KENYA BANKERS ASSOCIATION

STATE OF THE BANKING INDUSTRY REPORT

2025

KBA CENTRE FOR RESEARCH ON FINANCIAL MARKETS AND POLICY®

7TH EDITION

CENTRE FOR RESEARCH ON

FINANCIAL MARKETS AND POLICY®

STATE OF THE BANKING INDUSTRY REPORT 2025

The Centre for Research on Financial Markets and Policy® was established by the Kenya Bankers Association in 2012 to offer an array of research, commentary, and dialogue regarding critical policy matters that impact on financial markets in Kenya. The Centre sponsors original research, provides thoughtful commentary, and hosts dialogues and conferences involving scholars and practitioners on key financial market issues. Through these activities, the Centre acts as a platform for intellectual engagement and dialogue between financial market experts, the banking sector and the policy makers in Kenya. It therefore contributes to an informed discussion that influences critical financial market debates and policies.

ABOUT THIS REPORT

Banking Sector Resilience, Adaptability, and Innovation Driving Transformation

The *State of the Banking Industry (SBI) Report* is an annual publication of the Kenya Bankers Association Centre for Research on Financial Markets and Policy® aimed at contributing to the understanding of the Kenyan banking industry.

The *report* is motivated by the fact that various stakeholders seeking to understand the Kenyan banking industry engage various sources, including market analysts, banks, the Kenya Bankers Association (KBA) Secretariat, the Central Bank of Kenya (CBK) and other financial sector players and regulators. The breadth of views in this report is underpinned by the respective institution's analytical work, making the report reflective of the diversity of analyses.

The Kenya Bankers Association Centre for Research on Financial Markets and Policy® has compiled a database of financials at the bank-level spanning two decades. Together with other secondary data whose source is duly acknowledged, the database buttresses this report's analysis. The financial database, indicated as KBA data in the report, is based on published financial statements by banks up to December 31, 2024.

The report's analysis is undertaken at industry level as well as in the three-Tier bank clusters – Large, Medium, and Small. It also draws on the background work that is published under the *Kenya Bankers Association Working Paper Series* and other relevant published work as cited in the report and links provided as appropriate.

This issue of the *SBI Report* has benefited from discussions, comments and suggestions from banks, analysts, and academic researchers. However, the analysis and inferences are entirely those of the report's authors and should not be attributed to those who commented on it, the KBA General Body, and the KBA Governing Council.

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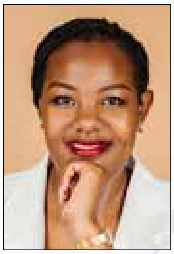

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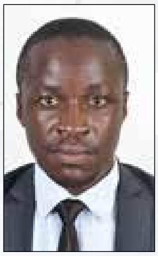

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FOREWORD

From the CEO's Desk

The seventh edition of the State of the Banking Industry Report provides an analytical overview of Kenya's banking sector performance in 2024, set against a backdrop of global uncertainty, domestic resilience, and ongoing structural transformation.

This report focuses at a time when the global economic environment remains fragile, with output expected to decelerate due to geopolitical tensions, tight global financing conditions, and climate-related disruptions. Yet, Kenya's economy has shown notable resilience, to record 4.7% growth in 2024, and projected to grow by 4.8% in 2025 and 4.9% in 2026 (IMF 2025). The banking sector has remained central to this progress by demonstrating adaptability, deepening financial intermediation, and supporting inclusive economic development.

Throughout 2024, the sector faced challenges and opportunities, alike. While monetary policy tightening helped contain inflation, it was accompanied by weak transmission to lending rates and subdued credit growth. Credit risk remained elevated, with the non-performing loan ratio rising to 16.4% in December 2024. At the same time, new regulatory reforms, particularly those embedded in the Business Laws (Amendment) Act, 2024, introduced significant changes to capital requirements and compliance enforcement.

"This report focuses at a time when the global economic environment remains fragile, with output expected to decelerate due to geopolitical tensions

Credit/ Nickson-Mwikya-Unsplash

Additionally, the sector recorded significant signs of digital acceleration and sustainability integration in 2024. Key innovations included the rollout of the ISO 20022 messaging standard, progress on the Fast Payment System (FPS), and the licensing of at least 85 Digital Credit Providers. The launch of the Kenya Green Finance Taxonomy and the Climate Risk Disclosure Framework marked a bold step toward climate-aligned banking.

KBA remains committed to promoting policy coherence, market development, and member alignment around national economic goals. Our brand ambition statement of "One Industry. Transforming Kenya" continues to drive our activities and engagement with regulators, the government, and development partners. We are especially proud of the strides made in advancing access to finance for MSMEs and women entrepreneurs, and in supporting innovation-led financial inclusion.

I extend my sincere gratitude to our member banks, partners and stakeholders whose contributions have made this report possible. I encourage readers to engage with its insights and use them as a basis for meaningful action, within institutions, across sectors, and through public-private dialogue.

Our concerted effort will ensure that the banking sector remains not only stable and profitable, but also transformative, inclusive, and aligned with Kenya's long-term development aspirations.

Raimond Molenje,
Chief Executive Officer,
Kenya Bankers Association

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Abbreviations

CAR	Capital Adequacy Ratio
CBK	Central Bank of Kenya
CIR	Cost-to-Income Ratio
COF	Cost of Funding
CRWA	Capital to Risk Weighted Assets
DLR	Deposit-to-Liability Ratio
FC	Foreign Currency
GDP	Gross Domestic Product
HHI	Herfindahl-Hirschman Index
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
MFB	Microfinance Banks
MPC	Monetary Policy Committee
NIM	Net Interest Margin
KGFT	Kenya Green Finance Taxonomy
LDR	Loan-to-Deposit Ratio
LLP	Loan Loss Provisions
NPL	Non-performing Loan
PAPSS	Pan-African Payments and Settlement System
ROA	Return on Assets
ROE	Return on Equity
SFI	Sustainable Finance Initiative
TRWA	Total Risk-Weighted Assets
KBA	Kenya Bankers Association
We-Fi	Women Entrepreneurs Finance Initiative
WMSME	Women-led Micro, Small and Medium Enterprises

EXECUTIVE SUMMARY

- The global economy is projected to post a modest growth of 3.0% in 2025 and 3.1% in 2026, down from 3.3% in 2024. Kenya's economy, however, is expected to remain resilient, growing by 4.8% in 2025 and 4.9% in 2026.

- In 2024, the Kenyan banking sector was shaped by three main developments. First, credit market's responsiveness to monetary policy signals was weak. Despite CBK's rate cuts, the pass-through to lending rates was limited, leading to a significant contraction in credit growth year-on-year. The banking sector also faced elevated credit risk, with the non-performing loan (NPL) ratio rising to 16.4% in December 2024.

  Additionally, Business Laws (Amendment) Act, 2024 was enacted that introduced significant changes to the sector, including:

  - Empowering CBK to impose penalties for non-compliance with the banking act, prudential guidelines, or CBK directives, up to KSh 20 million or three times the monetary gain (Whichever is higher), plus KSh 100,000 daily for continued non-compliance;

  - Mandating a phased increase in minimum core capital for banks and mortgage finance companies from KSh 1 billion to KSh 10 billion by 2029;

> **The banking sector accelerated digital transformation with adoption of ISO 20022 messaging standard and licensing of at least 85 Digital Credit Providers**

Second, the sector faced headwinds in 2024 on the back of slowing economic growth, sectoral contractions, and weaker loan demand. Kenya's GDP growth was up by 4.7% in 2024 compared to 5.7% in 2023. The external sector improved, with a KSh 176.7 billion surplus driven by exports and remittances. Fiscal challenges persisted despite better revenue performance. Moreover, the 2024 downgrade of Kenya's sovereign credit rating by Moody's raised borrowing costs, increasing sovereign risk exposure for banks, heightening caution in private sector lending.

Third, the sector saw an acceleration in digital transformation and payments modernization, with the adoption of the ISO 20022 messaging standard, progress towards development of a nationwide Fast Payment System (FPS) and the licensing of at least 85 Digital Credit Providers (DCPs).

- Banking sector assets declined by 1.6% to KSh 7.6 trillion in 2024, compared to a strong growth of 17.6% in 2023. The share of loans and advances to total assets fell from 49.4% in 2023 to 48.1% in 2024, while investments in government securities increased to 27.8%, signaling a more cautious risk appetite. Net loans and advances declined from KSh 4.2 trillion in 2023 to KSh 4.1 trillion in 2024, and deposit growth slowed to 1.23%, with total deposits amounting to KSh 5.81 trillion.

- The Loan-to-Deposit Ratio (LDR) declined to 70.1% from 71.1% in the previous year, reflecting enhanced liquidity and a conservative lending stance. At the same time, the Deposit-to-Liability Ratio (DLR) rose to 91.0%, underscoring the sector's heavy reliance on customer deposits for funding.

- Market concentration remained high, with the top 10 banks accounting for 78.2% of total industry assets. The Herfindahl-Hirschman Index (HHI) slightly decreased to 810.52 in 2024, indicating a moderately concentrated yet competitive environment.

- Gross non-performing loans (NPLs) rose to KSh 672.7 billion by December 2024, with sharp increases in Trade, Real Estate, Manufacturing, and Personal/Household loan sectors due to challenging operating conditions, pending bills, and recurring political Finance Bill demonstrations. Loan loss provisions (LLPs) declined to KSh 85.24 billion in 2024 (from KSh 109.51 billion in 2023) due to enhanced credit recovery efforts, write-offs, and repayments.

- Capital adequacy remained robust and above minimum regulatory requirements. The Total Capital/Risk-Weighted Assets (TRWA) ratio stood at 19.7% in 2024, well above the 14.5% minimum. The ratio of Core Capital to Total Risk Weighted Assets was 17.4% in 2024, exceeding the minimum regulatory threshold of 10.5%. The Core Capital to Total Deposits ratio was 17% in 2024, in excess of the 8% minimum regulatory requirement.

- The sector's financial performance in 2024 was buoyant. Total operating income increased to KSh 990.46 billion, driven largely by interest income from loans and advances, which contributed 51.4% of the total income. Operating expenses rose by 11.5% to KSh 879.21 billion, with administrative and interest expenses remaining the key cost drivers. Despite this, operational efficiency improved, with the Cost-to-Income Ratio (CIR) declining to 61.0%. The net interest margin (NIM) increased up to 7.41%, while the average cost of funding (COF) rose to 5.75%. Profit before tax grew by 18.7% to KSh 260.09 billion. Return on Assets (ROA) rose to 3.44%, while Return on Equity (ROE) declined to 22.3%.

- The sector also made commendable progress in advancing sustainable finance and supporting micro, small, and medium enterprises (MSMEs). Banks increasingly integrated environmental and social considerations into investment decisions, aligning with emerging global standards. The CBK issued the Kenya Green Finance Taxonomy (KGFT) and Climate Risk Disclosure Framework in April 2024 to promote green finance and enhance climate-related risk management. The Kenya Bankers Association (KBA) continues to champion compliance with these frameworks while advocating for the retention of tax exemptions on green bonds.

- Under the KBA's *Inuka* SME Program, over 14,000 MSMEs were trained in 2024, aimed at strengthening financial literacy and improving access to credit. The industry has also committed to doubling MSME credit disbursements from KSh 75 billion to KSh

150 billion annually, over a three-year period. As of May 2025, disbursements stood at KSh 81.4 billion. Loan approval rates were high, with 85% of MSME applications approved, though rejections were mostly due to repayment capacity constraints, lack of collateral, and incomplete documentation.

- Additionally, a gender-disaggregated MSME dashboard is under development to provide granular insights on credit flows to women-led enterprises (WMSMEs). This initiative forms part of Kenya's contribution to the Women Entrepreneurs Finance Initiative (We-Fi) Code, which seeks to drive systemic change in financial services for women entrepreneurs.

- Overall, the banking sector presents a cautiously optimistic outlook. It remains on a strong growth trajectory supported by solid capital adequacy. Liquidity conditions remain conducive , although risks associated with high NPLs and significant exposure to government securities, especially for smaller banks, continue to pose challenges. Nevertheless, the sector's role in credit intermediation is expected to expand, reinforcing its contribution to Kenya's economic development.

Chapter 1: Introduction

Key Developments in the Banking Sector

The global economy is projected to grow at a modest pace of 3.0% in 2025 and 3.1% in 2026, easing from 3.3% in 2024. This outlook reflects the front-loading of activity ahead of anticipated tariff increases, lower-than-expected effective U.S. tariff rates, improved financial conditions supported by a weaker U.S. dollar, and fiscal expansion in several major economies[1]. Kenya's economy, on its part, is forecast to grow by 4.8% in 2025 and 4.9% in 2026, buoyed by a rebound in agriculture, easing inflation, and improved export performance. Nevertheless, downside risks persist, particularly the expansion of protectionist policies in advanced economies and ongoing geopolitical uncertainties, which could dampen global demand and, by extension, Kenya's external sector performance.

Kenya's banking sector in 2024 has been shaped by a complex interplay of macroeconomic dynamics, regulatory shifts, and structural market transformations. The sector has weathered economic shocks, policy changes, and increased competition, yet remained resilient. This year, the banking sector has been shaped by developments in the economy in 2024 in three respects:

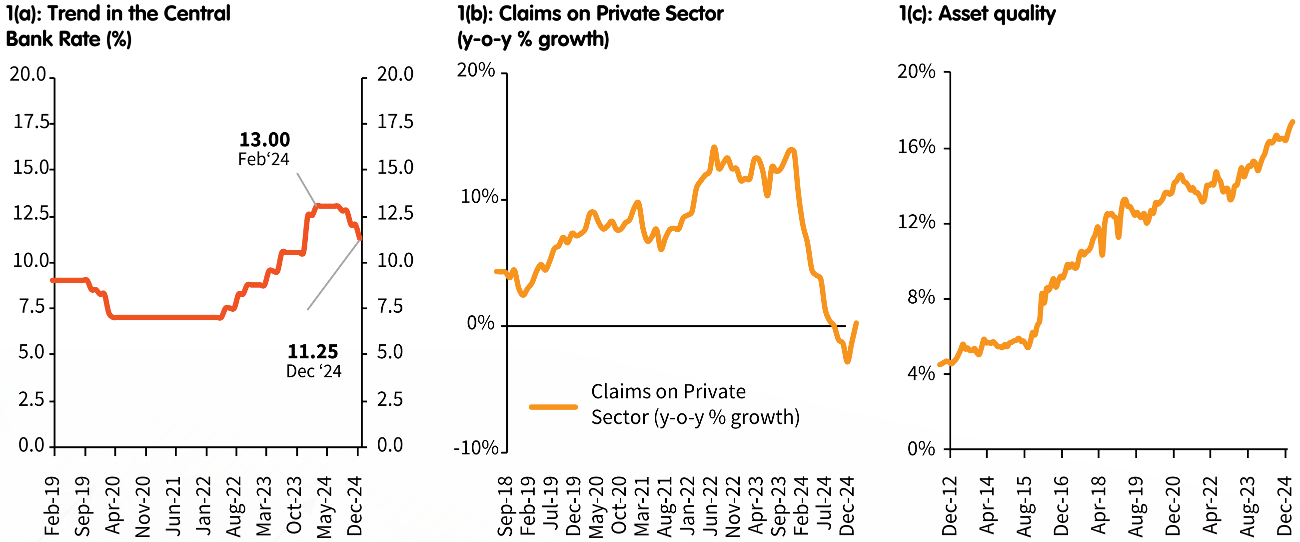
First, responsiveness of the credit market to monetary policy transmission has been weak. Despite the Central Bank of Kenya (CBK) active recalibration of the policy rate in 2024, the pass-through to the lending rates has been limited. As shown in **Figure 1a**, the key decisions by the Monetary Policy Committee (MPC) during the year included a rate hike to 13.0% on February 6, 2024 up from 12.5% in December 2023, that was held through June 2024. However, the MPC reviewed the width of the interest rate corridor around the Central Bank Rate (CBR) from ±250 basis points to ±150 basis points. Moreover, the Committee also adjusted the applicable interest rate on the Discount Window from 400 basis points above CBR, to 300 basis points. While these policies were aimed at enhancing monetary policy transmissions, anchoring inflation

> **Kenya's banking sector in 2024 has been shaped by a complex interplay of macroeconomic dynamics, regulatory shifts, and structural market transformations.**

7. See IMF World Economic Outlook https://www.imf.org/en/Publications/WEO/Issues/2025/07/29/world-economic-outlook-update-july-2025

expectations and stimulating credit growth, the effect on actual lending rates was muted, reflecting persistent challenges in loan pricing. Consequently, credit growth contracted significantly year-on-year (**Figure 1b**). At the same time, the banking sector continued to face elevated credit risk, with the non-performing loan (NPL) ratio rising to 16.4% in December 2024, on account of tough economic conditions (**Figure 1c**).

Figure 1: Credit market developments



Source: Central Bank of Kenya

Additionally, other regulatory shifts in 2024 are poised to significantly reshape Kenya's banking landscape. The Business Laws (Amendment) Act, 2024[2] aimed at enhancing sector stability, accountability, and capital strength introduced several far-reaching changes to the Banking Act, including:

- **Empowered CBK to impose penalties on institutions and individuals for non-compliance with banking Act, prudential guidelines or CBK directives.** These penalties may amount to :
    - Up to **Kes 20 million**, or three times the monetary gain made (or loss avoided) by non-compliance, whichever is higher.
    - An additional **Kes 100,000** per day for each day the non-compliance continues.
- **Stipulated new Core Capital Requirements for Banks and Mortgage Finance Companies.** The Act mandated a phased increase in minimum core capital for banks and mortgage finance companies from Kes 1 billion to KSh 10 billion by 2029 **(Table 1)**. While the 14 largest banks which represent 87% of sector assets had over Kes 10 billion core capital in 2024, many smaller banks are expected to explore capital augmentation measures including via mergers and/or acquisitions.

