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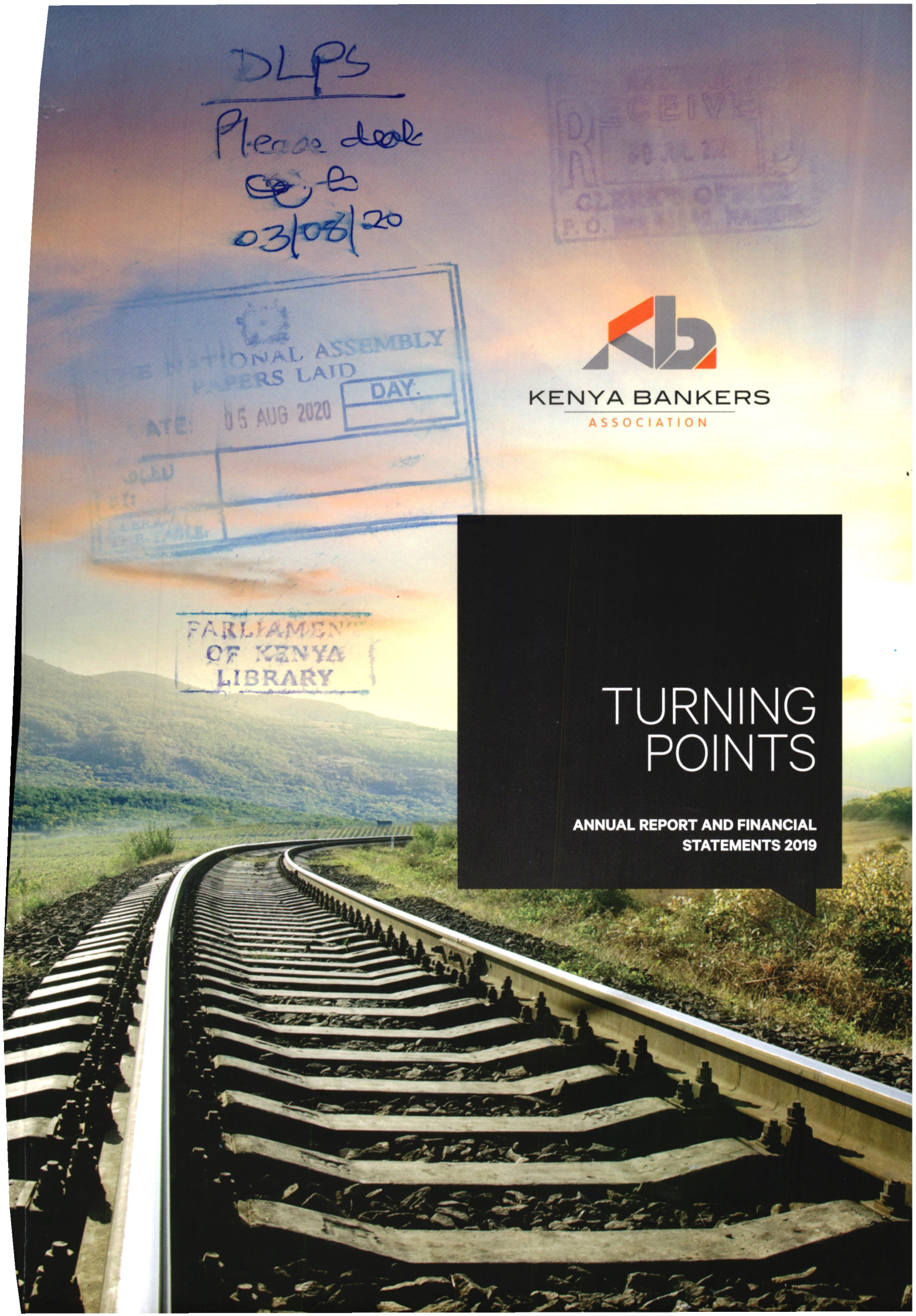
KENYA BANKERS
ASSOCIATION

TURNING POINTS

ANNUAL REPORT AND FINANCIAL STATEMENTS 2019



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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ABOUT KENYA BANKERS ASSOCIATION

BACKGROUND INFORMATION

Kenya Bankers Association (KBA) was registered as an Industry Association on 16th July 1962 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 45 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.

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 45 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 Oigara is the current KBA Chairman and Chair of the Governing Council.

The KBA Secretariat has a full-time staff compliment of 16 employees who manage day to day operations under the leadership of Chief Executive Officer, Mr. Habil Olaka.

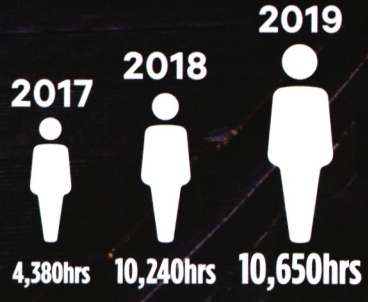
KBA activities are managed by the Secretariat which works in consultation with the following Committees and Sub Committees:

1. Operations & Technical Services Committee
   - Clearing 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

AT A GLANCE

82
committee meetings
held in conjunction with the association's mandate

Industry Lobbying, Policy and Standards



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
- Nyeri

PesaLink
Easy. Affordable. Instant.

Ksh 165 Billion
moved by PesaLink

KEY POLICY ENGAGEMENTS

Banking (Amendment) Act, 2016

Bank Assurance (Draft) Regulations 2018

Banking Penalties (Draft) Regulations 2017

Capital Gains Tax

Data Protection Bill 2019

Draft Protocol to the Convention on International Interests in Mobile Equipment on Matters Specific to Agricultural, 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

Moveable 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

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

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 MWIGE
Middle East Bank Kenya

KBA COMMITTEE REPRESENTATIVES

GERALD MUNYIRI
Equity Bank

WAMBUI KAGUONGO
ABC Bank

ROBLEY NGOJE
KCB Bank

GLADYS WARIRAH
Standard Chartered Bank

SURAJ SHAH
DTB Kenya

BRIAN KOLETIT
Citibank

BETTY CHUMA
Stanbic Bank

PHILIP WAMBUA
ABC Bank

LABAN OMANGI
Absa Bank

JUNE OPIYO
Stanbic Bank

BANK FRAUD AND RISK Sub-Committee
Chair *Equity Bank (Gerald Munyiri)*
Vice Chair *NCBA Bank (Sichana Jalala)*
Secretary *Kenya Bankers Association (Fidelis Muia)*

CLEARING HOUSE Sub-Committee
Chair *Citibank (Brian Koletit)*
Vice Chair *NCBA Bank (Michael Mucheru)*
Secretary *National Bank of Kenya (Caleb Ogutu)*

COMPLIANCE Sub-Committee
Chair *Absa Bank (Laban Omangi)*
Vice Chair *DIB Bank Kenya (Daisy Namayi)*
Secretary *Kenya Bankers Association (Kennedy Mutisya)*

CREDIT Sub-Committee
Chair *Absa Bank (Christine Mwangi-Marandu)*
Vice Chair *ABC Bank (Boniface Kioko)*
Secretary *Kenya Bankers Association (Jared Osoro)*

FINANCE AND AUDIT Committee
Chair *Standard Chartered Bank (Gladys Warirah)*
Vice Chair *Middle East Bank (Mary Gitahi)*
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 (Mutahe Karuoro)*

HUMAN RESOURCES AND ETHICS Committee
Chair *KCB Bank (Robley Ngoje)*
Vice Chair *(Ms. Wangare Gathu)*
Secretary *Kenya Bankers Association (Raimond Molenje)*

IT SYSTEM RISKS & SECURITY Sub-Committee
Chair *NCBA Bank (Kabuthia Riunge)*
Vice Chair *Vacant*
Secretary *Gulf African Bank (Wilson Maina)*

LEGAL AFFAIRS Committee
Chair *Stanbic Bank (June Opiyo)*
Vice Chair *NCBA Bank Kenya (Steve Atenya)*
Secretary *Kenya Bankers Association (Raimond Molenje)*

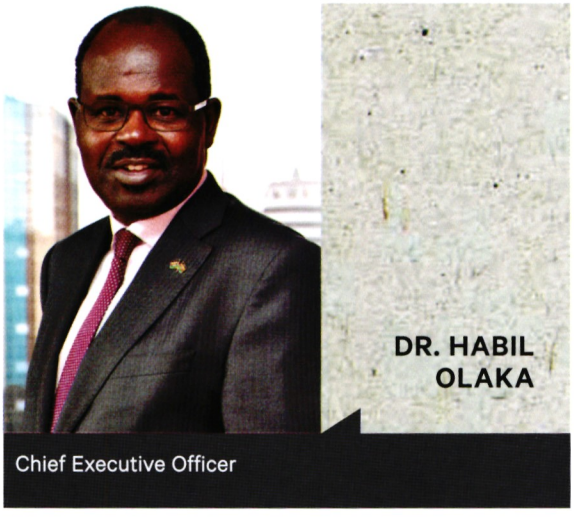
NATIONAL PAYMENTS Sub-Committee
Chair *DTB Kenya (Suraj Shah)*
Vice Chair *DIB Bank Kenya (Mark Odoyo)*
Secretary *Kenya Bankers Association (Fidelis Muia)*

OPERATIONS AND TECHNICAL Committee
Chair *DTB Kenya (Suraj Shah)*
Vice Chair *DIB Bank Kenya (Abubakar Ali)*
Secretary *Kenya Bankers Association (Fidelis Muia)*

PUBLIC RELATIONS Committee
Chair *Stanbic Bank (Willis Angira)*
Vice Chair *ABC Bank (Wambui Kaguongo)*
Secretary *Kenya Bankers Association (Nuru Mugambi)*

TAX Sub-Committee
Chair *Stanbic Bank (Betty Chuma)*
Vice Chair *Absa Bank (Peter Mungai)*
Secretary *Kenya Bankers Association (Kennedy Mutisya)*

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 Deposit 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 (KEPSA). 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.

Mr. Muia is the Director of Technical Services, Kenya Bankers Association. He is responsible for the co-ordination 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. Muia led in the modernisation 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 (CRBs).

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

Mr. Muia 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 2012. 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 U.S., 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 areas 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 Eisenhower 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 - Finalist (2013), 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 Graca Machel's New Faces/New Voices Pan African network that promotes womens' 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.

KENNEDY MUTISYA

Chief Finance Officer

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).

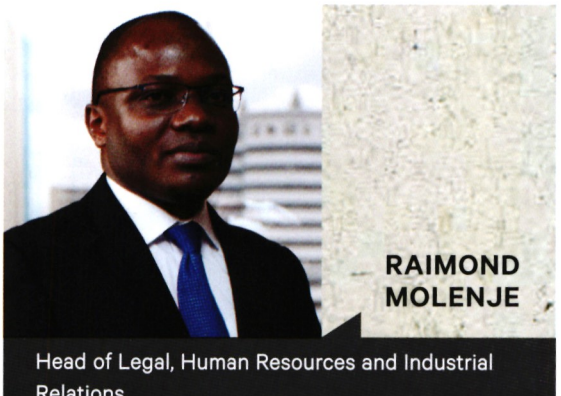
JARED OSORO

Director of Research and Policy, and the Director of the KBA Centre for Research on Financial Markets and Policy

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. Attesting 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 Bradford University (United Kingdom), and Development Evaluation Economics from World Bank and Carleton University (Canada).



RAIMOND MOLENJE

Head of Legal, Human Resources and Industrial Relations

Mr. Raimond Molenje joined Kenya Bankers Association in August 2018 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 (LL.B) degree from the University of Nairobi, and Postgraduate Diplomas in Law from the Kenya School of Law; and International Human Resource Management from Cambridge International College, UK.

NOTICE OF THE ANNUAL GENERAL MEETING

26th May 2020

THE CHIEF EXECUTIVE OFFICERS
OF KBA MEMBER BANKS

Dear Sirs/Mesdames,

NOTICE OF THE 58TH ANNUAL GENERAL MEETING TO BE HELD ON THURSDAY 25TH JUNE 2020 FROM 2:30PM (Virtually – Teams Link)

Notice is hereby given that the 58th Annual General Meeting of Kenya Bankers Association will be held on Thursday 25th June 2020, from 2:30p.m, 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. Habil Olaka
Chief Executive Officer

CHAIRMAN'S MESSAGE

CHAIRMAN'S MESSAGE

Joshua Oigara
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 (2016), 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 hoist Kenya's flag high above our regional peers in the area of digital finance. I am firmly convinced that this impressive trend-setting scorecard 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.

KBA Chairman Mr. Joshua Oigara (centre), Vice Chairman Mr. John Gachora (left) and CEO Dr. Habil Olaka during the 2018 Annual General Meeting.

L-R: Kenya Association of Manufactures Vice Chairman Mr. Mucai-Kunyiha, Gulf African Bank Managing Director and KBA Governing Council member Mr. Abdalla Abdulkhalik, Office of the President SME Advisor Ms. Anne Mutahi and Parliamentary Caucus on SDGs and Business Chair Hon. Gideon Ochanda in a panel discussion during the launch of the Association's 2019-2023 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 for the period 2019 to 2023, 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 inalienable 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 Stawi product that was developed by four of our member banks. Similarly, in conjunction with promoting industry efforts on enterprise development, KBA held the inaugural Inua Biashara 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 in 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. 108 billion in 2017 and KSh. 99 billion in 2018, including through corporation tax, VAT,

Mr. Oigara speaks during the inaugural KBA Inua Biashara Day SME showcase. The event was presided over by H.E President Uhuru Kenyatta and attended by Ministry of Agriculture, Livestock, Fisheries and Cooperatives Cabinet Secretary Hon. Peter Munya, Central Bank of Kenya Governor Dr. Patrick Njoroge, Head of Public Service Dr. Joseph Kinyua and US Ambassador to Kenya Mr. Kyle McCarter, 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 KBA's and member banks' knowledge base in engagements with diverse stakeholders from a fact-based perspective.

