Central Bank of Kenya

Credit Officer Survey

December 31, 2024

CENTRAL BANK OF KENYA COMMERCIAL BANKS' CREDIT OFFICER SURVEY FOR QUARTER ENDED DECEMBER 31, 2024

1.0 COMMERCIAL BANKS' CREDIT OFFICER SURVEY

1.1 BACKGROUND

Credit risk is the single largest factor affecting the soundness of financial institutions and the financial system. This is because lending is the principal business for banks. The ratio of gross loans to total assets was 53.6 percent in the quarter ended December 31, 2024, a decrease from 53.7 percent in the quarter ended September 30, 2024.

The Central Bank of Kenya (CBK) undertakes a quarterly Credit Officer Survey to identify the potential drivers of credit risk. The survey requires senior credit officers of banks to indicate their banks perception or actual position in the immediate past quarter and the subsequent quarter in terms of demand for credit, credit standards, asset quality, credit recovery efforts, deployment of liquidity and impact of implementing new standards.

1.2 SURVEY METHODOLOGY

Senior Credit Officers[1] complete most of the survey and collate inputs from senior officers responsible for the other aspects. For the quarter ended December 31, 2024, 38 commercial banks and 1 mortgage finance company participated in the Commercial Banks Credit Officer Survey.

The survey sought to establish the lending behavior in the banking sector in respect to all the eleven economic sectors. Questions were posed on demand for credit, credit standards for approving loans, non-performing loans, credit recovery efforts, implementation of International Financial Reporting Standards (IFRS) 9 on Financial Instruments and IFRS 16 on Leases. The survey's questions are generally phrased in terms of changes over the past three months and expected changes over the next three months.

The survey also included questions concerning liquidity in the banks. The banks were required to state their liquidity trend and appetite for the deployment of liquidity towards extension of credit, interbank lending, and other forms of investment.

Following the declaration by the World Health Organization of coronavirus (COVID-19) outbreak as a pandemic in March 2020, CBK has continued to assess the impact of the pandemic on the banking sector.

[1]These are officers involved in most of the credit and liquidity decisions hence are able to provide reasonably accurate and complete responses from their bank's perspective. They also collate input on non-credit aspects from their counterparts.

1.3 KENYAN BANKING SECTOR PERFORMANCE

The Kenyan Banking Sector asset base recorded a mixed trend in the quarter ended December 31, 2024, compared to the growth in the quarter ended September 30, 2024. Some of the sector's performance indicators are as follows: -

- The total assets increased by 1.0 percent to Ksh.7,645.8 billion in December 2024, from Ksh.7,568.4 billion in September 2024.

- Gross loans increased by 0.9 percent from Ksh.4,064.2 billion in September 2024, to Ksh.4,099.3 billion in December 2024. The increase in gross loans was largely witnessed in the Manufacturing, Agriculture, Energy and Water, Trade, Transport and Communication, and Real Estate sectors.

- Total deposits increased by 1.0 percent from Ksh.5,684.0 billion in September 2024, to Ksh.5,739.6 billion in December 2024.

- The asset quality, measured by gross non-performing loans to gross loans ratio slightly improved from 16.5 percent in September 2024, to 16.4 percent in December 2024. This was due to a lower increase in gross NPLs of 0.5 percent compared to an increase in gross loans of 0.9 percent.

- The capital adequacy ratio increased from 19.1 percent in September 2024 to 19.4 percent in December 2024.

- Quarterly profit before tax decreased by Ksh.5.7 billion from Ksh.64.2 billion in the quarter ended September 2024, to Ksh.58.5 billion in the quarter ended December 2024. The decrease in profitability was mainly attributable to a higher increase in quarterly expenses by Ksh.8.6 billion compared to an increase in quarterly income by Ksh.2.9 billion.

- Return on Equity (ROE) decreased from 24.9 percent in September 2024, to 22.0 percent in December 2024. This was due to a decrease in quarterly profits and an increase in shareholders' funds.

- Liquidity in the banking sector increased from 54.6 percent in September 2024, to 55.7 percent in December 2024. This was well above the minimum statutory ratio of 20 percent.

1.4 SUMMARY OF CREDIT OFFICER SURVEY FINDINGS

- **Demand for credit:** In the fourth quarter of 2024, the perceived demand for credit remained unchanged in nine economic sectors. It increased in Trade, and Personal and Household sectors.
- **Credit Standards[2]:** In the fourth quarter of 2024, credit standards remained unchanged in all economic sectors.
- **Non-Performing Loans per sector:** Respondents indicated that the level of NPLs is expected to remain constant in ten economic sectors but increase in the Personal and Household sector during the next quarter
- **Credit Recovery Efforts:** For the quarter ending March 31, 2025, banks expect to intensify their credit recovery efforts in eight economic

[2]Credit standards are guidelines used by commercial banks in determining whether to extend a loan to an applicant.

sectors and retain them in three sectors (Mining and Quarrying, Energy and Water, and Financial Services). The intensified recovery efforts are aimed at improving the overall quality of the asset portfolio.

- **International Financial Reporting Standard (IFRS) 9 on Financial Instruments:** Most banks have adopted a tight credit risk appraisal, ensuring that facilities are well secured and that alternative sources of repayment are available.
- **Liquidity risk:** During the quarter ended December 31, 2024, 77 percent of the respondents indicated that their liquidity position had improved.
- Banks intend to deploy additional liquidity towards lending to the private sector (35 percent), investing in Treasury Bills (21 percent), interbank lending (18 percent), investing in Treasury Bonds (15 percent), taking advantage of CBK liquidity through repos (7 percent), and investing in other instruments including offshore (3 percent).

