under Excise Duty Act. • Hold tax sensitisation workshop in conjunction with tax consultants for the industry after the publication of the Finance Bill/Acr 2020 to sensitize members of the proposed changes therein and how they impact the banking sector. Other workshops will be organised as necessary when there are emerging controversial tax matters affecting the members. • Follow up on the PIN exemption application made on behalf of the members. • Participate in the public input into the Income Tax Bill 2018. • Participate in the Finance Bill/Acr 2020 submissions (already submitted) for industry proposals to be considered for inclusion.

TAX ATTENDANCE RECORD

COMMITTEE MEMBERS	Number of Meetings Jan-Dec 2018	Percentage
KCB Bank	2 of 4	50%
Abisa Bank	3 of 4	75%
Standard Chartered Bank	3 of 4	75%
Bank of Africa Kenya	2 of 4	50%
AFC Bank	1 of 4	25%
Equity Bank	2 of 4	50%
I & M Bank	3 of 4	75%
Co-Operative Bank	3 of 4	75%
SRM Bank	2 of 4	50%
Stanbic Bank	4 of 4	100%
DTB Kenya	4 of 4	100%
Bank of Baroda	1 of 4	25%
Food Bank	3 of 4	75%
DIB Bank Kenya	1 of 4	25%
Commercial Bank of Africa	4 of 4	100%
NIC Bank	1 of 4	25%

The Tax Sub-Committee held four meetings between January and December 2018.

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NAME OF COMMITTEE	FINANCIAL MARKETS SUB-COMMITTEE
Chairperson	Philip Wambui - African Banking Corporation
Vice Chairperson	Anthony Kirati - Absa Bank
Secretary	Mutahi Karuru - ACI Chair - Co-Operative Bank of Kenya
Committee Achievements in 2018	<p>The FMC which is a representative of the Kenya Banks Treasurers Forum (KBTFF) spent a greater part of 2018 focused on the following key objectives:</p> <ul style="list-style-type: none"> • To uphold Market Conduct and Discipline. • To promote effective training of the Bank Dealers. • To participate in the creation of New Forex and Money Market Products. • To Develop and Nurture the Financial Markets in Kenya. <p>In this regard we undertook the following activities in 2018:</p> <ol style="list-style-type: none"> 1. Training: The Treasurers Forum and ACI Kenya conducted the following training in 2018: <ol style="list-style-type: none"> 2. ACI Dealing and Operations Certificate: Peter Skeritt & Associates. This is an annual course which is ideal for appointing dealers and it is now mandatory that front office dealers must be ACI Certified. The Operations Certificate is ideal for filling in the knowledge gaps in the treasury back office staff. 3. ACI Dealing Simulation: Run by ACI Australia. Conducted every two years, this course offers practical and experiential feel of the dealing room. 4. ALM Simulation & Mechanics: This course offers Asset & Liability Management skills which are critical in the Banks day to day Management. 5. BIS FX code of conduct workshop: This was a one day workshop to provide awareness and precise application of good market practices included in the BIS FX Global code. 6. Other key activities held are: On 31st October 2018, Treasurers Forum held a Breakfast meeting together with ACI leaders at Sarova Innafic hotel to review the activities of the year among them: <ol style="list-style-type: none"> I. Creation of a strong Industry Association. II. Training III. Creation of OTC exchange. <p>On 5th December 2018 the FMC together with the Treasurers organized a capacity building workshop conducted by Messrs Kevin Hood, Deputy Director of the Office of International Affairs, US Community, and Futures Trading Commission in New York and Prof. Ronald H. Filler a Member of the Board of Directors and the Executive Committee of the National Futures Association.</p> <p>The objective of the workshop was to benchmark with various jurisdictions on how SROs operate.</p> <p>In attendance were CBK, Capital Markets Authority, TSD Africa, US Treasury, National Treasury, ACI Kenya, e-conship and FMC.</p> <p>Going forward and as guided by the CBK, FMC will focus on creation of a strong all-inclusive industry association with guidelines on proper rules, governance and memberships.</p> <p>Finally, the chairman of Kenya Bank Treasurers Forum and some FMC members have been invited to participate in Bond market stakeholders forum which takes place at the Central Bank of Kenya and also the implementation of Central Securities Depository (CSD) an upcoming project led by the Central Bank of Kenya.</p>

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FINANCIAL MARKETS ATTENDANCE RECORD

COMMITTEE MEMBERS	Number of Meetings Jan-Dec 2019	Percentage
ABC Bank	5 of 5	100%
Stanbic Bank	2 of 5	40%
Co-Operative Bank	5 of 5	100%
Abia Bank	2 of 5	40%
SBM Bank	4 of 5	80%
Bank of Africa	2 of 5	40%
Credit Bank	2 of 5	40%
JDA Bank	3 of 5	60%

For Financial Markets Sub-Committee activities meetings between January and December 2019.

NAME OF COMMITTEE	NATIONAL PAYMENTS SUB-COMMITTEE
Chairperson	Suraj Shah - DTB Kenya
Vice Chairperson	Mark Odoyo - DIB Bank Kenya
Secretary	Fidelis Muis - Kenya Bankers Association
Committee Achievements in 2019	<ul style="list-style-type: none"> • Demonetization <ul style="list-style-type: none"> - All Banks successfully met CBK's target of demonetization of the KSh 1,000 note and repatriated all notes before the deadline - All Banks were able to successfully calibrate their existing ATM fronts to accept and disburse the new notes • The committee embarked on devising a biometric standard for all Banks to adopt in identifying their customers • Currency centre <ul style="list-style-type: none"> - The Ken cash centre was approved and refurbishment has begun • Payments system management body (PSMB) formation <ul style="list-style-type: none"> - The committee actively participated in the formation of the payments system management body to allow players in the Payments industry to set standards and rules for inter-operability and infrastructure sharing. The NPS committee will be an active participant and sitting member in the PSMB when it goes live • Credit card project (KADI) <ul style="list-style-type: none"> - The sub-committee together with the Kenya cash and credit card association has proceeded to fast track the project. KADI proposals aimed at increasing the adoption of Payment Card transactions in Kenya • PesaLink <ul style="list-style-type: none"> - Citizen Integration live with 2 banks and 7 completed on UAT - Sportpesa, Sijira School, Interswitch, Pesa power and I-Pay (Jumia) integrated and live on PesaLink - All Banks complied with the Deloitte recommendations on securing the PesaLink system

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NAME OF COMMITTEE	NATIONAL PAYMENTS SUB-COMMITTEE (CONTCO)
Committee Achievements in 2019	<ul style="list-style-type: none"> • All Banks adhered to the swift CSP standards which were set for 2019 • Looked at Block chain technology for information storing and sharing across Banks • Know your customer (KYC) screening through a shared resource/ body where all customer data can be held and queried centrally by all Banks <ul style="list-style-type: none"> - The committee met a couple of times to evaluate the feasibility of a shared data resource and continue with this deliberation - A list of fields required for data capture in the shared database was also shared
Committee Goals for 2020	<ul style="list-style-type: none"> • Cash Centres <ul style="list-style-type: none"> - Monitor the Kisi cash centre • Payments system management body (PSMB) and Payment Association of Kenya (PAK) <ul style="list-style-type: none"> - Monitor activities of the PAK and ensure all Banks become members therein • PesaLink Phase II <ul style="list-style-type: none"> - Move towards to Person to Business transactions - Increase the merchant integrations - Move direct debits to PesaLink • Look at Block chain technology to enhance <ul style="list-style-type: none"> - AML sanction screening - Know your customer (KYC) screening through a shared resource/ body where all customer data can be held and queried centrally by all Banks • Review agency guidelines and the ACT to ensure Banks are protected from KYC responsibilities • Focus on the cashless initiative and look for ways to reduce the use of cash • Agree on the new ToRs for the committee given the formation of PAK. The swift user group led by CBK

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NATIONAL PAYMENTS ATTENDANCE RECORD

COMMITTEE MEMBERS	Number of Meetings Jan-Dec 2019	Percentage
DTB Kenya	3 of 3	100%
Citibank	3 of 3	100%
Bank of Africa	2 of 3	66%
I & M Bank	3 of 3	100%
NC Bank	3 of 3	100%
Gulf African Bank	3 of 3	100%
ABC Bank	3 of 3	100%
Commercial Bank of Africa	2 of 3	66%
Co-Operative Bank	3 of 3	100%
Standard Chartered Bank	3 of 3	100%
DIB Bank Kenya	3 of 3	100%
Equity Bank	2 of 3	66%
Abna Bank	2 of 3	66%
KCB Bank	3 of 3	100%

The National Payments Sub-Committee held three meetings during January and December 2019.

NAME OF COMMITTEE	BANK FRAUD & RISKS COMMITTEE
Chairperson	Gerald Muriithi - Equity Bank Ltd
Vice Chairperson	Sichena Jalela - NCBA Bank
Secretary	KBA Secretariat
Committee Achievements in 2019	<ul style="list-style-type: none"> Data Protection Bill contribution The Bank IT systems and Risks Sub-Committee engaged with the Parliamentary Teams and provided the industry's views on the Data Protection Bill 2019. Comments were reviewed and the bill later passed and assented by the President. The Committee worked with PricewaterhouseCoopers (PWC), one of the consultants to the Parliamentary Committee to review the Act and provide members with insights into the provisions of the law and the impact to the industry. Private Security Regulations Act The Bank Security Sub-Committee through its participation in the Kenya Private Sector Alliance Security Sector Board membership participated in the development, review and passage of the Kenya Private Security Regulations Act 2019.

