Central Bank of Kenya

Credit Officer Survey

March 31, 2024

CENTRAL BANK OF KENYA COMMERCIAL BANKS' CREDIT OFFICER SURVEY FOR QUARTER ENDED MARCH 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 54.4 percent in the quarter ended March 31, 2024, same as in the quarter ended December 31, 2023.

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 March 31, 2024, 38 operating 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 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 March 31, 2024, compared to the growth in the quarter ended December 31, 2023. Some of the sector's performance indicators are as follows: -

- The total assets, decreased by 2.7 percent to Ksh.7,513.1 billion in March 2024, from Ksh.7,724.9 billion in December 2023.
- Gross loans decreased by 2.8 percent from Ksh.4,199.5 billion in December 2023, to Ksh.4,083.6 billion in March 2024. The decrease in gross loans was largely witnessed in the Manufacturing, Personal and Household, Trade, and Real Estate sectors. The decrease was mainly due to forex exchange rate decline. Foreign currency loans dropped from Ksh. 1,215.2 billion in December 2023 to Ksh.990.2 billion in March 2024.
- Total deposits decreased by 4.9 percent from Ksh.5,812.1 billion in December 2023, to Ksh.5,525.3 billion in March 2024. Interest-bearing deposit growth tends to slow as rates fall because the opportunity cost of holding lower-yielding deposits declines. Foreign currency deposits dropped from Ksh.1,916.2 billion in December 2023 to Ksh.1,636.3 billion in March 2024.
- The asset quality, measured by gross non-performing loans to gross loans ratio deteriorated from 14.8 percent in December 2023, to 15.7 percent in March 2024. This was due to increase in gross NPLs of 3.2 percent and a decrease in gross loans of 2.8 percent.
- The capital adequacy ratio increased marginally to 18.6 percent in March 2024, from 18.3 percent in December 2023.
- Quarterly profit before tax increased by Ksh.25 billion from Ksh.48.5 billion in the quarter ended December 2023, to Ksh.73.5 billion in the quarter ended March 2024. The increase in profitability was mainly attributable to an increase in quarterly income by Ksh.9.1 billion and a decrease in quarterly expenses by Ksh.15.9 billion.
- Return on Equity (ROE) increased from 23.0 percent in December 2023, to 27.8 percent in March 2024. This was due to a higher increase in profits compared to increase in shareholders' funds.
- Liquidity in the banking sector increased from 51.0 percent in December 2023, to 53.6 percent in March 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 first quarter of 2024, the perceived demand for credit remained unchanged in ten economic sectors. It increased in Trade sector.
- **Credit Standards[2]:** In the first quarter of 2024, credit standards remained unchanged in ten economic sectors.Credit standards for Personal and Household sector were tightened.

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

- **Non-Performing Loans per sector:** Respondents indicated that the level of NPLs is expected to remain constant in eight economic sectors, increase in Personal and Household, and Trade sectors, and decrease in Transport and Communications sector during the next quarter.
- **Credit Recovery Efforts:** For the quarter ended June 30, 2024, 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.
- **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
- **International Financial Reporting Standard (IFRS) 16 on Leases:** During the quarter ended March 31, 2024, all of the respondents had implemented IFRS 16.
- **Liquidity risk:** During the quarter ended March 2024, 65 percent of the respondents indicated that their liquidity position had improved.
- Banks intend to deploy the additional liquidity towards lending to the private sector (33 percent), investing in Treasury Bills (24 percent), interbank lending (21 percent), investing in Treasury Bonds (19 percent), take advantage of CBK liquidity through repos (2 percent), and increase their cash holdings (2 percent).