2.0 SURVEY FINDINGS

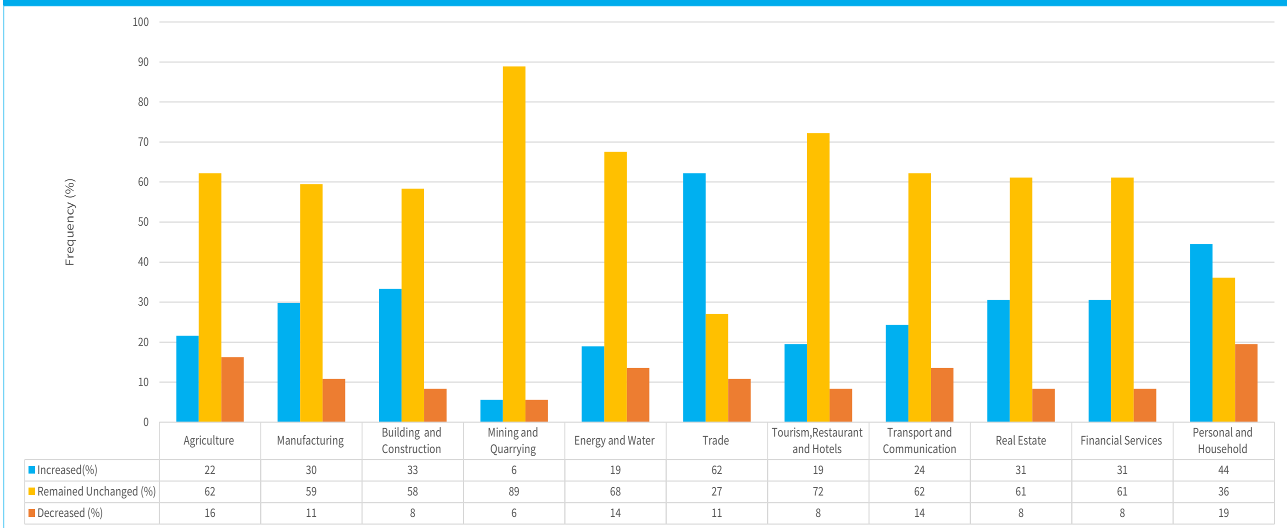
2.1 Demand for Credit

- In the fourth quarter of 2024, the perceived demand for credit remained unchanged in nine economic sectors. It increased in Trade, and Personal and Household sectors.
- The main sectors with unchanged demand for credit are Mining and Quarrying, Tourism, Restaurant and Hotels, and Energy and Water.
- The perceived increased demand for credit in Trade, and Personal and Household sectors, is mainly attributed to the need for funds for expenditure in the approaching festive season.
- **Table 1** and **Chart 1** present below the trend in the perceived demand for credit in the last two quarters.

Table 1: Change in Demand for Credit (Percentage, %)

	September 2024			December 2024		
	Increased	Remained Unchanged	Decreased	Increased	Remained Unchanged	Decreased
Agriculture	16	68	16	22	62	16
Manufacturing	24	62	14	30	59	11
Building and Construction	19	57	24	33	58	8
Mining and Quarrying	6	81	14	6	89	6
Energy and Water	16	65	19	19	68	14
Trade	41	41	19	62	27	11
Tourism, Restaurant and Hotels	24	65	11	19	72	8
Transport and Communication	27	62	11	24	62	14
Real Estate	19	65	16	31	61	8
Financial Services	17	72	11	31	61	8
Personal and Household	47	42	11	44	36	19

Chart 1: Demand for Credit



2.2 Factors Affecting Demand for Credit

- In the quarter ended December 31, 2024, nine factors affecting demand for credit had no significant impact. However, cost of borrowing led to decreased demand for credit. This is depicted in **Table 2** and **Chart 2**.
- Issuance of debt securiries, and COVID-19 pandemic were cited as having had the least impact on the demand for credit during the quarter under review. These were reported by 95 and 92 percent of the respondents respectively.