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NAME OF COMMITTEE	BANK FRAUD & RISKS COMMITTEE (CONT'D.)
Committee Achievements in 2018	<ul style="list-style-type: none"> • Training of Member Bank Teams The Two Sub-Committees of the Committee (Bank Fraud and the IT Systems and risks) through the KBA Secretariat facilitated a number of workshops to train bank officers on various aspects of Security: <ol style="list-style-type: none"> a. Workshops on Cyber Security and IT Security in partnership with Sereneta, MasterCard and Safaricom on the various platforms in use between the partners and member banks. b. Bank Fraud sub-Committee trained Security Officers from member banks and the Banking Fraud Investigations Department (BFID) of the Central Bank of Kenya on various aspects of financial crime using the Mobile Banking applications. • Cheque Security Printer Accreditation Reviews The Bank Fraud Security Sub-Committee in conjunction with the Automated Clearing House Sub-Committee conducted the quarterly and annual accreditation of Security Printers for cheques in the Banking Sector. • Public Education Program The Bank Security Sub-Committee in conjunction with the Public Relations committee and the KBA Secretariat ran several public sensitization campaigns on Mobile Phone, Card and PIN Safety known as Kaa Chomo. This campaign involved a number of players from the Retail Sector, Mobile Network Operators and Card Schemes. The campaign involved Television, Radio interviews and press briefings and Bank communication to their customers.

BANK FRAUD & RISKS ATTENDANCE RECORD

COMMITTEE MEMBERS	Number of Meetings Jan-Dec 2018	Percentage
Equity Bank	3 of 3	100%
KCB Bank	2 of 3	66%
NIC Bank	3 of 3	100%
GT Bank	2 of 3	66%
DFB Kenya	2 of 3	66%
Family Bank	1 of 3	33%
Standard Chartered Bank	2 of 3	66%
S & M Bank	2 of 3	66%
Commercial Bank of Africa	2 of 3	66%
Co-Operative Bank	2 of 3	66%
Bank of Africa	3 of 3	100%
Sidian Bank	2 of 3	66%
Acoba Bank	2 of 3	100%

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NAME OF COMMITTEE	BANK IT SYSTEM RISKS & SECURITY SUB-COMMITTEE
Chairperson	Kabutha Rurangwa - NCBA Bank
Vice Chairperson	Vacant
Secretary	Wilson Mwangi - Gulf African Bank
Committee Achievements in 2019	<ul style="list-style-type: none"> • Provided input and comments to Parliament on the Senate and National Assembly regarding the provisions of the Data Protection Bill 2018. • Promoting awareness of cybersecurity regulations and industry threats, including Presentations and articles authored by Sub-Committee members. • Three workshops on cybersecurity for Member banks IT Officers. • Facilitation of knowledge sharing and capacity building for members, including sessions moderated by industry experts on cybercrime and third party risk management. • Threat and Incident Information sharing between Banks, MNCs and Practitioners in the Industry.
	<ul style="list-style-type: none"> • Further strengthening of the IT infrastructure through robust practices. • Implementation of IT Governance Frameworks like COBIT and ISO 27001. • Continued facilitating structured threat and security information sharing between member banks.

BANK IT SYSTEM RISKS & SECURITY ATTENDANCE RECORD

COMMITTEE MEMBERS	Number of Meetings Jan-Dec 2019	Percentage
KCB Bank	8 of 9	89%
Standard Chartered Bank	6 of 9	67%
Abta Bank	4 of 9	44%
I & M Bank	6 of 9	67%
Bank of Baroda	1 of 9	11%
Commercial Bank of Africa	3 of 9	33%
Bank of Africa	4 of 9	44%
DTB Kenya	5 of 9	56%
NIC Bank	5 of 9	56%
Co-Operative Bank	5 of 9	56%
Gulf African Bank	7 of 9	78%
Equity Bank	1 of 9	11%
M-Oriental Bank	7 of 9	78%
CITibank	4 of 9	44%
Equity Bank	2 of 9	22%

1. Bank IT System Risks & Security Committee met nine times in 2019.

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PUBLIC RELATIONS COMMITTEE	
Chairperson	Willis Angira - Stanbic Bank
Vice Chairperson	Wambui Kagurogo - ABC Bank
Secretary	Nura Mugambi - Kenya Bankers Association
Committee Achievements in 2019	<ul style="list-style-type: none"> • KBA Public Relations activities continue to build KBA visibility and reinforce the Association as a key voice of the banking sector. Full Year 2019, KBA's publicity reached a national audience generating advertising value of approximately KSh 500 million. • KBA launched the third edition of the Industry Shared Value Report during a first-ever event at Parliament in conjunction with the Parliamentary Caucus on SDGs and Business. • The Inuka SME capacity building curriculum and online e-learning platform reached more than 2 thousand entrepreneurs. KBA signed a partnership agreement with Kenya National Chamber of Commerce and Industry to roll out the program across 15 counties. • Hosted the Inaugural Inua Elashare Day including Presidential Launch of Shwai a collaboration of KCB, Co-Op, DFR and NCCEA which seeks to promote access to finance for micro and small businesses. • Successful Kee Chonjo Mobile, Card and Online banking safety awareness campaign including partnership with PostLink, Visa, MasterCard, Retail Association of Kenya and Consumer Grievance Association. • Successful Customer Service Week including 2019 Customer Service Survey which extracted more than 11,000 responses from consumers. • Successful Catalyst Awards event attracting recognition and publicity of the winning banks.
Committee Goals for 2020	<ul style="list-style-type: none"> • Support KBA Lobbying and Advocacy initiatives • Partner with KBA members to increase reach of Inuka SME program • Publish inaugural Sustainable Finance Principles voluntary reporting survey • Increase member bank digital communications and crisis response capacity

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PUBLIC RELATIONS ATTENDANCE RECORD

COMMITTEE MEMBERS	Number of Meetings Jan-Dec 2019	Percentage
DTB Kenya	3 of 3	100%
Equity Bank	1 of 3	33%
ABC Bank	2 of 3	67%
I & M Bank	3 of 3	100%
Equian Bank	1 of 3	33%
Bank of Africa	2 of 3	67%
KCB Bank	3 of 3	100%
Stanbic Bank	1 of 3	33%
Co-Operative Bank	2 of 3	67%
National Bank of Kenya	2 of 3	67%
Guaranty Trust Bank	1 of 3	33%
Gulf African Bank	1 of 1	100%
Credit Bank	1 of 1	100%
Albion Bank	1 of 1	100%
SDV Bank	1 of 1	100%

The Public Relations Committee held three meetings between January and December 2019.

NAME OF COMMITTEE	CLEARING HOUSE SUB-COMMITTEE
Chairperson	Brian Koletit - Citibank
Vice Chairperson	Michael Mucheru - NCBA Bank
Secretary	Caleb Ogutu - National Bank of Kenya
Committee Achievements in 2019	<p>Implementation of the reduction of Direct Debits Mandate Acknowledgement Period The sub-committee successfully implemented the reduction of Direct Debits mandates acknowledgement period from fourteen to seven calendar days on 7th October 2019. This has helped further improve customer experience, product efficacy and completion of the direct debits digitization project.</p> <p>Introduction of DFCC Interim Settlement Session The Sub-committee successfully introduced the Interim session for Domestic Foreign Cheque Clearing, which runs on 07:30hrs. With this, banks were able to save 120 Hours daily resulting to improved operational efficiencies across the industry.</p> <p>Bank Disputes Arbitrations The Sub-Committee facilitated four bank disputes via arbitration. The Sub-Committee was happy to note a reduction in fraudulent cases related to Cheques and eFTs in the industry. For the second year running, a majority of the cases attributed to poor KYC screening by banks during account opening and failure of banks to hold by to their responsibilities as collecting or paying banks.</p>

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NAME OF COMMITTEE	CLEARING HOUSE SUB-COMMITTEE (CONTD.)
Committee Achievements in 2019	<p>Security Printers Accreditation The Sub-Committee, in conjunction with the security Committee, introduced quarterly security printers' review for 2020 accreditation. This was the first year when quarterly security printers' review were conducted as opposed to the annual review done previously. From the quarterly reviews, the sub-committee is happy to note that there is a consistent adherence to the minimum KBA standards by the security printers. Seven security printers were reviewed and successfully accredited for the year 2020.</p> <p>Industry Fraud Workshop The Clearing House SUB-committee successfully organised an industry-wide Fraud Workshop on 24th May 2019 at Hilton Hotel, which was attended by more than 80 participants from member banks. The main topics were on Cyber and Cheque related Frauds. This helped in creating awareness on new fraud trends and further equipped bank clearing staff with necessary skills to identify and frustrate fraud attempts related to Automated Clearing House transactions.</p> <p>Clearing Managers Workshop The Sub-committee further facilitated an Interactive Clearing Managers workshop on 14th June 2019, which brought together Clearing Managers from all the member banks. The session helped the member banks to share ideas on ways to improve the operations at the ACH. It was agreed that the workshop be held on an annual basis going forward.</p> <p>ACH ISO 20022 In 2019, the ISO 20022 file formats at the ACH deliberations were commenced. The sub-committee held two workshops to better understand ISO 20022 file formats. The project is expected to be rolled out in 2020 with implementation in the first quarter of 2021, subject to approvals by the Operations and Technology Committee.</p>
Committee Goals for 2020	<ul style="list-style-type: none"> • Introduction of enhanced cheque security features by quarter 4, 2020 • Implementation of ISO 20022 file formats at the ACH • Hold an industry-wide Fraud Workshop by end of 3rd quarter of 2020 • Hold at least one arbitration session per quarter in 2020 • Perform at least two ACH disaster recovery tests during the year • Hold a Clearing Managers workshop by 3rd quarter of 2020 • Perform quarterly security printers reviews during the year

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CLEARING HOUSE ATTENDANCE RECORD

COMMITTEE MEMBERS	Number of Meetings Jan-Dec 2018	Percentage
KCB Bank	6 of 11	54.5 %
Standard Chartered Bank	6 of 11	72.7 %
Abta Bank	8 of 11	72.7 %
& M Bank	6 of 11	72.7 %
Co-Operative Bank	11 of 11	100 %
Citibank	9 of 11	81.8 %
National Bank of Kenya	8 of 11	81.8 %
ABC Bank	6 of 11	54.5 %
NCBA Bank	9 of 11	81.8 %
Equity Bank	8 of 11	81.8 %
Prime Bank	5 of 11	45.5 %
Central Bank of Kenya	3 of 11	27.2 %
Gulf African Bank	2 of 11	18.1 %
Bank of Africa	2 of 11	18.1 %
DTB Kenya	6 of 11	72.7 %
Stanbic Bank	2 of 11	18.1 %
SBM Bank	1 of 11	9 %
EcoBank	1 of 11	9 %

The Authorized Clearing House sub-committee, in collaboration with KBA, Jazawalel and The Central Bank of Kenya, had a very effective year coupled with the completion of major industry projects and smooth operations at the Clearing House of year round. The sub-committee succeeded in having several meetings during the year, absolute appreciation to the members of the sub-committee for the better service and nodding commitment towards the achievement of its goals for 2018.