2.0 SURVEY FINDINGS

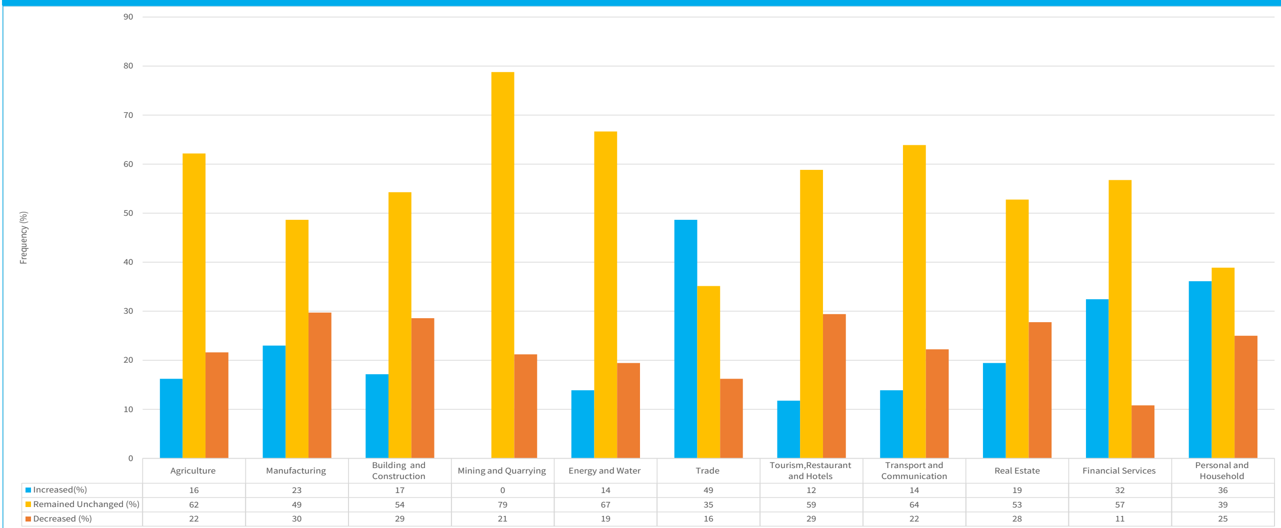
2.1 Demand for Credit

- In the first quarter of 2024, the perceived demand for credit remained unchanged in ten economic sectors. It increased in Trade sector.
- The main sectors with unchanged demand for credit are Mining and Quarrying, Energy and Water, Transport and Communication, and Agriculture.
- The perceived increased demand for credit in Trade sector is mainly attributed to increased working capital requirements.
- **Table 1** and **Chart 1** present the trend in the perceived demand for credit in the last two quarters.

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

	December 2023			March 2024		
	Increased	Remained Unchanged	Decreased	Increased	Remained Unchanged	Decreased
Agriculture	38	54	8	16	62	22
Manufacturing	51	32	17	23	49	30
Building and Construction	23	57	20	17	54	29
Mining and Quarrying	12	72	16	0	79	21
Energy and Water	23	66	11	14	67	19
Trade	81	16	3	49	35	16
Tourism, Restaurant and Hotels	43	48	9	12	59	29
Transport and Communication	35	51	14	14	64	22
Real Estate	48	33	19	19	53	28
Financial Services	39	50	11	32	57	11
Personal and Household	61	25	14	36	39	25

Chart 1: Demand for Credit

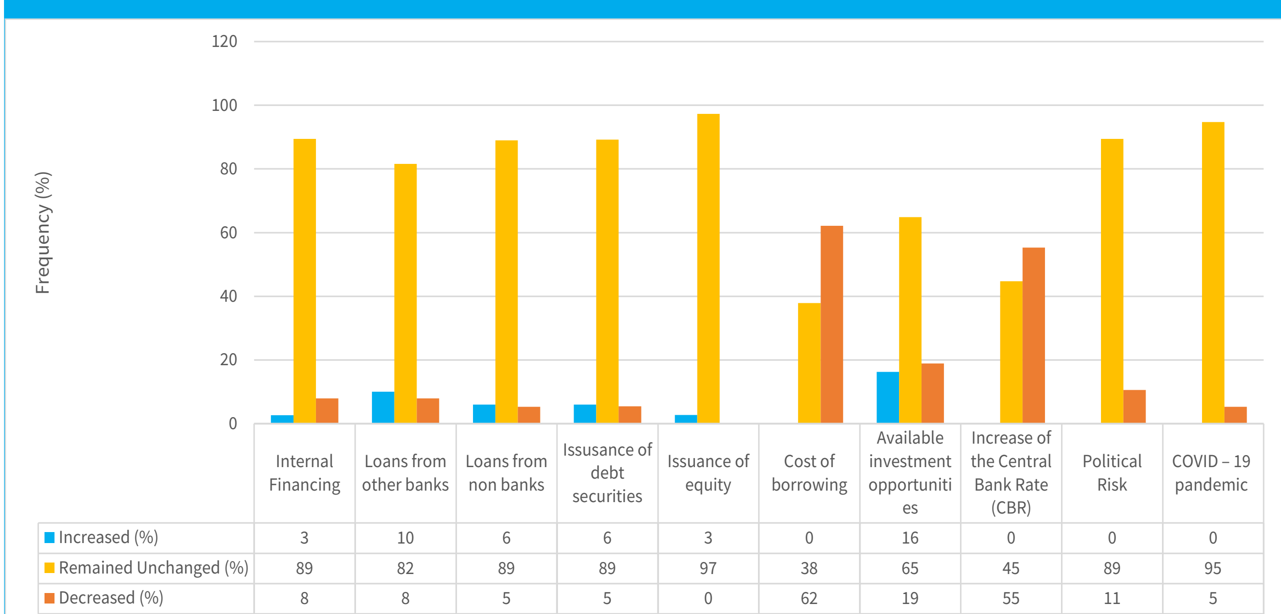


	Agriculture	Manufacturing	Building and Construction	Mining and Quarrying	Energy and Water	Trade	Tourism,Restaurant and Hotels	Transport and Communication	Real Estate	Financial Services	Personal and Household
Increased(%)	16	23	17	0	14	49	12	14	19	32	36
Remained Unchanged (%)	62	49	54	79	67	35	59	64	53	57	39
Decreased (%)	22	30	29	21	19	16	29	22	28	11	25

