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STATE OF THE BANKING INDUSTRY REPORT 2021

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STATE OF THE BANKING INDUSTRY REPORT 2021

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

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 an understanding of the developments in the Kenyan banking industry would 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.

While acknowledging that different institutions or analysts may carry diverse views on various aspects, this publication represents the views of the KBA Secretariat underpinned by our analytical work and thus contributes to the diversity of views.

The Kenya Bankers Association Centre for Research on Financial Markets and Policy® has compiled a database of financials at the bank level spanning over one and half decades from 2003 to 2021. The database, together with other secondary data whose source is duly acknowledged, buttresses the analyses presented in this Report. The financials database indicated as KBA data in the report is based on published financial statements by banks up to December 31, 2020.

The analyses in the *Report* are presented both at an industry level as well as at the three-tier clusters – Large, medium and small banks. It also draws on the background research and analyses published under the Kenya Bankers Association Working Paper Series and other relevant published work as cited in the report and whose references are duly provided.

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

This version of *SBI Report* is available in full on the KBA's website, www.kba.co.ke. Inquiries about the content of the report and its accompanying files can be shared by sending a request to research@kba.co.ke.

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DOLLARS
CENTS
PROTECTION
Paymaster
Ribbon Writer
WARNING
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FOREWORD

It is my pleasure to present to you our *third issue of the Kenya Bankers Association's State of the Banking Industry (SBI) Report*. As highlighted in the *SBI report*, there is an obvious focus on the impact of the COVID-19 pandemic on the banking industry and its pass-through effects to the rest of the economy given the sector's central role as an engine to drive all other sectors' economic activities.

As the *report* presents, the impact of the pandemic varied from sector to another, exposing the vulnerabilities of some. At the same time, the banking sector weathered the storms posting strong and adequate liquidity and sufficient capital positions that continue to carry the rest of the economy through the devastating effects of the pandemic.

This *report* covers a number of areas. It outlines the banking sector's responses to mitigate the adverse effects of the pandemic; characterizes the industry performance; reviews the asset quality developments; the financial performance of the industry including a comparative assessment of the other sectors' performance and the industry's tax contribution to the national kitty. The *report* also reviews developments in the market structure before providing a perspective on the banking sector outlook amidst the existing uncertainty created by the pandemic.

Amidst the protracted pandemic, and the consequent uncertainty, the banking sector players continue to review and enhance their business models seeking to leverage on frameworks that promise efficiency gains, particularly through adoption of innovations. Cognizant of the growing competition in the market, increasing sophistication of customer expectations, as well the dynamism in the regulatory environment, the overarching challenge to the industry is to continue investing resources in remaining at the frontier of both regulatory and customer expectations.

It is my hope that this report enriches your understanding of the Kenyan banking industry, especially with regards to its interactions with the various economic agents and sectors amidst the uncertainty created by the pandemic.

Dr. Habil Olaka,
Chief Executive Officer

TABLE OF CONTENTS


A HISTORY OF BANKING IN KENYA
Celebrating decades of banking industry contribution to the economy and the wellbeing of millions since the country's independence on 12th December 1963.
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LIST OF FIGURES AND TABLES

List of Figures

List of Tables

ABBREVIATIONS

AE	Advanced Economies
CAR	Capital Adequacy Ratios
CBK	Central Bank of Kenya
CIR	Cost-to-Income Ratio
DLR	Deposit-to-Total Liability Ratio
EAR	Equity-to-Asset Ratio
EMDE	Emerging Markets and Developing Economies
GDP	Gross Domestic Product
IMF	International Monetary Fund
KBA	Kenya Bankers Association
KNBS	Kenya National Bureau of Statistics
Kshs.	Kenya Shillings
LAR	Loan-to-Asset Ratio
LLPs	Loan Loss Provisions
LTD	Loan-to-Deposit
NIM	Net interest margins
NPLs	Non-Performing Loans
PBT	Profit Before Tax
ROA	Return on Assets
ROC	Return on Capital
ROE	Returns on Equity
SBI	State of the Banking Industry
SSA	Sub-Sahara Africa
TRWA	Total Risk-Weighted Assets

EXECUTIVE SUMMARY

> Amidst these developments, the banking sector total assets expanded by 12.4 percent in 2020, to Kshs. 5.4 trillion from Kshs. 4.8 trillion in 2019