Chart 2: Factors affecting Demand for Credit

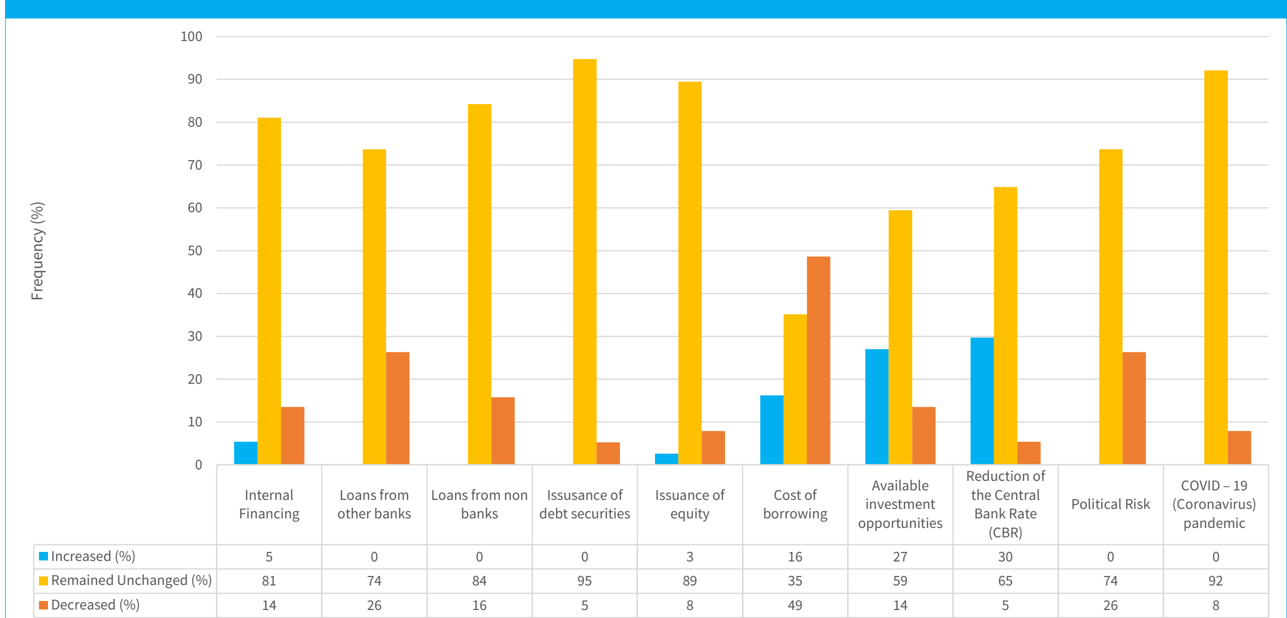


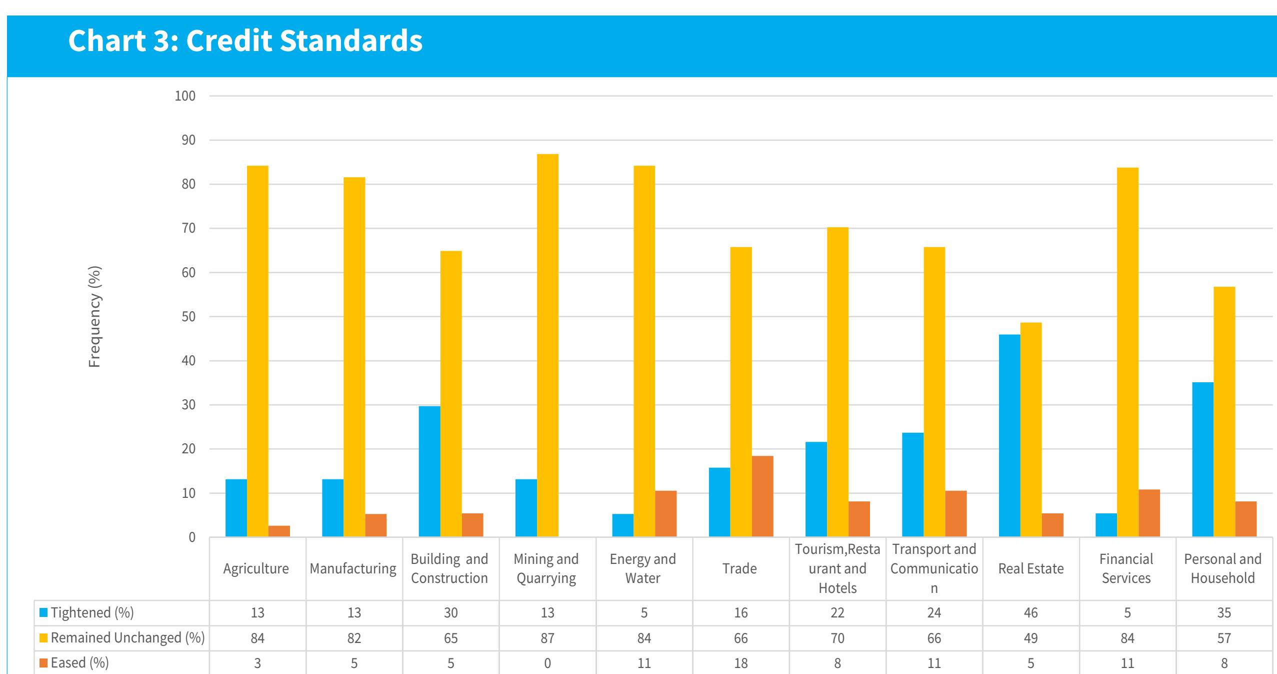
Table 2: Factors Affecting Demand for Credit (Percentage, %)

	September 2024			December 2024		
	Increased	Remained Unchanged	Decreased	Increased	Remained Unchanged	Decreased
Internal Financing	3	87	11	5	81	14
Loans from other banks	3	76	22	0	74	26
Loans from non-banks	0	86	14	0	84	16
Issuance of debt securities	0	95	5	0	95	5
Issuance of equity	0	97	3	3	89	8
Cost of borrowing	5	35	59	16	35	49
Available investment opportunities	16	65	19	27	59	14
Increase of the Central Bank Rate (CBR)	3	63	34	30	65	5
Political Risk	3	74	24	0	74	26
COVID – 19 pandemic	0	97	3	0	92	8

2.3 Credit Standards

- In the fourth quarter of 2024, credit standards remained unchanged in all economic sectors.
- This is presented in **Chart 3** and **Table 3** below.

Chart 3: Credit Standards



	Agriculture	Manufacturing	Building and Construction	Mining and Quarrying	Energy and Water	Trade	Tourism,Restaurant and Hotels	Transport and Communication	Real Estate	Financial Services	Personal and Household
Tightened (%)	13	13	30	13	5	16	22	24	46	5	35
Remained Unchanged (%)	84	82	65	87	84	66	70	66	49	84	57
Eased (%)	3	5	5	0	11	18	8	11	5	11	8

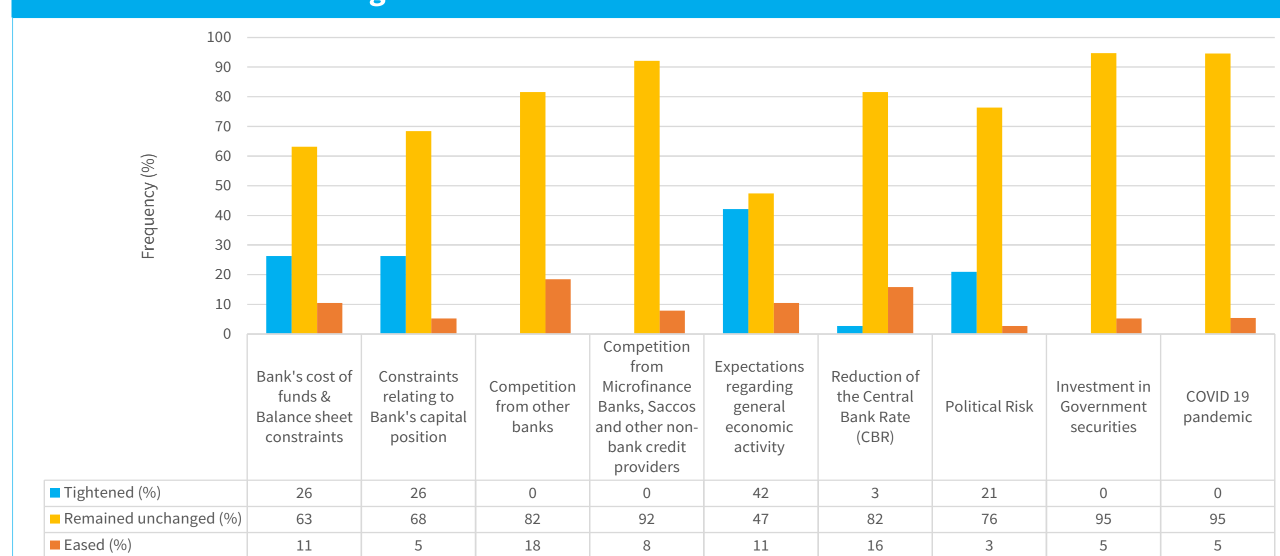
Table 3: Credit Standards for Loans to Various Economic Sectors (Percentage, %)