2.2 Factors Affecting Demand for Credit

- In the quarter ended March 31, 2024, eight factors affecting demand for credit had no significant impact. However, cost of borrowing and increase of the Central Bank Rate (CBR) led to decreased demand for credit. This is depicted in **Chart 2** and **Table 2**.
- Issuance of equity, 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 97 percent and 95 percent of the respondents respectively.

Chart 2: Factors affecting Demand for Credit



	Internal Financing	Loans from other banks	Loans from non banks	Issusance of debt securities	Issuance of equity	Cost of borrowing	Available investment opportuniti es	Increase of the Central Bank Rate (CBR)	Political Risk	COVID – 19 pandemic
Increased (%)	3	10	6	6	3	0	16	0	0	0
Remained Unchanged (%)	89	82	89	89	97	38	65	45	89	95
Decreased (%)	8	8	5	5	0	62	19	55	11	5

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

	December 2023			March 2024		
	Increased	Remained Unchanged	Decreased	Increased	Remained Unchanged	Decreased
Internal Financing	5	84	11	3	89	8
Loans from other banks	8	76	16	10	82	8
Loans from non-banks	8	76	16	6	89	5
Issuance of debt securities	0	95	5	6	89	5
Issuance of equity	0	97	3	3	97	0
Cost of borrowing	11	35	54	0	38	62
Available investment opportunities	25	59	16	16	65	19
Increase of the Central Bank Rate (CBR)	3	47	50	0	45	55
Political Risk	3	86	11	0	89	11
COVID – 19 pandemic	2	92	6	0	95	5

2.3 Credit Standards

- In the first quarter of 2024, credit standards remained unchanged in ten economic sectors.
- Credit standards for Personal and Household sector were tightened to mitigate risk of loss from defaults.
- This is presented in **Chart 3** and **Table 3**.

Chart 3: Credit Standards

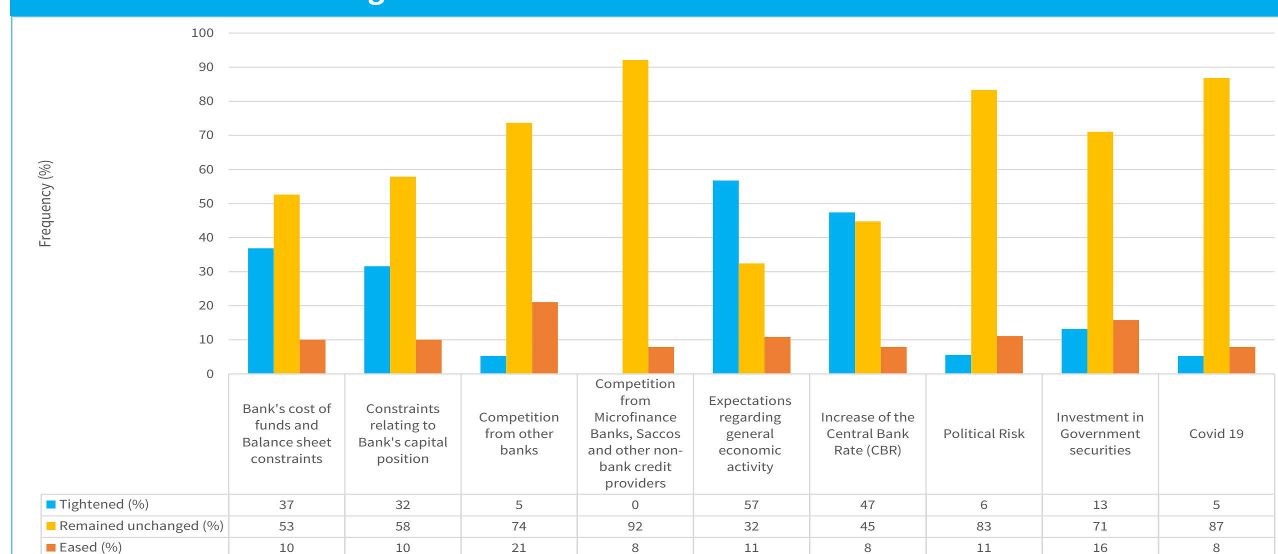
Table 3: Credit Standards for Loans to Various Economic Sectors (Percentage %)