2. The new capital requirements were introduced through the Business Laws (Amendment) Act, which was signed into law on 11 December 2024 by President William Ruto. The Business Laws (Amendment) Act, 2024 came into force on December 27, 2024.

Table 1: Phased Increase of Minimum Core Capital Requirements

Minimum core capital requirements	Kes Billion	US dollar equivalent (USD million)[3]
Current	1	7.74
December 31, 2025	3	23.22
December 31, 2026	5	38.70
December 31, 2027	6	46.44
December 31, 2028	8	61.92
December 31, 2029	10	77.40

Source: Authors illustration, The Business Laws (Amendment) Act, 2024

- Exemption from Banks seeking licence to conduct Credit Guarantee Business. Banks that offer credit guarantees as part of their ordinary course of business, under the purview of the Banking Act, would not be required to obtain a separate license under the new credit guarantee business regulations.

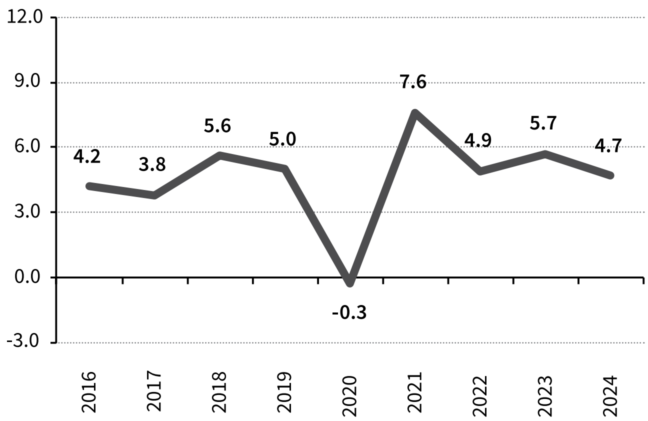
Second, the evolving macroeconomic and fiscal pressures have continued to impact on the sector's performance. Both global and domestic developments can be aptly characterized along three patterns:

- The deceleration in economic growth dampened business activity and weakened loan demand across key sectors. Kenya's real GDP growth slowed to 4.7% in 2024, down from 5.7% in 2023 **(Figure 2a)**, reflecting a broad-based moderation in economic activity. Notably, contractions in the construction sector (0.7%) and mining and quarrying (down 9.2%) signalled weakening investment momentum, with direct implications for credit appetite and asset quality in related portfolios. This slowdown in economic expansion constrained banks' ability to grow their loan books sustainably and heightened the risk of credit deterioration in vulnerable sectors.
- Kenya's external sector weakened in 2024, recording a Balance of Payments deficit of KSh 176.7 billion, up from a KSh 134.8 billion deficit in 2023 (**Figure 2b**). The current account deficit narrowed by 45.4%, supported by strong merchandise exports, service receipts, and remittances. This improved external sector stability supported foreign exchange reserves, buildup reduced macroeconomic risks, and enhanced investor confidence, creating favorable conditions for credit growth and banking sector resilience in 2025.

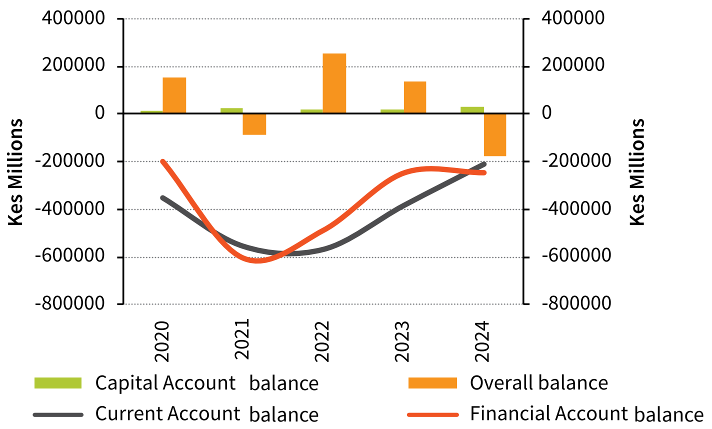
3. Calculated using the exchange rate of Kes 129.2427 per US dollar as of 14 July 2025.

Figure 2: Macroeconomic and fiscal developments

2(a): Gross Domestic Product (GDP) Growth rate (%)



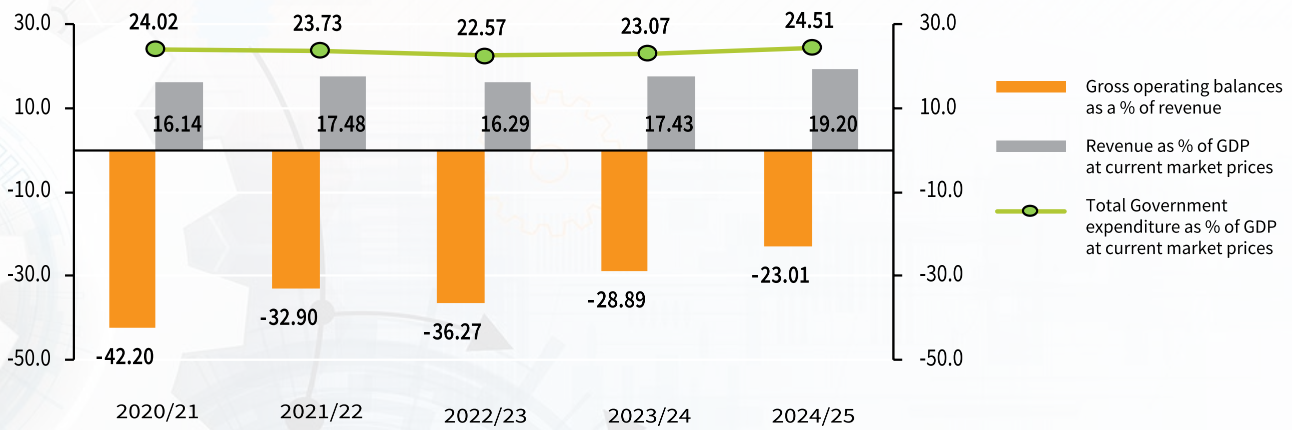
2(b): External sector developments



Source: KNBS

- Mounting fiscal challenges, including constrained revenue collection, rising debt service obligations, and elevated public expenditure pressures. Nonetheless, some fiscal indicators show signs of improvement. The gross operating balance as a percentage of revenue is estimated to narrow from a deficit of 28.9% in 2023/24 to a deficit of 23.0 % in 2024/25. Similarly, revenue performance is expected to strengthen; with revenue as a percentage of GDP esimated to increase from 17.4% to 19.2% over the same period. Total government expenditure as a percentage of GDP is also estimated to increase, from 23.1% in FY2023/24 to 24.5% in FY2024/25 **(Figure 3)**, reflecting continued fiscal expansion. However, downside risks remain. Key among them is the 2024 downgrade of Kenya's sovereign credit rating by Moody's, which has led to increased government borrowing costs and higher risk premiums across the financial system. This development may crowd out private sector credit and heighten banks' exposure to sovereign risk, thereby undermining financial sector stability.

Figure 3: Selected Fiscal Ratios



Source: KNBS

Photo credit/ istock.com

Third, the acceleration of digital transformation and payments modernization gained significant traction in 2024. Key milestones included Kenya's adoption of the ISO 20022 messaging standard[4] and the development of a nationwide Fast Payment System (FPS), supported by initiatives like PAPSS. These efforts, along with the licensing of at least 85 Digital Credit Providers (DCPs)[5] in 2024 are expected to enhance efficiency, reduce costs, and position Kenya as a competitive, inclusive regional financial hub.

The above background provides the setting upon which the state of the banking industry in 2025 is outlined. It provides the underpinning context for understanding the interaction between the market players, the regulatory requirements, customer, and shareholder expectations, and how the interactions feed into banks' financial performance. The rest of the report is organized as follows. **Chapter 2** discusses the growth of the industry, while **chapter 3** discusses asset quality evolution, **chapter 4** and **5**, present the performance banking sector and deposit taking microfinance banks, respectively. **Chapter 6** outlines developments on sustainable banking practices in Kenya, and finally, **chapter 7** concludes with a brief outlook of the sector and the economy.

4 See https://www.centralbank.go.ke/uploads/press_releases/301857193_Press%20Release%20-%20Successful%20Migration%20of%20the%20Kenya%20Electronic%20Payment%20and%20Settlement%20System%20to%20the%20ISO20022%20Global%20Messaging%20Standard.pdf

5 See https://www.centralbank.go.ke/uploads/press_releases/711656549_Press%20Release%20-%20Licensing%20of%2027%20Additional%20Digital%20Credit%20Providers.pdf

Chapter 2:

Industry Growth

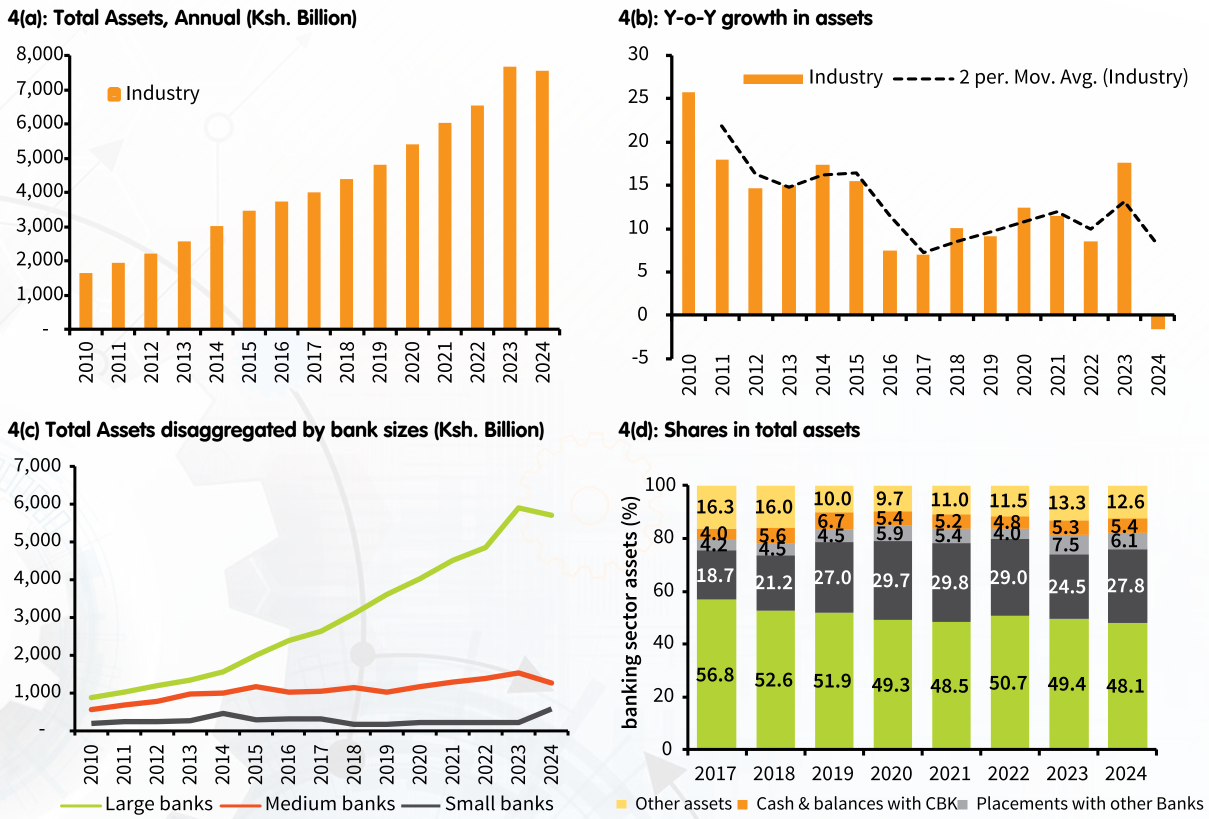
Key Indicators of Sector Performance

2.1 Banking System Total Assets

Banking sector assets, a key indicator of financial strength and activity, declined by 1.6% to Ksh 7.6 trillion in 2024, marking a moderation from the 17.6% growth recorded in 2023 (Figure 4a and 4b). This was largely driven by tight economic conditions and macroeconomic environment. The contraction was more pronounced among large and medium-sized banks. Large banks, which hold a dominant share of industry assets, saw their total assets shrink by 3.5% to Ksh 5.7 trillion, while medium-sized banks experienced a steeper decline of 17.4%. In contrast, small banks were the only segment to register growth, expanding their assets to Ksh 576 billion **(Figure 4c)**; reflecting banks' focus on niche markets as key business propositions.

The sectors' asset structure in 2024 remained largely skewed towards loans and advances, despite the latter's share declining slightly from 49.4% in 2023 to 48.1% in 2024 due to the lagged effects of elevated interest rates in 2023 that softened loan growth in 2024. Investments in government securities on the other hand increased to 27.8%, while placements with other banks declined to 6.1% in 2024 from 7.5% in 2024 (**Figure 4d**). This shifts in asset structure reflect less appetite by banks to grow their loan books mainly due to elevated credit risk amidst high interest rates. Consequently, the share of the relatively-less-risky asset classes rose during the period.

Figure 4: Banking System Total Assets



Source: KBA

Photo credit/ istock.com

02

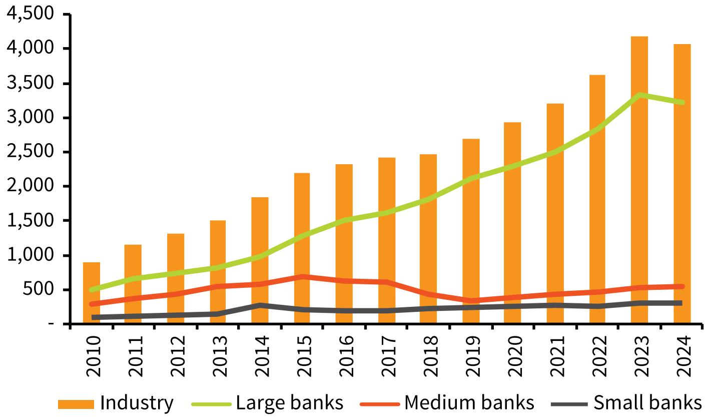
2.2 Banking System Loans and Advances

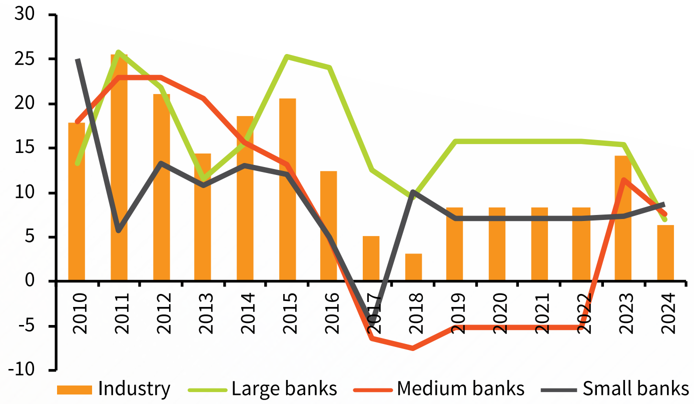
The sector's year-on-year growth in loans and advances slowed in 2024, reflecting the lagged effects of the 2023 monetary policy tightening, which kept the cost of funds elevated. This discouraged credit expansion, especially to riskier sectors, and raised the threshold for creditworthiness. In absolute terms, the total net loans and advances declined from Ksh 4.2 trillion in 2023 to Ksh 4.1 trillion in 2024 **(Figure 5a)**, but remaining on its long term growth trajectory **(Figure 5b)**.

By bank size, large banks recorded the most significant contraction, with their loan book shrinking by 3.5% to Ksh 3.2 trillion. However, medium-sized banks posted modest growth of 1.5% to Ksh 544.9 billion, while small banks remained nearly flat with a marginal decline of 0.1% to Ksh 310.2 billion. Additionally, the elevated credit risk, as evidenced by a persistently high non-performing loans (NPLs) ratios of over 15.0% in 2024 **(Figure 5c),** prompted banks to adopt a more cautious lending stance, prioritizing asset quality improvment over aggressive loan growth.

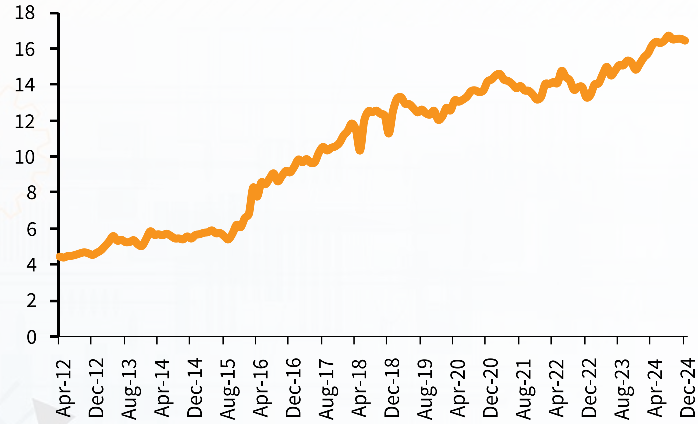
Figure 5: Banking System Loans and Advances

5(a): Total Net Loans and Advances (Ksh. Billion)





5(c): Asset quality (%)



Source: KBA

Box 1: The role of Capital position on Loan growth

The capital-to-asset and capital-to-risk-weighted assets (CRWA) ratios have remained key determinants of banks' capacity to grow their loan portfolios. These ratios indicate the extent to which a bank's asset base is supported by shareholder equity rather than borrowed funds, and they play a critical role in shaping the level of risk a bank can prudently undertake through lending.