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NAME OF COMMITTEE	CREDIT SUB-COMMITTEE
Chairperson	Christine Mwangi-Matundu - Absa Bank
Vice Chairperson	Boniface Koko - ABC Bank
Secretary	Jared Oduo - Kenya Bankers Association
Sub-Committee Priorities	<ol style="list-style-type: none"> 1. To examine modalities of rejuvenating the credit market that has plummeted on the back of the Banking (Amendment) Act, 2016. 2. To look into the constraints to credit provision arising from limitations in the security documentation and registration regime. 3. To provide a forum for member banks to discuss non-competitive issues relating to the management of credit risk in the banking industry, including monitoring developments in implementation of the credit information sharing mechanism. 4. To continuously work towards entrenching credit pricing transparency as underpinned by the Annual Percentage Rate (APR). 5. Champion training on matters relating to credit market deepening across the cycle – from deal identification, closure, and management. 6. To assess the implication of the application of International Financial Reporting Standard (IFRS) 9 on banks' credit portfolio.
Committee Achievements In 2019	<ol style="list-style-type: none"> 1. The sub-committee spearheaded the roll-out of a series of trainings on the implementation of risk-based pricing frameworks. 2. Following the development of the curriculum on fundamentals of credit risk management, the sub-committee championed the rollout of the curriculum at individual banks as an essential toolkit for entry-level credit analysts. The curriculum development was undertaken with the support of Financial Sector Deepening (FSD) Trust, Kenya. 3. The Committee, collaborating with the Communications and Public Affairs department of KBA, continued to monitor the revamping of the Annual Percentage Rate (APR) calculator. 4. The Committee gave substantive inputs towards the roll-out of the Inuke Programme that targets the MSMEs and embedding sustainability principles in credit provision.
Committee Goals for 2020	<ol style="list-style-type: none"> 1. Work closely with other committees of the KBA to collate ideas on revamping the credit market in the post interest rates capping period. 2. Initiate a series of trainings on problem loans management on the back of increasing non-performing loans as well as on increased credit to key segments of the economy such as agriculture and MSMEs. 3. Work towards entrenching risk-based credit pricing as supported by the credit information sharing (CIS) mechanism. 4. Integrate aspects of Islamic Finance to the activities of the Sub-committee following decision of combining its activities with those of the Islamic Finance Advisory sub-Committee.

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COMMITTEE MEMBERS	Number of Meetings Jan-Dec 2019	Percentage
Absa Bank	3 of 3	100%
Co-Operative Bank	3 of 3	100%
DTB Kenya	3 of 3	100%
I & M Bank	3 of 3	100%
AGB Bank	3 of 3	100%
NIC Bank	2 of 3	66%
Equity Bank	2 of 3	66%
Stanbic Chartered Bank	2 of 3	66%
Commercial Bank of Africa	2 of 3	66%

The Credit Sub-Committee held three meetings between January and December 2019.

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NAME OF COMMITTEE	OPERATIONS & TECHNICAL COMMITTEE
Chairperson	Sunaj Shah - DTB Kenya
Vice Chairperson	Abubeker Ali - DAB Bank Kenya
Secretary	KBA Secretariat
	<p>This Committee of the KBA oversees Technical aspects of the industry and has three Sub-committees reporting to it:</p> <ol style="list-style-type: none"> a. National Payments Systems (NPS) Sub-Committee b. Automated Clearing House (ACH) Sub-Committee c. Credit Sub-Committee
Committee Achievements in 2019	<p>The committee established a Task force to investigate and report on the viability of setting up a Banking Industry Shared Know Your Customer (KYC) framework. The Committee task force recommended the setting up of a project team to work on the implementation following consultations and approval from the Central Bank of Kenya.</p> <p>The Central Bank of Kenya introduced new currency notes and also declared the demonetization of the old KSh 1,000 currency note. The committee through the KBA Secretariat worked with the Central Bank of Kenya to co-ordinate the roll-out of the new currency, the synchronisation of all automated Teller Machines, Point of Deposit, and Currency detectors in the industry as well as staff training in all the towns where the Association has branches.</p> <p>Subsequently the Committee co-ordinated the repatriation of old currency to the Central Bank of Kenya within the deadlines stipulated.</p> <p>Through its Sub-Committees, these are the major achievements in the year:</p> <ol style="list-style-type: none"> i. Direct Debit Centralisation to streamline and improve on the speed and efficiency of the Direct debits in the system. ii. Clearing House Membership increased by two - KWFT and Rafiki Microfinance Banks iii. Clearing House Timetable synchronisation of both the Local (KSh) clearing and the Domestic Foreign currency Streams iv. Implementation of the Kisii Currency Centre project.

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OPERATIONS & TECHNICAL ATTENDANCE RECORD

COMMITTEE MEMBERS	Number of Meetings Jan-Dec 2018	Percentage
DTB Kenya	3 of 3	100%
DIB Bank Kenya	3 of 3	100%
Guardian Bank	2 of 3	66%
AFC Bank	2 of 3	66%
NIC Bank	3 of 3	100%
Standard Chartered Bank	3 of 3	100%
KCB Bank	3 of 3	100%
& M Bank	3 of 3	100%
Co-Operative Bank	3 of 3	100%
Equity Bank	2 of 3	66%
Bank of Africa	3 of 3	100%
Abta Bank	2 of 3	66%
Commercial Bank of Africa	3 of 3	100%
Citibank	3 of 3	100%

The Operations and Technical Committee met three times in 2018.

NAME OF COMMITTEE	LEGAL AFFAIRS COMMITTEE
Chairperson	June Ochiyo - Stanbic Bank
Vice Chairperson	Steve Akenya - KCB Bank
Secretary	Raimond Moleje - Kenya Bankers Association
Committee Priorities	<ol style="list-style-type: none"> To provide a forum for member banks to discuss non-competitive issues relating to the management of legal risk in the banking industry. To monitor the development of new legislation and changes in the regulatory environment; advise the Governing Council on proposed new legislation and case law affecting the banking industry and its impact to the industry and lobby for amendments to the existing and/or proposed legislation to secure the industry's interests. To conduct market and industry research and maintain information necessary for the formulation of, and to assist in the drafting of legislation affecting the banking industry to world class standards. To co-ordinate industry efforts in matters pertaining to the management of legal risk, stakeholder engagement and sensitization in matters pertaining to administration of justice with a bias to the industry. To undertake any other assignment as may be directed by the Governing Council.

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NAME OF COMMITTEE	LEGAL AFFAIRS COMMITTEE (COMT02)
Committee Achievements in 2019	<p>The Committee was able to achieve the following:</p> <ol style="list-style-type: none"> 1. Stakeholder engagement <ul style="list-style-type: none"> • Ministry of Lands: Coordinated training on the online property registration for Nairobi Land Registry, pending pilot testing by banks and validation of the digital regulations by The National Assembly. • Collateral Registry Survey: Conducted survey across all banks on the usage of the Collateral Registry as established by the Business Registration Service under the Office of the Attorney General and held sensitization session with banks on the findings. • Trained Commercial High Court Judges: Held training on Insolvency Act and Regulations for the Commercial High Court Judges. • Other stakeholders engaged include: Business Court Users Committee, Auctioneers and Licensing Board, as well as the Mediation Accreditation Committee and represented industry concerns and interests. 2. Reviewing of sector legislation, regulations and policies <p>Coordinated the review and feedback from banks for submission to the National Assembly, The Senate and other legislative and regulatory bodies regarding the following laws and regulations:</p> <ul style="list-style-type: none"> • Public Finance Management Bill - lobbied against limiting deposits and investment by government entities to government owned banks • Law of Contracts - lobbied against the proposed law for banks to exhaust borrowers' assets before seeking guarantor's security. • Finance Act 2018 - repeal of interest rate capping law. • Employment Act - adoption leave. • Insolvency Act and regulations. • Sectional Properties Bill - ownership of flats. • Data Protection Act • Unclaimed Financial Assets Policy. • Banking (Amendments) Bill 3. Court Cases Coordination <p>Provided direction on the following court cases court cases:</p> <ol style="list-style-type: none"> a. Successfully petitioned against the next of kin law requiring the maintenance of next of kin details for all customers with KSh. 1million penalty for each account in violation. b. Successfully petitioned against the law on CBK powers on withdrawals and deposits. c. Successfully participated as interested parties in the Dunface Oduor petition leading to the declaration of the interest rate capping law as unconstitutional. d. Ongoing petition against the retrospective imposition of Excise Duty on bank charges for the period between 1st July to 28th September 2018. e. Wanjiru Florence case on bank charges. f. Charterhouse Bank statutory management case. g. Okiya Omtatah petition on use of KDRR in the implementation of the interest rate capping law. h. Interchange fees- card business. i. Ongoing definition of return on loan case.