	September 2024			December 2024		
	Tightened	Remained Unchanged	Eased	Tightened	Remained Unchanged	Eased
Agriculture	13	84	3	13	84	3
Manufacturing	13	82	5	13	82	5
Building and Construction	29	68	3	30	65	5
Mining and Quarrying	11	89	0	13	87	0
Energy and Water	13	84	3	5	84	11
Trade	16	68	16	16	66	18
Tourism, Restaurant and Hotels	18	71	11	22	70	8
Transport and Communication	21	68	11	24	66	11
Real Estate	34	61	5	46	49	5
Financial Services	8	87	5	5	84	11
Personal and Household	27	57	16	35	57	8

2.4 Factors Influencing Credit Standards

- In the quarter ended December 31, 2024, all factors had little impact on credit standards.
- COVID -19 pandemic, Investment in Government Securities, and Competition from DTMs, Saccos, and other Credit Providers, are the main factors that had no impact on credit standards. These were reported by 95 percent, 95 percent, and 92 percent of the respondents respectively.
- A comparison of the trend in the factors affecting the banks' credit standards are shown in **Chart 4** and **Table 4**.

Chart 4: Factors affecting Credit Standards



	Bank's cost of funds & Balance sheet constraints	Constraints relating to Bank's capital position	Competition from other banks	Competition from Microfinance Banks, Saccos and other non-bank credit providers	Expectations regarding general economic activity	Reduction of the Central Bank Rate (CBR)	Political Risk	Investment in Government securities	COVID 19 pandemic
Tightened (%)	26	26	0	0	42	3	21	0	0
Remained unchanged (%)	63	68	82	92	47	82	76	95	95
Eased (%)	11	5	18	8	11	16	3	5	5

Table 4: Factors affecting credit standards (Percentage, %)

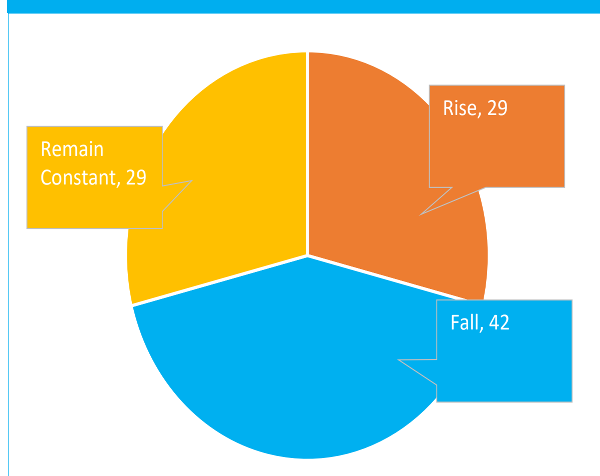
	September 2024			December 2024		
	Tightened	Remained Unchanged	Eased	Tightened	Remained Unchanged	Eased
Bank's cost of funds and Balance sheet constraints	32	61	8	26	63	11
Constraints relating to Bank's capital position	24	68	8	26	68	5
Competition from other banks	0	76	24	0	82	18
Competition from DTMs, Saccos, and other Credit Providers	0	89	11	0	92	8
Expectations regarding general economic activity	53	39	8	42	47	11
Increase of the Central Bank Rate (CBR)	30	70	0	3	82	16
Political Risk	21	76	3	21	76	3
Investment in Government Securities	5	84	11	0	95	5
COVID-19	3	97	0	0	95	5

2.5. Non-Performing Loans (NPLs)

2.5.1 Expected Movements of Non-Performing Loans in the next quarter

- 42 percent of the respondents indicated that NPLs are likely to fall in the first quarter of 2025.
- 29 percent of the respondents expect the level of NPLs to rise and 29 percent of the respondents expect the level of NPLs to remain constant in the first quarter of 2025. These are depicted in **Chart 5**.

Chart 5: Expected movements of NPLs in the next Quarter (%)



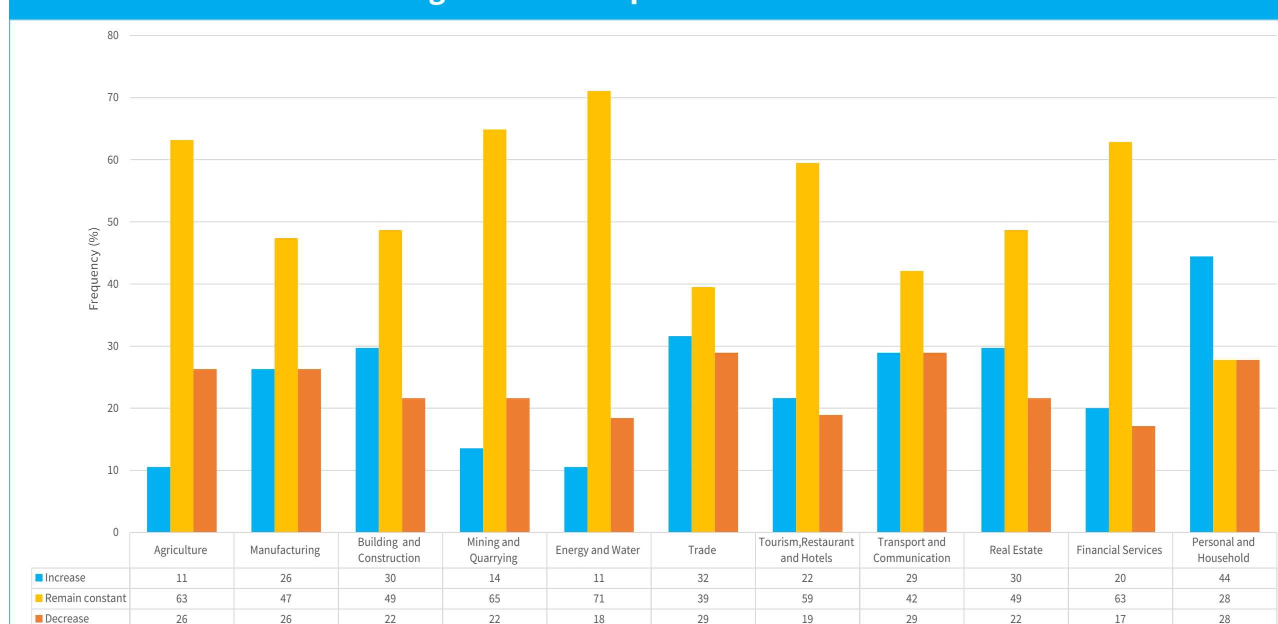
2.5.2 Expected Non-Performing Loans per sector during the next Quarter