Between 2022 and 2024, the relationship between capital strength and loan growth became increasingly pronounced (Figure 6). Banks with stronger capital positions were generally better equipped to expand their lending activities. Conversely, banking institutions with weaker capital buffers faced greater constraints, limiting their ability or willingness to extend credit.

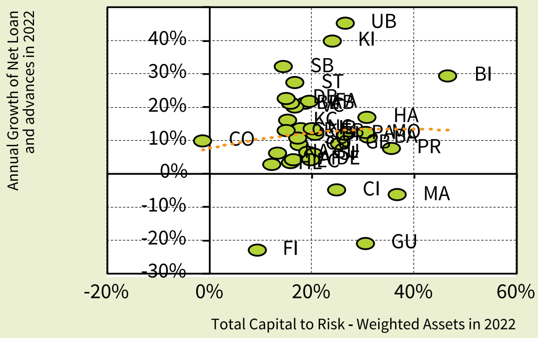
In 2022, there was a broadly positive correlation, such that banks with higher total capital-to-risk-weighted assets, particularly those exceeding 15%, tended to record positive loan growth, with some achieving annual increases of over 30%. In contrast, banks with capital ratios closer to 10% generally experienced muted or even deceleration in loan growth, reflecting constrained lending capacity **(Figure 6a).**

By 2023, this relationship had strengthened further. The data revealed a clearer upward trend, with banks maintaining capital-to-risk-weighted assets (CRWA) ratios above 20% consistently delivering stronger loan growth. Meanwhile, loan growth among lower-capitalized banks became more erratic, with several banking institutions experiencing sharp contractions **(Figure 6b)**.

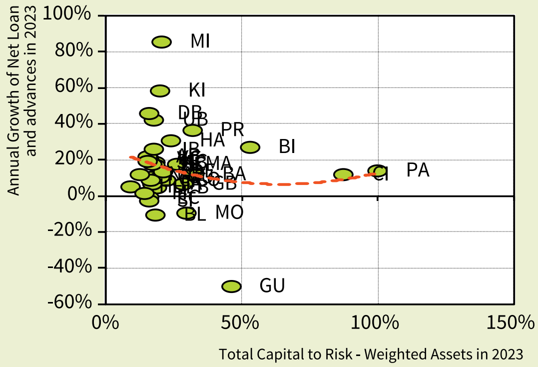
In 2024, the divergence became more pronounced. Banks with capital-to-risk-weighted assets (CRWA) ratios in the 20–40% range posted robust loan growth **(Figure 6c)**, with some whose capital ratios exceeded 40%, reaffirming the critical role of capital buffers in supporting credit expansion under stressed conditions. In contrast, banks with capital levels below 15% were largely clustered in the deceleration loan growth zone, underscoring their limited capacity or reluctance to extend new credit amid a risk-averse lending environment.

Figure 6: Association between Capital-to-Asset ratio and Loan Growth 2022 – 2024

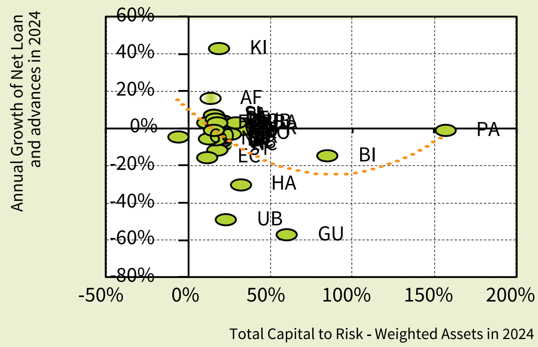
6(a): Capital-to-Asset ratio and Loan Growth 2022



6(b): Capital-to-Asset ratio and Loan Growth 2023



6(c): Capital-to-Asset ratio and Loan Growth 2024



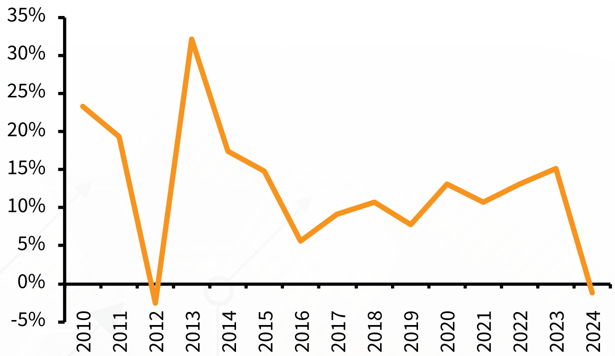
Source: KBA

2.3 Banking System Deposits

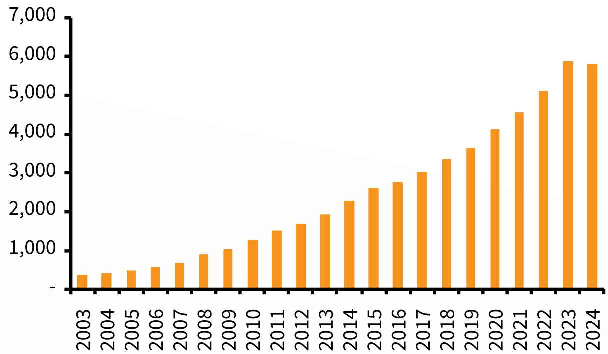
Deposit growth in the banking sector slowed by 1.23% in 2024, marking a departure from the twelve-year trend of positve deposit growth **(Figure 7a)**. The total deposit stood at Ksh 5.81 trillion in 2024, down from Ksh 5.88 trillion in 2023 **(Figure 7b)**. Nonetheless, large banks continued to dominate, leveraging their extensive branch networks and diversified customer base to tap into the bulk of deposit inflows. Medium and small banks also recorded growth, albeit at a more modest pace, underscoring the persistent concentration of deposits within tier 1 institutions **(Figure 7c)**. Moreover, it's important to note that the sector's deposit mobilization efforts has been largely supported by the continued expansion of digital banking channels[6], including mobile banking, agency banking, and internet banking, which have significantly improved customer reach and convenience, thereby accelerating deposit mobilization. Moreover, the Banking Customer Satisfaction Survey 2024 has shown a growing demand for integrated digital solutions while maintaining the relevance of physical branches **(Figure 7d)**, underscoring the need for a balanced omni-channel approach that aligns with customer behaviour and expectations.

Figure 7: Banking System Deposits

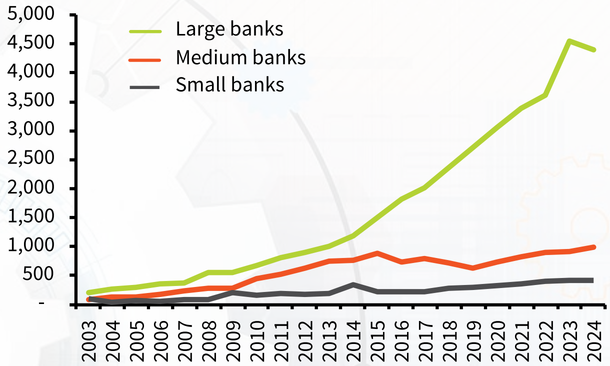
7(a): Banking sector deposit Growth



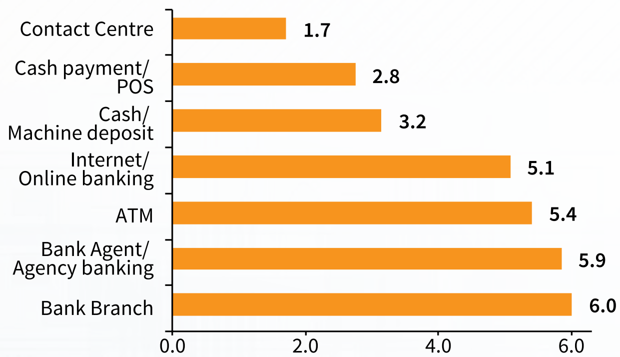
7(b): Total Deposits - KES Billion



7(c): Total Deposits across bank sizes - KES Billion



7(d): Customer Ranking of Preferred Banking Channels



Source: KBA database and KBA Customer Satisfaction Survey (2024)

6 See Banking Customer Satisfaction survey 2024 via https://www.kba.co.ke/wp-content/uploads/2025/02/KBA-Customer-Satisfaction-Survey-Report-2024.pdf.

2.4 Banking System Loan-to-Deposit Ratio

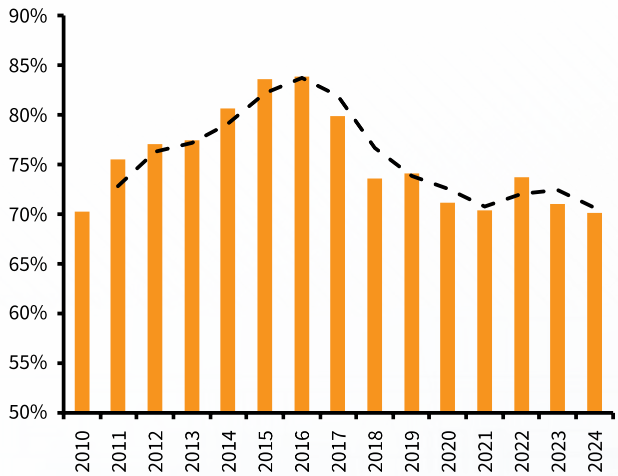
The Loan-to-Deposit (LTD)[7] ratio, a key metric that indicates the proportion of the sector's deposits that have been disbursed as loans, declined to 70.1% in 2024 from 71.1% in 2023 **(Figure 8a)**. This drop was primarily driven by a 2.6% contraction in loans and advances, which outpaced the 1.2% decline in total deposits. This shift reflects a more conservative lending stance and enhanced liquidity in the banking sector, as the ratio of liquid assets to total assets firmed by 1.8% to 37.8% in 2024.

Bank-level dynamics played a significant role in shaping the LDR trends. Large banks, with their broader depositor base and more diversified asset portfolios, saw a slight decline in their LDR from 73.3% in 2023 to 70.0% in 2024 **(Figure 8b)**. This was driven by a 3.5% contraction in loan book, which outpaced the 3.2% decline in deposit. Medium-sized banks recorded a moderate drop in their LDR to 54.9%, as their deposit base grew by 7.9% in 2024, outstripping the 1.5% growth in loans. In contrast, small banks continued to register the highest LDR levels at 74.8%, underscoring their great reliance on deposits for lending activities, given limited access to alternative funding sources.

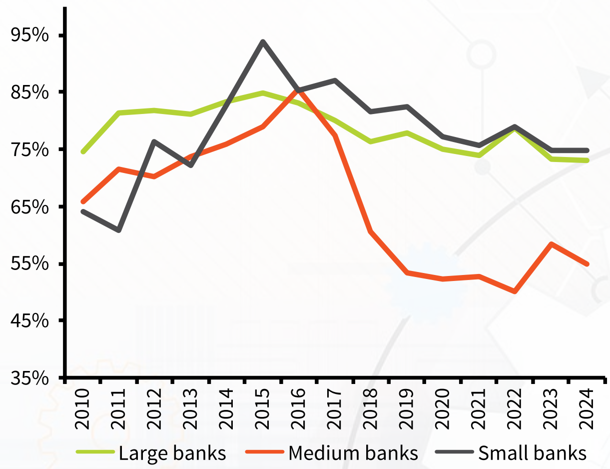
The implications of a declining LDR over the two recent years are twofold. On the one hand, it signals improved liquidity and more cautious risk management, providing a buffer against funding shocks. On the other hand, it suggests underutilization of available funds, potentially dampening the sector's capacity to support economic growth through credit intermediation.

Figure 8: Banking System Loan-to-Deposit Ratio

8(a): Loans to Deposits Ratio



8(b): Loans to Deposits Ratio across Banks

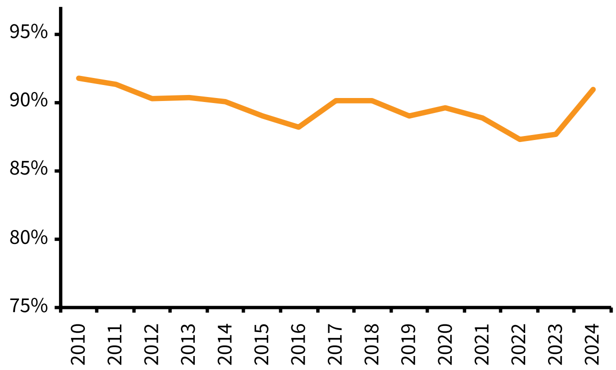


Source: KBA

7 The loan-to-deposit ratio (LDR) serves as a key indicator of liquidity, funding structure, and a bank's capacity to lend, given that deposits are consistently identified as the main funding source for banks and financial institutions across various regions.

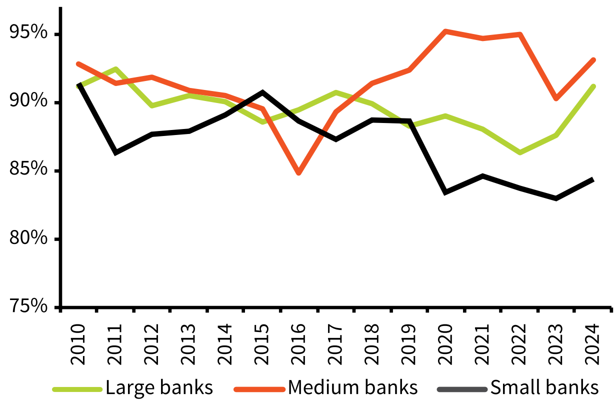
Figure 9: Banking System Deposit-to-Liability Ratio

9(a): Banking System Deposit-to-Liability Ratio



Source: KBA

9(b): Deposit-to-Liability Ratio across bank sizes



2.5 Banking System Deposit-to-Liability Ratio

The banking system's deposit-to-liability ratio increased to 91.0% in 2024, up from 87.7% in 2023 **(Figure 9a)**. This ratio, which reflects the proportion of total liabilities funded by customer deposits, has shown the sector's consistently high reliance on deposit mobilization as its primary source of funding. While such consistency signals a reliable funding base, it also underscores the need for greater liability diversification.

Variations were evident across bank sizes **(Figure 9b)**. Large banks aligned closely with the industry average at 91.2%, medium-sized banks recorded a higher ratio of 93.1% while small banks saw a decline to 84.4%, indicating, first, comparatively weaker deposit mobilization, and second, a greater reliance on alternative funding sources relative to the other bank peer groups. Moreover, the persistently high deposit-to-liability ratios raise important considerations around funding cost efficiency. Heightened competition for retail deposits in an environment of tighter liquidity and more selective customers may drive up funding costs, compressing margins.

2.6 Banking Sector Market Structure

The banking sector remained resilient in 2024, despite its total assets dropping to 43.7% of GDP, down from 51.1% in 2023 and 48.9% in 2022. The sector's credit book also dropped slightly, reaching 23.4% of GDP in 2024, which is a decline from 27.8% in 2023 (**Figure 10a**). On the liabilities side, the sector exhibits a relatively stable funding profile, with customer deposits being the main source of funding, accounting for about 89% of the sector's total liabilities in December 2024.

The market remained highly concentrated among large players. The top 10 banks accounted for 78.2% of total industry assets in 2024, down slightly from 79.6% in 2023 but still well above the 20-year average of 75.9%. Middle-tier banks held 19.6% of assets, while small-tier banks had a marginal share of 2.3% (**Figure 10b**). Lending patterns followed a similar trend, with the top 10 banks commanding 81.5% of total loans in 2024, down from 82.0% in 2023 (**Figure 10c**). In terms of deposit concentration, the top 10 banks held 78.6% of total deposits in 2024, down from 80.2% in 2023 and 77.7% in 2022. In contrast, small banks accounted for 2.1% of total deposits in 2024, which points to the structural hurdles faced by these banks in attracting stable deposit bases (**Figure 10d**).

The Herfindahl-Hirschman Index (HHI) for total assets, which measures market concentration, declined slightly from 852.96 in 2023 to 810.52 in 2024 (**Figure 11e**). Although the index remains below the 1,000 threshold, indicating a competetive market structure, the marginal decline points to growing consolidation among the big banks. Even so, Kenya's banking landscape remains broadly moderately competitive, shaped by scale-driven efficiencies, and digital-driven market penetration among all banks[8].

8. The Herfindahl-Hirschman Index (HHI) -attributed to the U.S Department of Justice - is a measure of the level and trend of concentration in a particular market. The HHI is calculated by squaring each entity's market share (relative to the total market), and summing the values attained. The U.S. Department of Justice considers a market with an HHI of less than 1,500 to be a competitive marketplace, an HHI of 1,500 to 2,500 to be a moderately concentrated marketplace, and an HHI of 2,500 or greater to be a highly concentrated marketplace.