Similarly, 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 aid 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. The 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 umoja 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 this health crisis. As an industry, we have been educating our stakeholders through the Komesha Corona campaign and KBA 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.

Participants visit exhibition booths set up by banks during the Inua Biashara Day organised by the Association. Close to 30 banks displayed SME products at 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. 82 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 Gachora, 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. Habil Olaka, 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 Oigara

Chairman

CEO'S MESSAGE

Dr. Habil Olaka
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 law 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 upscaled 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 should 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 2019, total income generated by the KBA Group is KSh. 430.55 million in comparison to KSh. 378.74 million generated in the FY 2018. The increase in total income represents a 13.67 percent increase from the previous year and is attributed to an increase in subscription fees purposed to fund increased level of activities.

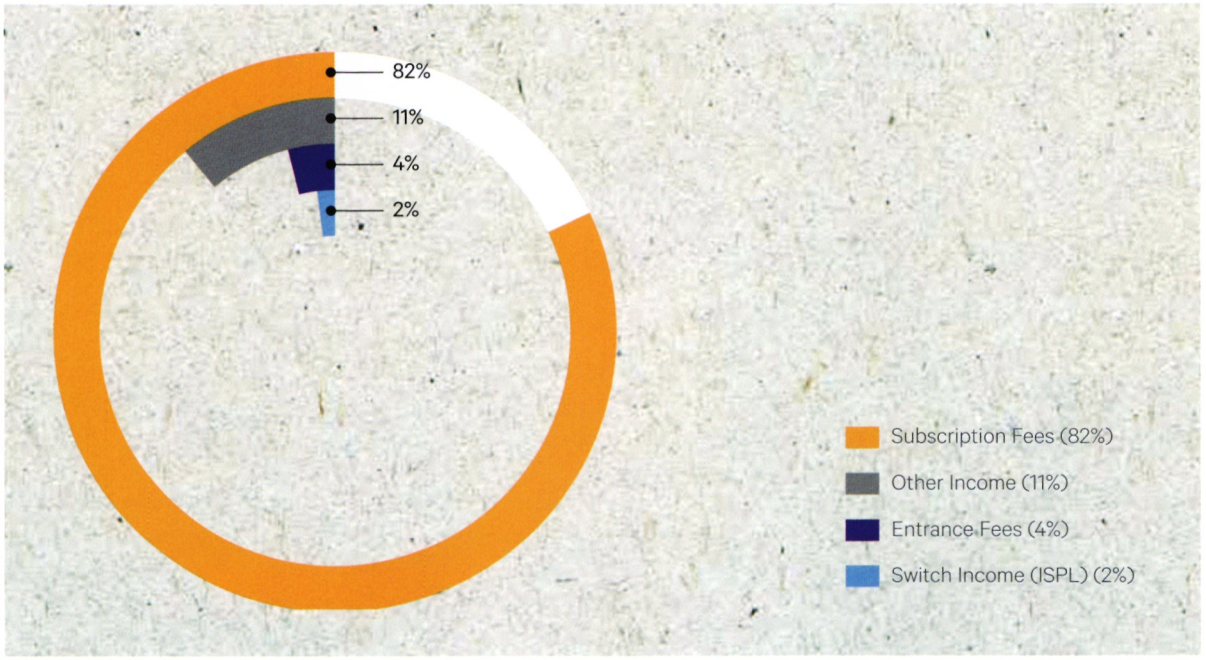
The Association has made progress to broaden its income streams by introducing new service offerings that are provided at a fee. The subsidiary, IPSL has made steady growth in increasing the transaction base for the users of its PesaLink platform (see IPSL report).

In 2019, 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 78.61 percent closing at KSh. 27.90 million in comparison to KSh. 15.62 million earned in the year 2018. 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. 224.69 million); Establishment (KSh. 143.08 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 2018.

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.

REVENUE DISTRIBUTION



CONSOLIDATED EXPENDITURE OF KBA AND IPSL

	31.12.19 KSh	31.12.18 KSh
Project Related Expenditure	224,692,431	169,191,362
Administrative Expenses	324,715,394	317,831,624
Establishment Expenses	143,080,571	136,298,094
Finance Expenses	64,740,719	75,659,118
Total Expenditure	**757,229,115**	**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 2019, Bancassurance (Draft) Regulations 2018, Unclaimed Financial Assets, Data Protection Bill 2019, Employment Act Bill 2019, Public Finance Management Bill 2019, 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;

L-R: ACI-Financial Markets Authority of Kenya Treasurer Mr. Edwin Tekere, outgoing Vice President Mr. Martin Runo, Chairperson Ms. Mutahe Karuoro, KBA CEO Dr. Habil Olaka and KBA Chief Finance Officer Mr. Kennedy Mutisya during the signing of an MOU aimed at promoting development in the financial markets.

L-R: KBA Research and Policy Director Mr. Jared Osoro; World Bank Financial Sector Consultant Ms. Leah Kiwara; FSD Kenya Head of Regulation Mr. Gitau Mburu; and KBA Head of Legal, HR and Industrial Relations Mr. Raimond Molenje after a consultative meeting on the collateral registry survey.

- 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 Excise Duty on bank charges; and the petition to allow payment and processing of Stamp Duty on the iTax 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 Kisii 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.

Dr. Olaka interacts with some of the Members of Parliament that attended the forum where the Banking Industry Shared Value Report was launched at Parliament buildings.

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 moveable collateral registry was established to facilitate access to credit from financial institutions by use of one's moveable 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 2019, there were 183,487 loans registered with assets worth KSh. 3.65 trillion 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 two-day Data and Product Development workshop that was attended by more than 30 senior bank managers.

Banking Insurance and Finance Union (Kenya) and KBA member banks' management during the signing of a Collective Bargaining Agreement (CBA) for the period between 1st March 2019 to 28th February 2020. The CBA provided for a 6 percent salary increase for the unionisable employees and improved benefits including medical care, house, leave, and shift work allowances.

L-R: Standard Chartered Bank Client Experience Head Ms. Diane Korir, KCB Chief Operating Officer Mr. Samuel Makome, Credit Bank CEO Ms. Betty Korir, Equity Bank Customer Care Manager Ms. Susan Wakonyo and KBA Communications and Public Affairs Director Ms. Nuru Mugambi during the presentation of certificates to banks recognised for customer service excellence in 2019. Equity Bank, Standard Chartered Bank and Credit emerged top overall, 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.

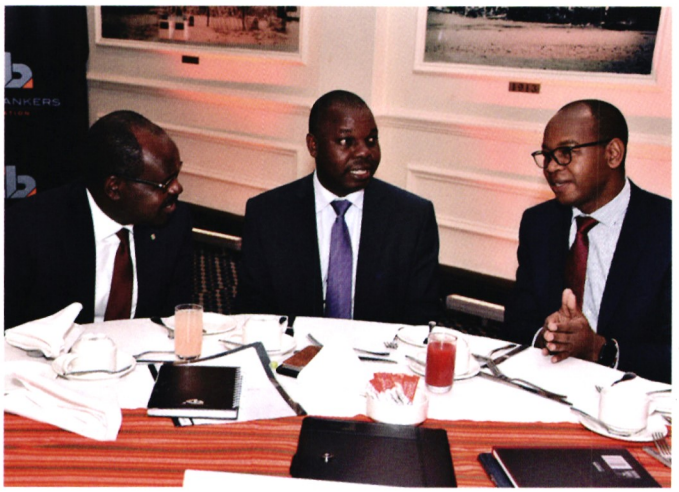
CAPACITY BUILDING

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 FSD-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. Habil Olaka
Chief Executive Officer

L-R: Kenya Parliamentary Caucus on SDGs and Business Chairman Hon. Gideon Ochanda, Gulf African Bank Managing Director and KBA Governing Council Member Mr. Abdalla Abdulkhalik, KBA Chairman Mr. Joshua Oigara, KBA CEO Dr. Habil Olaka, Kenya Association of Manufacturers Vice Chair Mr. Mucai Kunyiha and Office of the President SME Advisor Ms. Anne Mutahi during the launch of the Association's 2019-2023 Strategic Plan.

L-R: KBA Research Officer Mr. Josea Kiplang'at, Research and Policy Director Mr. Jared Osoro, Dr. Olaka, Stanbic Bank Regional Economist Mr. Jibran Qureishi and NCBA Head of Treasury Mr. Raphael Agung during the release of the State of the Banking Industry report.



Dr. Olaka, Hon. Ochanda and Mr. Oigara during the launch of the Association's Strategic Plan.

KBA Chief Finance Officer Mr. Kennedy Mutisya speaks during the Data Protection Act sensitization workshop that was organised by the Association for member banks.

L-R: Public Sector Accounting Standards Board of Kenya Chief Executive Officer Mr. Fred Riaga, KBA Member Services Officer Ms. Eva Miricho and KBA Accountant Mr. Arnold Wangila during 2019 FiRe awards. The Association emerged tops in the SME category.

H.E President Uhuru Kenyatta addresses participants during the Inaugural Inua Biashara Day.

Central Bank of Kenya Governor Dr. Patrick Njoroge and Deputy Governor Ms. Sheila M'Mbijjewe were among the guests who attended the Treasurers workshop organised by the Association.

L-R: KBA Communication and Public Affairs Director Ms. Nuru Mugambi, IPSL CEO Ms. Agnes Gathaiya, KBA Chairman Mr. Joshua Oigara, KBA CEO Dr. Habil Olaka, Research and Policy Director Mr. Jared Osoro and KCB Communication Manager Mr. Peter Mwaura during the research conference.

Kenya Revenue Authority Deputy Commissioner for the Policy and Tax Advisory Mr. Caxton Ngeywo speaks during the unveiling of the Total Tax Contribution of the Kenya Banking Sector report.

Mr. Osoro makes a presentation during the Moody's Analytics forum on Financial Markets.

The Payments Association of Kenya convened a forum to discuss ways of facilitating efficiency and innovation in payments services. The Association was represented by KBA Technical Services Director, Mr. Fidelis Muia, who observed that low prices driven by competition has increased convenience for customers.

REPORT ON INTEGRATED PAYMENTS SERVICES LIMITED (PESALINK)

REPORT ON INTEGRATED PAYMENTS SERVICES LIMITED (PESALINK)

DTB Managing Director and KBA Governing Council Member Ms. Nasim Devji when she visited the PesaLink booth during the Afro-Asia Fintech 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.

IPSL CEO Agnes Gathaiya was a panellist in a forum hosted by Metta on payment security. During the session, Ms. Gathaiya shared her insights on the role different players in the payments space play in the digital ecosystem; ways to detect and respond to fraud; and building customer trust with secure frictionless payments.

At the time of PesaLink's launch, there were less than 10 instant payment switches globally. Today there are over 48, with about 16 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 value 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 3.5 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

SERVICE AND PRODUCT INNOVATION

PesaLink continued to invest in our people and systems with product and technology innovations which saw the continued improvement 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 downloadable 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 80% 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's banking industry, we continue to put measures in place to ensure that our eco-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 78% 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 9 banks with branches is 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 67% 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

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

KBA Research and Policy Director Mr. Jared Osoro moderates a panel 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 2016 – came to an end with the repeal of the capping law in November 2019. 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 2019.

Mr. Joshua Oigara, DIB Kenya CEO Mr. Peter Makau and HF Group CEO Mr. Robert Kibaara during the 8th Annual Research Conference.

RESEARCH AND POLICY ENGAGEMENT

i. 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 the 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 seen 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 evaluated and understood. The interaction of these two segments – banks on the and financial technology players - is likely to shape the extent of market realignment and has both growth and market stability dimension.

KBA Chairman Mr. Oigara, bank CEOs, Dr. Olaka and Mr. Osoro with some of the researchers who presented papers at the 8th Annual Bankers Research Conference. Pictured include, Absa bank CEO Mr. Jeremy Awori, Co-Op bank credit director Mr. Anthony Mburu, and KBA Research officer Mr. Josea Kiplang'at

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

1. *Market Power and Intermediation Efficiency: Blind Spots and Empirical Clarity* **by Jared Osoro and Kiplang'at Josea – KBA Centre for Research on Financial Markets and Policy®.**
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 Wamalwa – Central Bank of Kenya.**
4. *The Effects of Fintech on Bank Market Power and Risk Taking Behaviour in Kenya* **by David Muriithi Ndwiga – Independent Researcher.**
5. *Is the Evolution of Fintech/ Digital Financial Services Complementary to Bank Performance in Kenya?* **by Roseline Misati, Anne Kamau, Leonard Kipyegon and Lewis Wandaka - 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 Ntwiga, University of Nairobi.**

ii. Publications

a. KBA Working Paper Series

Arising from the Conference are 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 academia.

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 21 – 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 3rd 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, published on tan international platform.

For more information about the Centre for Research on Policy and Financial Markets® please visit https://www.kba.co.ke/research-center

REPORT ON CREDIT INFORMATION SHARING

CIS Kenya
Towards a more open credit market

CIS-Kenya Chief Executive Officer Mr. Jared Getenga (left) during the Data Act sensitization workshop.

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 and, 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 8 out 8 points and the 'Credit Bureau Coverage of the Adult Population' rose to an impressive 36.4 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 19th 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: https://ciskenya.co.ke/draft-cis-national-policy/

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 2019.