- Respondents indicated that the level of NPLs is expected to remain constant in ten economic sectors but increase in the Personal and Household sector during the next quarter.
- **Table 5** and **Chart 6** depict this.

Table 5: Non-Performing Loans Trend Per Economic Sector (Percentage, %)

	September 2024			December 2024		
	Increase	Remain constant	Decrease	Increase	Remain constant	Decrease
Agriculture	11	58	32	11	63	26
Manufacturing	29	39	32	26	47	26
Building and Construction	26	47	26	30	49	22
Mining and Quarrying	3	73	24	14	65	22
Energy and Water	13	63	24	11	71	18
Trade	37	32	32	32	39	29
Tourism, Restaurant and Hotels	18	55	26	22	59	19
Transport and Communication	32	32	37	29	42	29
Real Estate	26	45	29	30	49	22
Financial Services	14	61	25	20	63	17
Personal and Household	46	19	35	44	28	28

Chart 6: Non-Performing Loans Trend per Economic Sector



2.6 Credit Recovery Efforts in the next Quarter

- For the quarter ending March 31, 2025, banks expect to intensify their credit recovery efforts in eight economic sectors and retain them in three sectors (Mining and Quarrying, Energy and Water, and Financial Services). The intensified recovery efforts are aimed at improving the overall quality of the asset portfolio.The main sectors that banks intend to intensify credit recovery efforts are:

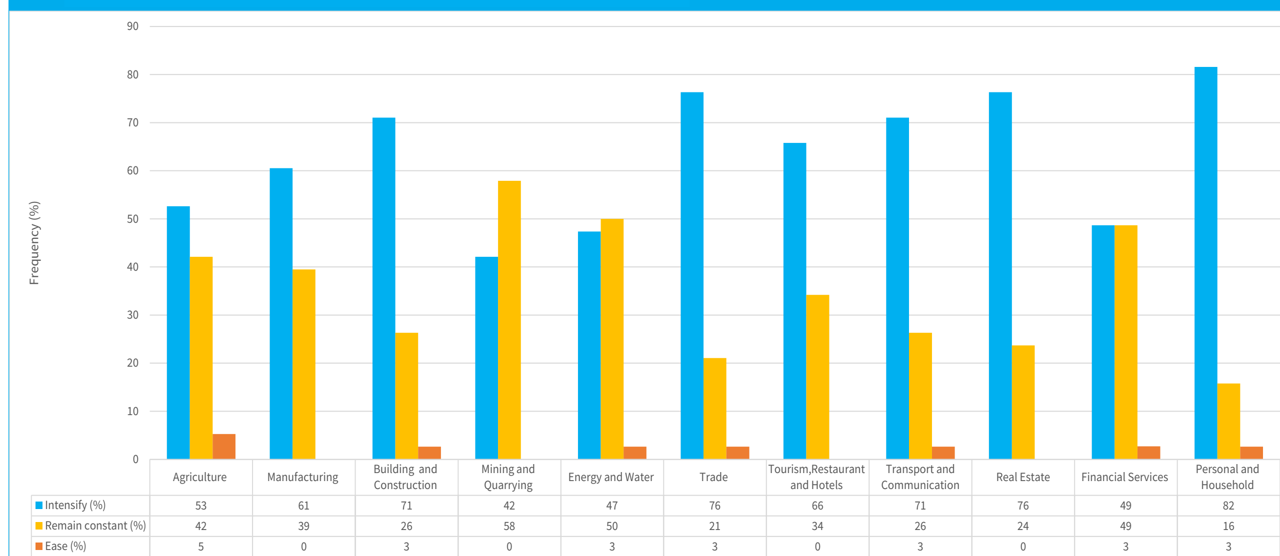
  i. Personal and Household (82 percent).
  ii. Trade (76 percent).
  iii. Real Estate (71 percent).
  iv. Transport and Communication (71 percent).
  v. Building and Construction (71 percent).

- The responses on the expected credit recovery efforts by the banks are depicted in **Table 6** and **Chart 7**.

Table 6: Credit Recovery Efforts (Percentage, %)

	September 2024			December 2024		
	Intensify	Remain Constant	Ease	Intensify	Remain Constant	Ease
Agriculture	50	47	3	53	42	5
Manufacturing	66	34	0	61	39	0
Building and Construction	68	29	3	71	26	3
Mining and Quarrying	42	58	0	42	58	0
Energy and Water	45	55	0	47	50	3
Trade	79	18	3	76	21	3
Tourism, Restaurant and Hotels	58	39	3	66	34	0
Transport and Communication	68	26	5	71	26	3
Real Estate	71	26	3	76	24	0
Financial Services	49	51	0	49	49	3
Personal and Household	74	21	5	82	16	3

Chart 7: Credit Recovery Efforts



	Agriculture	Manufacturing	Building and Construction	Mining and Quarrying	Energy and Water	Trade	Tourism,Restaurant and Hotels	Transport and Communication	Real Estate	Financial Services	Personal and Household
Intensify (%)	53	61	71	42	47	76	66	71	76	49	82
Remain constant (%)	42	39	26	58	50	21	34	26	24	49	16
Ease (%)	5	0	3	0	3	3	0	3	0	3	3

2.7 International Financial Reporting Standard (IFRS) 9 on Financial Instruments

- The International Financial Reporting Standard (IFRS) 9 on Financial Instruments became effective from January 1, 2018. This standard replaced International Accounting Standard (IAS) 39 on Financial Instruments (Recognition and Measurement).
- IFRS 9 introduced a new method of determining provisions for expected losses on loans extended by lending institutions.
- Institutions are required to always recognize expected credit losses and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of financial instruments.
- In the quarter ended December 31, 2024, the Central Bank of Kenya assessed: -

    i. The challenges banks still experience in the implementation of IFRS 9, and the mitigation measures implemented.

    ii. Whether banks have made any changes in the assumptions used in IFRS 9 and if they are more reliable.