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LEGAL AFFAIRS ATTENDANCE RECORD

COMMITTEE MEMBERS	Number of Meetings Jan-Dec 2018	Percentage
Barbic Bank	9 of 10	90%
Standard Chartered Bank	1 of 10	10%
Abse Bank	4 of 10	40%
National Bank of Kenya	10 of 10	100%
Co-Operative Bank	4 of 10	40%
KCB Bank	7 of 10	70%
DTB Kenya	6 of 10	60%
DIB Bank Kenya	10 of 10	100%
HFC Ltd	9 of 10	90%
Bank of Africa	8 of 10	80%
Consolidated Bank	5 of 10	50%
Equity Bank	2 of 10	20%
NCBA Bank	4 of 10	40%
Abea Bank	3 of 10	30%
Sidian Bank	7 of 10	70%
I & M Bank	7 of 10	70%
SBM Bank	2 of 10	20%
UBA Bank	2 of 10	20%

The Legal Affairs Committee met ten times in 2018.

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NAME OF COMMITTEE	COMPLIANCE COMMITTEE
Chairperson	Lazar Omangi - Absa Bank
Vice Chairperson	Daisy Nanyai - DIB Bank Kenya
Secretary	Kennedy Mutaya - Kenya Bankers Association
Committee Achievements in 2019	<ol style="list-style-type: none"> Managed to create a robust committee that is very active in its first year of formation. Held monthly committee meetings which engaged on topical issues affecting the industry. Through collaboration with the Financial Reporting Centre, held an inaugural industry stakeholder engagement for bank Chief Executive Officers, AMLROs and Heads of Compliance.
Committee Goals for 2020	<ol style="list-style-type: none"> To build and entrench stakeholder engagement with the key stakeholders particularly CBK, FRC, CMA, NSE, JHAA, RSA and other relevant compliance stakeholders in relation to the development of policy and legislation on compliance issues and restore trust and public confidence. Support the industry to enhance the technical and professional competence for compliance officers through targeted trainings, workshops and seminars. Some of the planned trainings will focus on Financial crime, Data protection law and on Anti-money laundering. Establish a compliance profession Association for Kenya to promote good best practices and support professional development for members.

COMPLIANCE ATTENDANCE RECORD

COMMITTEE MEMBERS	Number of Meetings Jan-Dec 2019	Percentage
Standard Chartered Bank	5 of 9	67%
KCB Bank	4 of 9	44%
Stanbic Bank	9 of 9	100%
I & M Bank	4 of 9	44%
Co-Operative Bank	5 of 9	69%
DTB Kenya	7 of 9	78%
NIC Bank	7 of 9	78%
DIB Bank Kenya	8 of 9	89%
Absa Bank	9 of 9	100%
SBM Bank	0 of 9	0%
Citibank	5 of 9	68%
HFC Bank	2 of 2	100%
Equity Bank	5 of 9	55%
Bank of Baroda	3 of 9	69%
Watar Bank	5 of 9	69%

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NAME OF COMMITTEE	HUMAN RESOURCE & ETHICS COMMITTEE
Chairperson	Mr. Robley Ngugi - KCB Bank
Vice Chairperson	Ms. Wangari Gathu - Sika Bank
Secretary	Mr. Raymond Mwangi - Kenya Bankers Association
Committee Priorities	<ol style="list-style-type: none"> 1. To establish and maintain good industrial relations and ethics in the industry. 2. Foster professional human resource management practices within the industry. 3. Develop a good standard of professional training for bankers in Kenya. 4. Foster harmonious industrial relations between KBA member banks and the Union. 5. Provide machinery for collective negotiation of terms and conditions of service for unionisable staff within the industry. 6. Develop and promote ethical behaviour amongst members.
Committee Achievements in 2018	<ol style="list-style-type: none"> 1. The Committee successfully negotiated the Collective Bargaining Agreement for all the Unionisable staff within the industry for the two-year period 2019-2021 with the Banking Insurance and Finance Union, leading to enhanced benefits and conditions of employment to all the Unionisable staff in the industry. 2. During the period, the Committee continued to foster harmonious industrial relations between KBA member banks and the Union with no single collective dispute registered between KBA and the Union. 3. The Committee facilitated sensitization sessions for bank human resource teams on Compensation and Benefits within the financial industry in liaison with McIlagan Wines as well as Green Bonds E-learning module.

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HUMAN RESOURCE & ETHICS ATTENDANCE RECORD

COMMITTEE MEMBERS	Number of Meetings Jan-Dec 2019	Number of CBA meetings attended	Percentage
KCB Bank	14 of 14	12 of 12	100%
Standard Chartered Bank	11 of 14	10 of 12	83%
National Bank of Kenya	2 of 14	1 of 12	14%
Co-Operative Bank	10 of 14	12 of 12	92%
Asse Bank	6 of 14	8 of 12	67%
Stanbic Bank	5 of 14	5 of 12	38%
Sidian Bank	1 of 14	0 of 12	7%
Widale Cas. Bank	4 of 14	3 of 12	25%
Habib Bank	1 of 14	0 of 12	7%
GT Bank	2 of 14	1 of 12	14%
I & M Bank	0 of 14	0 of 12	0%
NCSA Bank	14 of 14	12 of 12	100%
Bank of Berode	2 of 14	1 of 12	14%
Guardian Bank	7 of 14	6 of 12	50%
DTB Kenya	2 of 14	2 of 12	17%
Consolidated Bank	4 of 14	3 of 12	25%
SBM Bank	8 of 14	8 of 12	67%
AEC Bank	1 of 14	0 of 12	7%

The Human Resource & Ethics Committee held 14 meetings in 2019. Twelve meetings were held to approve the Performance Review and Incentive (CBA).

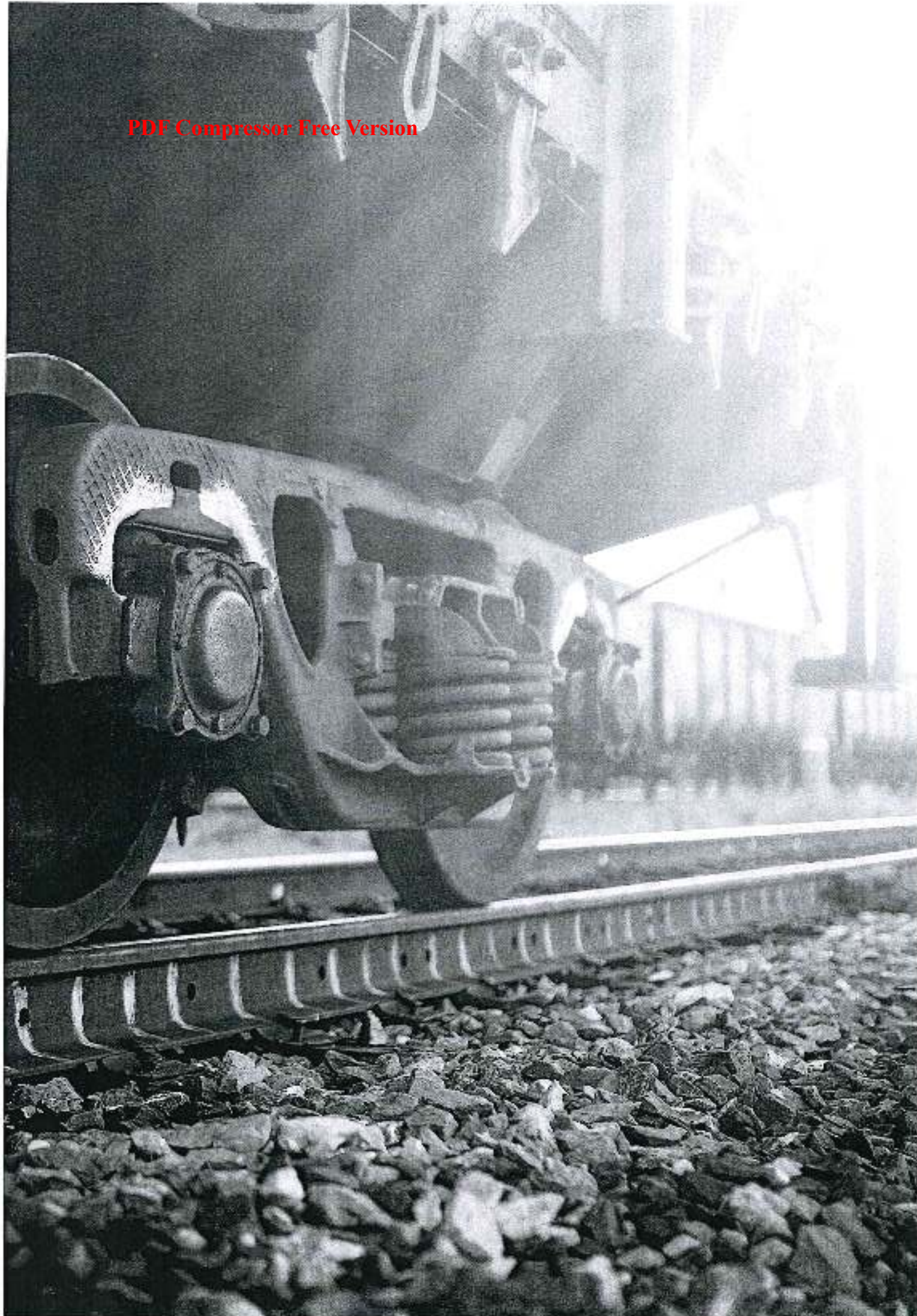
In addition, a session of 20 Committee members was held as part of the Joint Negotiation Committee (JNC).