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 Data Submission Templates that were issued by the Central Bank in June 2019. 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 2019, 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.cislearning.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.

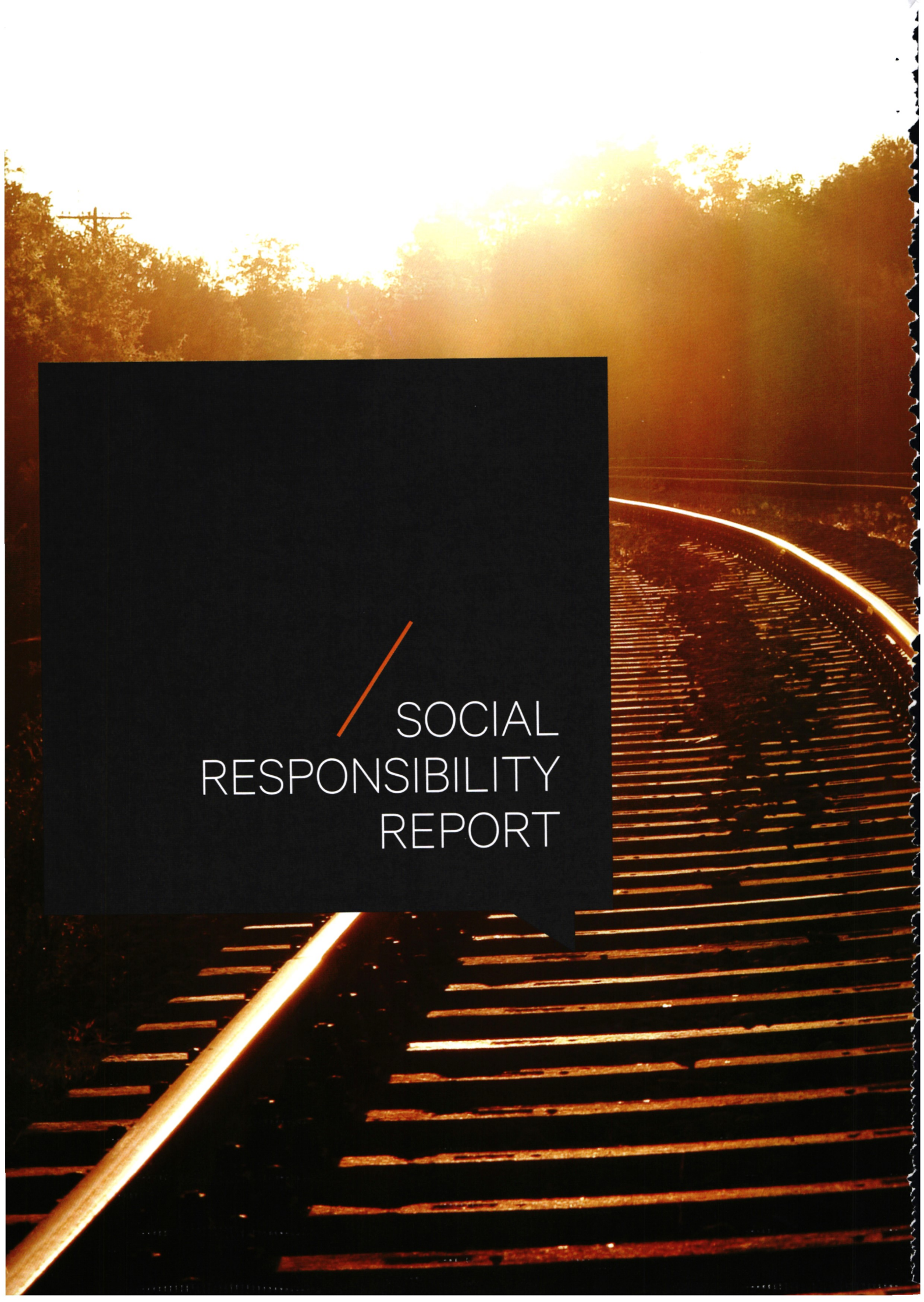
With the support of WWF Kenya, CIS Kenya developed a customer appraisal tool to assist MFIs in implementation and measurement of SF factors.

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 5th Africa CIS Conference to be held on 13th - 14th February 2020 in Nairobi and other CIS Kenya workshops going forward.


SOCIAL
RESPONSIBILITY
REPORT

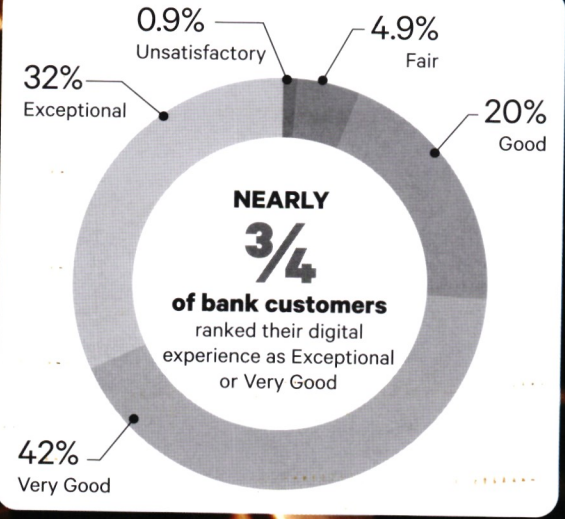
CSR HIGHLIGHTS

inuka ENTERPRISE PROGRAM

TRAINING REACH

1. Nairobi
2. Keiyo-Marakwet
3. Trans Nzoia
4. Bungoma
5. Uasin Gishu
6. Kakamega
7. Busia
8. Nandi
9. Siaya
10. Vihiga
11. Nyandarua
12. Tharaka
13. Kericho
14. Kisumu
15. Nyeri
16. Kirinyaga
17. Embu
18. Homa Bay
19. Bomet
20. Nyamira
21. Kisii
22. Migori
23. Kiambu
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, financiers 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 (CIS) 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 2019.

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 2019, 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.

L-R -Airtel Kenya Director Mr. Vincent Wakaba, KBA CEO Dr. Habil Olaka, Central Bank Governor Dr. Patrick Njoroge, Consumer Grassroots Association Executive Director Ms. Alice Kemunto, Retrak-Kenya CEO Ms. Wambui Mbarire, VISA Country Manager for Kenya Victor Ndlovu, and MasterCard Business Head for East Africa Mr. Adam Jones during 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 Mathare, Huruma and Kariobangi Slum in Nairobi, as well as, Kisauni 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 Kisauni, 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), PesaLink and Consumer Grassroots 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, Githurahi 45, Ruiru, Juja, Thika, Kenol, Sabasaba, Maragua, Murang'a, Sagana, Kagio 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.

The first group of Inuka SME programme participants was issued with completion certificates in an event held in Nairobi in 2019.

ENTERPRISE PROGRAM
inuka
2,844
MSMEs
TRAINED

INUKA ENTERPRISE PROGRAM – A PATHWAY TO BUSINESS EXCELLENCE

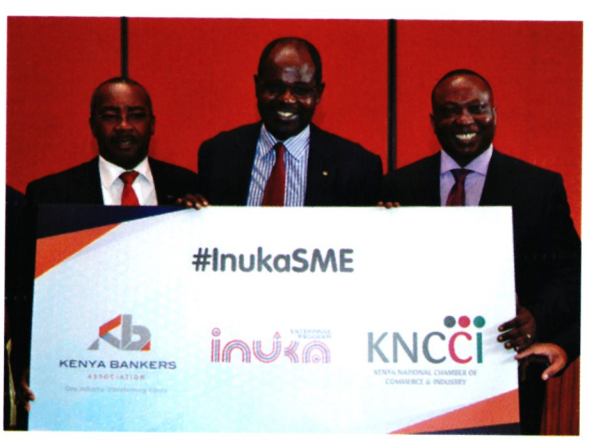
Micro, Small, and Medium-sized Enterprises (MSMEs) are the bedrock of Kenya's economy. About 80 percent of jobs in Kenya are created by MSMEs. Despite their vital role in economic development, many enterprises continue to grapple with access to affordable credit and markets.

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 2019 included bank customers, bank employees and KNCCI members. To date, the banks that have supported the program include DTB Kenya, Gulf African Bank, Prime Bank, Equity Bank, Credit Bank and National Bank.

The year also accorded the Association an opportunity to develop a Marketplace feature on the Inuka Enterprise Program e-learning platform. Through the Marketplace page, Inuka learners 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 2019, the National Treasury appointed a KBA representative to be 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.



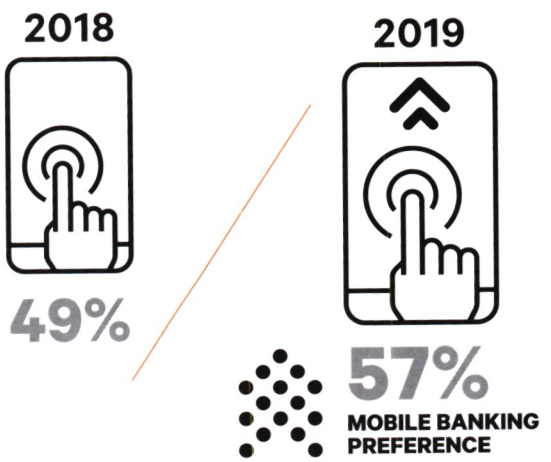
Kenya National Chamber of Commerce and Industry President Mr. Richard Ngatia (right), Dr. Olaka and KNCCI Board Chairman Mr. James Mureu during the signing of an MOU for cooperation in enterprise development.

A trainer takes learners through a face-to-face training session of the Inuka Enterprise programme.

L-R: Nedbank Regional Representative Mr. Jap Van Luijk, Metropol Senior Credit Manager Mr. David Mburu, entrepreneur Mr. Wahiga Muturi, KNCCI Trade Research and Policy Manager Mr. Onesmus Masinde and Ms. Roselyne Njino, KBA Senior Communications Officer discuss strategies of promoting business growth.

ENHANCING A CUSTOMER CENTRIC CULTURE IN THE INDUSTRY

Since 2018, KBA 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 centrism. In 2019, KBA 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 "Exceptional" 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. KBA 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, KBA 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.

LEADING WOMEN IN BANKING AND FINANCE INITIATIVE

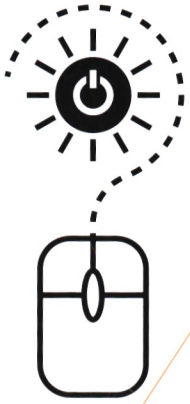
The world over, companies are gaining an appreciation of the immense opportunity a diverse leadership set-up has to offer. They are taking into consideration their ability to tap into new and innovative viewpoints to spur creativity and profits as a result of promoting gender diversity in leadership. 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, c-suite 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 Communication and Public Affairs Ms. Nuru Mugambi makes remarks during a Leading Women in Banking and Finance Initiative forum.

L-R: Credit Bank Chief Executive Officer Ms. Betty Korir, Guaranty Trust Bank CEO Ms. Ibukun Odegbaike and DTB Kenya Managing Director Ms. Nasim Devji during a forum to held to bid Ms. Odegbaike farewell as she returned to GT Head Quarters.

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:



89%

OF THE OVER 28 THOUSAND BANKS' EMPLOYEES ENROLLED & COMPLETED THE SFI E-LEARNING TRAINING

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 DEG (German Investment 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 2019, KBA continued to build the capacity of bank employees through the initiative which resulted in aiding the enrolment of 28,523 staff onto the e-learning platform. In total, 25,026 had completed the training as at December 2019. A new module on green bonds was also developed in 2019 by the Association with the support of the Green Bonds Program- Kenya partners. 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	67%	54%
African Banking Corp. Ltd	94%	46%
Bank of Africa	100%	99%
Bank of Baroda (K) Ltd	53%	43%
Bank of India	5%	2%
Citibank	58%	27%
Co-Operative Bank of Kenya Ltd	56%	40%
Commercial Bank of Africa Ltd	100%	98%
Consolidated Bank of Kenya Ltd	88%	81%
Credit Bank Ltd	85%	65%
Development Bank (K) Ltd	12%	7%
DTB Kenya Ltd	100%	99%
DIB Bank Kenya	83%	74%
Ecobank Kenya Limited	100%	94%
Equity Bank Ltd	73%	69%
Family Bank Ltd	90%	87%
Faulu Microfinance Bank	80%	66%
Fidelity Commercial Bank Ltd	3%	2%
First Community Bank Ltd	68%	61%
Guaranty Trust Bank Kenya Ltd	97%	95%
Guardian Bank Ltd	42%	32%
Gulf African Bank Ltd	100%	87%

NAME OF BANK	Percentage Registered	Percentage Completed
Habib Bank A G Zurich	94%	69%
Housing Finance Company of Kenya Ltd	100%	87%
I & M Bank Ltd	100%	96%
Jamii Bora Bank Ltd	100%	95%
KCB Ltd	100%	84%
Kenya Women Microfinance Bank	6%	5%
Mayfair Bank	0%	0%
Middle East Bank (K) Ltd	89%	77%
National Bank of Kenya Ltd	69%	52%
NIC Bank Ltd	100%	98%
M-Oriental Commercial Bank Limited	95%	90%
Paramount Universal Bank Ltd	102%	99%
Postbank	8%	4%
Prime Bank Ltd	44%	35%
Rafiki Micro Finance	1%	0%
SBM	18%	7%
Sidian Bank	100%	92%
Spire Bank Limited	96%	84%
Stanbic Bank Kenya	86%	67%
Standard Chartered Bank (K) Ltd	100%	100%
Trans-National Bank Ltd	10%	3%
UBA Kenya Bank Ltd	25%	21%
Victoria Commercial bank Ltd	105%	73%