	December 2023			March 2024		
	Tightened	Remained Unchanged	Eased	Tightened	Remained Unchanged	Eased
Agriculture	26	63	11	26	63	11
Manufacturing	32	66	2	26	61	13
Building and Construction	49	49	2	41	54	5
Mining and Quarrying	24	76	0	20	74	6
Energy and Water	16	78	6	16	71	13
Trade	29	55	16	29	47	24
Tourism, Restaurant and Hotels	32	62	6	25	64	11
Transport and Communication	34	55	11	32	58	10
Real Estate	50	44	6	43	49	8
Financial Services	22	68	10	10	76	14
Personal and Household	49	46	5	43	41	16

2.4 Factors Influencing Credit Standards

- In the quarter ended March 31, 2024, seven factors had little impact on credit standards whereas expectations regarding general economic activity, and increase in the CBR led to tightening of credit standards especially in Energy and Water sectors.
- Competition from DTMs, Saccos, and other Credit Providers, COVID -19 pandemic, and Political risk, are the main factors that had no impact on credit standards. These were reported by 92 percent, 87 percent, and 83 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 and 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	Increase of the Central Bank Rate (CBR)	Political Risk	Investment in Government securities	Covid 19
Tightened (%)	37	32	5	0	57	47	6	13	5
Remained unchanged (%)	53	58	74	92	32	45	83	71	87
Eased (%)	10	10	21	8	11	8	11	16	8

Table 4: Factors affecting credit standards (Percentage %)

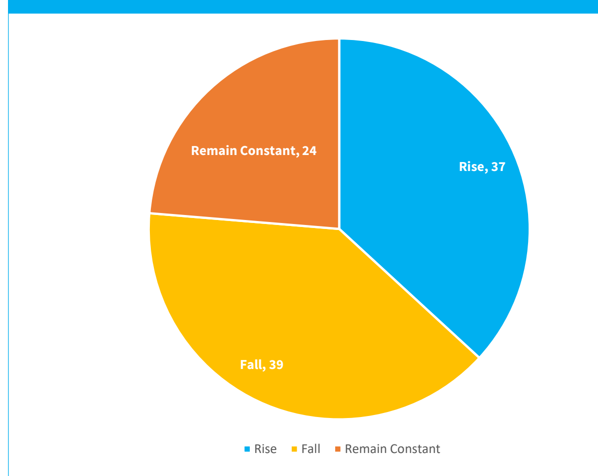
	December 2023			March 2024		
	Tightened	Remained Unchanged	Eased	Tightened	Remained Unchanged	Eased
Bank's cost of funds and Balance sheet constraints	39	58	3	37	53	10
Constraints relating to Bank's capital position	26	68	6	32	58	10
Competition from other banks	5	84	11	5	74	21
Competition from DTMs, Saccos, and other Credit Providers	3	92	5	0	92	8
Expectations regarding general economic activity	53	37	10	57	32	11
Increase of the Central Bank Rate (CBR)	42	58	0	47	45	8
Political Risk	3	92	5	6	83	11
Investment in Government Securities	16	81	3	13	71	16
COVID-19	3	94	3	5	87	8

2.5. Non-Performing Loans (NPLs)

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

- 39 percent of the respondents indicated that NPLs are likely to fall in the second quarter of 2024.
- 37 percent of the respondents expect the level of NPLs to rise and 24 percent of the respondents expect the level of NPLs to remain constant in the second quarter of 2024. These are depicted in **Chart 5**.