Figure 10: Banking Sector Market Structure

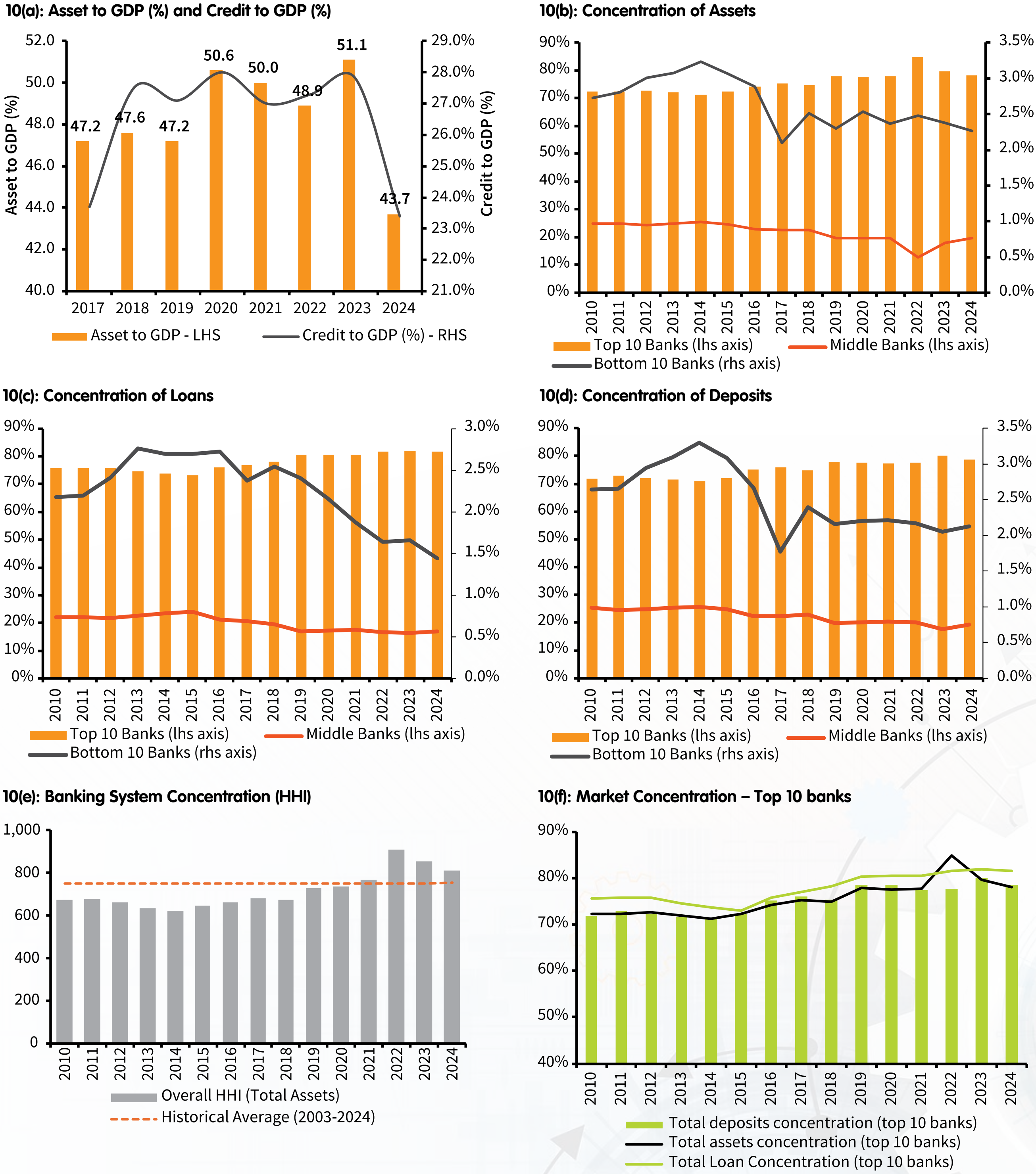


Photo credit/ istock.com

Chapter 3:

Asset Quality

Performance of Total Loans against Non-performing Loans

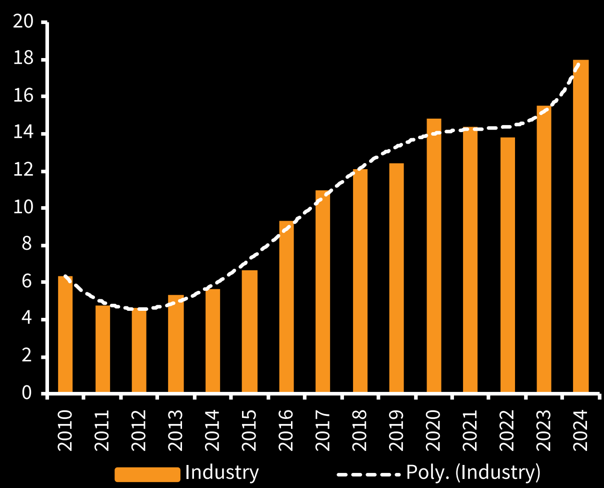
03

3.1 Asset Quality

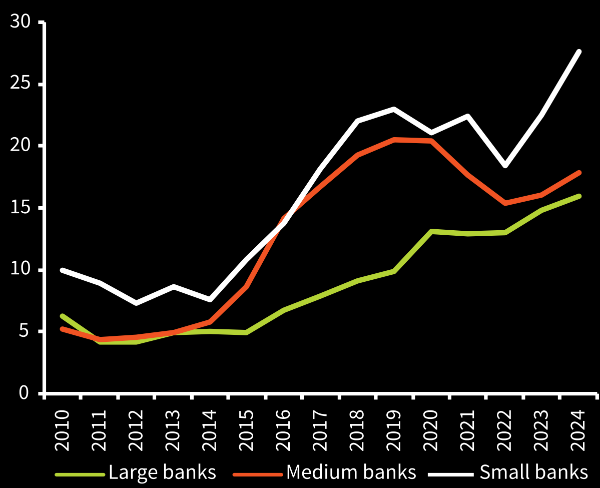
Credit quality in the banking sector deteriorated significantly, with the gross non-performing loans (NPLs) to gross loans ratio rising sharply to 16.4% as of December 2024 (Figure 11a). This marked increase signals a sustained upward trend in credit risk across the industry, driven by both macroeconomic pressures and sector-specific challenges. However, the deterioration was not uniform across the banking tiers (**Figure 11b**). Small banks recorded the steepest rise in NPLs, reflecting their heightened risk exposure and relatively limited credit assessment capabilities. Large banks, while not immune, were partially shielded by their diversified loan portfolios and stronger risk management frameworks, which helped absorb some of the shocks. Medium-sized banks experienced moderate increases.

Figure 11: Banking System Gross Non-Performing Loans to Gross Loans

11(a): Gross NPLs to Gross Loans Ratio



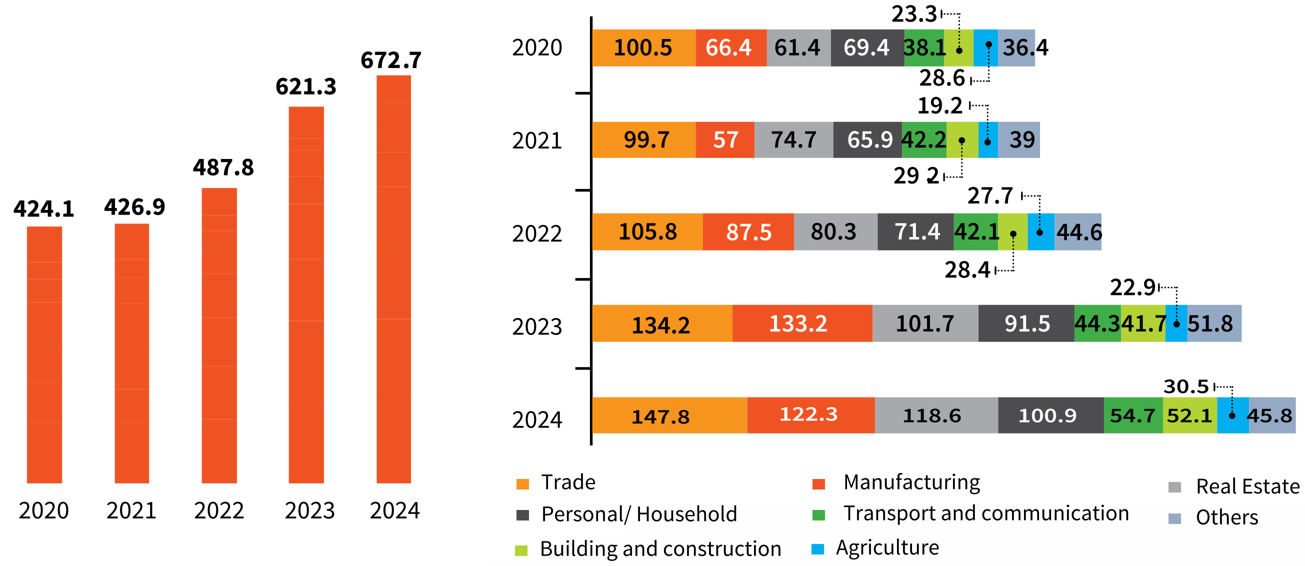
11(b): Gross NPLs to Gross Loans Ratio across bank sizes



Source: KBA

Figure 12: Banking System Gross Non-performing loans (NPLs)

12(a): Gross NPLs **12(b): Gross NPLs by Sector**



At the aggregate level, gross NPLs rose to KES 672.7 billion by December 2024, up from KES 621.3 billion in 2023, KES 487.8 billion in 2022, and KES 426.9 billion in 2021 (**Figure 12a**). From a sectoral perspective, sharp increases were evident in Trade, Real Estate, Manufacturing and personal/household loan sectors (**Figure 12b**). The rise in Non-Performing Loans (NPLs) across the Trade, Real Estate, Manufacturing, and Personal/Household sectors in 2024 was primarily driven by a challenging operating environment marked by constrained cash flows and subdued business activity.

This was underpinned by elevated inflation, currency depreciation, tight liquidity conditions, and anti-finance bill protests that disrupted economic operations and weakened borrowers' repayment capacity. The Trade and Real Estate sectors experienced sustained NPL growth throughout the year, while defaults in the Personal/Household segment rose notably in the second half. In contrast, Manufacturing sector NPLs fluctuated, with notable declines in Q1 and Q3 driven by write-offs and repayments, while a modest Q2 increase reflected a challenging environment. However, Q4 saw further declines due to repayments.

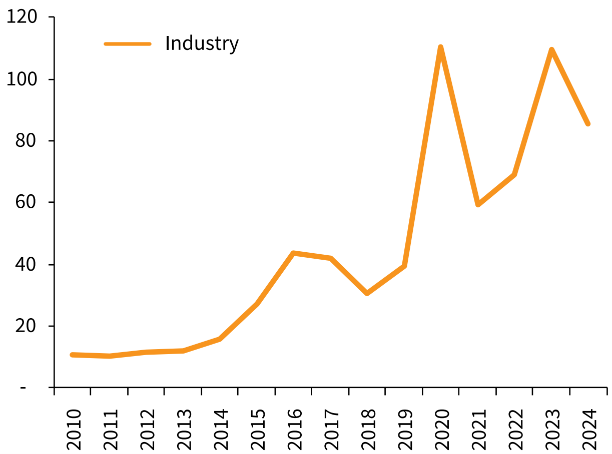
3.2 Loan Loss Provisions

Loan loss provisions (LLPs) in the Kenyan banking sector declined significantly in 2024, falling to KES 85.24 billion from KES 109.51 billion in 2023 **(Figure 13a)**. The decline in Loan Loss Provisions (LLPs) in 2024, despite an overall increase in Non-Performing Loans (NPLs), was primarily driven by enhanced credit recovery efforts[9], write-offs and repayments of previously non-performing loans in specific sectors. Essentially, when banks write off NPLs, they utilize or reverse the specific provisions initially set aside to cover those loans. Similarly, repayments reduce the NPL stock, lowering the need for new provisioning. This was especially evident in the third and fourth quarter of 2024, where provisions fell even as gross NPLs rose, reflecting improved recoveries in sectors such as Manufacturing, Agriculture, Mining, and Financial Services. The most notable drop occurred among large banks, whose LLPs fell from KES 95.01 billion in 2023 to KES 70.30 billion in 2024 **(Figure 13b)**. Medium-sized banks also reduced their provisions, dropping from KES 8.41 billion in 2023 to KES 5.76 billion in 2024. In contrast, small banks increased their LLPs to KES 9.18 billion in 2024, up from KES 6.09 billion in 2023 to promote stronger buffers against expected credit losses.

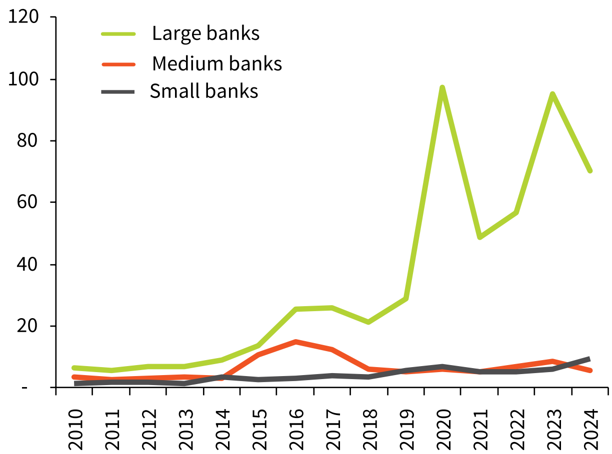
9 See Central Bank of Kenya Credit Officers surveys

Figure 13: Banking System Loan Loss Provisions

13(a): Loan Loss Provisions (KSh billions)



13(b): Loan Loss Provisions across bank sizes (KSh billions)



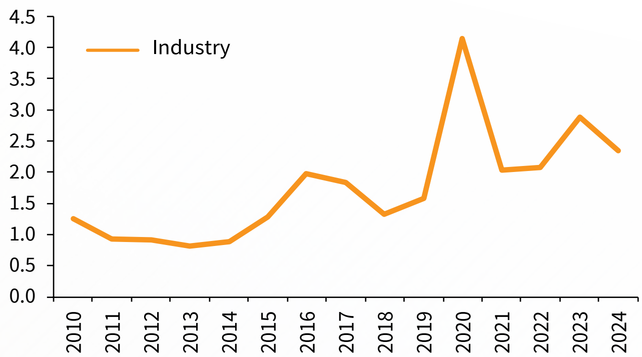
Source: KBA

Notable changes in loan loss provisions relative to total loans and risk-weighted assets were evident in the sector. First, the analyses of loan loss provisions as a proportion of the net loans and advances (that is, the cost of taking risk) shows that LLPs absorbed 2.3 percent of net loans in 2024 compared to 2.9 percent in 2023 (**Figure 14a**), with the cost of taking risk varying widely across banks. More specifically, small, medium, and large banks depict LLPs ratios of 3.4 percent, 1.2 percent, and 2.4 percent of loans, respectively (**Figure 14b**).

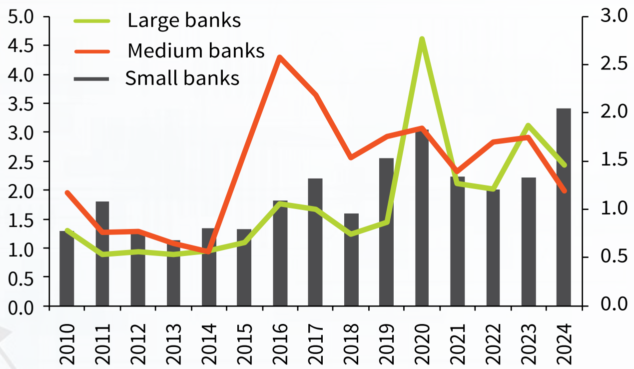
Second, as a proportion of total risk-weighted assets, provisions in 2024 stood at 1.5 percent compared to 1.9 percent in 2023 **(Figure 14c)**; with the drop driven by the drop in provisions. In the case of large banks, the ratio of total provisions to total risk-weighted assets stood at 1.5 percent, as medium and small banks had 0.8 percent and 2.5 percent, respectively. With the total provisions declining, the ratio of provisions to total capital equally went down 7.6 percent in 2024 from 10.2 percent in 2023. Across banks, the ratio of total provisions to total bank capital stood at 8.1 percent, 3.2 percent, and 13.3 percent for large, medium and small banks, respectively **(Figure 14d)**.