CATALYST AWARDS

To recognize the strides made by the Banking Industry in implementing the SFI-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 Patrick 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 constituted of

1 Ms Joyce Njogu - Head of KAM Consulting, Kenya Association of Manufacturers
2 Eng Dan Ndenga - Co-founder of Miltech (Returning judge)
3 Mr Sandy Okoth – Regional Sustainable Finance Expert, WWF
4 Dr Peter Muriu – 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

CATEGORY 1	BEST IN SUSTAINABLE FINANCE
Position	**Bank**
1st Place	Standard Chartered Bank (K) Ltd
2nd Place	Co-Operative Bank of Kenya Ltd
3rd Place	Equity Bank Group

CATEGORY 2 A	CLIENT CASE STUDY - Financing Small and Medium Enterprises
Position	**Bank**
1st Place	Co-Operative Bank of Kenya Ltd
2nd Place	Kenya Women Microfinance Bank
3rd Place	Equity Bank Group

CATEGORY 2 B	CLIENT CASE STUDY - Financing Commercial Client
Position	**Bank**
1st Place	Equity Bank Group
2nd Place	Commercial Bank of Africa Ltd
3rd Place	Co-Operative Bank of Kenya Ltd

CATEGORY 2 C	BANK CASE STUDY - Operations
Position	**Bank**
1st Place	Standard Chartered Bank (K) Ltd
2nd Place	Co-Operative Bank of Kenya Ltd
3rd Place	Equity Bank Group

CATEGORY 2 D	BANK CASE STUDY - Promoting Gender Inclusivity
Position	**Bank**
1st Place	Kenya Women Microfinance Bank
2nd Place	Equity Bank Group
3rd Place	Standard Chartered Bank (K) Ltd

CATEGORY 2 E	FINANCING THE INFORMAL SECTOR
Position	**Bank**
1st Place	Equity Bank Group
2nd Place	Co-Operative Bank of Kenya Ltd
3rd Place	National Bank of Kenya Ltd

Central Bank of Kenya Governor Dr. Patrick Njoroge is joined by KBA CEO Dr. Habil Olaka in presenting Co-Operative Bank an award during the SFI Catalyst Awards. The bank was recognised as the overall winner and best in the SME finance category.

Equity Bank was recognised as the best in Financing Commercial Clients and best in financing the informal sector.

Kenya Women Microfinance Bank (KWFT) Managing Director Mr. Mwangi Githaiga along with the bank's management team receive an award for the most improved bank in Sustainable Finance and the best in promoting gender inclusivity.

Capital Markets Authority Chief Executive Officer Mr. Paul Muthaura (right) hands over an award to SCB chief operating officer Peter Gitau. The bank won best in sustainable finance and operations.

FMO - Dutch Development Bank, Senior Sustainable Associate Ms. Lonneke Noteboom presents an award to representatives NCBA Bank during the 2019 SFI Catalyst Awards.

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

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

MOST IMPROVED BANK
Kenya Women Microfinance Bank

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

KCB Chief Operating Officer Mr. Samuel Makome presents the 2019 Shared Value Report to Members of the Parliamentary Caucus on SDGs. The report showed that the banking industry paid tax revenue to the National Government in excess of KSh. 73 Billion and has been a key stakeholder in the realization of the SDGs.

Parliamentary SDG Caucus Chairman Hon. Dr. Gideon Ochanda (left), Senate Speaker Hon. Kenneth Lusaka and KCB Chief Operating Officer, Mr. Samuel Makome during the launch of the Banking Industry Shared Value Report at Parliament grounds.

The KBA Y-Bizna beneficiary Mr. Kevin Uduny (centre) interacts with H.E President Uhuru Kenyatta and Dr. Njoroge during the Inua Biashara Day ceremony.

GREEN BOND PROGRAM – KENYA

To actualize the intention of the SFI 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 FMO. 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. 4.3bn to finance the construction of green and environmentally friendly accommodation for 5,000 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 ratified the commencement of voluntary reporting on the SFI Principles. Additionally, Sustainable Finance champions from KBA member banks ratified the commencement of voluntary reporting on the SFI Guiding Principles.

Ministry of Agriculture, Livestock, Fisheries and Cooperatives Cabinet Secretary Hon. Peter Munya speaks during the Inua Biashara 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.

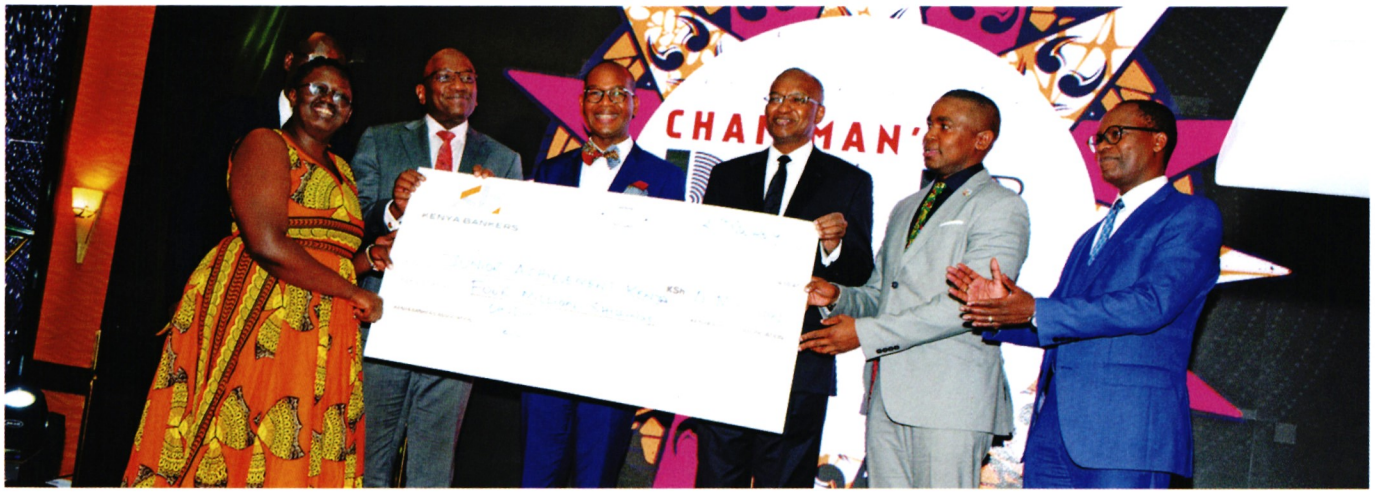
Equity Bank Head of Customer Service Ms. Susan Wakonyo receives an award during the Association's Customer Service Workshop. The bank was ranked best overall in customer service and best in the Tier I category.

Bank of Africa team led by Mr. Patrick Karari receive the bank's recognition as the best in customer service in the Tier II category.

Credit Bank Chief Executive Officer Ms. Betty Korir (right) receives the bank's recognition as the 3rd overall and best in the Tier III category.

Absa Bank Marketing Director Ms. Caroline Ndungu and Hon. Ochanda at the KBA booth during the unveiling of the Banking Industry Shared Value Report at Parliament grounds.

Stakeholders during the commemoration of the first corporate green bond in East and Central Africa that was issued by Acorn and structured by Stanbic Bank with backing by GuarantCo and Helios.

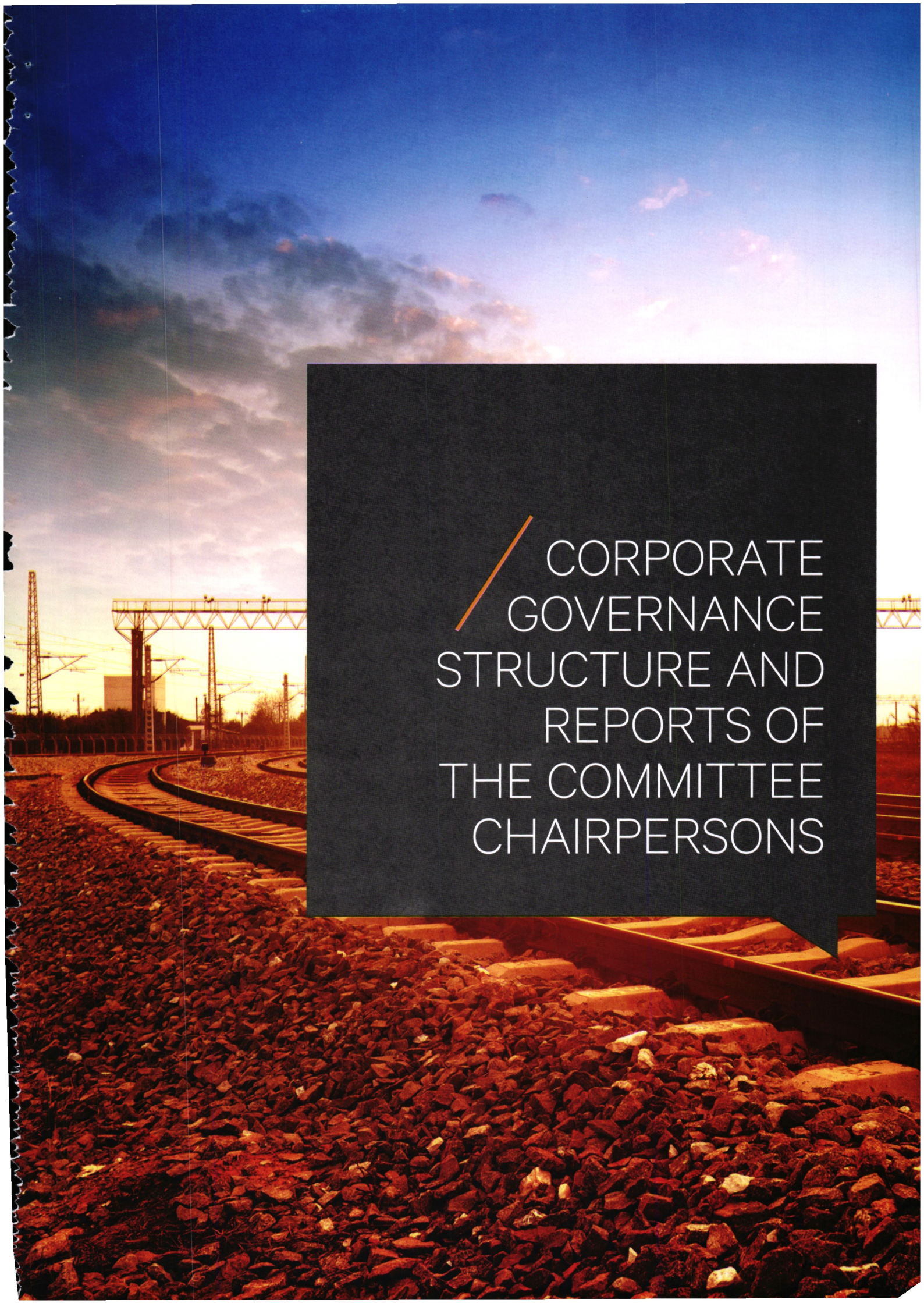


Junior Achievement Kenya receive a dummy cheque for KSh. 4 million shillings intended to set-up the "Her Biz-Up" girls' entrepreneurship programme.

Standard Chartered Bank Head of Client Experience Ms. Diane Korir (3rd from right) and the customer experience team receive the bank's recognition as the 2nd best overall winner in the 2018 Customer Service Survey.

Kenya National Chamber of Commerce and Industry President Mr. Richard Ngatia, DTB Manging Director Nasim Devji and KBA Vice Chairman Mr. John Gachora took part in a panel discussion during the Inua Biashara Day .

L-R: Family Bank Managing Director Ms. Rebecca Mbithi, Dr. Olaka, Interswitch CEO Romana Rajput, and James Murigu Metropol Corp. Executive Director during the 2019 Chairman's Ball.