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



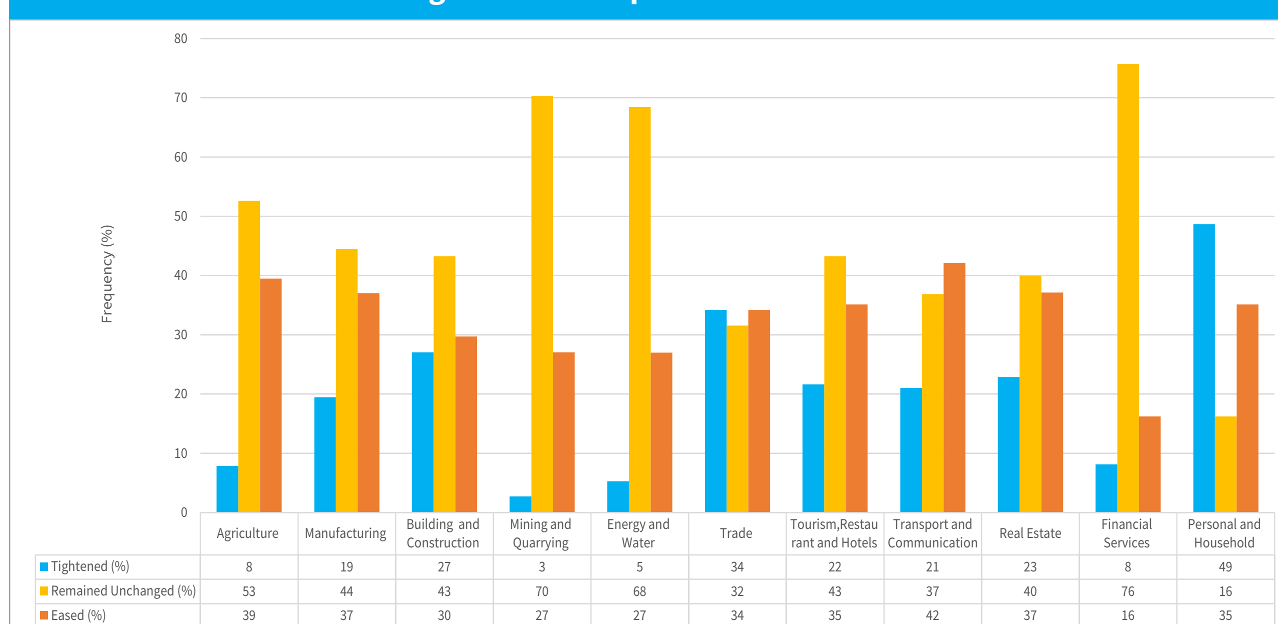
2.5.2 Expected Non-Performing Loans per sector during the next Quarter

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

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

	December 2023			March 2024		
	Increase	Remain constant	Decrease	Increase	Remain constant	Decrease
Agriculture	19	63	18	8	53	39
Manufacturing	38	38	24	19	44	37
Building and Construction	38	41	21	27	43	30
Mining and Quarrying	9	80	11	3	70	27
Energy and Water	22	65	13	5	68	27
Trade	53	21	26	34	32	34
Tourism, Restaurant and Hotels	25	50	25	22	43	35
Transport and Communication	34	42	24	21	37	42
Real Estate	34	44	22	23	40	37
Financial Services	17	69	14	8	76	16
Personal and Household	62	19	19	49	16	35

Chart 6: Non-Performing Loans Trend per Economic Sector



2.6 Credit Recovery Efforts in the next Quarter

- For the quarter ended June 30, 2024, 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:

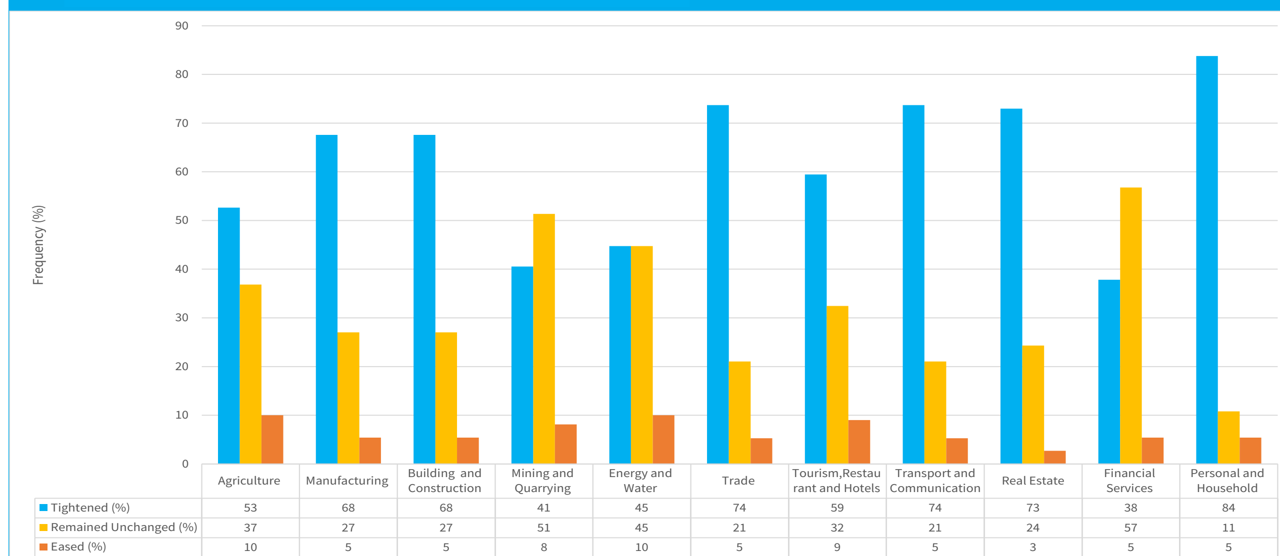
  i. Personal and Household (84 percent).
  ii. Trade (74 percent).
  iii. Transport and Communication (74 percent).
  iv. Real Estate (73 percent).
  v. Manufacturing (68 percent).