- The global and domestic economy continue to face the unprecedented and evolving negative effect of COVID-19 pandemic. Against this backdrop, and as highlighted in this *State of the Banking Industry Report*, there is obvious focus on the impact of COVID-19 pandemic on the banking industry, more so with the sector's central role as an engine to drive all other sectors' economic activities.
- The speed and magnitude of the downturn in economic activity that followed the announcement of the first case of COVID-19 in the country and the resultant containment measures, was substantial and structurally broke the favorable top-line output numbers of the pre-pandemic period. The mitigating developments against the effects of the pandemic included the deployment of a wide range of policies and measures to cushion households and enterprises and encourage credit growth.
- Amidst these developments, the banking sector total assets expanded by 12.4 percent in 2020, to Kshs. 5.4 trillion from Kshs. 4.8 trillion in 2019, driven by a faster expansion in non-loan assets - mainly investments in government securities- which grew by 18.5 percent, as gross loans and advances grew by 6.7 percent growth during the period. Net loans and advances grew by 9.1 percent in 2020, to close at Kshs. 2.93 trillion from Kshs. 2.63 trillion in 2019. However, the asset composition saw minimal changes in the year.

- The banking system deposits maintained their strong growth trajectory, growing by 13.1 percent up from 8.3 percent in 2019 to close at Kshs. 4.11 trillion. This was reflective of asset reallocation in an environment of high uncertainty. The deposits buildup during the year outpaced the growth in gross loans, leading to increased liquidity in the banking system. The banking sector's deposit-to-total liability ratio rose marginally to 88.5 percent in 2020, from 88.1 percent in 2019, indicating the sector's strong reliance on wholesale funding to cut costs on the liability side of the balance sheet.
- Asset quality across the industry players deteriorated in 2020, largely due to the adverse effects of the pandemic on households and enterprise earnings, that occasioned an increase in the sector's non-performing loans (NPLs). NPLs stood at Kshs. 433.7 billion as at end 2020 compared with Kshs. 334.3 billion as at end of 2019. The gross NPLs in 2020 represented about 14.5 percent of gross loans, compared with 12.5 percent as at the end of 2019, with the observed increase in the ratio associated with an increase in both the volume of NPLs and a decline in the loan growth.
- Amidst deteriorated economic performance and quality of assets held by banks, the provisioning for loan losses increased by 47.5 percent to Kshs.198.1 billion in 2020 from Kshs.134.3 billion in 2019. At the industry level, loan loss provisions absorbed 45.7 percent of NPLs compared to 40.2 percent in 2019.
- Banking industry capitalization in 2020 remained adequate, strong and robust. The industry's total capital adequacy ratio rose to 19.0 percent in 2020 from 18.8 percent in 2019, above the statutory minimum requirement of 14.5 percent. This was supported by an increase in the total capital which outpaced the growth in total risk-weighted assets during the period.
- The industry financial performance in 2020 saw a modest growth in total income, rising total operating costs largely driven by increased expenses on loan loss provisions, reflecting increased cost to income ratio. The industry's net interest margin dipped marginally as the cost of funding on average remained largely unchanged. These developments differed across bank sizes.
- Overall profitability of the banking sector fell drastically in 2020, as profit before tax dropped by 30.9 percent, reflecting the lowest levels since 2012. The industry average ROA fell to 2.0 percent in 2020 at a pace faster than the trend declines noted over the past few years, and the average ROE also dropped to 13.3 percent during the period from an average of 21.1 percent in 2019. While these changes also differed across bank sizes, a comparative analysis of the banking sector's ROA and ROE against other firms shows that the banking sector profitability reflects moderate profitability.
- Analyses of tax contribution of the banking sector shows that the sector contributed Kshs. 42.4 billion in 2020 down from Kshs. 55.4 billion in 2019, largely reflecting the depressing effects of the pandemic on incomes. While this represents a 23.6 percent drop in the tax contribution, it highlights the extent to which the sector would have contributed more to tax revenue had it not borne most of the weight of supporting other sectors of the economy. In fact, the implicit tax rate of the industry rose to 39.1 percent in 2020 from 35.7 percent in 2019.
- The competitiveness of the banking industry market structure in 2020 improved, partly underpinning the sector's resilience to shocks. The banking system concentration in assets, loans and deposits that had been declining since 2003, moderated in the last five years partly reflecting recent mergers and acquisitions by top banks as they pursued the benefits of economies of scale.
- The outlook of the banking sector appears strong underpinned by adequate capitalization and liquidity levels, the banking sector's robust approach to treatment of asset quality deterioration and continued implementation of efficient and resilient business models. Nonetheless, the sector's total contribution to the economy is expected to grow, given its strong indirect "spillover" and multiplier effects on the real economy, especially in ensuring access to credit that is a pre-requisite for growth of enterprises.