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 realizing its objects and purposes

In addition to the powers expressly conferred by the Constitution, the Governing Council may exercise all such powers and do 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 duties 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

5 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
6 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
7 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
8 To appoint Bankers, Auditors, Advocates, Accountants, and other professional advisers to the Association
9 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
10 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
11 To call a General Meeting at any time should it think necessary to do so
12 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 appointment

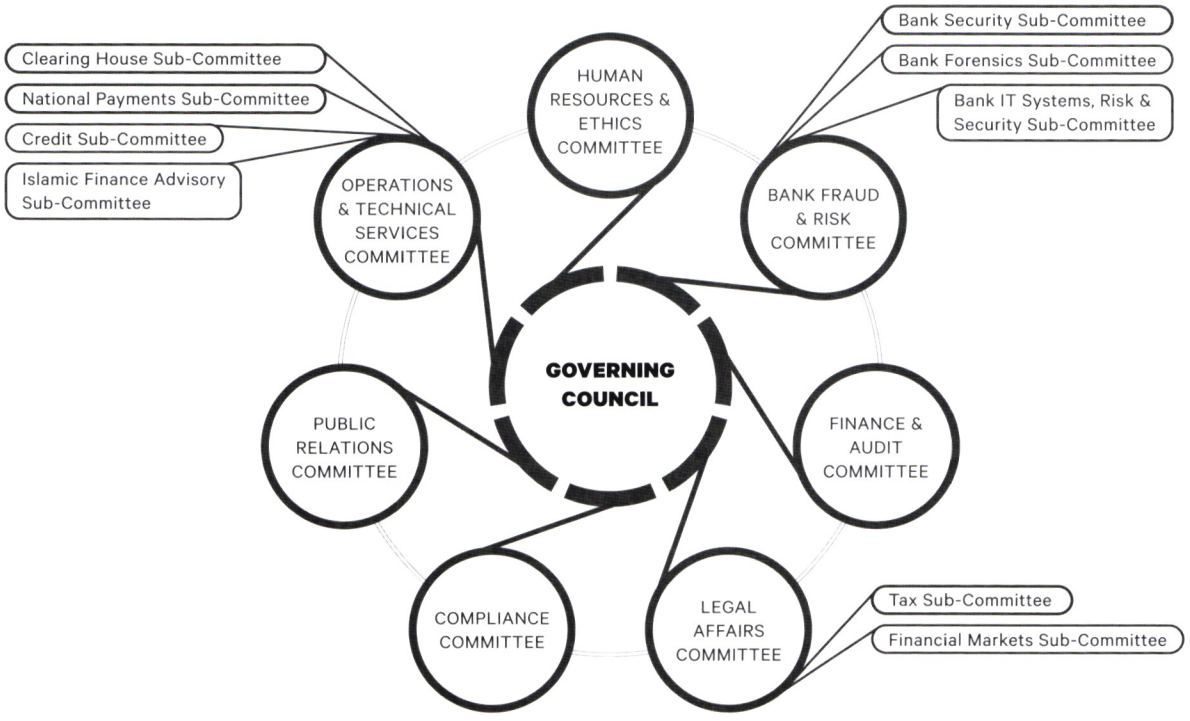
At a minimum, the Governing Council consists of the following
A Six members representing the large banks
B Four members representing medium size banks
C Two members representing the small banks

The Chairman and the Vice Chairman of the Association shall come from the 12 members in A, B and C, above

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: 16

Interns: 01

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 KBA Secretariat 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	875%
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%
DTB Kenya	7 of 8	875%
Middle East Bank	6 of 8	75%
Equity Bank	5 of 8	62 5%
Family Bank	3 of 8	375%
GT Bank	2 of 8	25%
Standard Chartered Bank	8 of 8	100%
DIB Bank Kenya	6 of 8	75%
Absa Bank	7 of 8	875%
Citibank	5 of 8	62 5%
SBM Bank	3 of 3	100%

NOTE Governing Council and KBA Committee members serve on a voluntary basis

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 participate on a voluntary basis The following are the reports

NAME OF COMMITTEE	FINANCE & AUDIT COMMITTEE
Chairperson	Gladys Warirah - Standard Chartered Bank
Vice Chairperson	Mary Gitahi - Middle East Bank
Secretary	Kennedy Mutisya - Kenya Bankers Association
Committee Achievements in 2019	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 Unclaimed Financial Assets Act 3 Provided oversight to Tax sub-committee, KBA 2020 budget review and approval and review of KBA 2019 management accounts and 2018 annual financial statements
Committee Goals for 2020	• 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

FINANCE & AUDIT ATTENDANCE RECORD

COMMITTEE MEMBERS	Number of Meetings Jan-Dec 2019	Percentage
Standard Chartered Bank	4 of 4	100%
Stanbic Bank	1 of 2	50%
I & M Bank	4 of 4	100%
Co-Operative Bank	1 of 2	50%
DTB Kenya	4 of 4	100%
Middle East Bank	4 of 4	100%
Bank of Africa	2 of 2	100%
Spire Bank	1 of 2	50%
NCBA Bank	1 of 2	50%
Absa Bank	1 of 2	50%
ABC 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.

NAME OF COMMITTEE	TAX SUB-COMMITTEE
Chairperson	Betty Chuma - Stanbic Bank
Vice Chairperson	Peter Mungai - Absa Bank
Secretary	Kennedy Mutisya - Kenya Bankers Association
Committee Achievements in 2019	1 Successful launch of the PwC/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 • Definition of return on loan or exclusion from excise duty on interest related fees, • Exemption from Excise duty on 'advisory fees' of banks • Tax on distribution out of untaxed profits (Infrastructure Bonds) • Rebate mechanism for services • Excise duty on card 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 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 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 PIN requirement on application KBA has made the application for exemption on behalf of the industry 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 KRA appealed the HC judgement which was upheld by the Court of Appeal 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
Committee Goals for 2020	• Enhance relationship with Kenya Revenue Authority through regular consultative engagements with KRA relationship team responsible for the banking sector Organise in the first quarter a KBA Covering Council (CEOs) meeting/ courtesy call with Commissioner General or Large Taxpayers Office Commissioner to highlight industrywide tax concerns

NAME OF COMMITTEE	TAX SUB-COMMITTEE *(CONTD.)*
Committee Goals for 2020	• Hold 2020 PwC/KBA TTC 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/Act 2020 to sensitise 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/Act 2020 submissions (already submitted) for industry proposals to be considered for inclusion

TAX ATTENDANCE RECORD

COMMITTEE MEMBERS	Number of Meetings Jan-Dec 2019	Percentage
KCB Bank	2 of 4	50%
Absa Bank	3 of 4	75%
Standard Chartered Bank	3 of 4	75%
Bank of Africa Kenya	2 of 4	50%
ABC 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%
SBM Bank	2 of 4	50%
Stanbic Bank	4 of 4	100%
DTB Kenya	4 of 4	100%
Bank of Baroda	1 of 4	25%
Eco 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 2019

NAME OF COMMITTEE	FINANCIAL MARKETS SUB-COMMITTEE
Chairperson	Philip Wambua - African Banking Corporation
Vice Chairperson	Anthony Kirui - Absa Bank
Secretary	Mutahe Karuoro - ACI Chair - Co-Operative Bank of Kenya
Committee Achievements in 2019	The FMC which is a representative of the Kenya Banks Treasurers Forum (KBTF) spent a greater part of 2019 focused on the following key objectives • 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 In this regard we undertook the following activities in 2019 1. **Training:** The Treasurers Forum and ACI Kenya conducted the following training in 2019 2. **ACI Dealing and Operations Certificate:** Peter Skeritt & Associates This is an annual course which is ideal for upcoming 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 practical application of good market practices included in the BIS FX Global code 6. **Other key activities held are:** On 3rd October 2019, Treasurers Forum held a Breakfast meeting together with ACI leaders at Sarova Panafric hotel to review the activities of the year among them i Creation of a strong industry Association ii Training iii Creation of OTC exchange On 5th December 2019 the FMC together with the Treasurers organized a capacity building workshop conducted by Messrs Kevin Piccoli, Deputy Director of the Office of International Affairs, US Commodity, and Future Trading Commissions in New York and Prof Ronald H Filler a Member of the Board of Directors and the Executive Committee of the National Futures Association The objective of the workshop was to benchmark with various jurisdictions on how SRO's operate In attendance were CBK, Capital Markets Authority, FSD Africa, US Treasury, National Treasury, ACI Kenya leadership and FMC Going forward and as guided by the CBK, FMC will focus on creation of a strong all-inclusive industry association with guidelines on proper roles, governance and memberships 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

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%
Absa Bank	2 of 5	40%
SBM Bank	4 of 5	80%
Bank of Africa	2 of 5	40%
Credit Bank	2 of 5	40%
UBA Bank	3 of 5	60%

The Financial Markets Sub-Committee held five 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 Muia - Kenya Bankers Association
Committee Achievements in 2019	• Demonetization - 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 fleets 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 centres - The Kisii cash centre was approved and refurbishment has begun • Payments system management body (PSMB) formation - 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/ debit card project (KADI) - The sub-committee together with the Kenya debit and credit card association has proposed to fast track the project KADI proposals aimed at increasing the adoption of Payment Card transactions in Kenya • PesaLink - E-citizen integration live with 2 banks and 7 completed on UAT - Sportpesa, Stima Sacco, Interswitch, Pata power and I-Pay (Jumuia) integrated and live on PesaLink - All Banks complied with the Deloitte recommendations on securing the PesaLink system

NAME OF COMMITTEE	NATIONAL PAYMENTS SUB-COMMITTEE *(CONTD)*
Committee Achievements in 2019	• 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. - 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	• Cash Centres - Monitor the Kisii cash centre • Payments system management body (PSMB) and Payment Association of Kenya (PAK) - Monitor activities of the PAK and ensure all Banks become members therein • PesaLink Phase II - Move towards to Person to business transactions - Increase the merchant integrations - Move direct debits to PesaLink • Look at block chain technology to enhance - 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 ToR's for the committee given the formation of PAK, the swift user group led by CBK

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%
NIC 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%
Absa Bank	2 of 3	66%
KCB Bank	3 of 3	100%

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

NAME OF COMMITTEE	BANK FRAUD & RISKS COMMITTEE
Chairperson	Gerald Munyiri - Equity Bank Ltd
Vice Chairperson	Sichana Jalala - NCBA Bank
Secretary	KBA Secretariat
Committee Achievements in 2019	• **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 tot eh 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

NAME OF COMMITTEE	BANK FRAUD & RISKS COMMITTEE *(CONTD.)*
Committee Achievements in 2019	• **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 a Workshops on Cyber Security and IT Security in partnership with Serianu, 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 Chonjo This campaign involves 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 2019	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%
DTB Kenya	2 of 3	66%
Family Bank	1 of 3	33%
Standard Chartered Bank	2 of 3	66%
I & 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%
Absa Bank	2 of 3	100%

The Bank Fraud & Risk Committee met three times in 2019

NAME OF COMMITTEE	BANK IT SYSTEM RISKS & SECURITY SUB-COMMITTEE
Chairperson	Kabuthia Riunge - NCBA Bank
Vice Chairperson	Vacant
Secretary	Wilson Maina - Gulf African Bank
Committee Achievements in 2019	• Provided input and comments to Parliament on the Senate and National Assembly regarding the provisions of the Data Protection Bill 2019 • 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, MNOs and Practitioners in the Industry • 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%
Absa Bank	4 of 9	44%
I & M Bank	6 of 9	67%
Bank of Baroda	1 of 9	22%
Commercial Bank of Africa	3 of 9	33%
Bank of Africa	4 of 9	44%
DTB Kenya	5 of 9	45%
NIC Bank	5 of 9	55%
Co-Operative Bank	5 of 9	55%
Gulf African Bank	7 of 9	77%
Equity Bank	1 of 9	11%
M-Oriental Bank	7 of 9	77%
Citibank	4 of 9	44%
Spire Bank	2 of 9	11%

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

NAME OF COMMITTEE	PUBLIC RELATIONS COMMITTEE
Chairperson	Willis Angira - Stanbic Bank
Vice Chairperson	Wambui Kaguongo - ABC Bank
Secretary	Nuru Mugambi - Kenya Bankers Association
Committee Achievements in 2019	• 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 600 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 19 counties • Hosted the Inaugural Inua Biashara Day including Presidential Launch of Stawi, a collaboration of KCB, Co-Op, DTB and NCBA which seeks to promote access to finance for micro and small businesses • Successful Kaa Chonjo Mobile, Card and Online banking safety awareness campaign, including partnership with PesaLink, Visa, MasterCard, Retail Association of Kenya and Consumer Grassroots Association • Successful Customer Service Week including 2019 Customer Service Survey which attracted more than 11,700 responses from consumers • Successful Catalyst Awards event, attracting recognition and publicity of the winning banks
Committee Goals for 2020	• 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

PUBLIC RELATIONS ATTENDANCE RECORD

COMMITTEE MEMBERS	Number of Meetings Jan-Dec 2019	Percentage
DTB Kenya	3 of 3	100%
Equity Bank	1of 3	33%
ABC Bank	2 of 3	67%
I & M Bank	3 of 3	100%
Sidian 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%
Absa Bank	1 of 1	100%
SBM 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	**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 **Introduction of DFCC Interim Settlement Session** The Sub-committee successfully introduced the Interim session for Domestic Foreign Cheque Clearing, which runs at 0730Hrs With this, banks were able to save 125 Hours daily resulting to improved operational efficiencies across the industry **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 abide by to their responsibilities as collecting or paying banks

NAME OF COMMITTEE	CLEARING HOUSE SUB-COMMITTEE *(CONTD)*
Committee Achievements in 2019	**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 **Industry Fraud Workshop** The Clearing House Sub-committee successfully organized 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 **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 **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
Committee Goals for 2020	• 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

CLEARING HOUSE ATTENDANCE RECORD

COMMITTEE MEMBERS	Number of Meetings Jan-Dec 2019	Percentage
KCB Bank	6 of 11	54.5 %
Standard Chartered Bank	8 of 11	72.7 %
Absa Bank	8 of 11	72.7 %
I & M Bank	8 of 11	72.7 %
Co-Operative Bank	11 of 11	100 %
Citibank	9 of 11	81.8 %
National Bank of Kenya	9 of 11	81.8 %
ABC Bank	6 of 11	54.5 %
NCBA Bank	9 of 11	54.5 %
Equity Bank	9 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	8 of 11	72.7 %
Stanbic Bank	2 of 11	18.1 %
SBM Bank	1 of 11	9 %
Ecobank	1 of 11	9 %

The Automated Clearing House sub-committee, in collaboration with KBA secretariat and The Central Bank of Kenya, had a very efficacious year coupled with the enactment of major industry projects and smooth operations at the Clearing House all year round The sub-committee succeeded in having eleven sittings during the year Heartfelt appreciation to the members of this subcommittee for the gallant service and prodigious commitment towards the achievement of its goals for 2019