- 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 %)

	December 2023			March 2024		
	Intensify	Remain Constant	Ease	Intensify	Remain Constant	Ease
Agriculture	53	42	5	53	37	10
Manufacturing	70	27	3	68	27	5
Building and Construction	70	30	0	68	27	5
Mining and Quarrying	36	64	0	41	51	8
Energy and Water	43	54	3	45	45	10
Trade	82	18	0	74	21	5
Tourism, Restaurant and Hotels	57	38	5	59	32	9
Transport and Communication	68	32	0	74	21	5
Real Estate	76	24	0	73	24	3
Financial Services	44	56	0	38	57	5
Personal and Household	89	11	0	84	11	5

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
Tightened (%)	53	68	68	41	45	74	59	74	73	38	84
Remained Unchanged (%)	37	27	27	51	45	21	32	21	24	57	11
Eased (%)	10	5	5	8	10	5	9	5	3	5	5

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 March 31, 2024, the Central Bank of Kenya assessed: -
  - i. The challenges that banks still experience in the implementation of IFRS 9 and mitigation measures implemented.
  - ii. Whether the 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. In 2024, the inflation and exchange rates have risen significantly while net export, consumption per capital and GDP figures are not available on a regular basis.

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: -

  i. Seeking for additional capital injection to accommodate the expected rise in Credit Losses.

  ii. 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 :-

- 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.
- 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.

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 March 31, 2024, are indicated in **Table 7**.

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

Banking Industry (Ksh '000)	December 2023	March 2024
Right of use (ROU) assets	38,222,443.96	38,866,326.89
Lease liabilities	28,164,403.21	27,765,617.85
Depreciation of the right of use asset	7,801,910.96	5,967,157.75
The finance charge associated with the lease liability	2,932,311.90	964,248.43

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

- For the expired leases, the leases are extended in the IFRS 16 model by one year before the renewal of the leases is put in effect.

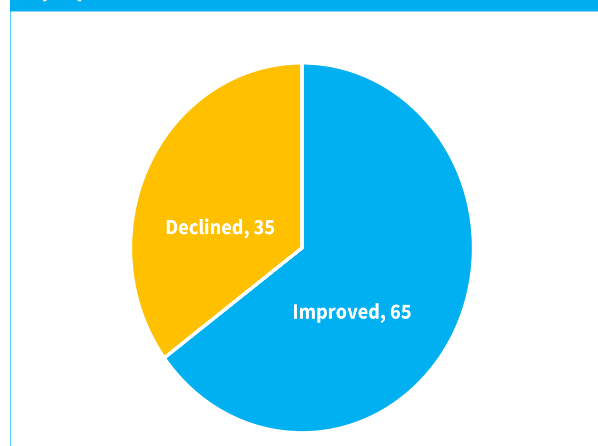
2.9 Liquidity Risk

- 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 March 31, 2024.

2.9.1 Commercial Banks' liquidity positions

- During the quarter ended March 2024, 65 percent of the respondents indicated that their liquidity position had improved as indicated in **Chart 8**.