2.7.1 Challenges experienced in the Implementation of IFRS 9

- Implementation of IFRS 9 has had some challenges. The prevalent challenges pointed out by the respondents are: -

    i. Constant model redevelopments that occur with the emergence of new information. This is a costly affair as the banks have to keep improving and updating their existing models.

    ii. Incorporation of forward-looking information.

2.7.2 Mitigation Measures implemented in dealing with challenges faced in the Implementation of IFRS 9

- Most banks have adopted a tight credit risk appraisal, ensuring that facilities are well secured and that alternative sources of repayment are available.
- Banks have implemented the following mitigation measures: -
  1. Seeking for additional capital injection to accommodate the expected rise in Credit Losses.
  2. Realignment of business models to minimize credit losses on unutilized limits and to enhance efficiency in internal operations.

2.8. International Financial Reporting Standard (IFRS) 16 on Leases

- The International Financial Reporting Standard (IFRS) 16 on Leases became effective from January 1, 2019. This standard replaced International Accounting Standard (IAS) 17 on Leases.
- The main difference between IAS 17 and IFRS 16 is the treatment of operating leases by lessees. Under IAS 17, a lessee was not obligated to report assets and liabilities from operating leases on their balance sheet but instead report the leases as off-balance sheet items. IFRS 16 changes this by requiring lessees to recognize operating leases right of use (ROU) assets and lease liabilities on the balance sheet.
- IFRS 16 aims to improve the quality of financial reporting for companies with material off balance sheet leases.

2.8.1 Impact of IFRS 16 on Banks' Financial performance and position

Most banks indicated that implementation of IFRS 16 led to :-

- Increased their total assets and total liabilities because of recognition of the right of use asset (ROU) and Lease Liability as per IFRS 16.
- Eliminated 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.

2.8.2 Financial indicators for Leases

- Following the implementation of IFRS 16 on January 1, 2019, the value of the financial indicators for leases in the banking industry as at December 31, 2024, are indicated in **Table 7**.

Table 7: Financial elements bank value as at December 31, 2024

Banking Industry (Ksh '000)	September 2024	December 2024	Change
Right of use (ROU) assets	41,149,683.13	84,631,196.62	43,481,513.49
Lease liabilities	29,340,620.52	53,109,301.63	23,768,681.10
Depreciation of the right of use asset	7,444,024.44	27,382,131.69	19,938,107.25
The finance charge associated with the lease liability	2,245,370.28	6,749,151.87	4,503,781.60

2.8.3 Challenges experienced in the Implementation of IFRS 16

- Delays experienced in the lease renewal process leading to use of estimated lease rates hence inaccuracy of the data.

2.8.4 Mitigation measures on the challenges experienced in Implementation of IFRS 16

- Banks renew their leases on a timely basis to mitigate the challenges experienced in implementing IFRS 16.

2.9 Liquidity Risk

- Banks were required to state the status of their liquidity positions, factors that led to improved liquidity, their plans with improved liquidity, measures being taken to address deteriorated liquidity and their involvement in interbank activities during the quarter ended December 31, 2024.

2.9.1 Commercial Banks' liquidity positions

- During the quarter ending December 31, 2024, 77 percent of the respondents indicated that their liquidity position had improved as indicated in **Chart 8**.

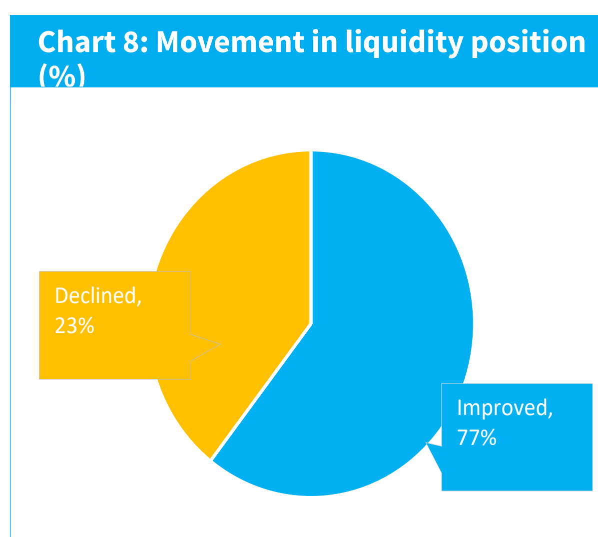
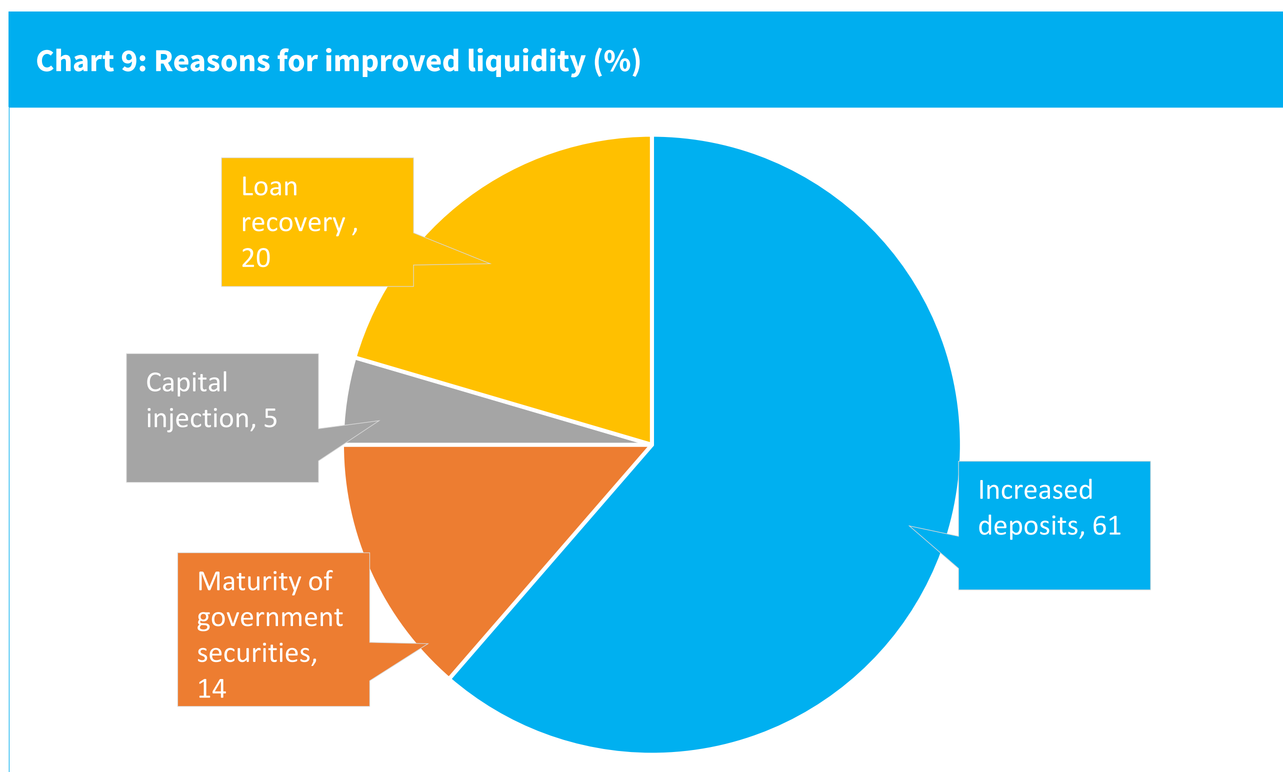