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FINANCIAL
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31ST DECEMBER 2019

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FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

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SUPPLEMENTARY INFORMATION

Schedule of consolidated expenditure	APPENDIX I
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GOVERNING COUNCIL	<p>Mr. Joshua Ogara Mr. John Gachora Mr. Gerald Warui Dr. Gideon Muriuki Mr. Kenuki Ngeri Mrs. Nasim Devji Mr. Jeremy Awor Mr. Khara Mahu Mrs. Rebecca Muthi Mr. Math Mugamb Mr. Moazz Mir Mr. Okebayo Verabuz Mr. Abdalla Abdulkhalik Mr. Peter Makau Mr. Isaac Mwigu</p>	<p>Chairman Vice Chair</p>
CHIEF EXECUTIVE OFFICER	Dr. Habil Ojeka	
PRINCIPAL PLACE OF BUSINESS	<p>International House 13th Floor, Mama Ngina Street P.O. Box 72100 - 00200 Nairobi, Kenya.</p>	
INDEPENDENT AUDITOR	<p>RSM Eastern Africa Certified Public Accountants 1st Floor, Pacific Centre Slip Road, off Weirak Way, Westlands P.O. Box 349 - 00606 Nairobi, Kenya.</p>	
PRINCIPAL BANKERS	<p>KCB Bank Limited Moi Avenue Branch P.O. Box 30081 - 00100 Nairobi, Kenya</p> <p>Central Bank of Kenya Hails Selassie Avenue P.O. Box 60010 - 00200 Nairobi, Kenya.</p> <p>Standard Chartered Bank Kenya Limited Moi Avenue P.O. Box 30000 - 00100 Nairobi, Kenya</p>	
LEGAL ADVISORS	<p>Hamilton Harrison & Mathews P.O. Box 30333 - 00100 Nairobi, Kenya</p> <p>JN Namaseke & Co. Advocates P.O. Box 9478 - 00100 Nairobi, Kenya</p> <p>Obura Mbeche & Co. Advocates P.O. Box 28658 - 00200 Nairobi, Kenya.</p>	

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The Governing Council submit their report together with the audited financial statements of the Group and of the Association for the year ended 31st December 2019.

GOVERNING COUNCIL

The Governing Council members who held office during the year and to the date of this report are set out on page 82.

PRINCIPAL ACTIVITIES

The principal activity of the Group is to play an advocacy role for the banking industry, managing the operations of an automated Clearing House, negotiating collective bargaining agreements on behalf of the member banks with their employees' recognized union, and provision of an online platform for real time clearing and settlement of payments between banks and payment solution companies.

BUSINESS REVIEW

The business environment in the year 2019 was extremely challenging for the Banking sector. The effects of the interest rate capping continued to limit credit access to the economy particularly to the SME segment of the economy. The interest rate cap was however repealed in November 2019 through the Finance Act 2019. Due to the constraints imposed by the rate capping for the latter part of the year, the sector enhanced its lending requirements to mitigate against high risk lending. This change of business model occasioned most banks to increase their investment in government securities at the expense of lending to the productive sectors of the economy.

KBA response to this hostile business environment was to enhance lobbying and advocacy initiatives that was geared towards repeal of interest rate capping. Several engagement initiatives were undertaken with policy makers, legislators and other key stakeholders and the interest rate capping was repealed in November 2019. To fund these engagements a total of KSh 71,165,182 was expended towards lobbying activities.

In addition to supporting lobbying and advocacy mandate, the Association continued to fund operation of other projects that are critical to efficient operation of the industry such as the funding of the cheque truncation at an expenditure of KSh 74,608,085 and the Credit information sharing at a cost of KSh 19,328,410.

P2L the subsidiary of the KBA continued to provide interoperability in the industry as PesaLink service awareness gradually increased as the service was promoted amongst bank customers. A targeted aggressive marketing campaign to promote usage of PesaLink was carried out during the course of the year.

STATEMENT AS TO DISCLOSURE TO THE ASSOCIATION'S AUDITOR

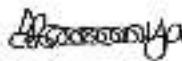
With respect to each member of Governing Council at the time this report was approved:

- there is, so far as the Governing Council is aware, no relevant audit information of which the Group's auditor is unaware, and
- the Governing Council has taken all the steps that the Governing Council ought to have taken as a member of Governing Council so as to be aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

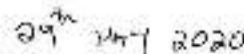
TERMS OF APPOINTMENT OF THE AUDITOR

The Governing Council approve the annual audit engagement contract, which sets out the terms of the auditor's appointment and the related fees. The agreed auditor's remuneration of KSh. 720,000 has been charged to profit or loss in the year.

BY ORDER OF THE GOVERNING COUNCIL



Chairman



Chief

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STATEMENT OF THE GOVERNING COUNCIL'S RESPONSIBILITIES

The Governing Council is required to prepare financial statements for each financial year that give a true and fair view of the financial position of the Group and of the Association as at the end of the financial year and of its profit or loss for that year. The Governing Council is also required to ensure that the Association keeps proper accounting records that:

- a. show and explain the transactions of the Association; and
- b. disclose, with reasonable accuracy, the financial position of the Association.

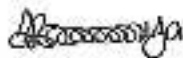
The Governing Council accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards for Small and Medium-sized Entities. They also accept responsibility for:

- i. designing, implementing and maintaining such internal control as they determine necessary to enable the presentation of financial statements that are free from material misstatement, whether due to fraud or error;
- ii. selecting and applying appropriate accounting policies; and
- iii. making accounting estimates and judgements that are reasonable in the circumstances.

Having made an assessment of the Group's ability to continue as a going concern, the Governing Council is not aware of any material uncertainties related to events or conditions that may cast doubt upon the Group's ability to continue as a going concern.

The Governing Council acknowledge that the independent audit of the financial statements does not relieve them of their responsibilities.

APPROVED BY THE GOVERNING COUNCIL ON 29th May AND SIGNED ON ITS BEHALF BY:



Chairman



Council Member

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REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF THE KENYA BANKERS ASSOCIATION

OPINION

We have audited the accompanying financial statements of Kenya Bankers Association (the "Association") and its subsidiary (together, the "Group"), set out on pages 57 to 60, which comprise the balance sheet as at 31 December 2018, the statement of income and expenditure, and statements of changes in members' fund and cash flows for the year then ended, and notes, including a summary of significant accounting

In our opinion the accompanying financial statements give a true and fair view of the financial position of the Group and of the Association as at 31 December 2018 and of its financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Association in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OTHER INFORMATION

The Governing Council is responsible for the other information. Other information comprises the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

GOVERNING COUNCIL'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Governing Council is responsible for the preparation and fair presentation of the financial statements that give a true and fair view in accordance with the International Financial Reporting Standard for Small and Medium-sized Entities and for such internal control as the Governing Council determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Governing Council is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Governing Council either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF THE KENYA BANKERS ASSOCIATION (CONTD.)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of the auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group's consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicated with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



CERTIFIED PUBLIC ACCOUNTANTS
NAIROBI

29 May 2020

The signing partner responsible for the independent audit was CPA, CA's Ogata, Practising Certificate No. 2303

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STATEMENT OF INCOME AND EXPENDITURE FOR THE YEAR ENDED 31ST DECEMBER 2019

	NOTE	GROUP		ASSOCIATION	
		31.12.19 KSh	31.12.19 KSh	31.12.19 KSh	31.12.19 KSh
Revenue	4	382,152,557	349,627,655	354,256,090	384,000,000
Other income	5	48,980,193	22,117,579	4,079,147	26,731,485
Project related expenses		(224,892,401)	(189,197,462)	(224,652,431)	(189,197,362)
Administrative expenses		(324,716,354)	(317,521,021)	(180,836,128)	(146,467,649)
Establishment expenses		(142,050,571)	(136,259,034)	(24,384,430)	(28,297,060)
Finance costs	6	(64,740,719)	(5,659,115)	-	-
Operating (deficit)/surplus for the year	7	(326,683,365)	(320,240,934)	(8,029,982)	16,638,396
Tax income/ (expense)	8	2,002,151	(4,242,767)	(4,167,750)	(3,914,029)
(Deficit)/surplus for the year		(324,681,214)	(324,483,601)	(12,087,748)	14,724,366

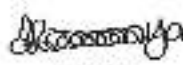
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BALANCE SHEET AT 31ST DECEMBER 2019

	NOTE	GROUP		ASSOCIATION	
		31/12/19 KSh	31/12/18 KSh	31/12/19 KSh	31/12/18 KSh
Members' funds					
Entrance fees and penalties reserves		119,492,520	99,098,520	119,492,520	89,562,520
Revenue reserve		(128,252,673)	(334,007,450)	79,598,727	80,147,459
Contribution for investment in subsidiary		154,000,000	690,000,000	154,000,000	680,000,000
Capital fund		39,520,001	35,070,506	39,520,001	35,070,506
Total members' funds		409,279,850	(129,048,333)	1,719,968,244	870,106,595
Non-current liabilities					
Borrowings	9	-	493,754,977	-	-
		-	493,754,977	-	-
		409,279,850	364,709,104	1,719,968,244	870,106,595
REPRESENTED BY					
Non-current assets					
Property and equipment	11	100,874,120	82,048,881	254,303,269	70,516,745
Intangible assets	12	136,111,979	204,531,391	2,579,740	3,508,126
Investment in subsidiary	13	-	-	140,000,000	140,000,000
Loan to subsidiary	17	-	-	139,379,267	55,187,537
Deferred income tax	10	9,407,394	7,093,260	-	-
		246,393,493	393,673,532	1,344,467,549	751,022,698
Current assets					
Subscription and other receivables	14	227,103,578	24,297,300	214,021,379	18,745,198
Cash at bank and in hand	15	180,854,181	187,278,297	196,275,515	130,572,800
		407,957,759	211,575,597	409,028,963	150,318,045
Current liabilities					
Trade and other payables	16	100,742,108	144,136,785	24,478,482	31,250,708
Tax payable		227,417	733,437	130,090	514,806
Borrowings	9	105,869,522	71,591,637	-	-
		287,379,047	216,461,859	24,608,572	31,765,514
Net (liabilities)/assets		122,640,354	(1,910,768)	371,400,299	118,412,687
		409,279,850	364,708,844	1,719,968,244	870,106,595