Chapter 1:

INTRODUCTION

The global and domestic economy continue to face the unprecedented and evolving negative effect of COVID-19 pandemic. The downturn in economies in 2020 was disproportionate, revealing their underlying fragilities and differentiated initial economic conditions. For the Kenyan economy, the pandemic besides exposing the vulnerabilities of the different segments of the economy, highlighted the crucial role of the banking sector in supporting economic activity. In 2020, and beyond, banks played an essential role in easing the adverse effects of the pandemic, particularly through the accommodation offered to enterprises and households that supported their liquidity positions. With hindsight, these measures worked as a bulwark against a negative feedback loop on the banking sector and the economy.

The Kenya Bankers Association (KBA) State of the Banking Industry (SBI) Report outlines the banking sector performance in 2020 at a time of high uncertainty, increasing risk aversion among lenders, and subdued confidence among borrowers – enterprises and households. Even so, the banking sector has held up relatively well, with adequate capital and liquidity buffers prior to and during the pandemic period. This, together with the decisive response measures, has helped to contain the initial impact of the pandemic on the banking sector. Therefore, the industry is in a strong position to support businesses navigate the adversities associated with COVID-19 without compromising systemic stability.

Against the above background, the banking sector performance has been shaped by developments in the economy in 2020 in at two main respects:

> "The global and domestic economy remained in a low-growth trap. After an estimated contraction of 3.3 percent in 2020, the global growth is projected to rebound strongly in 2021 and beyond.

First, the speed and magnitude of the downturn as a result of the containment measures adopted, was substantial. As a result, synchronized economic contraction both on the global and domestic front ensued and the global and domestic economy remains in a low-growth trap **(Figure 1)**.

After an estimated contraction of 3.3 percent in 2020, the global growth is projected to rebound strongly in 2021 and beyond **(Figure 1a)**[1]. Moreover, domestic economic activity plummeted in the second and third quarters of 2020, largely reflecting the adverse effect of the pandemic and its containment measures that largely depressed the service-

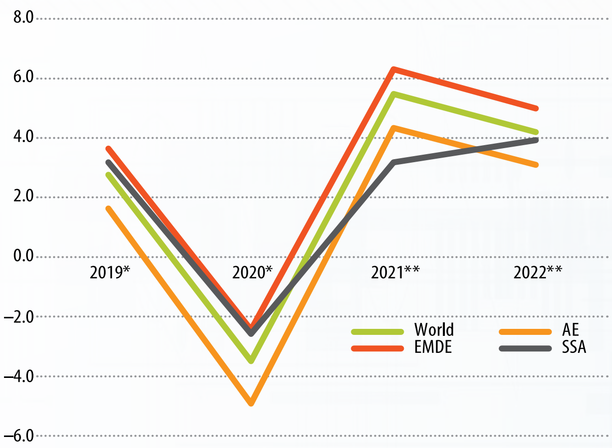
1 See IMF's April 2021 WEO Report: https://www.imf.org/-/media/Files/Publications/WEO/2021/April/English/text.ashx

oriented sectors of the economy **(Figure 1b)**. This largely explains the economic slack that characterized most of 2020. The sectoral developments on the domestic front can aptly be described as evolving along three patterns:

- *Output fell sharply in the services sector.* After registering a 5.5 percent growth during the first quarter of 2020, the sector's output contracted in the second quarter by 11.6 percent, but slightly recovered in the third quarter of 2020, contracting by a smaller magnitude of 5.3 percent. The persistently weak output of the sector weighed down on the overall economic recovery during the period.
- *Output in many other sectors of the economy, including industry, also tumbled.* For instance, industry output growth declined from 4.4 percent in the first quarter of 2020 to contract by 0.5 percent in the second quarter, and eventually rebounding in the third quarter to grow by 4.9 percent year on year.
- *Agriculture sector output was however resilient, albeit slightly depressed in the third quarter relative to the second quarter.* Output of the sector in the first quarter of 2020 grew by 5.8 percent, and rose to 7.3 percent in the second quarter, but slightly slowed down to grow by 6.3 percent in the third quarter.