Figure 14: Banking System's Coverage Ratio

14(a): Provisions to Total Loans ratio (%)

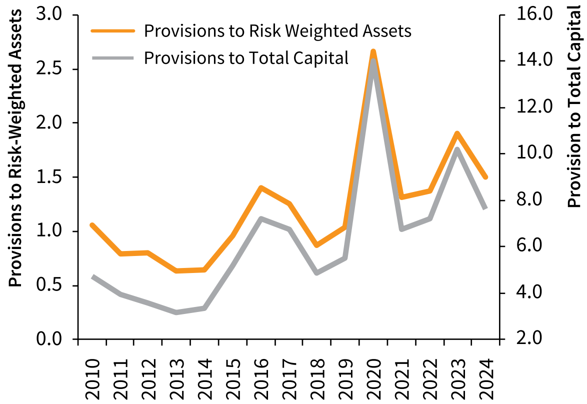


14(b): Provisions to Total Loans across bank sizes (%)

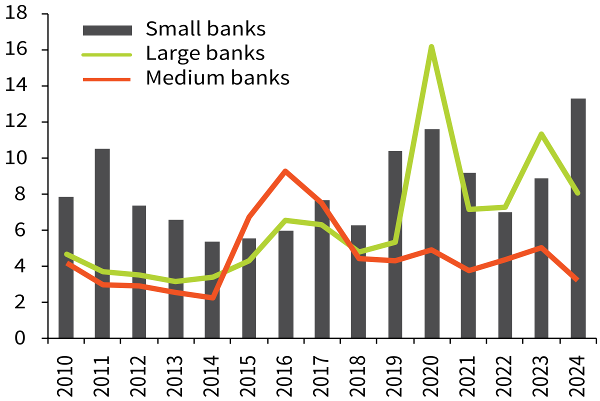


Source: KBA

14(c): Loan Loss Provisions to Total Risk Weighted Assets and Total Capital



14(d): Provisions to Total Capital, across bank sizes

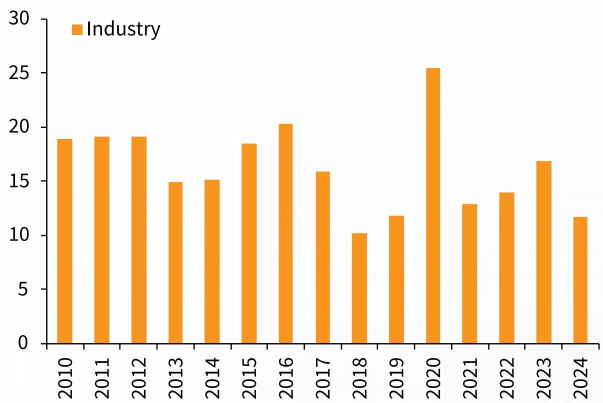


Source: KBA

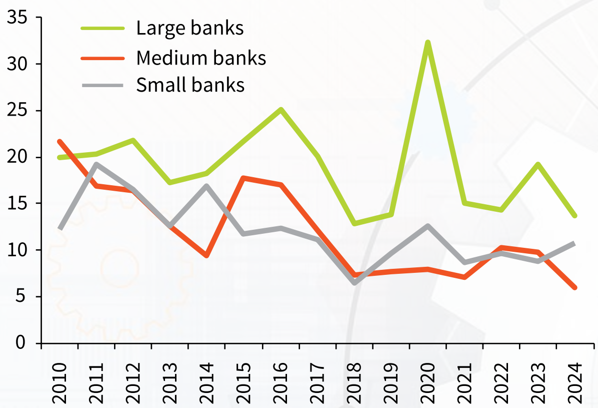
The industry-wide provision to NPLs ratio dropped from 16.9% in 2023 to 11.6 percent in 2024 (**Figure 15a**) despite an increase in NPL ratio. However, this trend varied across the bank sizes, with large and medium sized banks, on one hand, reporting a decline in provision from 19.3% in 2023 to 13.7% and 5.9% in 2024, respectively. On the other hand, small banks experienced a slight decline to 9.7% from 8.7%, in 2023 (**Figure 15b**).

Figure 15: Banking System's Provisions to Non-Performing Loans Ratio

15(a): Provisions to NPLs ratio (%)

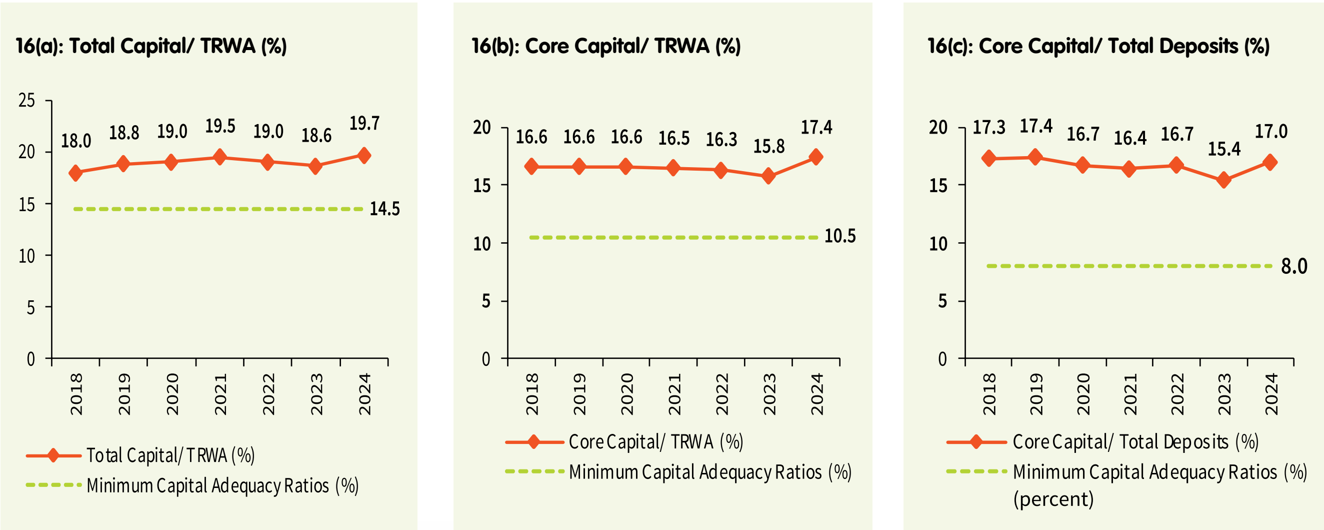


15(b): Provisions to NPLs ratios (%) across banks



Source: KBA

Figure 16: Capital adequacy



Notes: TRWA: Total-Risk-Weighted-Assets; CAR: Capital Adequacy Ratios
Source: KBA

3.6 Capital Adequacy

Capital adequacy which reflects a bank's ability to absorb potential losses and maintain stability, have remained robust and above minimum regulatory requirements **(Figure 16)**. For instance, the banking sector has consistently maintained Total Capital/ TRWA (percent) ratios exceeding the regulatory minimum of 14.5% **(Figure 16a).** Similarly, Core Capital/ TRWA (percent) stood at 17.4% in 2024, well above the minimum regulatory requirement of 10.5% **(Figure 16b).** Core Capital/ Total Deposits (%) also stood above the minimum regulatory requirement of 8%, recording 17.0% in 2024 **(Figure 16c)**. The increase in capital adequacy ratios in 2024 was mainly due to a decrease in total risk weighted assets (1.3% y-o-y) as compared to increase in Total capital (4.2%), Core capital (8.9%) and Total deposits (5.2%) (**Table 2**)

Table 2: Y-o-y growth in Core Capital, Total Capital, Total Deposits and TRWA (%)

	2018	2019	2020	2021	2022	2023	2024
Core Capital	6.5	8.4	8.8	9.7	8.3	11.3	8.9
Total Capital	1.8	13.0	10.1	11.5	8.7	12.7	4.2
Total Deposits	11.1	8.0	13.4	10.7	12.0	-10.5	5.2
TRWA	5.6	8.2	8.9	9.3	11.2	14.6	-1.3

Notes: TRWA: Total-Risk-Weighted-Assets; CAR: Capital Adequacy Ratios

Chapter 4:

Financial Performance

Key Drivers of Banking Sector Cashflows

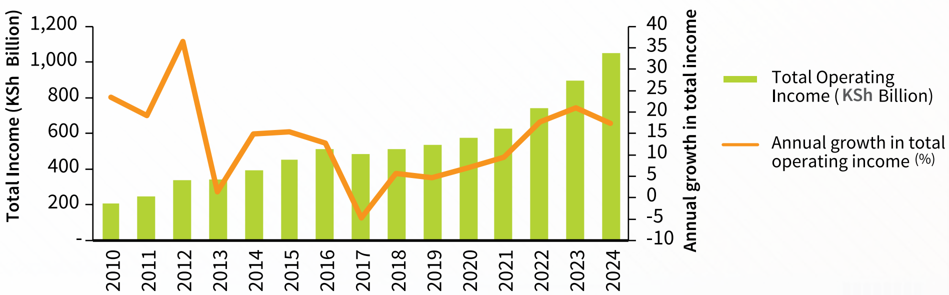
4.1 Operating Incomes

The banking sector registered sustained growth in total operating income in 2024, which rose to Kes 990.46 billion, up from Kes 895.3 billion in 2023 (Figure 17a). Interest income from loans and advances was the leading contributor, accounting for approximately 51.4% of the total operating income in 2024, up from 48.7% in 2023, mainly driven by higher lending rates.

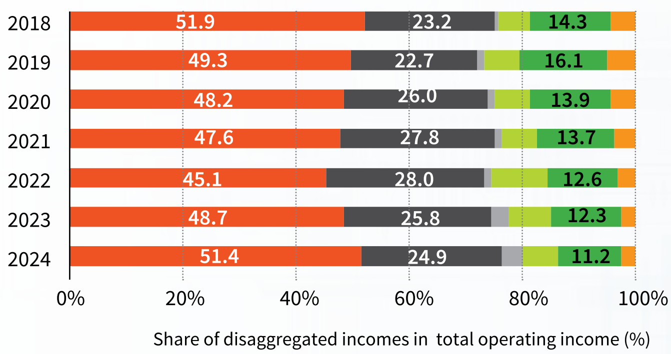
Income from government securities came in second at 24.9%, as fees and commission income came in third, contributing about 11.2% in 2024, down from 12.3% in the previous year. Meanwhile, income from foreign exchange gains and interest on placements and bank balances remained modest in 2024, contributing just 6.0% and 3.8% of total operating income, respectively (**Figure 17b**).

Figure 17: Banking System Operating Incomes

17(a): Total Operating income (KSh. Billion) and Annual Growth



17(b): Share of Disaggregated Incomes in Total Operating Income



Source: KBA

4.2 Operating Costs

The total operating costs increased in 2024, somewhat offsetting gains in income and placing pressure on profitability and overall operational efficiency. Specifically, total operating costs increased by 11.5% in 2024, reaching Ksh 879.21 billion, up from Ksh 788.6 billion in 2023 **(Figure 18a)**. Consequently, the ratio of total operating costs to average assets rose marginally from 5.2% in 2023 to 5.4% in 2024 **(Figure 18b)**. The marginal upward trend in total operating costs to average assets was mirrored by the large and medium banks, contrary to the observed trend among the small banks **(Figure 18c)**.

General administrative expenses and interest expenses remained the two dominant cost components **(Figure 18d)**. General administrative costs, which covers personnel, branch operations, ICT infrastructure, and compliance costs, accounted for approximately 41.0% of total operating costs. Interest expenses comprised 36.7% from interest on deposits and 4.3% from interest on borrowed funds, deposits, and placements. The rise in interest expenses was largely attributed to a 48.0% increase in interest-bearing deposits.

Figure 18: Banking System Operating Costs

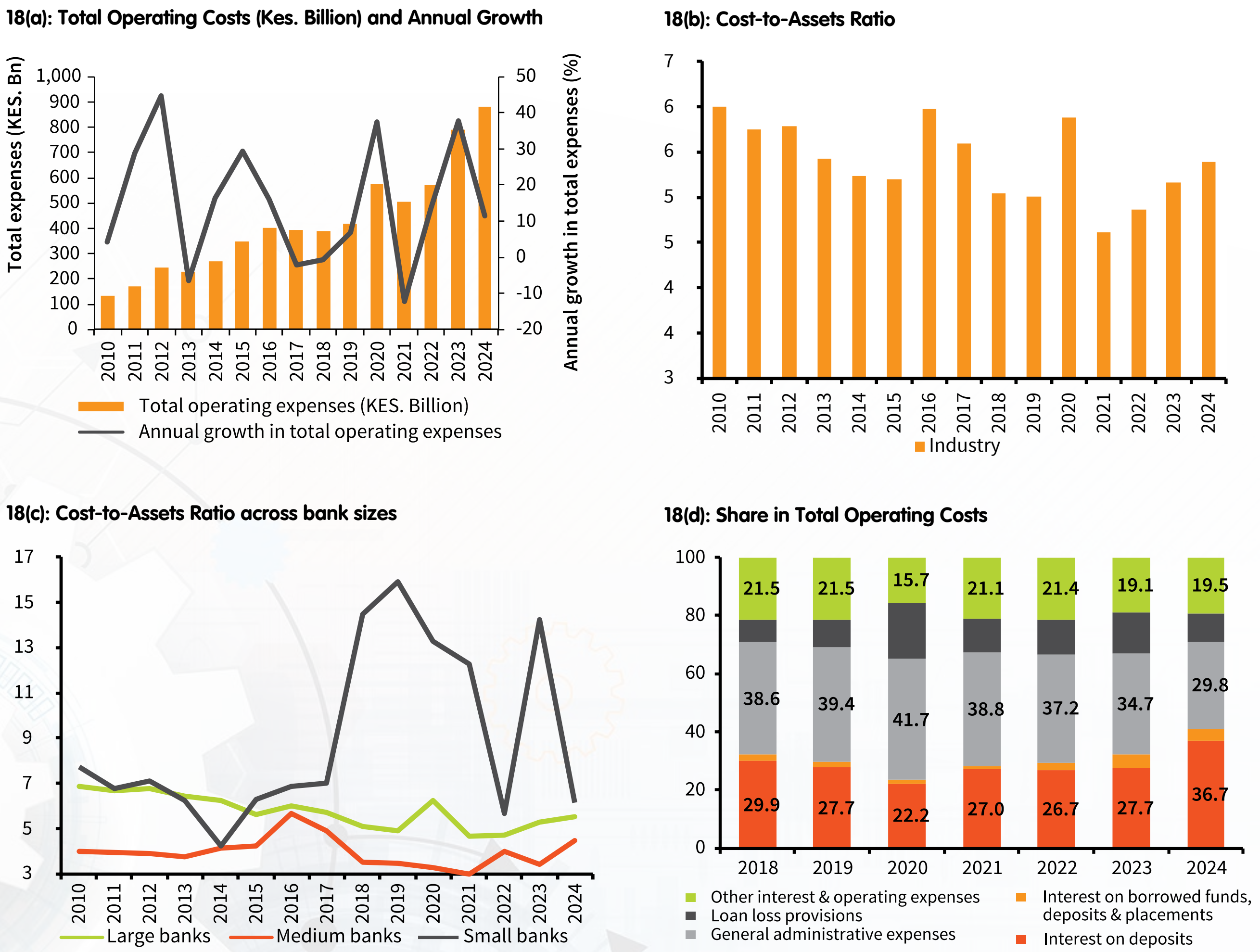
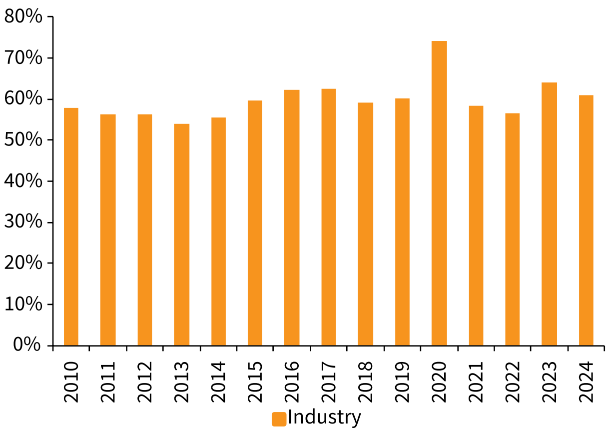
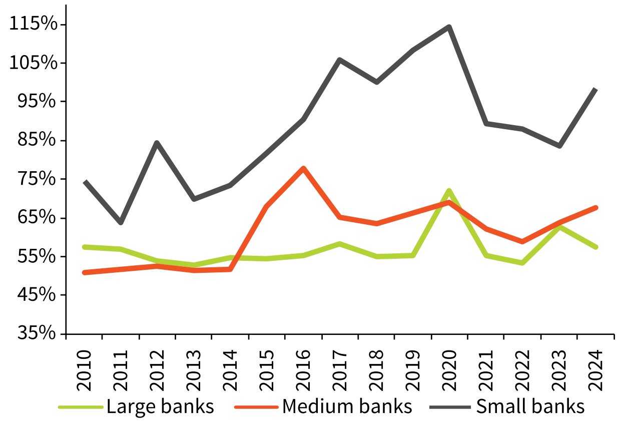


Figure 19: Banking Sector Cost-to-Income Ratio

19(a): Industry Cost-to-Income Ratio



19(b): Industry Cost-to-Income Ratio Across Bank Tiers



4.3 Cost-to-Income Ratio

Despite the growth in operating expenses, the sector's Cost to Income Ratio (CIR)10 improved to 61.0% in 2024 from 64.2% in the preceding year, indicating enhanced efficiency (Figure 19a). The CIR varied markedly across banking tiers **(Figure 19b)**. Large banks maintained relatively better efficiency, posting an average CIR of 57.6%. Their economies of scale, diversified income streams, and digital maturity helped absorb rising costs. Medium-sized banks reported a CIR of 67.7%, a slight deterioration from 63.7% in 2023, as total net operating income growth lagged cost expansion. Small banks, while still facing the highest CIR, showed a further deterioration to 98.3% in 2024, up from 83.4% in 2023 reflecting relatively elevated marginal costs that small banks face in generating income.

4.4 Net Interest Margin

The net interest margin (NIM) marginally increased to 7.41% in 2024, up from 6.8% in 2023 **(Figure 20a)**, reverting to the growth trend characteristic of the early post-COVID recovery years. This rise points to the sector's sensitivity to funding costs, loan pricing pressures, and balance sheet adjustments in a tight monetary environment. Although higher interest rates generally support interest income, the impact on Net Interest Margin (NIM) remains "theoretically ambiguous". While NIM tend to follow the direction of short-term interest rates, it is also influenced by factors like asset maturity profiles, repricing frequency, balance sheet structure and the broader interest rate environment. Typically, banks adjust lending rates faster than the deposit rates, which can initially widen the Net Interest Margin (NIM). However, in the presence of an inverted yield curve, NIM may be compressed over time as funding costs outpace returns on longer-term assets[11].