THE FINANCIAL STATEMENTS ON PAGES 87 TO 89 WERE AUTHORISED FOR ISSUE BY THE GOVERNING COUNCIL ON

29th May AND WERE SIGNED ON ITS BEHALF BY


Chairman


CEO

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STATEMENT OF CHANGES IN MEMBERS' FUNDS
FOR THE YEAR ENDED 31ST DECEMBER 2019

	Entrance Fees and Penalties Reserve KSh	Contribution For Investment in Subsidiary KSh	Revenue Reserve KSh	Capital Fund KSh	Total KSh
a. GROUP					
At 1 st January 2018	79,988,520	425,000,000	(599,860,060)	40,106,433	(54,785,107)
Deficit for the year	-	-	(324,547,288)	-	(324,547,288)
Contributions received in the year	-	255,000,000	-	-	255,000,000
Transfer to other operating income	-	-	-	(4,735,627)	(4,735,627)
Transfer to entrance fees and penalties reserve	9,500,000	-	(9,500,000)	-	-
At 31st December 2018	89,588,520	880,000,000	(934,007,459)	35,370,606	(129,048,333)
At 1 st January 2019	89,588,520	880,000,000	(934,007,459)	35,370,606	(129,048,333)
Deficit for the year	-	-	(324,621,774)	-	(324,621,774)
Contributions received in the year	-	860,000,000	-	-	860,000,000
Transfer to other operating income	-	-	-	2,949,395	2,949,395
Transfer to entrance fees and penalties reserve	23,900,000	-	(23,900,000)	-	-
At 31st December 2019	113,488,520	1,540,000,000	(1,262,528,673)	38,320,001	409,279,850
b. ASSOCIATION					
At 1 st January 2018	79,988,520	425,000,000	60,023,103	40,106,433	605,118,056
Surplus for the year	-	-	14,721,356	-	14,721,356
Contributions received in the year	-	255,000,000	-	-	255,000,000
Transfer to other operating income	-	-	-	(4,735,627)	(4,735,627)
Transfer to entrance fees and penalties reserve	9,500,000	-	(9,500,000)	-	-
At 31st December 2018	89,588,520	880,000,000	65,147,469	35,370,606	870,106,595
At 1 st January 2019	89,588,520	880,000,000	65,147,469	35,370,606	870,106,595
Surplus for the year	-	-	(15,087,748)	-	(15,087,748)
Contributions received in the year	-	860,000,000	-	-	860,000,000
Transfer to other operating income	-	-	-	2,949,395	2,949,395
Transfer to entrance fees and penalties reserve	23,900,000	-	(23,900,000)	-	-
At 31st December 2019	113,488,520	1,540,000,000	28,169,721	38,320,001	1,719,968,244

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STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31ST DECEMBER 2019

	NOTE	GROUP		ASSOCIATION	
		31.12.19 KSh	31.12.18 KSh	31.12.19 KSh	31.12.18 KSh
Cash flows from operating activities					
(Deficit)/surplus for the year		(324,621,214)	(324,547,306)	(18,081,775)	4,724,038
Adjustments for:					
Tax (income)/expense	8	9,062,151	4,242,357	4,057,268	3,044,028
Depreciation of property and equipment	11	40,297,277	55,540,935	13,517,055	16,312,248
Amortisation of intangible assets	12	88,570,339	65,072,058	629,368	621,835
Change in capital fund		2,949,355	(4,735,327)	2,843,295	(4,735,627)
Interest income	5	(10,951,369)	(10,357,265)	(3,517,217)	(3,041,971)
Interest expense	6	64,740,719	75,659,718	-	-
Loss on disposal of equipment		563,255	63,858	345,185	63,698
Assets written off		1,841,243	-	1,550,243	-
Changes in operating assets and liabilities:					
(Increase)/decrease in subscription and other receivables		(207,639,278)	14,878,203	(18,116,730)	15,771,382
(Decrease)/increase in trade and other payables		(4,339,180)	22,735,228	(1,772,294)	(1,033,222)
Net cash (used in)/generated from operations		(384,394,771)	(101,711,204)	(20,304,508)	22,554,578
Interest paid		(14,740,719)	(75,659,718)	-	-
Interest income		10,951,369	10,357,265	957,217	9,043,971
Income tax paid		(4,339,180)	(2,363,340)	(4,572,274)	(2,327,940)
Net cash (used in)/generated from operating activities		(443,707,322)	(169,272,823)	(195,560,455)	30,550,507
Cash flows from investing activities					
Purchase of property and equipment	7	(11,552,037)	(13,544,414)	(10,572,517)	(5,043,517)
Proceeds from sale of equipment		46,000	90,325	48,000	93,635
Purchase of intangible assets	12	(20,052,987)	(28,266,413)	-	(2,273,931)
Members contribution to subsidiary		660,000,002	255,000,000	850,000,002	284,000,000
Net cash generated/ from investing activities		825,434,878	214,580,008	840,375,485	246,036,767
Cash flows from financing activities					
Increase of loan to subsidiary		-	-	(597,711,400)	(283,979,286)
Net proceeds from borrowings		(378,247,288)	(16,714-3)	-	-
Net cash used in financing activities		(378,247,288)	(16,714-3)	(597,711,400)	(283,979,286)
Net increase/(decrease) in cash and cash equivalents		63,480,268	45,641,992	55,703,530	(703,869)
Cash and cash equivalents at start of year		167,276,392	141,620,910	130,572,893	137,504,792
Cash and cash equivalents at end of year	19	193,664,361	187,278,892	186,276,513	130,572,893

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NOTES

1. GENERAL INFORMATION

Kenya Bankers Association (the "Association") is domiciled in Kenya where it is registered by the Registrar of Trade Unions under the Trade Unions Ordinance 1962. The address and its principal place of business is set out on page 82. The principal activity of the Group is to play an advocacy role for the banking industry, managing the operations of an automated Clearing House, negotiating collective bargaining agreements on behalf of the member banks with their employees' recognised union, and provision of an online platform for real time clearing and settlement of payments between banks.

2. BASIS OF PREPARATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared on a going concern basis and in compliance with the International Financial Reporting Standard for Small and Medium-sized Entities (IFRS for SMEs) issued by the International Accounting Standards Board. The financial statements are presented in Kenya Shillings (KSh). The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

Revenue recognition

Revenue from provision of services is recognised by reference to the stage of completion of the transaction at the end of the reporting period. Revenue is measured at the fair value of the consideration received or receivable, net of discounts and sales-related taxes collected on behalf of the Government of Kenya.

Revenue comprises subscriptions received or receivable from members who have subscribed to the services offered by the Association. Subscription income is recognised on accrual basis.

Other revenue recognition policies include:

- Entrance fees are recognised when received as this is the earliest point at which the Association's right to receive the income is established.
- Interest income is recognised on accrual basis.
- Clearing house penalties are recognised when a clearing event occurs in accordance with the rules.
- Switch income is recognised on receipt.

Income tax

Tax expense represents the aggregate amount included in profit or loss for the period in respect of current tax and deferred tax. Current tax is the amount of income tax payable or refundable in respect of the taxable profit or loss for the current and prior periods, determined in accordance with the Kenyan Income Tax Act.

Deferred tax is determined on differences arising between the carrying amounts of assets and liabilities in the financial statements and their corresponding tax bases (known as temporary differences), using tax rates and laws enacted or substantively enacted at the balance sheet date and expected to apply when the asset is recovered or the liability is settled.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets or liabilities. However, for investment property that is measured using the fair value model, there is a rebuttable presumption that the carrying amount of the investment property will be recovered through sale.

Deferred tax liabilities are recognised for all taxable temporary differences except those arising on the initial recognition of an asset or liability, other than through a business combination, that at the time of the transaction affects neither the accounting nor taxable profit or loss.

Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Recognised and unrecognised deferred tax assets are reassessed at the end of each reporting period and, if appropriate, the recognised amount is adjusted to reflect the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Consolidation

A subsidiary is an entity (an investee) controlled by the Association. The Association controls an investee when the Association is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns.

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through its power over the investee. The Group's financial statements incorporate the results, cash flows, assets and liabilities of the Association and its subsidiaries. All intragroup transactions, balances, income, and expenses are eliminated on consolidation. Non-controlling interests in the results and net assets of the subsidiaries are presented separately in the Group's balance sheet and statement of income.

Translation of foreign currencies

All transactions in foreign currencies are initially recorded in Kenya Shillings, using the spot rate at the date of the transaction. Foreign currency monetary items at the reporting date are translated using the closing rate. All exchange differences arising on settlement or translation are recognised in profit or loss.

Investment in subsidiary

Investment in subsidiary is carried at cost less any accumulated impairment losses.

Borrowing costs

All borrowing costs are recognised in profit or loss in the period in which they are incurred.

Financial assets

Subscription and other receivables are initially recognised at the transaction price. Subscription revenue is made on the basis of normal credit terms, and the receivables do not bear interest. Where credit is extended beyond normal credit terms, receivables are measured or amortised over using the effective interest method. At the end of each reporting period, the carrying amounts of subscription and other receivables are reviewed to determine whether there is any objective evidence that the amounts are not recoverable. If so, an impairment loss is recognised immediately in income and expenditure statement.

Property and equipment

Items of property and equipment, are measured at cost less accumulated depreciation and any accumulated impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that it will increase the future economic benefits associated with the item that will flow to the Group over those originally assessed and the cost of the item can be measured reliably. Repairs and maintenance expenses are charged to the profit and loss account in the year in which they are incurred.