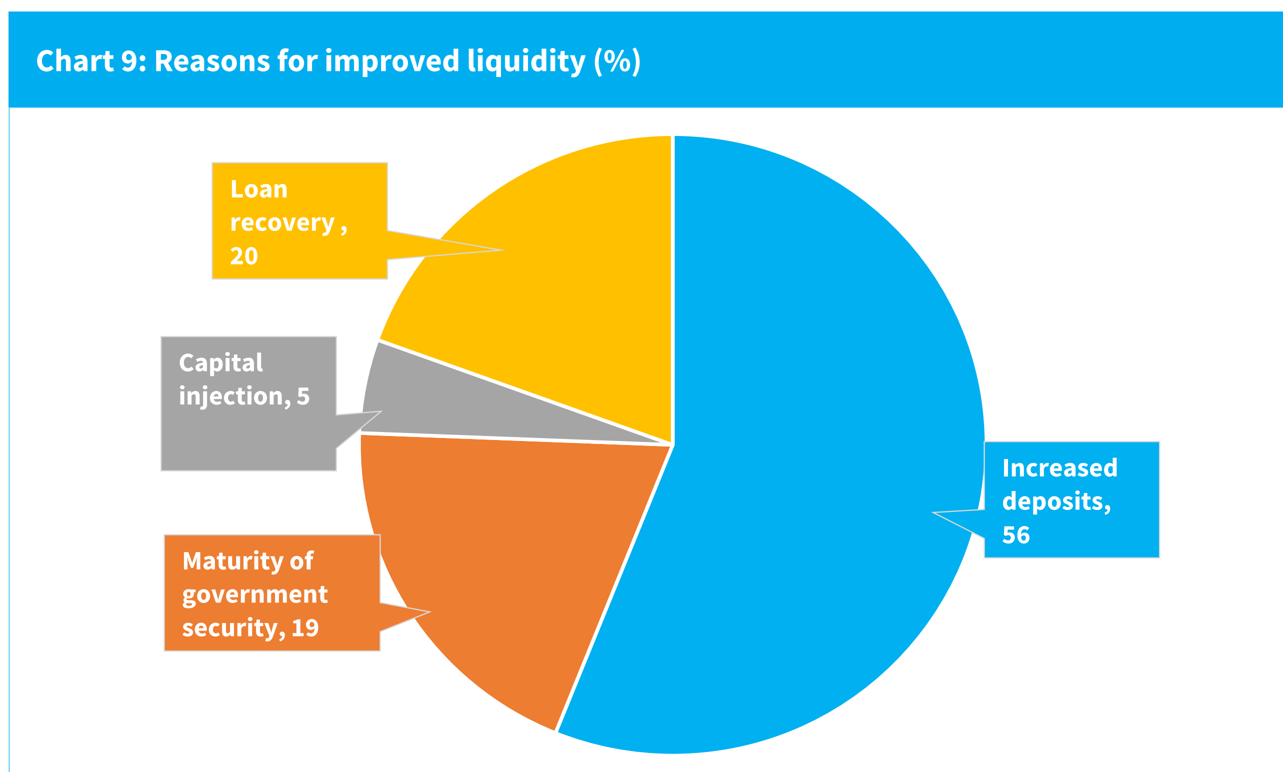
Chart 8: Movement in liquidity position (%)



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

- During the quarter ended March 31, 2024, liquidity improved mainly because of: -
    - i). Increased deposits (56 percent).
    - ii). Loan recovery (20 percent).
    - iii). Maturity of government securities (19 percent).
    - iv). Capital injection (5 percent).
- The drivers of improved liquidity are indicated in **Chart 9**.

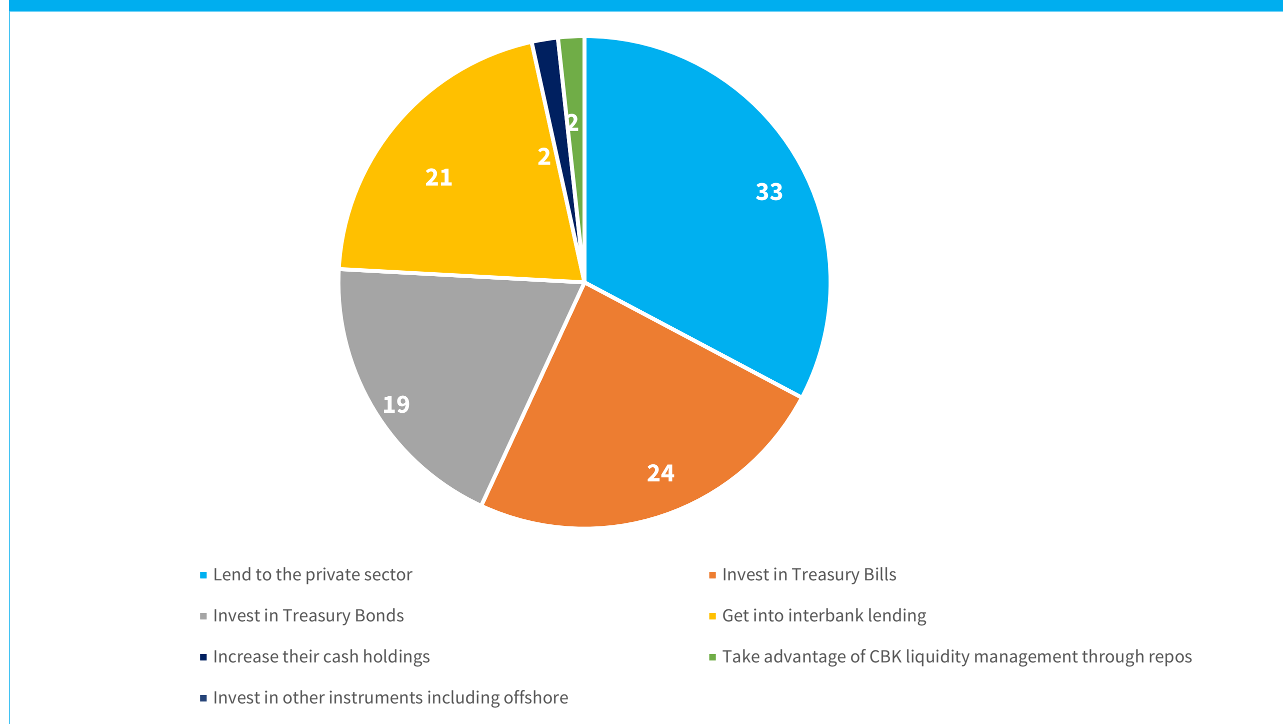
Chart 9: Reasons for improved liquidity (%)