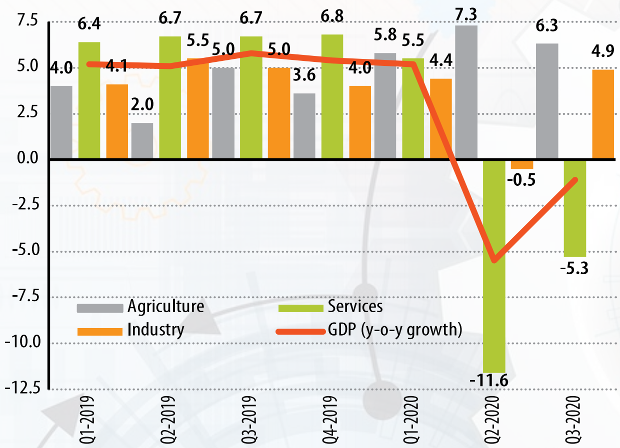
Figure 1: Global and domestic economic growth plummeted

Figure 1a. World Economic Outlook



Source: IMF WEO (Jan-2021)
* denotes estimates, and ** denotes projections

Figure 1b. Domestic Economy Outcome



Source: CBK, KNBS

Amidst these developments, while the domestic economy remained vulnerable to the effects of the pandemic through 2020, there was high optimism for a stronger recovery in 2021 anchored on the discovery and expected mass deployment of vaccinations against COVID-19 across countries. Largely on account of this, the overall domestic output growth for 2020 was estimated at -0.1 percent but is projected to bounce back strongly at 7.6 percent in 2021[2].

Second, to mitigate against the adverse effects of the pandemic and cushion households and enterprises from the sharp decline in activity, the Government put in place a wide range of policies and measures. Since March 2020 - when the first case of the pandemic was announced in the country, monetary policy was eased in April and remained accommodative throughout the year[3]. Additional measures were also introduced to support liquidity and ensure financial stability **(See Box 1)**.

The deployment of the above measures moderated the adverse effects of the pandemic and its containment measures on credit growth. Credit growth that was on a strong recovery path from end 2018, leveled out in most of 2020 as shown in **Figure 2**, in spite of the accommodative monetary policy stance adopted during the period. This outcome was partly attributed to two reasons. First, the weakness in the domestic economy that generated a self-reinforcing low-growth trap reduced effective demand for credit; and second, the deterioration in asset quality as the pandemic and its containment measures disrupted economic activity and depressed incomes of borrowers.

Box 1:
Banking sector measures to mitigate the adverse effects of COVID-19 pandemic:

1. The Central Bank Rate (CBR) was lowered twice in quick succession; from 8.25% to 7.25% in March 2020, and further to 7.0% in April 2020 to signal to the market the need to lower lending rates and support credit growth.
2. The Cash Reserve Ratio (CRR) was lowered to 4.25% from 5.25% in March 2020, releasing an additional liquidity of Ksh.35.2 billion to support lending to borrowers whose incomes were adversely affected by the pandemic.
3. To provide flexibility on liquidity management facilities provided to banks by CBK, the maximum tenor of Repurchase Agreements (REPOs) was extended from 28 to 91 days to provide flexibility on liquidity management. This would enable banks access longer term liquidity secured on their holdings of government securities without having to discount them.
4. Emergency measures to mitigate the adverse economic effects on bank borrowers from the coronavirus pandemic, that focused on loan restructuring, loan classification and provisioning for loans that were performng as at March 2, 2020 (before the pandemic).
5. To facilitate increased use of mobile digital platforms, banks would waive all charges for balance inquiry and ensure that all charges for transfers between mobile money wallets and bank accounts were eliminated.
6. CBK announced the suspension, for a period of six months (to end September 30, 2020), of the listing of negative credit information with credit reference bureaus (CRBs) for borrowers whose loans were performing previously and had become non-performing after April 1, 2020.