Large banks recorded an average NIM of 7.94%, slightly higher than the industry average due to their ability to command more competitive lending rates and access lower-cost deposits. Medium-sized banks posted a NIM of 5.91%, while small banks experienced a marginal dip to 5.50% in 2024, reflecting their vulnerability to rising funding costs and constrained re-pricing power **(Figure 20b)**.

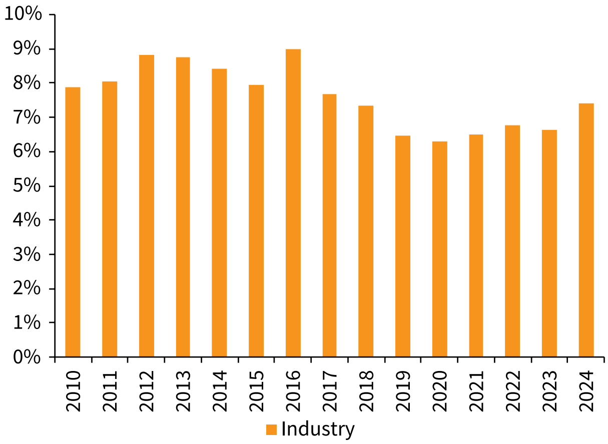
More broadly, at the industry and across bank sizes, the net interest margin (NIM) dynamics in 2024 reflected a complex interplay between rising funding costs and constrained asset returns. On the funding side, interest expenses rose sharply in 2024, driven by higher deposit rates following the monetary policy tightening. Conversely, on the asset side, a contraction in the loan book constrained the interest-earning base. At the same time, while a reallocation from government securities to private sector credit presented opportunities for higher yields, this shift was moderated by elevated credit risk concerns, leading banks to adopt more cautious pricing strategies.

10 *The Cost to Income Ratio (CIR) is a key indicator of operational efficiency within financial institutions, representing the proportion of non-interest expenses relative to total income. A lower CIR generally signifies improved efficiency.*

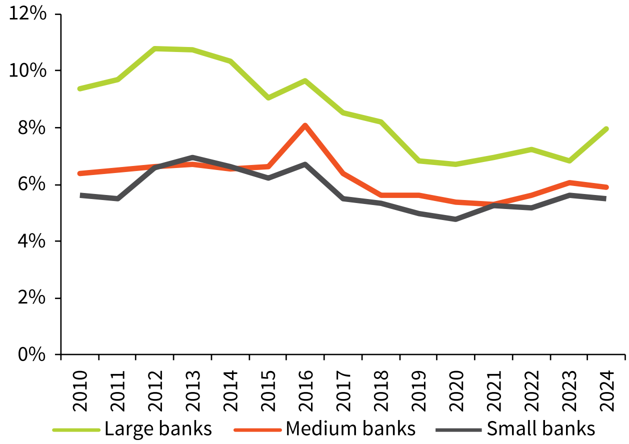
11 *See Kleymenova, A., Leu, L., & Vojtech, C. M. (2024). Is this time different: how are banks performing during the recent interest rate increases compared to 2004-2006?*

Figure 20: Banking Sector Net Interest Margin

20(a): Banking sector Net interest margin



20(b): Banking sector Net interest margin across bank sizes



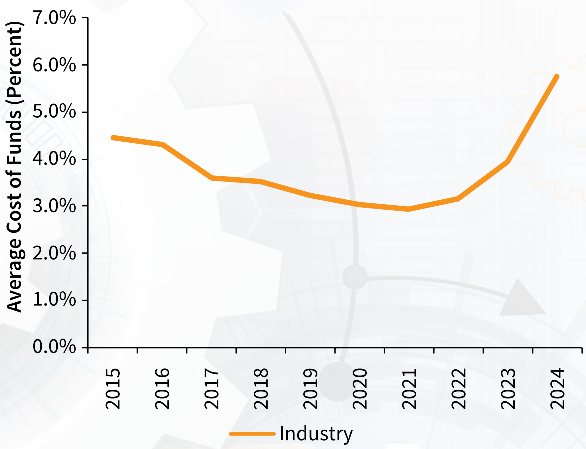
4.5 Cost of Funding

The average cost of funding for the sector rose to 5.75% in 2024, up from 3.95% in 2023 (Figure 21a). This marked the third consecutive annual increase in funding costs, driven by a broad-based rise in interest rates that placed significant pressure on banks' net interest margins and overall profitability. Medium and small-sized institutions were particularly adversely affected, given their greater vulnerability to rising funding costs. The tight monetary policy stance had pushed up cost of funding via the inter-bank market, compelling banks to raise deposit rates to attract and retain liquidity. Additionally, growing competition from non-bank financial institutions and money market funds further intensified upward pressure on the cost of deposits. As a result, the cost of mobilizing funds rose, especially for banks lacking strong retail networks or with limited digital outreach.

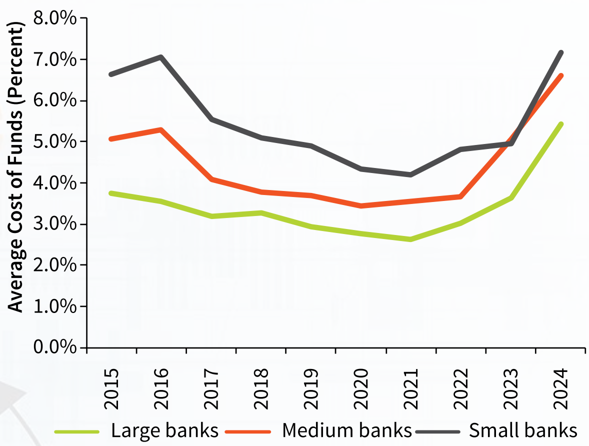
Owing to their strong brand and access to stable and low-cost deposits, large banks were relatively better positioned, recording an average funding cost of 3.6% in 2024. In contrast, medium and small banks faced higher average funding costs of 4.3% and 4.7%, respectively **(Figure 21b)**, reflecting their limited access to inexpensive funding sources and heavier reliance on time deposits and wholesale borrowings.

Figure 21: Banking System Cost of Funding

21(a): Banking system cost of funding



21(b): Banking system cost of funding across bank sizes



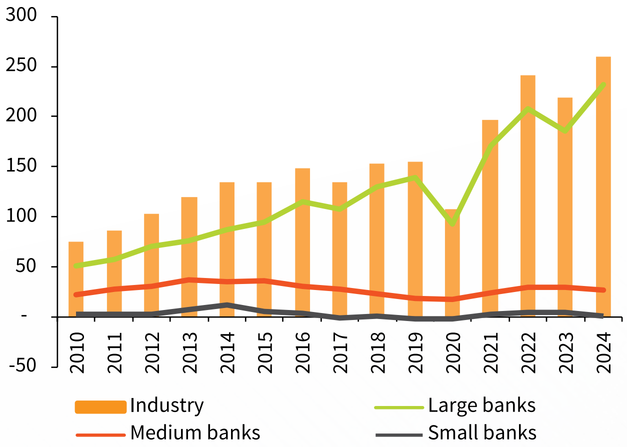
4.6 Profitability

The banking sector recorded a profit before tax of Kes 260.09 billion in 2024, an increase from Kes 219.21 billion in 2023 (Figure 22a), representing an 18.7% growth (Figure 22b). The improved profitability in the banking sector in 2024, was largely driven by growth in interest income and operational efficiency gains, particularly among large banks, as they benefited from diversified income streams, economies of scale, and stronger asset quality management. In contrast, medium-sized banks posted modest profits, though their performance was constrained by rising cost-to-income ratios and increased provisioning requirements. Small banks faced the greatest profitability pressures, as high operating expenses and elevated credit risk continued to weigh heavily on their earnings.

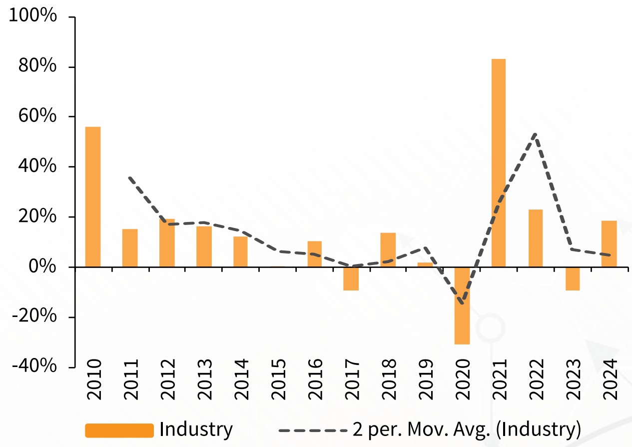
Consequently the average Return on Assets (ROA) rose from 2.85% in 2023 to 3.44% in 2024 **(Figure 22c)**, while Return on Equity (ROE) declined from 26.5% to 22.3% over the same period **(Figure 22d)**. Despite the decrease in ROE, profitability ratios remained above pre-pandemic levels, indicating that the banking system has bounced back to generate reasonable shareholder value, albeit under more challenging conditions.

Figure 22: Banking Sector Market Structure

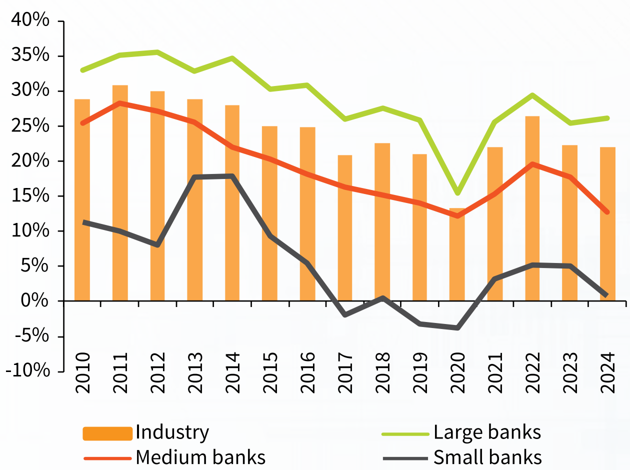
22(a): Profit before Tax



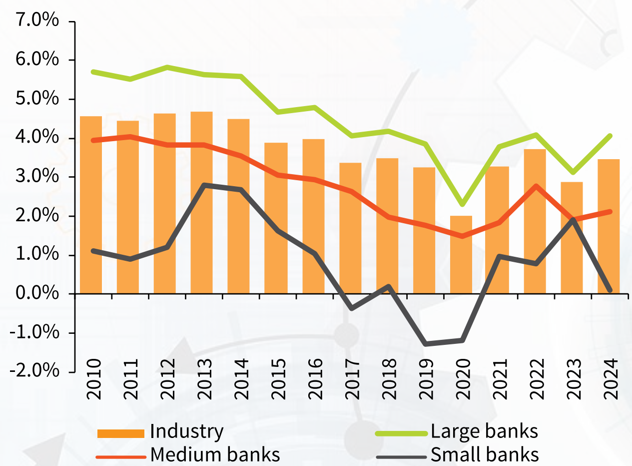
22(b): Annual growth in profit before tax



22(c): Average Bank Return on Equity (ROE)



22(d): Average Bank Return on Assets (ROA)



Source: KBA

2.7 Bank versus non-bank performance analysis

Data on return on assets and equity in 2024 paints a picture of sectoral realignment in financial performance. The banking sector, for instance, is regaining operational momentum with its ROA rising to 3.4% in 2024, up from 2.8% a year earlier. This rebound marks a return to post-pandemic normalcy. However, the sector's ROE marginally declined from 22.3% in 2023 to 22.0% in 2024, suggesting that while banks are utilizing their assets more efficiently, equity returns may be moderating due to rising capital buffer requirements and competitive interest margins.

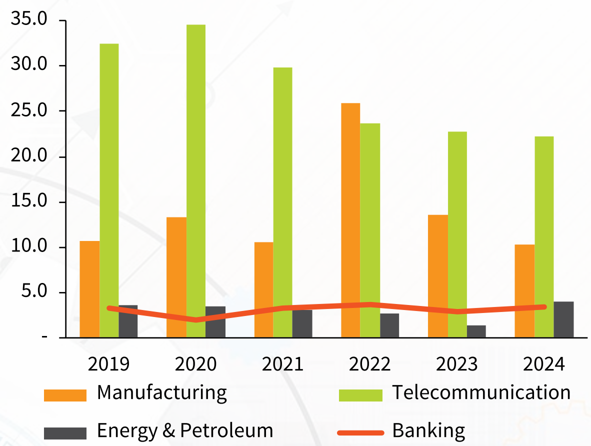
On the other hand, the manufacturing has started to stabilize following a period of volatility. In 2024, the latter experienced a modest decline in asset efficiency, with ROA dropping from 13.6% in 2023 to 10.3% in 2024. Nevertheless, the sectors' ROE improved slightly to 18.4% in 2024, up from 16.9% in 2023.

The telecommunications continues to deliver high, albeit tapering, returns. In 2024, ROA stood at 22.2%, down from 22.8% in 2023, while ROE decreased to 40.9% from 45.1% in the previous year. It is important to note that the sector's ongoing downtrend, from a peak of over 50 percent ROE in 2020, is a reflection of the sector's maturation, increased capital investment in infrastructure, and narrowing margins as the market saturates. Even so, it remains the most profitable sector in terms of equity and asset returns.

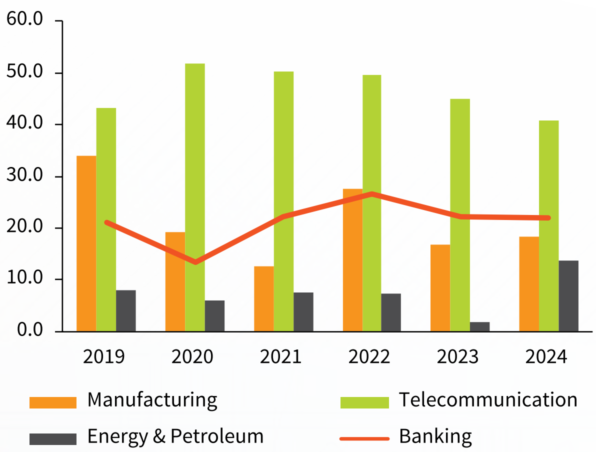
The energy and petroleum sector posted the most remarkable turnaround in 2024. The ROA increased to 4.0%, reversing a declining trend that reached a low of 1.4% in 2023. Similarly, the ROE climbed significantly from 1.9% to 13.8% over the same period.

Figure 23: Return on asset and Return on Equity

23(a): Bank and non-bank ROA trends



23(b): Bank and non-bank ROE trends



Chapter 5:

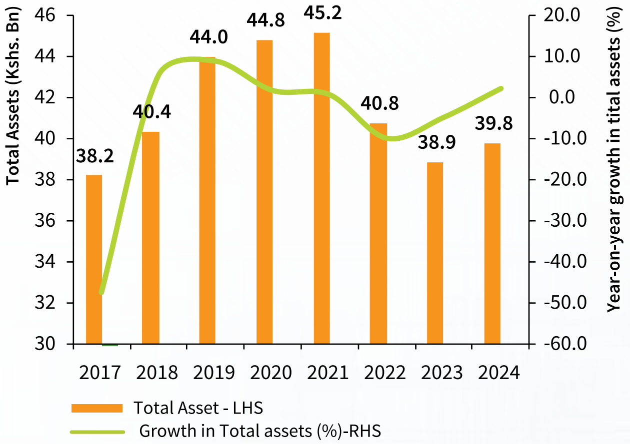
Microfinance Banks

Performance of Deposit taking MFBs

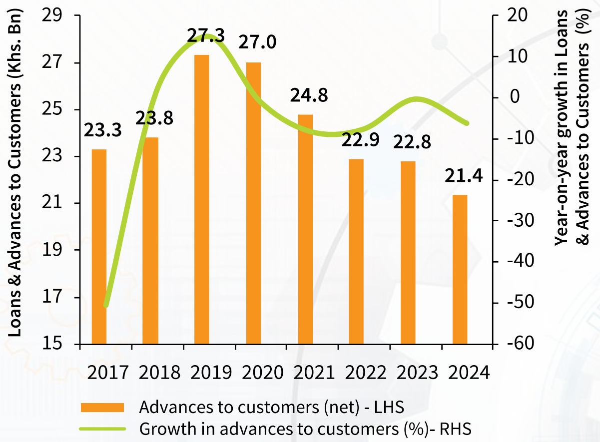
The performance of deposit-taking microfinance banks in 2024 (which is based on nine reporting institutions[12]) shows that the sector is navigating a complex and evolving operating environment. First, the asset base has exhibited a generally steady but modest growth trajectory over the years (Figure 24). With net loans and advances to customers consistently accounting for the largest share of total assets (Figure 25).

Figure 24: MFB's assets, and asset growth

24(a): MFBs Total Assets, Annual (Ksh. Billion)



24(b): MFBs Net loans and advances to customers, Annual (Kshs. Billion)



12 This analysis is based on data from nine of the fourteen licensed deposit-taking microfinance banks (DTMFBs) in Kenya. The reporting institutions include Faulu Microfinance Bank Limited, Salaam Microfinance Bank Limited, SMEP Microfinance Bank PLC, Rafiki Microfinance Bank Limited, Sumac Microfinance Bank Limited, U & I Microfinance Bank Limited, Umba Microfinance Bank Limited, Caritas Microfinance Bank Limited, and Muungano Microfinance Bank PLC. Data from the remaining five institutions, that is Kenya Women Microfinance Bank PLC, LOLC Kenya Microfinance Bank PLC, Branch Microfinance Bank Limited, Choice Microfinance Bank Limited, and On It Microfinance Bank Limited, was unavailable at the time of analysis. While the absence of these five institutions limits a complete representation of the industry, the trends and conclusions drawn should be interpreted with this limitation in mind. Nonetheless, the data from the nine reporting banks offers meaningful insights into the evolving dynamics of the microfinance sector in Kenya.