Depreciation is charged so as to allocate the cost of assets less their residual values over their estimated useful lives, using the reducing balance method.

If there is an indication that there has been a significant change in the useful life or residual value of an asset, the depreciation of that asset is revised prospectively to reflect the new expectations.

On disposal, the difference between the net disposal proceeds and the carrying amount of the item sold is recognised in income statement.

Intangible assets

Intangible assets comprise purchased computer software and are stated at cost less accumulated amortisation and any accumulated impairment losses. They are amortised over their estimated life of five years using the straight-line method. If there is an indication that there has been a significant change in amortisation rate, useful life or residual value of an intangible asset, the amortisation is revised prospectively to reflect the new expectations.

Impairment of non-financial assets

At each reporting date, property, equipment and intangible assets are reviewed to determine whether there is any indication that those assets have suffered an impairment loss. If there is an indication of possible impairment, the recoverable amount of any affected asset (or group of related assets) is estimated and compared with its carrying amount. If the estimated recoverable amount is lower, the carrying amount is reduced to its estimated recoverable amount, and an impairment loss is recognized immediately in income statement.

If an impairment loss subsequently reverses, the carrying amount of the asset (or group of related assets) is increased to the

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revised estimate of its recoverable amount, but not in excess of the amount that would have been determined had no impairment loss been recognised for the asset (group of related assets) in prior years. A reversal of an impairment loss is recognised immediately in income statement.

Financial liabilities

Financial liabilities are initially recognised at the transaction price (less transaction costs). Trade payables are obligations on the basis of normal credit terms and do not bear interest. Interest bearing liabilities are subsequently measured at amortised cost using the effective interest method.

Cash and cash equivalents

Cash and cash equivalents include cash in hand and demand and term deposits, with maturities of three months or less from the date of acquisition, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Employee benefits - post-employment benefit obligations

The Association operates a defined contribution retirement benefits plan for its employees, the assets of which are held in a separate trustee administered scheme managed by a segregated scheme. A defined contribution plan is a plan under which the Association pays fixed contributions into a separate fund, and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior years. The Association's contributions are charged to the profit and loss account in the year to which they relate.

The Association and the employees also contribute to the National Social Security Fund (NSSF), a national defined contribution scheme. Contributions are determined by local statute and the Association's contributions are charged to income and expenditure statement in the year to which they relate.

Employee entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an employment cost accrual.

Cash centre capital grant

Cash centre capital grant are accounted for when capital expenditure for the Cash centre has been incurred. Depreciation charged on the assets is charged to statement of income and expenditure and an equivalent amount transferred from the funds to other operating income.

Entrance fees and penalties reserve

Entrance fees is charged when a member joins the Association while penalties are charged when a member breaches the set rules for the clearing house. These are initially recognised as income through income statement and expenditure and later transferred to the reserve account as they are not usually factored in the budgeted expenditure. These funds are set aside and can be utilised with the authorisation of the Governing Council.

Contribution for investment in subsidiary

This represents a non-refundable contribution by members towards the Association's investment in its subsidiary company Integrated Payment Services Limited.

3. JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

No significant judgments have had to be made by the Governing Council in preparing these financial statements.

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	GROUP		ASSOCIATION	
	31.12.19 KSh	31.12.18 KSh	31.12.19 KSh	31.12.18 KSh
4. REVENUE				
Membership subscriptions fees	330,235,000	330,000,001	350,250,880	330,000,001
Entrance fees	1,500,000	10,000,000	-	-
Associate members subscription	4,000,000	4,000,000	4,000,000	4,000,000
Switch income	10,395,577	5,821,887	-	-
	<u>382,152,557</u>	<u>349,821,885</u>	<u>354,256,880</u>	<u>334,000,001</u>
5. OTHER INCOME				
Clearing house penalties	23,000,000	9,600,000	23,000,000	9,600,000
Interest on fixed deposit	10,831,368	10,367,085	9,517,317	9,343,371
Other income	810,000	700,000	340,000	700,000
Sponsorship	4,050,365	2,498,000	4,050,368	2,498,000
Transfer of capital fund	4,718,505	4,735,877	4,718,500	4,735,827
Training income	4,252,550	1,219,947	4,252,950	1,218,667
	<u>48,393,193</u>	<u>29,117,579</u>	<u>47,079,141</u>	<u>28,594,465</u>
6. FINANCE COSTS				
Interest expense				
- Bank loan	<u>64,740,719</u>	<u>76,858,118</u>	-	-
7. (DEFICIT)/SURPLUS BEFORE TAX				
a) The following items have been recognised as expenses in determining (deficit)/surplus before tax:				
Employee benefits expense (see 7(a) below)	183,229,325	151,852,108	122,972,532	105,262,252
Depreciation of property and equipment	40,287,276	55,540,936	13,517,055	18,812,248
Amortisation of intangible assets	60,570,339	68,072,058	329,386	671,856
b) Employee benefits expense				
Wages, salaries and allowances	175,675,346	155,794,862	118,393,342	104,342,033
Retirement benefits costs				
- Defined contribution scheme	7,259,325	5,954,228	4,540,190	3,004,570
- National Social Security Fund	85,200	73,200	39,400	55,500
	<u>183,229,325</u>	<u>161,852,108</u>	<u>122,972,532</u>	<u>105,262,252</u>
The average number of persons employed during the year by category were:	Number	Number	Number	Number
Management and administration	<u>35</u>	<u>33</u>	<u>16</u>	<u>15</u>

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NOTES (CONTD.)

	GROUP		ASSOCIATION	
	31.12.19 KSh	31.12.18 KSh	31.12.19 KSh	31.12.18 KSh
B. TAX EXPENSE/(INCOME)				
Current tax	4,451,982	4,070,935	4,057,766	3,914,029
Deferred income tax	(85,409,550)	(101,829,216)	-	-
Under-provision in prior year	-	750,000	-	-
Deferred tax on tax loss not recognised	85,895,417	101,240,820	-	-
	(2,062,151)	4,242,587	4,057,766	3,914,029

The Association's income from members is not taxable as it qualifies for tax treatment as a Trade Association under Section 21(2) of the Income Tax Act. However, interest income and excess pension contributions have been taxed at the rate of 30% (2018, 30%).

The subsidiary company, Integrated Payment Services Limited (IPSL), is a taxable entity. However, the subsidiary did not generate taxable income.

	GROUP		ASSOCIATION	
	31.12.19 KSh	31.12.18 KSh	31.12.19 KSh	31.12.18 KSh
(Deficit)/surplus before tax	(325,663,366)	(300,904,830)	(3,029,952)	18,598,396
Tax calculated at the statutory rate of 30%	(98,005,010)	(90,076,448)	(2,708,995)	5,591,519
Tax effect of:				
Expenses disallowed	785,285	1,398	1,700,001	-
Non-taxable income	-	(1677490)	-	(1,677,500)
(Over)/under-provision in prior year	(477,845)	750,000	-	-
Deferred tax on tax loss not recognised	85,895,418	101,240,820	-	-
Tax expense/(income)	(2,062,151)	4,242,587	4,057,766	3,914,029

B. BORROWINGS

The borrowings are analysed as follows:

Non-current				
Bank loans	-	403,754,977	-	-
Current				
Bank loans	108,939,622	7,531,631	-	-
	108,939,622	411,286,608	-	-

The bank loan is secured by:

- A debenture charge of KSh 500,000,000 over the entire present and future assets of the subsidiary.
- Guarantee of Kenya Bankers Association on behalf of its members.
- Legal undertaking of Kenya Bankers Association on behalf of its members stating that any cost overrun of the project will be funded from their long term funds without resorting to any additional borrowing.

Interest is payable on the bank loan at Central Bank Reference Rate plus 4%.

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10. DEFERRED TAX

Deferred tax is calculated using the enacted rate of 30% (2018: 30%).
The following are the deferred tax assets recognised by the Group:

GROUP	At start of year KSh	Credited/ (charged) to KSh	At end of year KSh
Year ended 31st December 2019			
Property and equipment	2,732,910	50,360	2,783,270
Intangible assets		5,501,776	5,501,776
Provision for impairment of receivables	750,000	-	750,000
Provision for leave pay		951,997	951,997
Tax losses carried forward	299,267,470	60,595,417	359,862,887
	<u>302,860,377</u>	<u>66,099,550</u>	<u>368,959,927</u>
Deferred tax asset not recognised	(299,267,470)	(66,695,417)	(365,962,887)
Net deferred tax asset	<u>2,893,267</u>	<u>6,594,133</u>	<u>9,407,384</u>
Year ended 31st December 2018			
Deferred tax asset			
Property and equipment	1,564,085	6,1393	2,163,291
Provision for impairment of receivables	1,300,000	(100,000)	750,000
Tax losses carried forward	195,468,076	104,499,284	299,967,360
Net deferred tax asset	<u>197,532,911</u>	<u>104,227,787</u>	<u>302,860,677</u>
Deferred tax asset not recognised	(195,468,076)	(104,499,284)	(299,967,360)
Net deferred tax asset	<u>2,064,835</u>	<u>(171,604)</u>	<u>2,893,267</u>

The deferred tax asset has not been recognised on deductible temporary differences and tax losses carried forward amounting to KSh 1,285,209,422 (2018: KSh 319,385,251) due to lack of certainty of availability of future taxable profits against which such deductible temporary differences and tax losses could be utilised. Under the Kenyan Income Tax Act, tax losses are allowable as a deduction only in the nine years succeeding the year in which they occurred. The tax losses of KSh 1,285,209,422 carried forward will expire as follows:

ARISING IN:	Tax losses	Expiring:
2016	284,808,032	31 st December 2025
2017	391,453,790	31 st December 2026
2018	349,331,270	31 st December 2027
2019	299,318,057	31 st December 2028
Tax losses carried forward	<u>1,285,209,422</u>	

