

Association Overview

The Leasing Association of Kenya (LAK) is an umbrella association of asset finance and leasing practitioners in Kenya. The origin of LAK was the East, Central & Southern Africa Leasing Association which was registered in Kenya in 2003. It was an association limited by guarantee, but the name was later changed to the Leasing Association of Kenya in 2007 to better reflect the membership.

LAK's mandate is to bring together all firms and individuals engaged in leasing with the aim of developing a sustainable Leasing industry in Kenya. This mandate is achieved via the following key activities:

- Creating awareness of leasing benefits in Kenya through topical seminars, workshops, conventions, and research studies targeted at various stakeholders
- Lobbying and advocacy for regulatory reforms to improve/ increase use of leasing in the country
- Training and capacity building for lease professionals
- Self-regulation and control of ethical behavior among industry players
- Enhancing Corporate Social Responsibility as part of the association's efforts to contribute to the overall wellbeing of society beyond leasing

The Association's membership base comprises organizations from various stakeholders of the leasing market, including:

- Commercial banks
- Equipment vendors
- Independent leasing firms
- Microfinance institutions
- Professional firms supporting lease operations such as audit, legal, tax, insurance.

The current Directors of the Association are:

- Anthony Kibe, Chair
- Johan Taljaard, Treasurer
- Lucy Murage, Secretary
- Edna Kihara, Special Projects Director
- Lennox Mugambi, Training Director
- Robert Mburu, Membership Director
- Oscar Saina, Marketing Director
- Wanjohi Kangangi, Director

Current List of Members

Avenue Lease and Rentals Ltd	LOXEA
Absa Group	Leasing Partners Limited
ASL Leasing	Milvus Kenya Limited
Almasi Financials	Minet Insurance
CMC Group	NCBA Group
COOP BANK Fleet Africa	Rentco East Africa Limited
CFAO	Rentworks East Africa
DTB Bank	Ryce East Africa
Equity Bank of Kenya	Simba Corporation
Eezy Track	Star Rentals Limited
Efken Leasing	Stanbic Bank
Fintech Group	Subaru
Gaptech Solutions	Track and Trace
Isuzu East Africa Limited	Zohari Leasing
Kenya Grange	
Karimjee Jivanjee	
Kenya Commercial Bank	

Market Overview

Real Gross Domestic Product (GDP) is estimated to have grown by 7.5 per cent in 2021 compared to a contraction of 0.3 per cent in 2020. Economic growth in 2021 was supported by improved performance in key sectors of the economy including Manufacturing (6.9%), Wholesale and Retail Trade (7.9%), Real Estate (6.7%), Transportation and Storage (7.2%), and Financial and insurance activities (12.5%)¹.

In 2021, the Central Bank of Kenya (CBK) lifted some measures that had been put in place in 2020 to mitigate on effects of the Coronavirus 2019 (COVID-19) pandemic including the guideline on loan restructuring. The CBK adopted a conservative monetary policy stance by maintaining the Central Bank Rate at 7.00 per cent throughout 2021².