Chart 8: Movement in liquidity position (%)

2.9.2 Factors that led to improved liquidity in the quarter under review

- During the quarter ending December 31, 2024, liquidity improved mainly because of : -
  - i). Increased deposits (61 percent).
  - ii). Loan recovery (20 percent).
  - iii). Maturity of government securities (14 percent).
  - iv). Capital injection (5 percent).
- The drivers of improved liquidity are indicated in **Chart 9**.

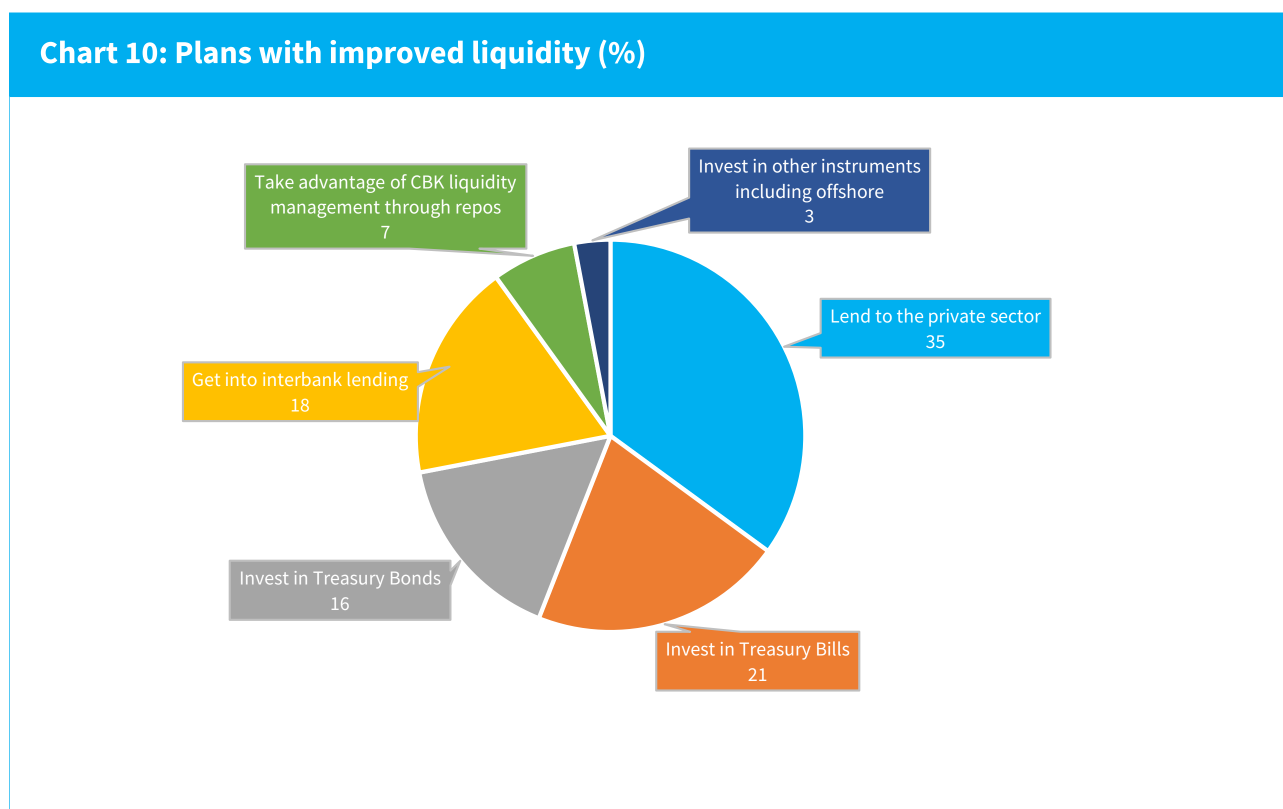
Chart 9: Reasons for improved liquidity (%)



2.9.3 Commercial Banks' plans with improved liquidity

- As indicated in **Chart 10**, with the improved liquidity, it is expected that in the first quarter of 2025, credit to private sector will increase as several banks intend to deploy the additional liquidity towards lending to the private sector (35 percent), investing in Treasury Bills (21 percent), interbank lending (18 percent), investing in Treasury Bonds (16 percent), taking advantage of CBK liquidity through repos (7 percent), and invest in other instruments including offshore (3 percent).