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11. PROPERTY AND EQUIPMENT

	Leasehold improvements KSh	Furniture and fittings KSh	Office equipment KSh	Motor vehicles KSh	Computers KSh	Total KSh
Cost						
At start of year	58,431,046	45,013,047	25,923,103	23,558,400	248,219,004	458,631,616
Additions	9,516,149	-	1,042,251	-	890,738	11,459,137
Disposals	-	-	(674,125)	-	-	(1,074,750)
Assets written off	(1,650,243)	-	-	-	-	(1,650,243)
At end of year	104,098,963	45,013,047	26,796,229	23,568,406	249,716,752	447,593,387
Accumulated depreciation						
At start of year	63,979,639	21,295,147	14,170,719	12,220,314	102,221,354	217,512,657
Annual depreciation	4,718,500	2,750,247	959,026	2,843,190	28,964,316	40,267,277
Less accumulated depreciation on assets disposed of	-	-	(1,060,870)	-	-	(1,060,870)
At end of year	71,638,147	24,045,388	14,780,875	18,089,124	131,185,730	319,719,264
Carrying amount						
At end of year	32,460,806	20,967,659	10,415,354	8,499,282	58,531,022	130,874,123

ASSOCIATION	Leasehold improvements KSh	Furniture and fittings KSh	Office equipment KSh	Motor vehicles KSh	Computers KSh	Total KSh
Cost						
At start of year	93,431,048	22,491,785	23,819,104	16,540,756	97,778,277	251,131,916
Additions	9,518,148	-	240,411	-	913,885	10,772,443
Disposals	-	-	(1,354,125)	-	-	(1,354,125)
Assets written off	(1,260,243)	-	-	-	-	(1,260,243)
At end of year	104,098,963	22,491,785	22,846,190	16,540,756	92,591,860	258,533,498
Accumulated depreciation						
At start of year	59,969,639	13,640,800	14,217,910	10,489,061	75,130,675	100,507,111
Annual depreciation	4,718,500	867,373	769,758	1,525,445	5,843,988	13,575,055
Less accumulated depreciation on assets disposed of	-	-	(1,000,940)	-	-	(1,000,940)
At end of year	71,638,147	14,719,185	13,985,726	11,994,527	80,773,641	193,103,226
Carrying amount						
At end of year	32,460,806	7,745,581	8,853,464	4,546,229	11,818,189	65,430,289

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The following annual rates are used for the depreciation of property and equipment:

	Rate %
Motor Vehicles	25.00
Furnitures and fittings	12.50
Office equipments	12.50
Leasehold improvements	12.50
Computers	33.33

	GROUP		ASSOCIATION	
	31.12.19 KSh	31.12.18 KSh	31.12.19 KSh	31.12.18 KSh
12. INTANGIBLE ASSETS				
Cost				
At start of year	382,103,097	350,730,094	55,157,292	52,943,751
Additions	20,066,987	20,903,406	-	2,213,531
At end of year	<u>402,169,084</u>	<u>371,633,500</u>	<u>55,157,292</u>	<u>55,157,282</u>
Accumulated amortisation				
At start of year	177,481,406	117,403,543	51,849,156	51,027,967
Annual amortisation	88,500,399	65,012,052	539,356	621,097
At end of year	<u>265,981,805</u>	<u>177,478,705</u>	<u>52,388,512</u>	<u>51,649,064</u>
Carrying amount				
At end of year	<u>136,187,279</u>	<u>194,154,795</u>	<u>2,768,780</u>	<u>3,508,218</u>

13. INVESTMENT IN SUBSIDIARY	Holding		
Integrated Payment Services Limited	100%	<u>140,000,000</u>	<u>140,000,000</u>

	GROUP		ASSOCIATION	
	31.12.19 KSh	31.12.18 KSh	31.12.19 KSh	31.12.18 KSh
14. SUBSCRIPTION AND OTHER RECEIVABLES				
Deposits	1,055,500	1,085,500	1,085,500	1,055,500
Prepayments	5,700,514	4,887,000	3,451,843	3,719,996
Other receivables	220,587,734	27,384,696	210,274,282	16,254,696
Less: Provision for bad debts	-	(2,980,978)	-	(2,980,978)
	<u>227,133,578</u>	<u>24,297,300</u>	<u>214,821,375</u>	<u>18,745,196</u>
15. CASH AND CASH EQUIVALENTS				
Cash at bank and in hand	<u>193,664,161</u>	<u>187,278,892</u>	<u>186,276,513</u>	<u>130,572,893</u>

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NOTES (CONT'D)

	GROUP		ASSOCIATION	
	31.12.19 KSh	31.12.18 KSh	31.12.19 KSh	31.12.18 KSh
16. a) TRADE AND OTHER PAYABLES				
Subscriptions received in advance	1,285,629	700,000	1,285,629	700,000
Other payables	93,815,963	113,592,450	15,242,703	7,987,447
Cash centre payables (16(b))	1,127,255	8,705,007	1,127,255	8,705,007
Accruals	11,722,565	20,736,836	6,894,006	13,863,332
	<u>100,748,408</u>	<u>144,136,293</u>	<u>24,478,492</u>	<u>31,250,786</u>
b) CASH CENTRE PAYABLE				
Cash centre payable balance has been arrived at as follows:				
Members' subscription	40,745,919	53,454,733	43,745,879	53,444,733
Cash Centre operating expenses	(42,616,654)	(74,759,726)	(42,616,664)	(44,759,726)
	<u>1,127,255</u>	<u>8,705,007</u>	<u>1,127,255</u>	<u>8,705,007</u>

The Kenya Bankers Association Cash Centre project is a joint project between the Association and the Central Bank of Kenya geared towards a better management of cash in circulation within the respective region by establishment of the Cash Centres.

Under this model, the Association invests through a member bank in the leasehold improvements, equipment and services. The Association reimburses the hosting bank by sharing this investment cost with all banks that operate in the region.

The Central Bank of Kenya provides the cash to be deposited and circulated in the Cash Centre, as well as management and operations staff to operate the centres.

17. RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

	ASSOCIATION	
	31.12.19 KSh	31.12.18 KSh
Loan to subsidiary		
At start of year	537,667,537	253,745,244
Amounts advanced during the year	597,714,000	283,391,293
At end of year	<u>1,135,378,937</u>	<u>537,667,537</u>

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SCHEDULE OF CONSOLIDATED EXPENDITURE

	GROUP		ASSOCIATION	
	31.12.19 KSh	31.12.18 KSh	31.12.19 KSh	31.12.18 KSh
1. PROJECT RELATED EXPENSES				
Clearing house running expenses	74,609,085	67,408,967	74,609,085	67,408,967
Public relations and media activities	49,725,835	38,287,486	49,725,835	38,287,486
Credit reference bureau project cost	19,326,413	18,909,012	19,326,413	18,909,012
Research	9,865,916	10,823,059	9,865,916	10,823,059
Advocacy	7,165,182	3,317,884	7,165,182	3,317,884
	224,692,431	169,191,362	224,692,431	169,191,362
2. ADMINISTRATIVE EXPENSES				
Employment:				
Salaries and wages	175,675,510	166,794,682	170,353,942	161,342,062
Pension scheme contributions	7,269,365	5,814,228	4,540,190	3,891,570
National Social Security Fund	85,200	79,200	38,400	39,600
Provision for leave dues	6,643,307	(3,740,651)	1,961,772	(2,546,880)
Staff welfare costs	6,460,722	6,077,960	2,209,785	2,064,786
Total employment costs	196,333,354	169,793,437	179,193,699	169,778,742
Other administration expenses:				
Postage and telephone	5,189,039	2,360,142	372,541	304,408
Travel and entertainment	2,290,421	2,900,486	1,852,566	2,770,155
Printing and stationery	881,884	742,515	505,812	200,024
Conferences facilities	800,000	677,000	-	390,000
Subscriptions	3,988,278	8,652,223	3,755,278	8,462,223
Computer expenses	222,028	351,936	327,838	381,592
Audit fees				
- Current year	1,220,000	1,236,000	(200,000)	685,000
- Prior year under provision	175,776	110,570	124,772	39,192
Vehicle running	4,272,300	3,438,788	3,201,002	2,701,437
Legal fees	17,269,356	12,666,912	12,677,186	12,156,272
Professional fees	535,314	2,713,043	509,314	2,700,043
Bank charges	290,978	278,847	140,612	145,819
General expenses	5,070,288	4,771,002	3,266,238	1,000,199
Consulting expenses	-	2,294,094	696,000	2,294,094
Accommodation expenses	-	127,816	-	-
Confacatory expenses	-	312,744	-	-
Advertisement and branding	29,235,376	55,977,638	-	53,781
Recruitment	934,775	1,935,484	-	-
Software support	31,703,071	38,162,255	-	-
Data centre costs	9,507,741	9,675,004	-	-
Realised exchange loss	-	151,436	-	-
Loss on disposal asset	345,785	-	345,785	50,896
Bad debts provision	-	2,989,976	-	2,989,976
Total other administration expenses	128,382,040	155,048,187	32,740,639	38,660,507
Total administrative expenses	324,715,394	317,631,624	160,934,129	166,467,649
3. ESTABLISHMENT EXPENSES				
Rent	8,497,464	8,213,024	4,945,050	4,812,000
Insurance expense	4,403,605	4,483,825	4,408,605	4,483,825
Repairs and maintenance	1,300,544	2,205,732	1,011,036	2,067,292
Amortisation of intangible assets	88,370,098	66,072,008	829,386	621,695
Depreciation of property and equipment	40,267,278	55,340,935	10,517,055	10,312,240
	143,080,571	136,298,094	24,739,443	28,297,060

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