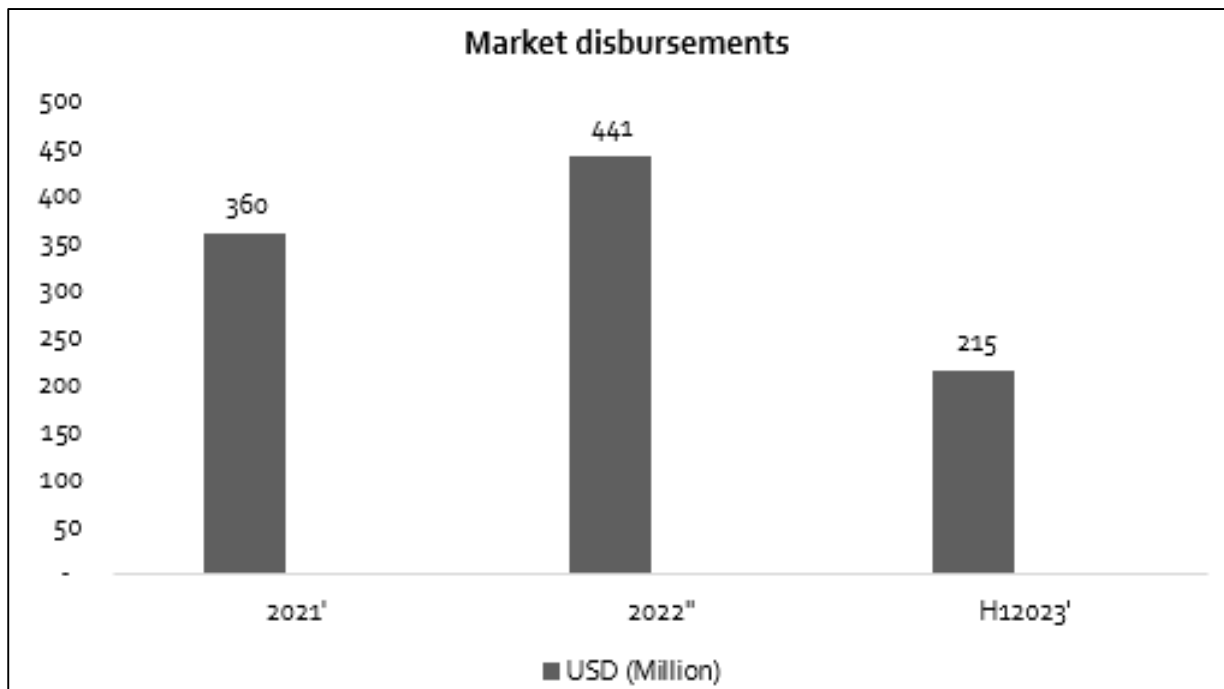
Total domestic credit growth decelerated by 15.1 per cent in 2021 from a growth of 18.5 per cent in 2020. The slow growth partly was due to lower credit extended to National Government. Credit to the private sector grew by 8.6 per cent at the end of 2021³.

Asset Finance Market Analysis

The Kenyan Banking Sector recorded growth in the quarter ended June 30, 2023, compared to the quarter ended March 31, 2022. Some of the sector's performance indicators are as follows⁴:

1. The aggregate balance sheet increased by 4.2 percent in June 2023 compared to March 2023.
2. Gross loans increased by 3.3 percent between March 2023 and June 2023. The increase in gross loans was largely witnessed in the Trade, Transport and Communication, Personal and Household, and Manufacturing sectors. The increase in gross loans was mainly due to increased loans granted to individual borrowers.
3. Most banks have adopted a tight credit risk appraisal, ensuring that facilities are well secured as part of mitigation measures in dealing with challenges faced in the implementation of IFRS 9.
4. During the quarter ended June 30, 2023, a significant number of banks have implemented IFRS 16. Banks that had not implemented IFRS 16 indicated that they are not able to determine the most appropriate discount rate for lease payment.
5. Most banks indicated that implementation of IFRS16:
 - i. Increase in banks' total assets and total liabilities because of recognition of the right of use asset (ROU) and Lease Liability as per IFRS 16 guidelines.
 - ii. Elimination of rent and service charge expense in banks' income statement, which is covered by the introduction of depreciation on right of use asset and interest expense on lease liability as charges to the income statement.
6. Most banks indicated that the major challenges they faced in implementation of IFRS 16 include: -
 - i. Review and re-modelling of the IFRS 16 impact upon expiry and renewal of lease contracts. Banks' lease contracts run over different periods and expiry and renewal of leases means they have to reassess the impact at every periodic change in contractual obligations.
 - ii. Automation of the IFRS 16 Lease accounting is yet to be done. Some banks currently run an excel based model, which might be subject to human error. However, they have in place an effective maker checker control system to mitigate this in the short term as they consider automation.

7. Banks indicated that the mitigation measures they're considering to address the challenges experienced in implementation of IFRS 16 include:
- i. Periodic review of all lease contracts to ensure the contractual obligations have been captured correctly, thus ensuring accuracy of IFRS 16 model.
 - ii. Renegotiation of lease contracts to a shorter term to reduce the impact on adoption of new lease and renewed leases to their books. A shorter-term lease means the balance sheet impact is smaller as compared to a long-term lease.



1-3: <https://www.knbs.or.ke/download/economic-survey-2022/>

4: https://www.centralbank.go.ke/uploads/banking_sector_reports/1605170601_Credit%20Survey%20Report%20for%20the%20Quarter%20ended%20June%202023.pdf