Chart 10: Plans with improved liquidity (%)



2.9.4 Measures being taken by Commercial banks to enhance deteriorated liquidity

- During the quarter ending December 31, 2024, 23 percent of the respondents indicated that their liquidity position had deteriorated as indicated in **Chart 8**.
- Banks have put in place strategies to grow the deposits in the coming quarter.

2.9.5 Commercial Banks' interbank activities during the quarter under review

- During the quarter ending December 31, 2024, 67 percent of the respondents indicated that their interbank lending activities increased. This is indicated in **Chart 11**.
- 72 percent of the respondents indicated that their interbank borrowing decreased as indicated in **Chart 12**.

Chart 11: Increase in interbank lending (%)

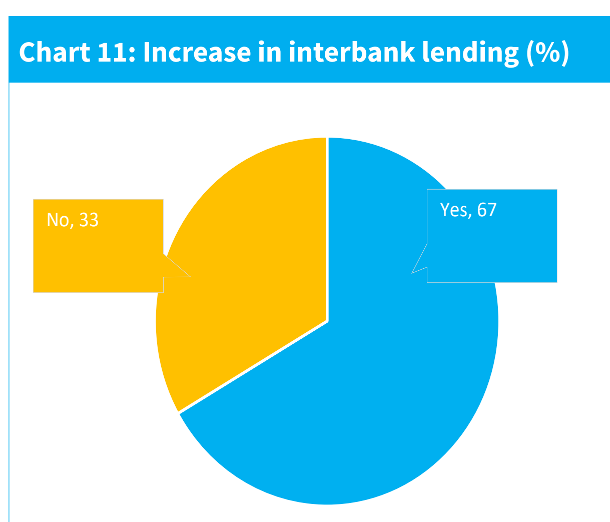
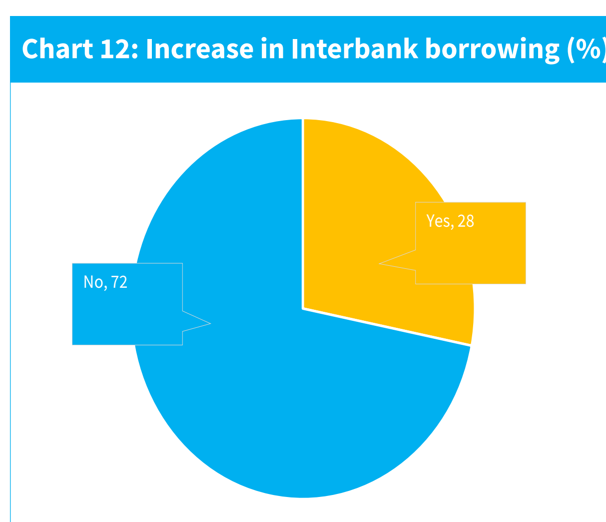


Chart 12: Increase in Interbank borrowing (%)



2.10 Impact of Coronavirus (COVID-19) Pandemic on the Banking Sector

- The economic impact of COVID-19 was adverse and wide-ranging, disrupting international trade, transport, tourism, and urban services activity. CBK through the credit survey assessed the impact of the pandemic on the banking sector. In the quarter ending December 31, 2024, the survey covered areas relating to: -

i. Adverse impact of the pandemic on the banks.
ii. Measures banks are taking to curb the adverse impact of the pandemic on banks' business.
iii. The key risks that have been increased by the pandemic.
iv. Opportunities that have arisen from the pandemic.

2.10.1 Measures taken by banks to curb the potential impact of coronavirus pandemic

- Banks have adopted technology in their work activities.
- Increased hygiene in banks' work environment.
- Banks have digitized their customer service.

2.10.2 Key Risks arising from Coronavirus (COVID-19) pandemic on the banks

Some of the key risks increased by the pandemic include:

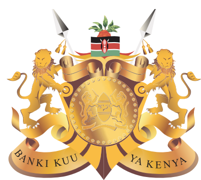
- **Credit risk**: Challenges of debt repayment, which is mitigated by the loan relief that banks are giving to borrowers which have now expired. Currently banks are still considering restructuring facilities outside the CBK waiver, which means there is likely to be an increase in provisions.
- **Operational risk**: Banks have a reduced workforce on-site and enable other staff to work from home. This leads to unbudgeted costs including Personal Protective Equipment (PPEs) and transport.
- **Cyber security risk**: Due to increase in use of digital platforms to transact.

2.10.3 Opportunities arising from Coronavirus (COVID-19) pandemic on the banks

- There has been emergence of alternative working sites, which is a form of development in banks' service delivery.

LIST OF RESPONDENTS

1. Absa Bank Kenya Plc.
2. Access Bank (Kenya) Plc.
3. African Banking Corporation Ltd.
4. Bank of Africa Kenya Ltd.
5. Bank of Baroda (K) Ltd.
6. Bank of India.
7. Citibank N.A Kenya.
8. Consolidated Bank of Kenya Ltd.
9. Co-operative Bank of Kenya Ltd.
10. Credit Bank Plc.
11. Development Bank of Kenya Ltd.
12. Diamond Trust Bank (K) Ltd.
13. DIB Bank Kenya Ltd.
14. Ecobank Kenya Ltd.
15. Equity Bank Kenya Ltd.
16. Family Bank Ltd.
17. Premier Bank Kenya Limited.
18. Guaranty Trust Bank (K) Ltd.
19. Guardian Bank Ltd.
20. Gulf African Bank Ltd.
21. Habib Bank A.G Zurich.
22. HFC Ltd.
23. I & M Bank Ltd.
24. Kingdom Bank Ltd.
25. KCB Bank Kenya Ltd.
26. Commercial International Bank (CIB) Kenya Limited.
27. Middle East Bank (K) Ltd.
28. M Oriental Bank Ltd.
29. National Bank of Kenya Ltd.
30. NCBA Bank Kenya Plc.
31. Paramount Bank Ltd.
32. Prime Bank Ltd.
33. SBM Bank Kenya Ltd.
34. Sidian Bank Ltd.
35. Spire Bank Ltd.
36. Stanbic Bank Kenya Ltd.
37. Standard Chartered Bank (Kenya) Ltd.
38. Victoria Commercial Bank Plc.
39. UBA Kenya Bank Ltd.



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