2 See IMF's April 2021 Regional Economic Outlook : https://www.google.com/search?q=regional+economic+outlook+kenya&rlz=1C1BNSD_enKE930KE930&oq=regional+economic+outlook+kenya+&aqs=chrome..69i57j33i22i29i30l3.11336j0j15&sourceid=chrome&ie=UTF-8

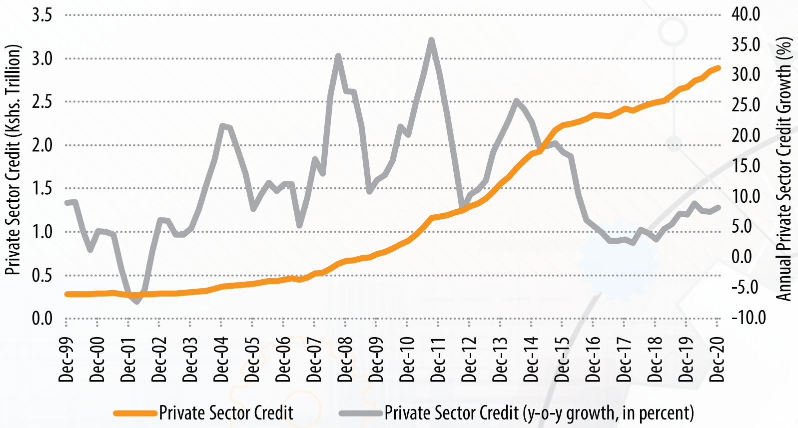
3 See https://www.imf.org/-/media/Files/Publications/CR/2021/English/1KENEA2021003.ashx

> Amidst these developments, the banking sector total assets expanded by 12.4 percent in 2020, to Kshs. 5.4 trillion from Kshs. 4.8 trillion in 2019

Going forward, the expectations on the credit growth will depend on several considerations, including: the evolution of the asset quality in 2021; the balance between enterprises and households' resource needs on the one hand and government resource needs towards addressing the pandemic on the other. All taken together, and on the back of protracted uncertainty on the containment of the pandemic as well as the attendant delay in economic recovery, credit growth is expected to remain modest – at best reflecting a single-digit growth level.

The above background on economic performance and credit growth provides the setting upon which the state of the banking industry for 2020 is assessed. This report is presented in five chapters. Chapter 2 discusses the growth of the industry, while chapter 3, and chapter 4, present the asset quality evolution and the banking sector's performance, respectively. Finally, chapter 5, concludes by presenting a brief outlook of the economy and the sector.

Figure 2: Private sector credit trends and its annual growth



Source: CBK, KNBS; *projection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Chapter 2:

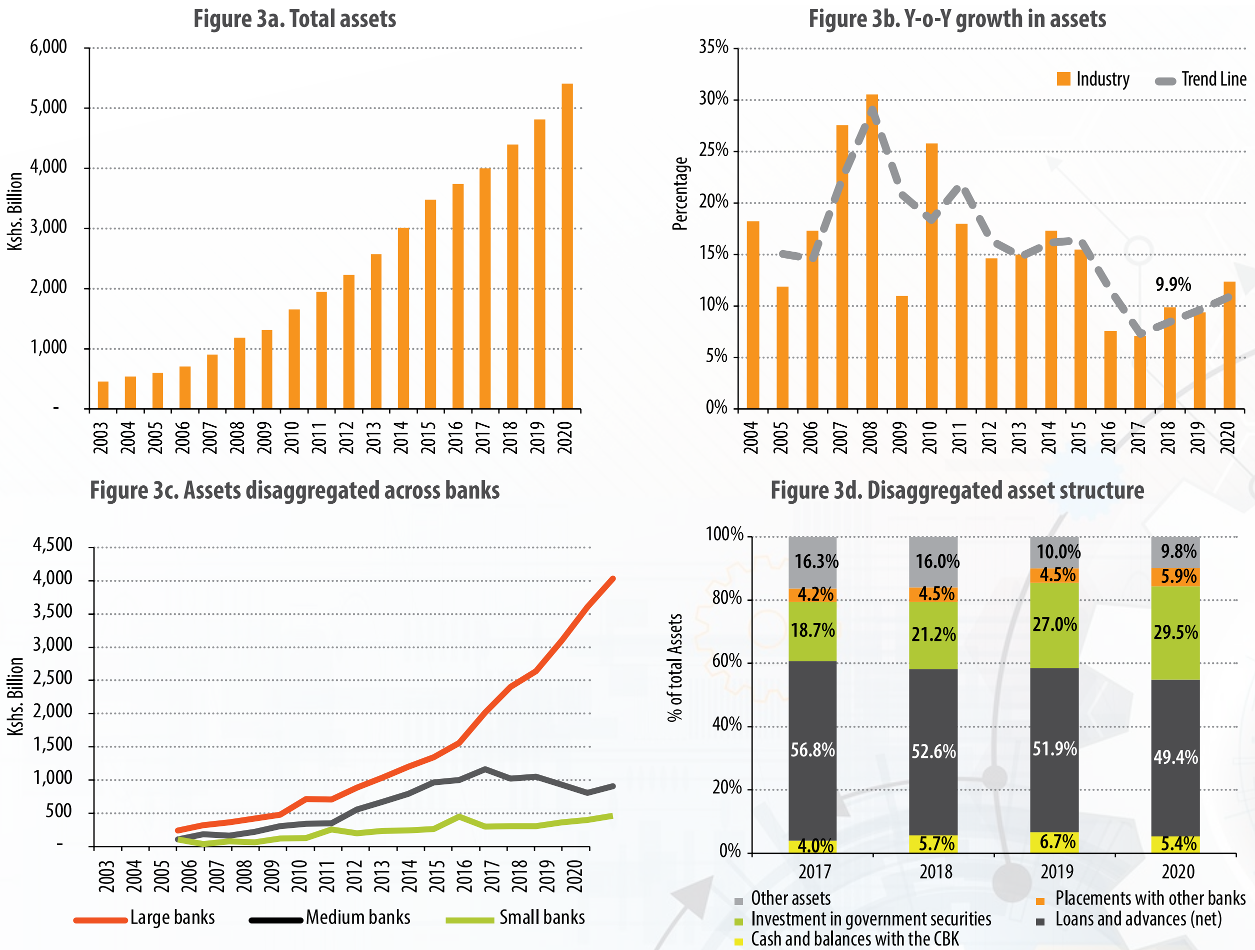
INDUSTRY GROWTH

2.1 Total assets, composition, and asset growth

The banking sector total assets expanded in 2020 by 12.4 percent, ending 2020 at Kshs. 5.4 trillion from Kshs.4.8 trillion in 2019 (Figure 3a and 3b). The 12.4 percent strong growth in assets, compared with 9.4 percent in 2019, was driven by a faster expansion in non-loan assets (mainly investments in government securities) which grew by 18.5 percent, compared to 6.7 percent growth in gross loans and advances. The asset growth was driven by tier-1 banks **(Figure 3c)**.

Asset composition saw minimal changes over the year **(Figure 3d)**. The share of loans and advances (net) that stood at 49.3 percent of total assets in 2020, contracted by 2.6 percentage points compared to its share in 2019. This decline reflected less appetite by banks to grow their loan books mainly due to elevated credit risk following heightened uncertainty in the performance of the economy. Consequently, the share of the relatively-less-risky asset classes rose during the period. In particular, the share of banks' investments in government securities increased by 2.5 percentage points to 29.5 percent in 2020 from 27.0 percent in 2019 as placements with other banks' share in total assets also rose from 4.5 percent in 2019 to 5.9 percent in 2020.