Asset quality, however, remains a key area of concern. As shown in **Figure 26,** non-performing loans (NPLs) have remained elevated, though eased from 2023. This has been exacerbated by external factors such as inflationary pressures and reduced household purchasing power, which have weakened repayment capacity, particularly among micro, small, and medium enterprises (MSMEs). This sustained deterioration in asset quality continues to weigh on profitability and erode capital buffers for MFBs. In addition, the declining trend in the coverage ratio, which reflects the provisions set aside against NPLs and, therefore, the ability of microfinance banks to absorb potential loan losses, points to their growing vulnerability to credit risk.

Figure 25: Dynamics of MFBs Asset composition

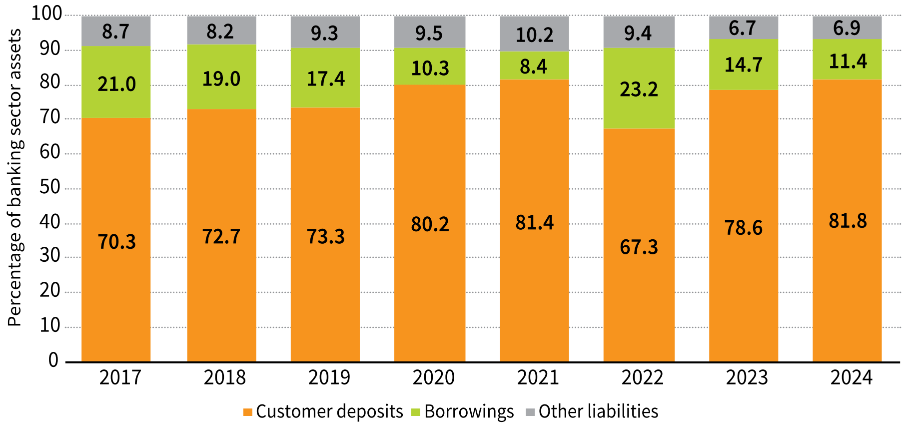


Figure 26: Asset quality

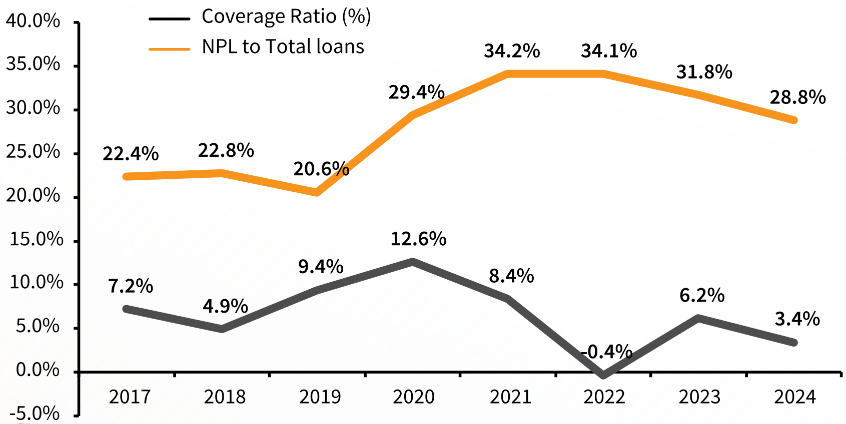
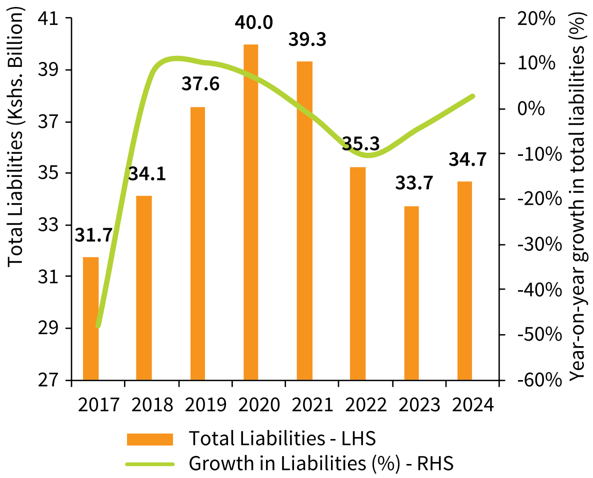
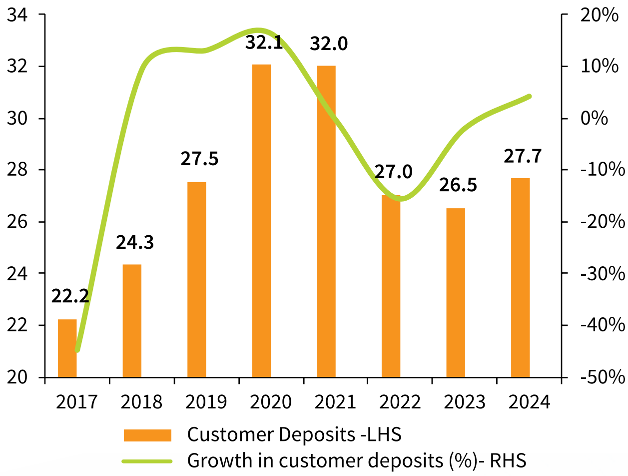


Figure 27: MFB's liabilities, composition, and growth

27(a): Total liabilities

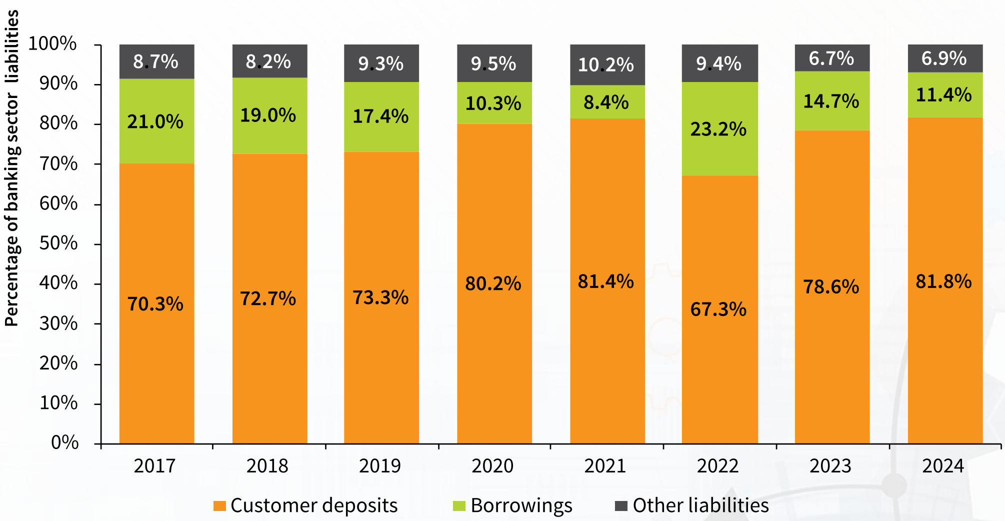


27(a): Customer Deposits



On the liabilities side, the total liabilities of the sector (**Figure 27**) mirror the asset trends, reflecting a cautious approach to balance sheet growth. Customer deposits, the dominant liability component, have shown signs of stagnation. Further granularity (provided in **Figure 28)** shows that deposits remain the largest funding source, though their growth has been constrained by intensified competition from commercial banks and fintechs. Thus, given the critical role of deposits in funding operations of MFBs, this muted growth could pose constraints to future lending and sector expansion.

Figure 28: Dynamics of MFBs Liabilities composition



In terms of income, the data points to a slow but positive trend in total income (**Figure 29**), with interest income from loans remaining the primary revenue stream. However, the subdued contribution of non-interest income, such as fees and commissions, interest in investment in government securities and deposits and balances in banks and other financial institutions, reinforces the sector's vulnerability to credit risk. In an environment of high NPLs, this income structure exposes MFBs to earnings volatility.

Figure 29: MFB's incomes, composition, and growth

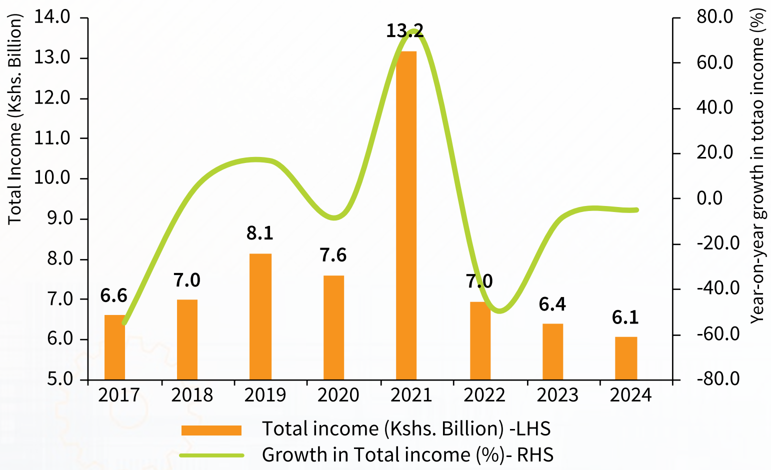
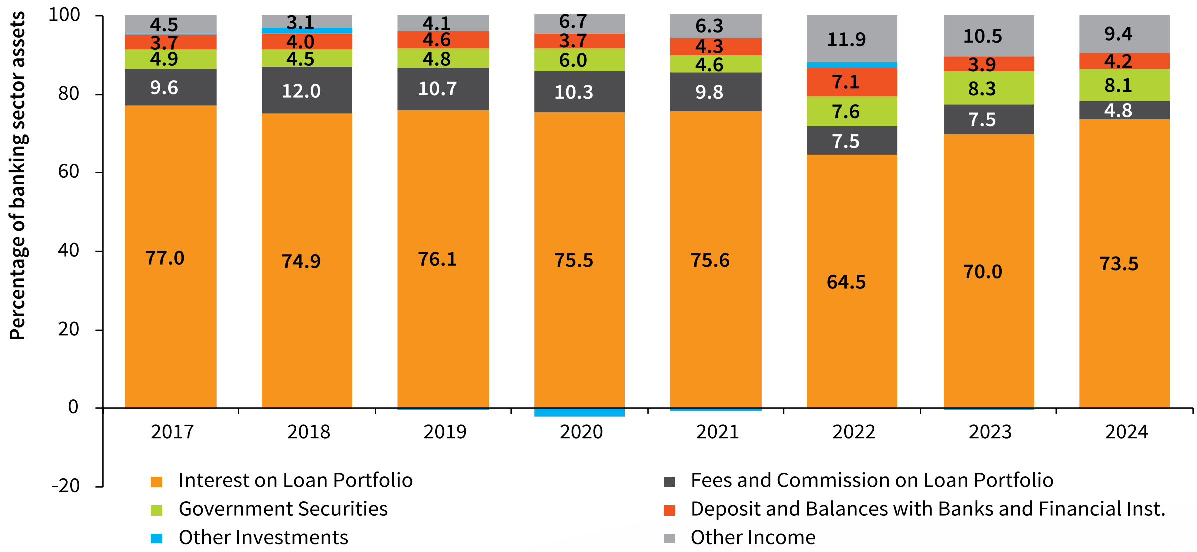


Figure 30: Income Structure



The expense profile, illustrated in Figure 30, reveals that personnel and administrative costs form the bulk of operational expenses, reflecting the branch-heavy and labour-intensive operating models still prevalent in the sector. The breakdown in **Figure 31** further confirms these trends, showing that while cost structures may support outreach in rural and underserved regions, they also undermine operational efficiency. Consequently, as shown in **Figure 32**, the cost-to-income ratios for most microfinance banks remain elevated.

Figure 31: Composition of MFB's expenses (%)

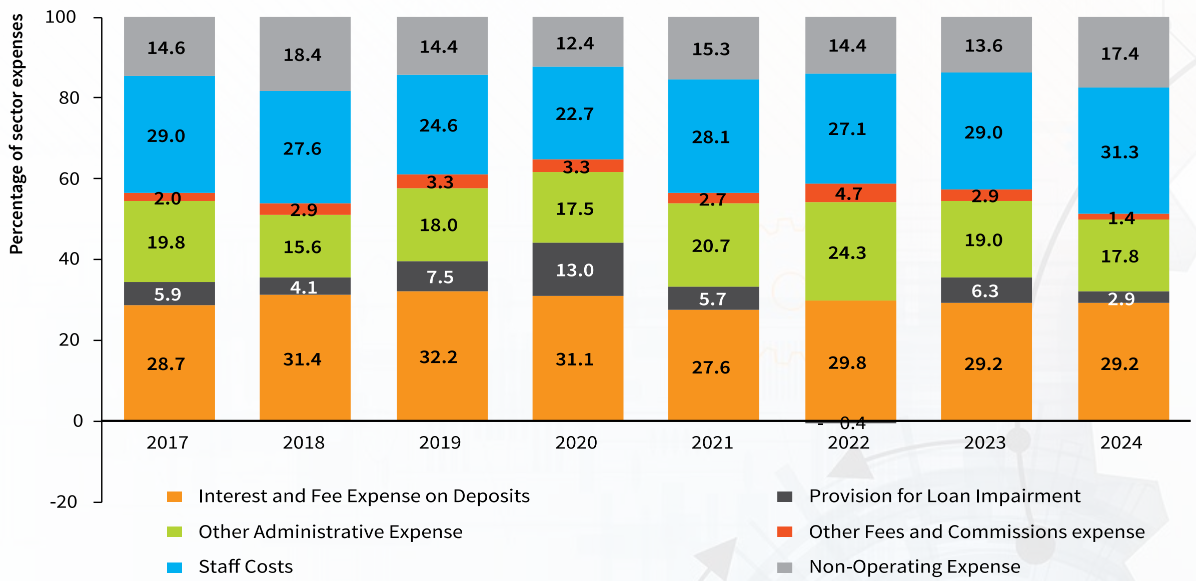
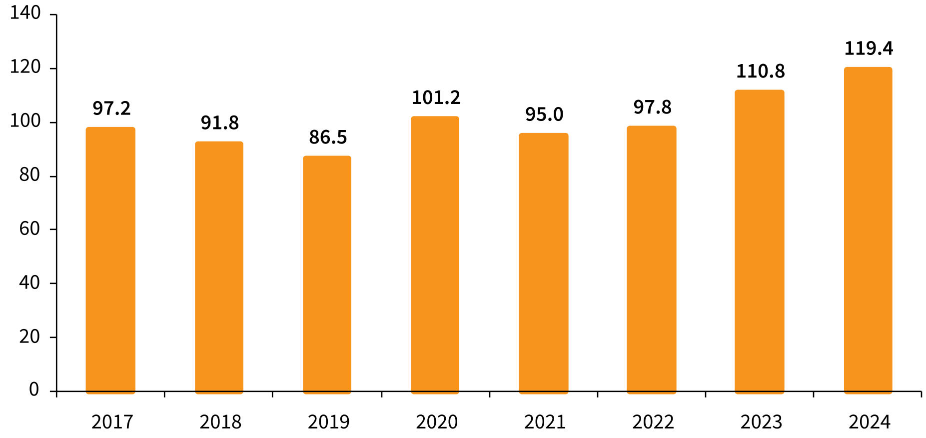


Figure 32: **Cost-to-Income Ratio of Deposit taking MFBs**



Profitability indicators such as return on equity (ROE) and return on assets (ROA) (**Figure 33**) have remained largely subdued, with some institutions recording negative returns in 2024. This outcome reflects the compounded effects of weak asset quality, rising operating costs, and limited income diversification.

Despite these structural challenges, the liquidity position of the microfinance banks remains relatively stable, with most institutions maintaining ratios above the regulatory threshold (**Figure 34**). This indicates a cautious approach to liquidity management, likely influenced by the lessons of the pandemic period. However, concerns persist around capital adequacy, particularly for smaller institutions with limited earnings retention. Thin capital buffers may hinder future MFB growth and undermine resilience to economic shocks.

Figure 33: **MFB's return on assets and return on equity**

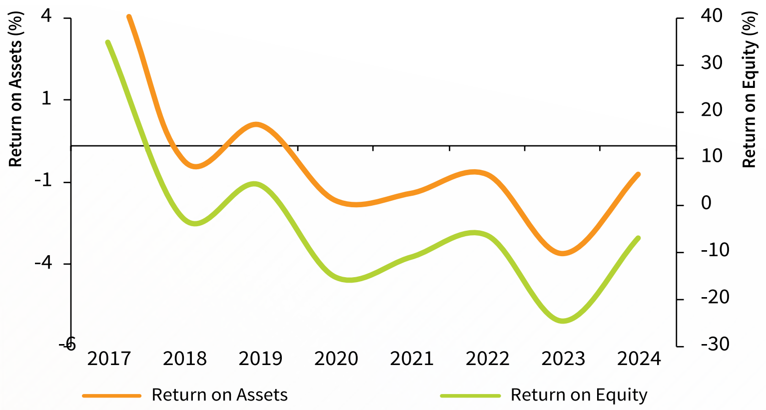
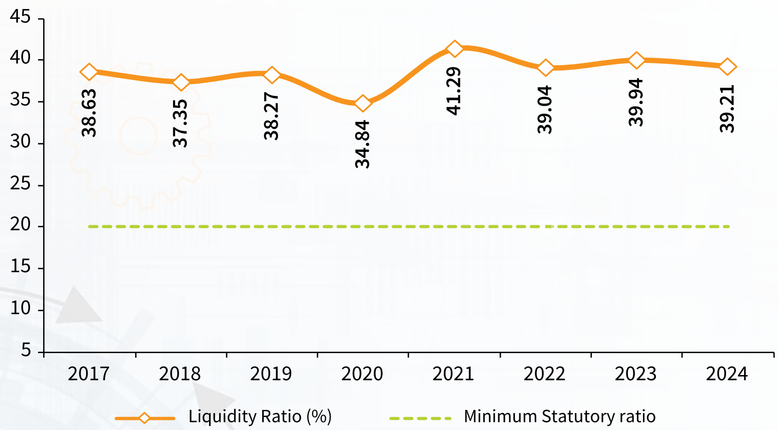


Figure 34: **Liquidity Position of Deposit-Taking MFBs**



Chapter 6:

Sustainable Finance

Developments In Sustainable Banking Practices

6.1 Sustainable Finance: A Key to Green and Inclusive Growth

Sustainable Finance Practices has become increasingly significant in today's economic setting as social and environmental risks have mounted while exerting pressure on public and private funds. According to the UN, between USD 5.4 to 6.4 trillion is needed annually between 2025 and 2030 to achieve the Sustainable Development Goals (SDGs).