NAME OF COMMITTEE	CREDIT SUB-COMMITTEE
Chairperson	Christine Mwangi-Marandu - Absa Bank
Vice Chairperson	Boniface Kioko - ABC Bank
Secretary	Jared Osoro - Kenya Bankers Association
Sub-Committee Priorities	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	1 The sub-committee spearhead 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 Inuka Programme that targets the MSMEs and embedding sustainable principles in credit provision
Committee Goals for 2020	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

CREDIT ATTENDANCE RECORD

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%
ABC Bank	3 of 3	100%
NIC Bank	2 of 3	66%
Equity Bank	2 of 3	66%
Standard 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

NAME OF COMMITTEE	OPERATIONS & TECHNICAL COMMITTEE
Chairperson	Suraj Shah - DTB Kenya
Vice Chairperson	Abubakar Ali - DIB Bank Kenya
Secretary	KBA Secretariat
	This Committee of the KBA oversees Technical aspects of the Industry and has three Sub-committees reporting to It a National Payments Systems (NPS) Sub-Committee b Automated Clearing House (ACH) Sub-Committee c Credit Sub-Committee
Committee Achievements in 2019	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 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 Subsequently the Committee co-ordinated the repatriation of old currency to the Central Bank of Kenya within the deadlines stipulated Through its Sub-Committees, these are the major achievements in the year 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

OPERATIONS & TECHNICAL ATTENDANCE RECORD

COMMITTEE MEMBERS	Number of Meetings Jan-Dec 2019	Percentage
DTB Kenya	3 of 3	100%
DIB Bank Kenya	3 of 3	100%
Guardian Bank	2 of 3	66%
ABC Bank	2 of 3	66%
NIC Bank	3 of 3	100%
Standard Chartered Bank	3 of 3	100%
KCB Bank	3 of 3	100%
I & 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%
Absa 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 2019

NAME OF COMMITTEE	LEGAL AFFAIRS COMMITTEE
Chairperson	June Opiyo - Stanbic Bank
Vice Chairperson	Steve Atenya - NCBA Bank
Secretary	Raimond Molenje - Kenya Bankers Association
Committee Priorities	1 To provide a forum for member banks to discuss non-competitive issues relating to the management of legal risk in the banking industry 2 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 3 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 4 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 5 To undertake any other assignment as may be directed by the Governing Council

NAME OF COMMITTEE	LEGAL AFFAIRS COMMITTEE *(CONTD.)*

Committee Achievements in 2019

The Committee was able to achieve the following

1. **Stakeholder engagement**
   - **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**
   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:
   - 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 2019 - 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**
   Provided direction on the following court cases court cases
   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 participation as interested parties in the Boniface 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 KBRR in the implementation of the interest rate capping law
   h Interchange fees-card business
   i Ongoing definition of return on Loan case

LEGAL AFFAIRS ATTENDANCE RECORD

COMMITTEE MEMBERS	Number of Meetings Jan-Dec 2019	Percentage
Stanbic Bank	9 of 10	90%
Standard Chartered Bank	1 of 10	10%
Absa 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%
Absa 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 2019.

NAME OF COMMITTEE	COMPLIANCE COMMITTEE
Chairperson	Laban Omangi - Absa Bank
Vice Chairperson	Daisy Namayi - DIB Bank Kenya
Secretary	Kennedy Mutisya - Kenya Bankers Association
Committee Achievements in 2019	1. 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 impacting the industry. 2. 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	1. To build and entrench stakeholder engagement with the key stakeholders particularly CBK, FRC, CMA, NSE, UFAA, RBA and other relevant compliance stakeholders in relation to the development of policy and legislation on compliance issues and restore trust and public confidence. 2. Support the industry to enhance the technical and professional competence for compliance officers through targeted trainings, workshops and seminars. Some of the earmarked trainings will focus on Financial crime, Data protection law and on Anti money laundering 3. Establish a compliance profession Association for Kenya to promote global best practices and support professional development for members.

COMPLIANCE ATTENDANCE RECORD

COMMITTEE MEMBERS	Number of Meetings Jan-Dec 2019	Percentage
Standard Chartered Bank	6 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	8 of 9	89%
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	8 of 9	89%
Citibank	6 of 9	66%
HFC Bank	2 of 2	100%
Equity Bank	5 of 9	55%
Bank of Baroda	8 of 9	89%
Sidian Bank	8 of 9	89%

The Compliance Sub-Committee met twice in 2019.

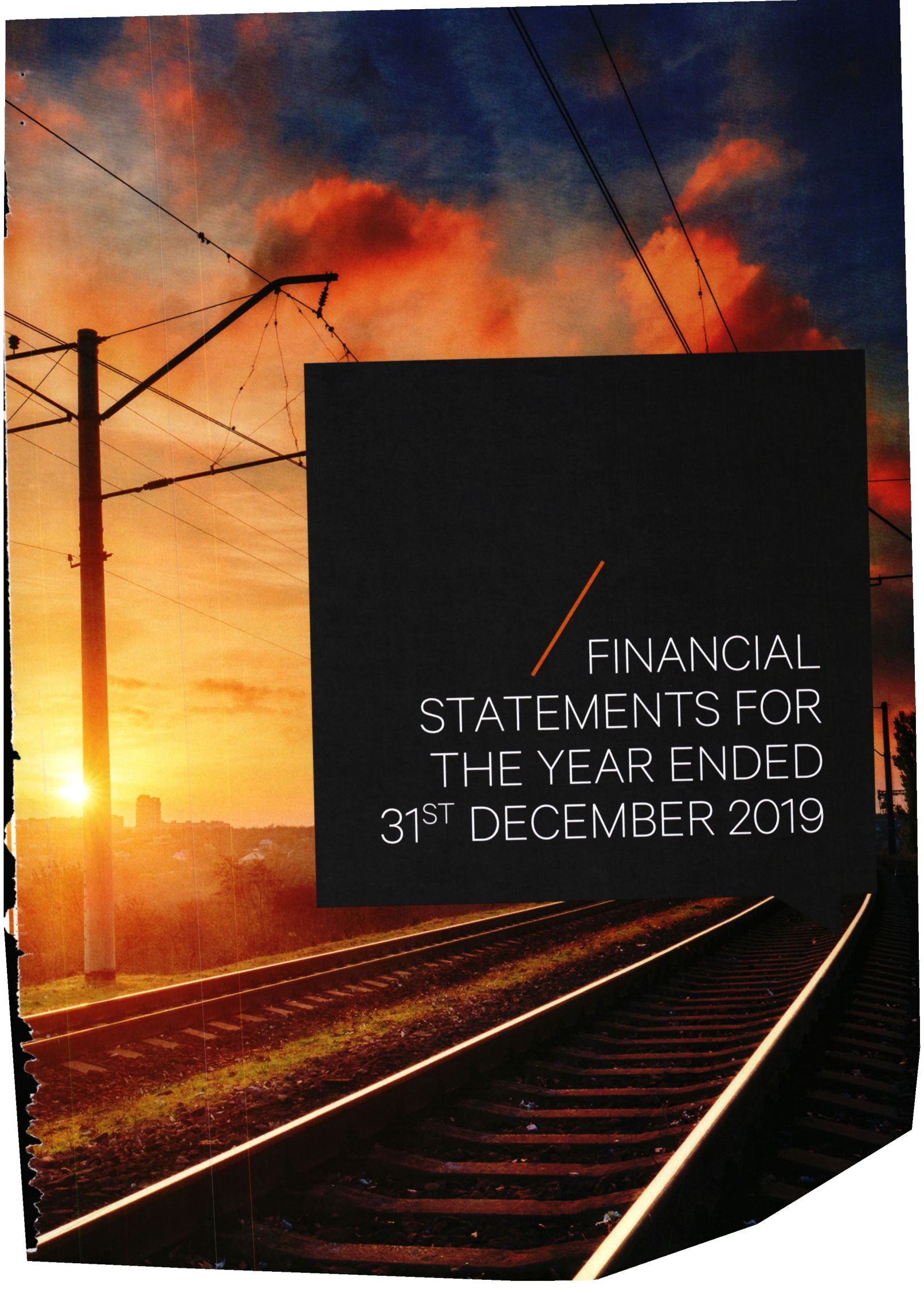
NAME OF COMMITTEE	HUMAN RESOURCE & ETHICS COMMITTEE
Chairperson	Mr. Robley Ngoje - KCB Bank
Vice Chairperson	Ms. Wangare Gathu - Sidian Bank
Secretary	Mr. Raimond Molenje - Kenya Bankers Association
Committee Priorities	1. To establish and maintain good industrial relations and ethics in the industry. 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 2019	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 Mc Lagan Minet as well as Green Bonds E-learning module.

HUMAN RESOURCE & ETHICS ATTENDANCE RECORD

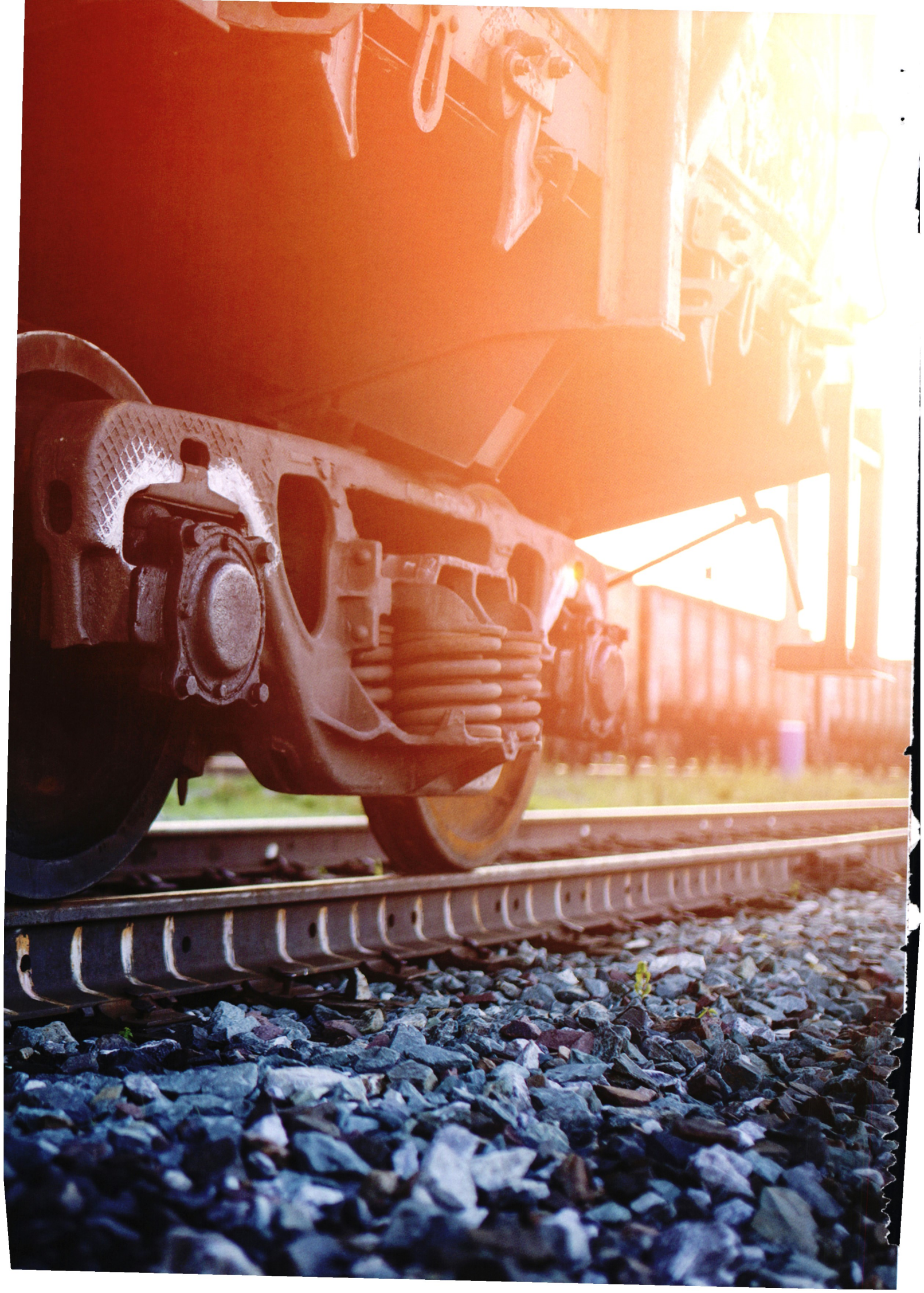
COMMITTEE MEMBERS	Number of Meetings Jan-Dec 2019	Number of CBA meetings attended	Percentage
KCB Bank	14 of 14	12 of 12	100%
Standard Chartered Bank	11 of 14	10 of 12	79%
National Bank of Kenya	2 of 14	1 of 12	14%
Co-Operative Bank	13 of 14	12 of 12	93%
Absa Bank	8 of 14	8 of 12	57%
Stanbic Bank	5 of 14	5 of 12	36%
Sidian Bank	1 of 14	0 of 12	7%
Middle East Bank	4 of 14	3 of 12	29%
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%
NCBA Bank	14 of 14	12 of 12	100%
Bank of Baroda	2 of 14	1 of 12	14%
Guardian Bank	7 of 14	6 of 12	50%
DTB Kenya	2 of 14	2 of 12	14%
Consolidated Bank	4 of 14	3 of 12	29%
SBM Bank	8 of 14	8 of 12	57%
ABC Bank	1 of 14	0 of 12	7%

The Human Resource & Ethics Committee held fourteen meetings in 2019. Twelve meetings were held to negotiate the Collective Bargaining Agreement (CBA).

In addition, a section of the Committee members are also part of the Joint Negotiation Committee (JNC).