Figure 3: Total assets, composition, and asset growth



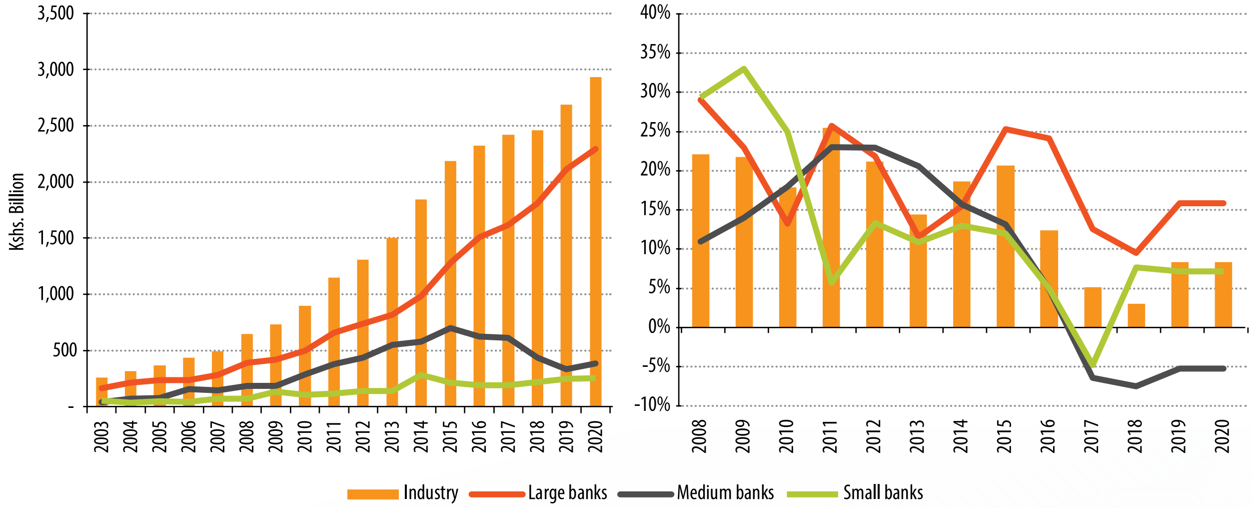
2.2 Total loans and loan growth

The banking system's gross lending continued to grow, albeit at a slower pace in 2020 compared to 2019, largely driven by a moderation in lending by large banks' which accounted for about 78 percent of gross loans as at end 2020. Loans and advances (net) grew by 9.1 percent in 2020, to close at Kshs. 2.93 trillion from Kshs. 2.63 trillion in 2019. Credit growth remained trapped at single-digit levels unlike the double-digit levels recorded pre-2017. Across the bank sizes, loan growth declined slightly among the tier 1 (large) and tier 3 (small) bank but grew among the tier 2 (medium size) banks **(Figure 4)**. Slowing economic growth, elevated credit risk-triggered risk aversion among lenders and subdued demand among borrowers are the key reasons underlying the slower credit growth.

“Credit growth remained trapped at single-digit levels unlike the double-digit levels recorded pre-2017.

Figure 4: Total loans and loan growth

Figure 4a. Loans and advances (net) **Figure 4b. Y-o-Y growth in Loans & advances (net)**

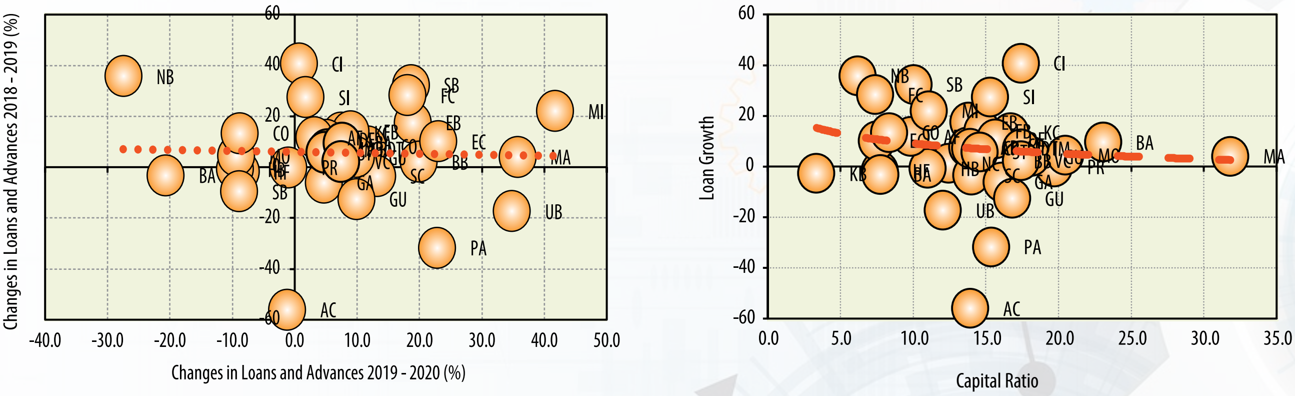


Source: KBA

In spite of the aggregate trends in loan growth, heterogeneity across banks was evident, with a sizeable proportion of banks registering modest loan growth in 2020 compared to 2019, while a few registered contractions in loan growth. The capacity of a bank to grow its loan in the year was largely determined by its capital to asset ratio position, so that banks with higher capital ratios recorded higher loan growths relative to those with lower capital ratios **(Figure 5)**.