This demand to meet the set targets has led financial sector players to shift from being profit first to promoting sustainable economic and inclusive growth. The banking industry particularly has over the years integrated social and environmental sustainabilty factors into the way investment and financing decisions are made.

Locally, awareness of the potential opportunities of social impact investment has grown considerably across the nation. In the context of the banking industry, banks continue to conceptualize and roll out a number of innovative programs that continue to impact societies positively. Some of these programs have become brand assets in themselves and fixtures on national calendars.

With key social target areas including, Health, water and sanitation; supporting entrepreneurship; protecting environment; and empowering the vulnerable, banks have invested tens of billions throughout the country in sustainable activities.

6.2 Regulatory Environment – Driving Green Finance

In 2024 the Central Bank of Kenya (CBK) rolled out regulations to demand more action from banks in their management of climate-related risks. The regulator designed regulations to encourage banks to direct their financial flows to green related activities. To this end, CBK issued and called for comments on a draft climate risk disclosure framework. The framework seeks to support the banking industry to collate and disclose climate related information, as well as to support investors with information to make informed decisions on the implication of climate change on their investments.

In the same year, CBK also proactively issued the Draft Kenya Green Finance Taxonomy (KGFT), that seeks to provide the financial services sector with a classification system for activities that are economically defined as 'green or environmentally friendly'.

The two were part of the outputs from the Greening Financial Systems Technical Assistance Programme to CBK by the European Investment Bank (EIB) that commenced in October 2023.

In April 2025, CBK issued for implementation the Kenya Green Finance Taxonomy and the Climate Risk Disclosure Framework after public comments were received. KBA in support of CBK's regulations, sensitized KBA member banks on both and developed an IFRS S1 (General Requirements for Disclosure of Sustainability-related Financial Information) and IFRS S2 (Climate related Disclosures) to further advance compliance and transparency in the banking industry.

6.3 Credit Access to MSMEs

6.3.1 Financial Literacy a Key Facilitator to Credit Access

Micro, Small and Medium-sized Enterprises (MSMEs) in Kenya are the lifeline of the country's economic stability. They contribute significantly to the country's GDP growth and job creation. To ensure that they are well supported to advance the country's economic viability, KBA rolled out the Inuka SME Program, a financial literacy initiative in 2018. The program was established with the aim of de-risking businesses with the objective of enhancing their ability to access bank finance. In 2024, through partnerships with banks and Community Based Organizations, the program trained over 14 thousand MSMEs from across the country. The training greatly aided the MSMEs to effectively run their businesses while also creating jobs to spur economic growth.

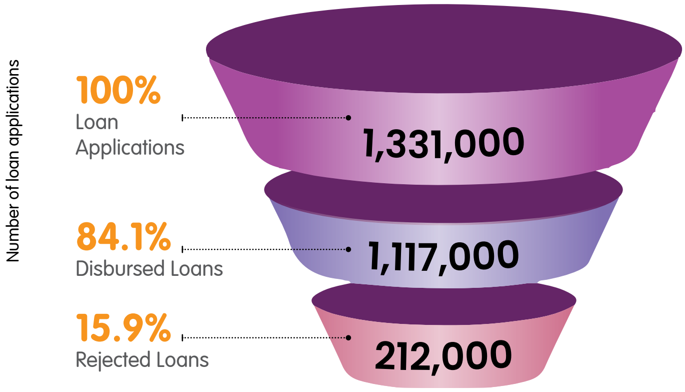
6.3.2 Banking Sector initiatives to support Credit Access

A. The KES 150 billion Commitment

The banking sector's commitment to enhancing access to credit for micro, small, and medium enterprises (MSMEs) continues to draw strength from foundational initiatives such as the Inuka Enterprise Program, introduced by the Kenya Bankers Association (KBA) in 2018. This program was developed to empower micro and small business owners by equipping them with essential financial literacy and enterprise management skills. The goal was to strengthen their capacity to engage with formal financial institutions and increase their eligibility for credit. Through tailored training modules, mentorship, and awareness forums delivered in partnership with commercial banks and other ecosystem actors, the Inuka Program has helped to demystify banking processes for underserved entrepreneurs and improve their credit readiness.

Building on this legacy, the industry resolved in October 2024 to double annual credit disbursements to MSMEs from KES 75 billion to KES 150 billion starting from 20125. This ambitious goal reflects the sector's recognition of MSMEs as a vital engine of Kenya's economic growth and resilience. The commitment is monitored through a credit disbursement dashboard hosted at KBA, which tracks performance across institutions and sectors. As of May 2025, disbursements amounting to reached KES 81.4 billion, indicating steady progress despite a challenging macro-financial environment.

Figure 35: Loan Application Funnel



Source: Accelerator MSME Tracker

Table 3: Proportion of loan disbursement among the top 3 Sectors

Industry	%
Trade	38.17%
Real Estate	16.52%
Personal & Household	5.86%
Agriculture	3.18%
Transport & Communication	2.31%
Building & Construction	0.62%
Manufacturing	0.61%
Financial Services	0.06%
Social Services	0.19%
Energy & Water	0.03%
Others	0.02%
Mining & Quarrying	0.01%
Total	**67.42%**

Note: The proportions represent the combined share of the top three sectors reported by each bank; hence, the total does not add up to 100%.

The dashboard provides a monthly view of key MSME credit performance indicators, including monthly loan disbursement volumes, portfolio growth, loan application outcomes, and MSME deposit activity. It also disaggregates financing by economic sector, offering insight into the alignment of lending strategies with national development priorities. In addition, the dashboard captures loan application and rejection patterns, average loan tenors, and other credit access parameters critical for evaluating inclusion outcomes.

As part of this monitoring, the loan application funnel highlights the progression of MSME credit requests from initiation to approval. As of May 2025, data shows that 85% of applications were approved, while 15% were rejected. The rejection rate underscores persistent frictions within the credit evaluation process.

According to reporting institutions, the key reasons for rejection include inability to repay, insufficient collateral, and incomplete documentation, factors that disproportionately affect micro and small enterprises. These businesses often lack audited financials, have limited credit histories, or operate informally without assets that meet conventional collateral thresholds.

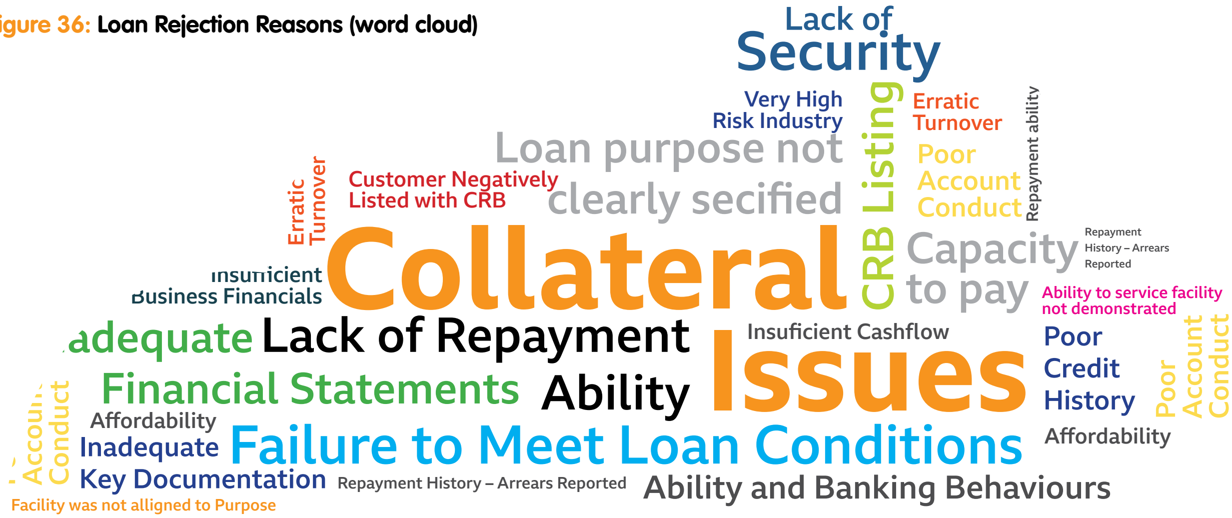
These patterns reinforce the importance of continued investment in borrower readiness programs and risk-based lending approaches. They also provide a basis for refining institutional policies and supporting adaptive underwriting models that can better accommodate the realities of MSMEs, while preserving portfolio quality and financial soundness.

B. Gender-Disaggregated MSME Credit Dashboard

To strengthen visibility across the MSME ecosystem, KBA, in collaboration with FSD Kenya and Metropol Credit Reference Bureau, is leading the development of a gender-disaggregated MSME dashboard. This dashboard is designed to aggregate anonymized data submitted monthly by commercial banks, microfinance banks (MFBs), SACCOs, and digital lenders. It will provide a comprehensive and dynamic view of how credit flows across Kenya's MSME landscape, disaggregated by borrower gender, loan size, region, sector, and institutional category.

The primary objective of the dashboard is to create actionable intelligence, not just for tracking disbursement volumes but for diagnosing access barriers, identifying structural disparities,

Figure 36: Loan Rejection Reasons (word cloud)



Source: Accelerator MSME Tracker

and informing inclusive policy and institutional strategy. It responds to a long-standing data gap that has left women-led MSMEs (WMSMEs) largely invisible in national credit and lending datasets. By bringing their financial behavior and credit performance into focus, the dashboard aims to strengthen their inclusion in the formal economy.

This visibility is expected to catalyze transformative change across several areas.

- Financial institutions will be better equipped to understand underserved segments of the WMSME market and design credit products that reflect their business realities. By analyzing data such as repayment trends and behavioral patterns, lenders can strengthen their risk models and move beyond assumptions, towards data driven lending strategies. In particular, they can rely on real-world data to guide credit scoring, improve pricing, and support tailored product development such as flexible repayment plans, hybrid collateral structures, and credit-builder tools. Perhaps most importantly, the dashboard will challenge outdated perceptions that women entrepreneurs are not creditworthy. By providing longitudinal evidence of how women-led businesses borrow and repay, it will build the business case for greater investment in this segment and support efforts to reframe women not as peripheral borrowers, but as central actors in Kenya's economic transformation.
- Policymakers and regulators will benefit from real-time access to disaggregated lending data that can inform inclusive regulations, identify regional or sectoral gaps, and shape targeted policy interventions.
- For development partners, the dashboard will provide a diagnostic lens to help allocate funding, target technical assistance, and evaluate the effectiveness of WMSME programs more accurately. Across the sector, the dashboard will also serve as a tool for benchmarking and performance tracking, enabling banks to measure their progress and share accountability for closing gender gaps in finance.

C. Ecosystem Collaboration through the We-Fi Code

The gender-disaggregated MSME dashboard also contributes to broader efforts under the Women Entrepreneurs Finance Initiative (We-Fi) Code, a national platform aimed at driving systemic change in how financial services are delivered to women-led, women owned and women–operated enterprises. The We-Fi Code brings together financial service providers, regulators, fintechs, SACCOs, credit reference bureaus, and development partners around a shared goal: to make Kenya's financial system more gender-intentional.

KBA has joined this growing coalition of ecosystem players working together to support women-led MSMEs (WMSMEs) through a more coordinated and inclusive approach. The initiative is grounded in the recognition that achieving meaningful gender equity in finance requires joint action anchored in shared principles, aligned targets, and a unified monitoring framework.

The We-Fi Code in Kenya draws inspiration from the global Women Entrepreneurs Finance Initiative, a multi-stakeholder partnership housed at the World Bank that mobilizes public and private sector resources to advance women's access to capital, networks, and markets. Launched in 2017, the global We-Fi initiative supports country-led efforts to reduce financial and structural barriers for women entrepreneurs, particularly in developing economies. Kenya's localized Code reflects this vision, while also responding to the country's specific gaps in data, policy coordination, and product design for women-led businesses.

The We-Fi Code provides a shared platform through which financial institutions can align their efforts around common standards, track collective progress, and exchange insights. Rather than continuing with fragmented or ad hoc approaches, the Code fosters a coordinated shift toward systemic reform, anchored in inclusive product design, evidence-based decision-making, and institutional accountability. By adopting the Code, KBA is deepening the industry's commitment to expanding opportunities for women entrepreneurs and creating a more equitable financial ecosystem.

This approach marks a departure from isolated interventions, positioning gender-inclusive finance as a strategic priority across the sector. Through joint efforts between banks, policymakers, and ecosystem actors, the Code introduces a more collaborative model of financial inclusion, one grounded in shared data, mutual accountability, and clear performance metrics. As the gender-disaggregated MSME dashboard gains traction, it is expected to influence both institutional strategy and policy direction, helping stakeholders pinpoint where disparities exist and how best to address them.

The Code encourages institutions to make voluntary commitments, participate in peer learning forums, and undergo regular performance reviews. These mechanisms are designed to foster transparency while driving continuous improvement. In turn, this promotes a rethinking of how credit is assessed, how financial products are developed, and how success is measured. Importantly, it acknowledges that achieving gender equity in finance requires more than programmatic interventions, it requires a sector-wide transformation in mindset, systems, and incentives.

Over time, the We-Fi Code is expected to catalyze structural changes in the way financial institutions serve women-owned MSMEs. It promotes an environment where collaborative problem-solving replaces competition, and where innovation is shared rather than siloed. In doing so, the Code not only elevates the quality of financial services available to women entrepreneurs, but also enhances the sector's ability to deliver sustained, inclusive growth.

6.4 Sustainable Finance Initiative (SFI)

In an effort to deepen bank staff understanding of Sustainable Finance practices and the industry principles, KBA rolled-out the SFI E-learning course with the support of FMO – Dutch development bank and DEG - German Investment Corporation. In 2024, across all banks 51 thousand bank staff had enrolled for the course and more than 21 thousand had completed the mandatory modules.

The Sustainable Finance Initiative rallies other players to protect gains made into the sector. In November 2024, a proposal was tabled to remove tax exemption on infrastructure and green bonds. This proposal threatened to erode the gains made in creating an enabling environment to spur the development of a green bonds market. To counter this retrogressive proposal, KBA with support from WWF-Kenya, held a sensitization workshop on the value proposition of green bonds and thematic bonds for members of the National Assembly Committee on Finance and National Planning. Due to the session, the Committee made a strong recommendation to parliament to retain tax exemption on infrastructure and green bonds; thereby providing an incentive for issuance of green bonds.

Going forward, innovative approaches are needed for addressing social, environmental and economic challenges, including new models of public and private partnership which can fund, deliver and scale pioneering solutions from the ground up. The focus should be stressed on initiatives and projects that provide sustainable solutions to the many pressing social and environmental challenges.

The specific areas of interest such as green, as well as nature positive financing, Health and financial literacy require collective approach. Given improvements in the regulatory frameworks Banks are challenged to rise and tap into opportunities alive in addressing these changes.

Chapter 7:
OUTLOOK

The banking sector presents an optimistic outlook, underpinned by a robust growth trajectoryand strong capital buffers. As of December 2024, the Capital Adequacy Ratio stood at19.4%, well above the regulatory threshold of 14.5%. However, capital erosion risks persist,particularly among smaller banks, due to limited loss-absorbing capacity and weak profitability.

> **Liquidity conditions remain stable across the sector, with a Loan-to-Deposit Ratio of 71.4% and customer deposits comprising 89% of total liabilities in 2024.**

Additionally, liquidity conditions remain stable across the sector, with a Loan-to-Deposit Ratio of 71.4% and customer deposits comprising 89% of total liabilities in 2024.

Nevertheless, smaller banks continue to face difficulties accessing funding.

By late 2024, foreign currency (FC) denominated loans accounted for 27% of total credit, while foreign currency (FC) liabilities comprised 30% of total liabilities. These exposures pose a risk to capital adequacy in the event of a currency depreciation. Encouragingly, the presence of adequate reserves and continued market access is expected to provide a cushion against potential foreign exchange market shocks.

Despite this positive outlook, several risks remain, including elevated credit risk, uncertainty on whether the government would sustain fiscal consolidation path and geopolitical tensions that continue to drive up commodity prices.

Overall, the outlook for the banking sector remains strong, with its total contribution to the economy expected to increase, as driven by its significant indirect spillover and multiplier effects on the real economy, particularly through its credit intermediation role

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