2.9.3 Commercial Banks' plans with improved liquidity

- As indicated in **Chart 10**, with the improved liquidity, it is expected that in the second quarter of 2024, credit to private sector will increase as several banks intend to deploy the additional liquidity towards lending to the private sector (33 percent), investing in Treasury Bills (24 percent), interbank lending (21 percent), investing in Treasury Bonds (19 percent), take advantage of CBK liquidity through repos (2 percent), and Increase their cash holdings (2 percent).

Chart 10: Plans with improved liquidity (%)



2.9.4 Measures being taken by Commercial banks to enhance deteriorated liquidity

- During the quarter ended March 2024, 35 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 ended March 31, 2024, 50 percent of the respondents indicated that their interbank lending activities increased. This is indicated in **Chart 11**.
- 67 percent of the respondents indicated that their interbank borrowing decreased as indicated in **Chart 12**.

Chart 11: Increase in interbank lending (%)

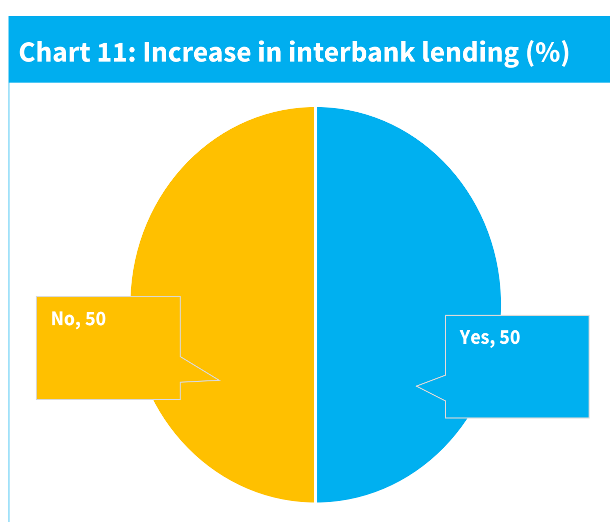
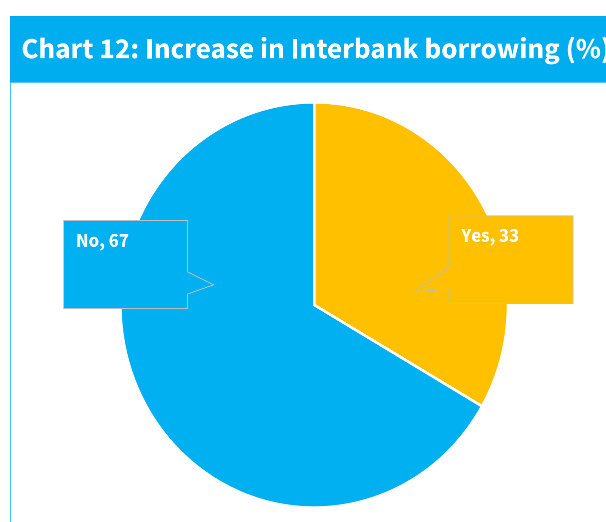


Chart 12: Increase in Interbank borrowing (%)



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

- The economic impacts of COVID-19 were 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 ended March 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.
- There is increase in 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:

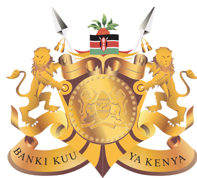
- **Credit risk**: Challenges of debt repayment, which is mitigated by the loan relief that banks are giving to borrowers which have now expired. Currently banks are still considering restructures of struggling facilities outside the CBK waiver, which means there is likely to be an increase in provisions.
- **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.



Central Bank of Kenya

Haile Selassie Avenue P.O. Box 60000 - 00200 Nairobi |Tel: (+254) 20 - 286 0000 / 286 1000 / 286 3000

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