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019



FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST DECEMBER 2019

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SUPPLEMENTARY INFORMATION

Schedule of consolidated expenditure	**APPENDIX I**

GOVERNING COUNCIL	Mr Joshua Oigara	*Chairman*
	Mr John Gachora	*Vice Chair*
	Mr Gerald Warui	
	Dr Gideon Muriuki	
	Mr Kariuki Ngari	
	Mrs Nasim Devji	
	Mr Jeremy Awori	
	Mr Kihara Maina	
	Mrs Rebecca Mbithi	
	Mr Martin Mugambi	
	Mr Moezz Mir	
	Mr Olabayo Veracruz	
	Mr Abdalla Abdulkhalik	
	Mr Peter Makau	
	Mr Isaac Mwige	
CHIEF EXECUTIVE OFFICER	Dr Habil Olaka	
PRINCIPAL PLACE OF BUSINESS	International House	
	13th Floor, Mama Ngina Street	
	P.O. Box 73100 - 00200 Nairobi, Kenya	
INDEPENDENT AUDITOR	RSM Eastern Africa	
	Certified Public Accountants	
	1st Floor, Pacis Centre	
	Slip Road, off Waiyaki Way, Westlands	
	P.O. Box 349 - 00606 Nairobi, Kenya	
PRINCIPAL BANKERS	KCB Bank Limited	
	Moi Avenue Branch	
	P.O Box 30081 - 00100 Nairobi, Kenya	
	Central Bank of Kenya	
	Haile Selassie Avenue	
	P.O. Box 60000 - 00200 Nairobi, Kenya	
	Standard Chartered Bank Kenya Limited	
	Moi Avenue	
	P.O. Box 30003 - 00100 Nairobi, Kenya	
LEGAL ADVISORS	Hamilton Harrison & Mathews	
	P.O. Box 30333 - 00100 Nairobi, Kenya.	
	J N Namasake & Co Advocates	
	P.O. Box 9479 - 00100 Nairobi, Kenya	
	Obura Mbeche & Co Advocates	
	P.O Box 28638 - 00200 Nairobi, Kenya	

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 employee's 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 better part of the year, the sector enhanced its lending requirement 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 74,609,085 and the Credit information sharing at a cost of KSh 19,326,413

IPSL 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

a there is, so far as the Governing Council is aware, no relevant audit information of which the Group's auditor is unaware, and

b 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

29th May 2020

Nairobi

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 Standard 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

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 87 to 90, which comprise the balance sheet as at 31st December 2019, 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 31st December 2019 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.

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 judgement 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 communicate 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

RSM Eastern Africa LLP

CERTIFIED PUBLIC ACCOUNTANTS
NAIROBI

29 May 2020

The signing partner responsible for the independent audit was CPA Elvis Ogeto, Practising Certificate No 2303

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

		GROUP		ASSOCIATION	
	NOTE	31.12.19 KSh	31.12.18 KSh	31.12.19 KSh	31.12.18 KSh
Revenue	4	382,152,557	349,621,685	354,256,880	334,000,001
Other income	5	48,393,193	29,117,579	47,079,141	28,594,465
Project related expenses		(224,692,431)	(169,191,362)	(224,692,431)	(169,191,362)
Administrative expenses		(324,715,394)	(317,831,624)	(160,934,129)	(146,467,649)
Establishment expenses		(143,080,571)	(136,298,094)	(24739,443)	(28,297,060)
Finance costs	6	(64,740,719)	(75,659,118)	-	-
Operating (deficit)/surplus for the year	7	**(326,683,365)**	**(320,240,934)**	**(9,029,982)**	**18,638,395**
Tax income/ (expense)	8	2,062,151	(4,242,567)	(4,057,766)	(3,914,029)
(Deficit)/surplus for the year		**(324,621,214)**	**(324,483,501)**	**(13,087,748)**	**14,724,366**

BALANCE SHEET AT 31ST DECEMBER 2019

	NOTE	GROUP 31.12.19 KSh	GROUP 31.12.18 KSh	ASSOCIATION 31.12.19 KSh	ASSOCIATION 31.12.18 KSh
Members' funds					
Entrance fees and penalties reserves		113,488,520	89,588,520	113,488,520	89,588,520
Revenue reserve		(1,282,528,673)	(934,007,459)	28,159,721	65,147,469
Contribution for investment in subsidiary		1,540,000,002	680,000,000	1,540,000,002	680,000,000
Capital fund		38,320,001	35,370,606	38,320,001	35,370,606
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	364,706,104	1,719,968,244	870,106,595
REPRESENTED BY					
Non-current assets					
Property and equipment	11	130,874,123	162,048,761	65,430,269	70,518,235
Intangible assets	12	136,116,979	204,630,391	2,678,740	3,508,126
Investment in subsidiary	13	-	-	140,000,000	140,000,000
Loan to subsidiary	17	-	-	1,135,378,937	537,667,537
Deferred income tax	10	9,407,394	2,893,261	-	-
		276,398,496	369,572,413	1,343,487,946	751,693,898
Current assets					
Subscription and other receivables	14	227,133,578	24,297,300	214,821,375	19,745,196
Cash at bank and in hand	15	193,664,161	187,278,892	186,276,513	130,572,893
		420,797,739	211,576,192	401,097,888	150,318,089
Current liabilities					
Trade and other payables	16	100,749,406	144,136,293	24,478,492	31,250,786
Tax payable		227,457	773,837	139,098	654,606
Borrowings	9	186,939,522	71,531,831	-	-
		287,916,385	216,441,961	24,617,590	31,905,392
Net (liabilities)/assets		132,881,354	(4,865,769)	376,480,298	118,412,697
		409,279,850	**364,706,644**	**1,719,968,244**	**870,106,595**

THE FINANCIAL STATEMENTS ON PAGES 87 TO 90 WERE AUTHORISED FOR ISSUE BY THE GOVERNING COUNCIL ON 29th May AND WERE SIGNED ON ITS BEHALF BY:

Chairman

Council Member

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 1st January 2018	**79,988,520**	**425,000,000**	**(599,860,060)**	**40,106,433**	**(54,765,107)**
Deficit for the year	-	-	(324,547,399)	-	(324,547,399)
Contributions received in the year	-	255,000,000	-	-	255,000,000
Transfer to other operating income	-	-	-	(4,735,827)	(4,735,827)
Transfer to entrance fees and penalties reserve	9,600,000	-	(9,600,000)	-	-
At 31st December 2018	**89,588,520**	**680,000,000**	**(934,007,459)**	**35,370,606**	**(129,048,333)**
At 1st January 2019	**89,588,520**	**680,000,000**	**(934,007,459)**	**35,370,606**	**(129,048,333)**
Deficit for the year	-	-	(324,621,214)	-	(324,621,214)
Contributions received in the year	-	860,000,002	-	-	860,000,002
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**	**1,540,000,002**	**(1,282,528,673)**	**38,320,001**	**409,279,850**
b. ASSOCIATION					
At 1st January 2018	**79,988,520**	**425,000,000**	**60,023,103**	**40,106,433**	**605,118,056**
Surplus for the year	-	-	14,724,366	-	14,724,366
Contributions received in the year	-	255,000,000	-	-	255,000,000
Transfer to other operating income	-	-	-	(4,735,827)	(4,735,827)
Transfer to entrance fees and penalties reserve	9,600,000	-	(9,600,000)	-	-
At 31st December 2018	**89,588,520**	**680,000,000**	**65,147,469**	**35,370,606**	**870,106,595**
At 1st January 2019	**89,588,520**	**680,000,000**	**65,147,469**	**35,370,606**	**870,106,595**
Surplus for the year	-	-	(13,087,748)	-	(13,087,748)
Contributions received in the year	-	860,000,002	-	-	860,000,002
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**	**1,540,000,002**	**28,159,721**	**38,320,001**	**1,719,968,244**

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

	NOTE	GROUP 31.12.19 KSh	GROUP 31.12.18 KSh	ASSOCIATION 31.12.19 KSh	ASSOCIATION 31.12.18 KSh
Cash flows from operating activities					
(Deficit)/surplus for the year		(324,621,214)	(324,547,399)	(13,087,748)	14,724,366
Adjustments for					
Tax (income)/expense	8	(2,062,151)	4,242,567	4,057,766	3,914,029
Depreciation of property and equipment	11	40,267,277	55,340,935	13,517,055	16,312,248
Amortisation of intangible assets	12	88,570,399	66,012,058	829,386	621,695
Change in capital fund		2,949,395	(4,735,827)	2,949,395	(4,735,827)
Interest income	5	(10,831,369)	(10,367,085)	(9,517,317)	(9,843,971)
Interest expense	6	64,740,719	75,659,118	-	-
Loss on disposal of equipment		565,255	63,898	345,185	63,898
Assets written off		1,850,243	-	1,850,243	-
Changes in operating assets and liabilities					
(Increase)/decrease in subscription and other receivables		(202,836,278)	14,878,203	(195,076,179)	15,271,362
(Decrease)/increase in trade and other payables		(43,386,887)	22,738,328	(6,772,294)	(13,793,221)
Net cash (used in)/generated from operations		(384,794,611)	(100,715,204)	(200,904,508)	22,534,579
Interest paid		(64,740,719)	(75,659,118)	-	-
Interest income		10,831,369	10,367,085	9,517,317	9,843,971
Income tax paid		(4,998,362)	(2,365,646)	(4,573,274)	(2,327,943)
Net cash (used in)/generated from operating activities		(443,702,323)	(168,372,883)	(195,960,465)	30,050,607
Cash flows from investing activities					
Purchase of property and equipment	11	(11,556,137)	(13,544,414)	(10,672,517)	(6,043,517)
Proceeds from sale of equipment		48,000	93,835	48,000	93,835
Purchase of intangible assets	12	(20,056,987)	(26,969,413)	-	(2,213,531)
Members contribution to subsidiary		860,000,002	255,000,000	860,000,002	255,000,000
Net cash generated from investing activities		828,434,878	214,580,008	849,375,485	246,836,787
Cash flows from financing activities					
Increase of loan to subsidiary		-	-	(597,711,400)	(283,919,293)
Net proceeds from borrowings		(378,347,286)	(557,143)	-	-
Net cash used in financing activities		(378,347,286)	(557,143)	(597,711,400)	(283,919,293)
Net increase/(decrease) in cash and cash equivalents		6,385,269	45,649,982	55,703,620	(7,031,899)
Cash and cash equivalents at start of year		187,278,892	141,628,910	130,572,893	137,604,792
Cash and cash equivalents at end of year	15	**193,664,161**	**187,278,892**	**186,276,513**	**130,572,893**

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 1952. 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 employee's 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:

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

NOTES *(CONTD.)*

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 at amortised cost 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 recognised 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

NOTES *(CONTD.)*

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 transfered 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 judgements have had to be made by the Governing Council in preparing these financial statements.

NOTES *(CONTD.)*

	GROUP		ASSOCIATION	
	31.12.19 KSh	**31.12.18 KSh**	**31.12.19 KSh**	**31.12.18 KSh**
4. REVENUE				
Membership subscriptions fees	350,256,880	330,000,001	350,256,880	330,000,001
Entrance fees	17,500,000	10,000,000	-	-
Associate members subscription	4,000,000	4,000,000	4,000,000	4,000,000
Switch income	10,395,677	5,621,684	-	-
	382,152,557	**349,621,685**	**354,256,880**	**334,000,001**
5. OTHER INCOME				
Clearing house penalties	23,900,000	9,600,000	23,900,000	9,600,000
Interest on fixed deposit	10,831,369	10,367,085	9,517,317	9,843,971
Other income	640,000	700,000	640,000	700,000
Sponsorship	4,050,366	2,496,000	4,050,366	2,496,000
Transfer of capital fund	4,718,508	4,735,827	4,718,508	4,735,827
Training income	4,252,950	1,218,667	4,252,950	1,218,667
	48,393,193	**29,117,579**	**47,079,141**	**28,594,465**
6. FINANCE COSTS				
Interest expense				
- Bank loan	**64,740,719**	**75,659,118**	**-**	**-**
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(b) below)	183,229,925	161,852,108	122,972,532	108,262,252
Depreciation of property and equipment	40,267,278	55,340,935	13,517,055	16,312,248
Amortisation of intangible assets	88,570,399	66,012,058	829,386	621,695
b) Employee benefits expense				
Wages, salaries and allowances	175,875,340	155,784,682	118,393,942	104,342,082
Retirement benefit costs:				
- Defined contribution scheme	7,269,385	5,994,226	4,540,190	3,884,570
- National Social Security Fund	85,200	73,200	38,400	35,600
	183,229,925	161,852,108	122,972,532	108,262,252
The average number of persons employed during the year, by category, were:	Number	Number	Number	Number
Management and administration	**36**	**33**	**16**	**15**

NOTES *(CONTD.)*

	GROUP		ASSOCIATION	
	31.12.19 KSh	31.12.18 KSh	31.12.19 KSh	31.12.18 KSh
8. TAX EXPENSE/(INCOME)				
Current tax	4,451,982	4,070,963	4,057,766	3,914,029
Deferred income tax	(95,409,550)	(101,828,216)	-	-
Under-provision in prior year	-	750,000	-	-
Deferred tax on tax loss not recognised	88,895,417	101,249,820	-	-
	(2,062,151)	**4,242,567**	**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% (2017: 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	(326,683,366)	(320,304,831)	(9,029,982)	18,638,395
Tax calculated at the statutory rate of 30%	(98,005,010)	(96,091,449)	(2,708,995)	5,591,519
Tax effect of:				
Expenses disallowed	7,525,286	11,686	6,766,761	-
Non taxable income	-	(1,677,490)	-	(1,677,490)
(Over)/under-provision in prior year	(477,845)	750,000	-	-
Deferred tax on tax loss not recognised	88,895,419	101,249,820	-	-
Tax expense/(income)	**(2,062,151)**	**4,242,567**	**4,057,766**	**3,914,029**

9. BORROWINGS				
The borrowings are analysed as follows:				
Non-current				
Bank loans	-	493,754,977	-	-
Current				
Bank loans	186,939,522	71,531,831	-	-
	186,939,522	**565,286,808**	**-**	**-**

The bank loan is secured by:

- A debenture charge of KSh. 560,000,000 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%.

NOTES *(CONTD.)*

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	2,143,261	50,360	2,193,621
Intangible assets	-	5,501,776	5,501,776
Provision for impairment of receivables	750,000	-	750,000
Provision for leave pay	-	961,997	961,997
Tax losses carried forward	299,967,410	88,895,417	388,862,827
	302,860,671	95,409,550	398,270,221
Deferred tax asset not recognised	(299,967,410)	(88,895,417)	(388,862,827)
Net deferred tax asset	**2,893,261**	**6,514,133**	**9,407,394**
Year ended 31st December 2018			
Deferred tax asset			
Property and equipment	1,564,865	578,396	2,143,261
Provision for impairment of receivables	1,500,000	(750,000)	750,000
Tax losses carried forward	195,468,046	104,499,364	299,967,410
Net deferred tax asset	198,532,911	104,327,760	302,860,671
Deferred tax asset not recognised	(195,468,046)	(104,499,364)	(299,967,410)
Net deferred tax asset	**3,064,865**	**(171,604)**	**2,893,261**

The deferred tax asset has not been recognised on deductible temporary differences and tax losses carried forward amounting to KSh. 1,296,209,422 (2018: KSh. 999,368,251) 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. 1,285,377,610 carried forward will expire as follows:

ARISING IN:	Tax losses	Expiring:
2016	284,606,362	31st December 2025
2017	366,953,790	31st December 2026
2018	348,331,213	31st December 2027
2019	296,318,057	31st December 2028
Tax losses carried forward	**1,296,209,422**	

NOTES *(CONTD.)*

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	96,431,048	45,013,047	25,823,103	23,568,406	248,726,014	439,561,618
Additions	9,518,148	-	1,047,251	-	990,738	11,556,137
Disposals	-	-	(1,674,125)	-	-	(1,674,125)
Assets written off	(1,850,243)	-	-	-	-	(1,850,243)
At end of year	**104,098,953**	**45,013,047**	**25,196,229**	**23,568,406**	**249,716,752**	**447,593,387**
Accumulated depreciation						
At start of year	66,919,639	21,295,141	14,850,719	12,225,994	162,221,364	277,512,857
Annual depreciation	4,718,508	2,750,247	991,026	2,843,130	28,964,366	40,267,277
Less accumulated depreciation on assets disposed off	-	-	(1,060,870)	-	-	(1,060,870)
At end of year	**71,638,147**	**24,045,388**	**14,780,875**	**15,069,124**	**191,185,730**	**316,719,264**
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	96,431,048	22,456,766	23,898,504	16,540,756	91,778,272	251,105,346
Additions	9,518,148	-	340,811	-	813,558	10,672,517
Disposals	-	-	(1,394,125)	-	-	(1,394,125)
Assets written off	(1,850,243)	-	-	-	-	(1,850,243)
At end of year	**104,098,953**	**22,456,766**	**22,845,190**	**16,540,756**	**92,591,830**	**258,533,495**
Accumulated depreciation						
At start of year	66,919,639	13,849,806	14,217,910	10,469,081	75,130,675	180,587,111
Annual depreciation	4,718,508	861,379	768,756	1,525,446	5,642,966	13,517,055
Less accumulated depreciation on assets disposed off	-	-	(1,000,940)	-	-	(1,000,940)
At end of year	**71,638,147**	**14,711,185**	**13,985,726**	**11,994,527**	**80,773,641**	**193,103,226**
Carrying amount						
At end of year	**32,460,806**	**7,745,581**	**8,859,464**	**4,546,229**	**11,818,189**	**65,430,269**

NOTES *(CONTD.)*

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	382,109,097	355,139,684	55,157,282	52,943,751
Additions	20,056,987	26,969,416	-	2,213,531
At end of year	402,166,084	382,109,100	55,157,282	55,157,282
Accumulated amortisation				
At start of year	177,478,706	111,466,648	51,649,156	51,027,461
Annual amortisation	88,570,399	66,012,058	829,386	621,695
At end of year	266,049,105	177,478,706	52,478,542	51,649,156
Carrying amount				
At end of year	**136,116,979**	**204,630,394**	**2,678,740**	**3,508,126**

13. INVESTMENT IN SUBSIDIARY	**Holding**		
Integrated Payment Services Limited	100%	**140,000,000**	**140,000,000**

	GROUP		ASSOCIATION	
	31.12.19 KSh	31.12.18 KSh	31.12.19 KSh	31.12.18 KSh
14. SUBSCRIPTION AND OTHER RECEIVABLES				
Deposits	1,065,500	1,065,500	1,065,500	1,065,500
Prepayments	5,170,344	4,867,090	3,481,643	3,414,986
Other receivables	220,897,734	21,354,686	210,274,232	18,254,686
Less: Provision for bad debts	-	(2,989,976)	-	(2,989,976)
	227,133,578	**24,297,300**	**214,821,375**	**19,745,196**
15. CASH AND CASH EQUIVALENTS				
Cash at bank and in hand	**193,664,161**	**187,278,892**	**186,276,513**	**130,572,893**

NOTES *(CONTD.)*

	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	1,283,629	700,000	1,283,629	700,000
Other payables	86,615,959	113,992,450	15,242,703	7,982,447
Cash centre payables (16(b))	1,127,255	8,705,007	1,127,255	8,705,007
Accruals	11,722,563	20,738,836	6,824,905	13,863,332
	100,749,406	**144,136,293**	**24,478,492**	**31,250,786**
b) CASH CENTRE PAYABLE				
Cash centre payable balance has been arrived at as follows:				
Members' subscription	43,745,919	53,464,733	43,745,919	53,464,733
Cash Centre operating expenses	(42,618,664)	(44,759,726)	(42,618,664)	(44,759,726)
	1,127,255	**8,705,007**	**1,127,255**	**8,705,007**

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.

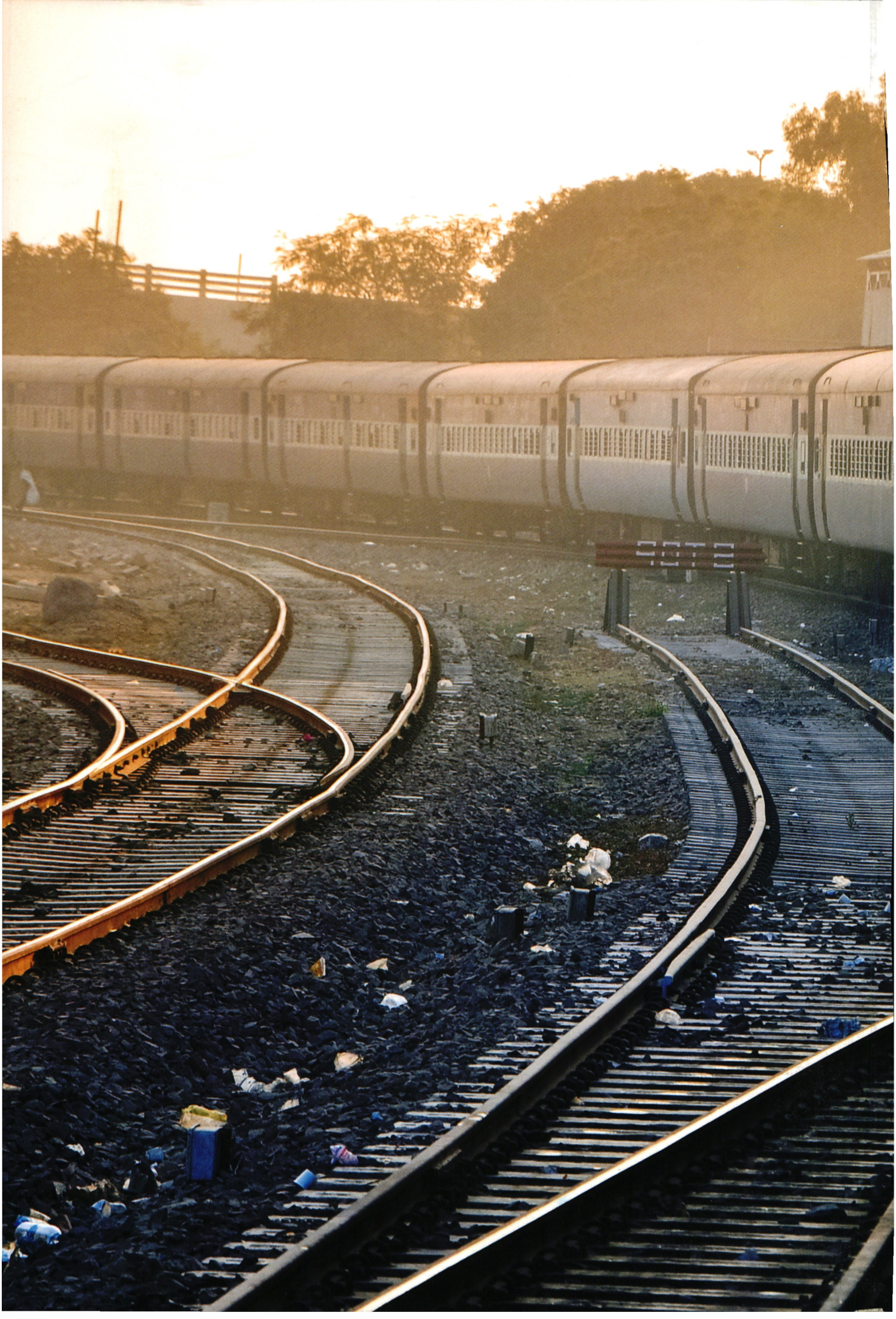
17. RELATED PARTY TRANSACTIONS

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	253,748,244
Amounts advanced during the year	597,711,400	283,919,293
At end of year	**1,135,378,937**	**537,667,537**

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	67,409,962	74,609,085	67,409,962
Public relations and media activities	49,725,835	38,292,495	49,725,835	38,292,495
Credit reference bureau project cost	19,326,413	18,808,012	19,326,413	18,808,012
Research	9,865,916	10,803,039	9,865,916	10,803,039
Advocacy	71,165,182	33,877,854	71,165,182	33,877,854
	224,692,431	**169,191,362**	**224,692,431**	**169,191,362**
2. ADMINISTRATIVE EXPENSES				
Employment:				
Salaries and wages	175,875,340	155,784,682	118,393,942	104,342,082
Pension scheme contributions	7,269,385	5,994,226	4,540,190	3,884,570
National Social Security Fund	85,200	73,200	38,400	35,600
Provision for leave dues	6,643,307	(5,140,651)	1,981,772	(2,548,896)
Staff welfare costs	6,460,122	6,071,980	3,239,186	2,064,786
Total employment costs	**196,333,354**	**162,783,437**	**128,193,490**	**107,778,142**
Other administration expenses:				
Postage and telephone	8,159,030	2,360,142	372,841	364,408
Travel and entertainment	2,259,421	3,900,488	1,862,565	2,770,155
Printing and stationery	889,584	746,515	508,812	200,024
Conferences facilities	660,500	677,000	-	396,000
Subscriptions	3,998,278	8,852,223	3,753,278	8,852,223
Computer expenses	322,828	361,996	322,828	361,996
Audit fees				
- Current year	1,220,000	1,236,000	720,000	685,000
- Prior year under provision	175,776	110,570	124,776	99,192
Vehicle running	4,127,333	3,493,788	3,201,002	2,701,487
Legal fees	17,369,398	12,956,612	16,817,188	12,156,212
Professional fees	589,314	2,793,043	589,314	2,793,043
Bank charges	290,918	278,641	140,612	148,819
General expenses	5,370,288	4,579,702	3,286,238	1,759,199
Consulting expenses	-	2,294,094	696,000	2,294,094
Accommodation expenses	-	127,616	-	-
Confectionery expenses	-	312,744	-	-
Advertisement and branding	39,238,346	55,922,858	-	53,781
Recruitment	934,715	1,835,484	-	-
Software support	31,703,071	39,162,255	-	-
Data centre costs	9,507,741	9,875,004	-	-
Realised exchange loss	-	181,436	-	-
Loss on disposal asset	345,185	-	345,185	63,898
Bad debts provision	-	2,989,976	-	2,989,976
Total other administration expenses	**128,382,040**	**155,048,187**	**32,740,639**	**38,689,507**
Total administrative expenses	**324,715,394**	**317,831,624**	**160,934,129**	**146,467,649**
3. ESTABLISHMENT EXPENSES				
Rent	8,497,464	8,253,024	4,945,080	4,812,000
Insurance expense	4,436,886	4,483,825	4,436,886	4,483,825
Repairs and maintenance	1,308,544	2,208,252	1,011,036	2,067,292
Amortisation of intangible assets	88,570,399	66,012,058	829,386	621,695
Depreciation of property and equipment	40,267,278	55,340,935	13,517,055	16,312,248
	143,080,571	**136,298,094**	**24,739,443**	**28,297,060**



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