Figure 5: Loan growth and capital ratio

Figure 5a. Loan Growth across banks (comparing 2018/19 and 2019/20) **Figure 5b. Loan growth and capital ratio in 2020**

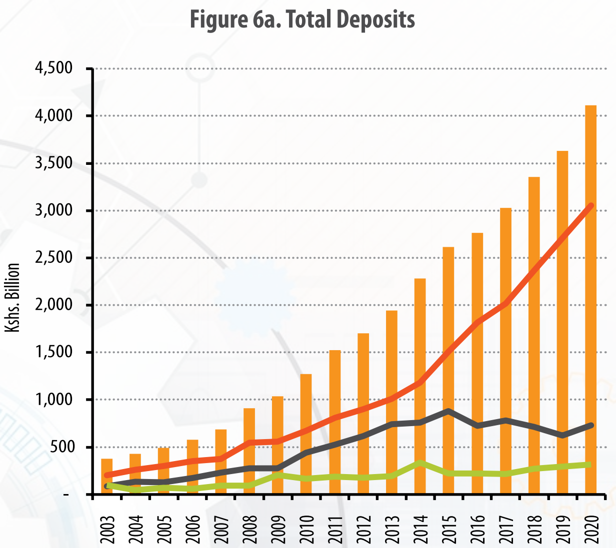


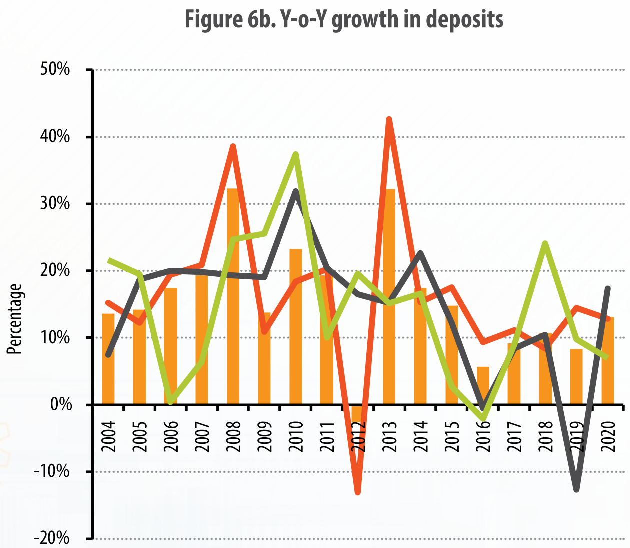
Source: KBA

2.3 Total deposits and deposit growth

The banking system deposits maintained their strong growth trajectory. Bank deposits in 2020 grew by 13.1 percent, up from 8.3 percent in 2019, to close at Kshs. 4.11 trillion **(Figure 6)**. The overall increase in deposits was largely consistent with arguments in literature on asset allocation amidst growing uncertainty[4]. The high uncertainty on the evolution of the pandemic and future economic prospects may have strengthened the precautionary savings motive of households and enterprises, triggered flights-to-safety, and caused portfolio reallocation in favor of safer investments such as bank deposits. However, a mixed pattern on deposit build-up across banks was evident. Deposit growth among medium-size banks was the strongest at 17.4 percent, followed by large banks at 12.8 percent, then the small banks posted the least growth at 7.0 percent during the period. The differences in deposit growth across bank tiers partly reflect interbank movements in deposits during the period.

Figure 6: Total deposits and deposit growth





Source: KBA

4 See Levine, R., Lin, C., Tai, M., & Xie, W. (2020). "How Did Depositors Respond to COVID-19?" *The Review of Financial Studies. (https://doi.org/10.1093/rfs/hhab062)*

Figure 7: Loan-to-deposit ratio

Figure 7a. Indsutry Loans-to-deposits ratio

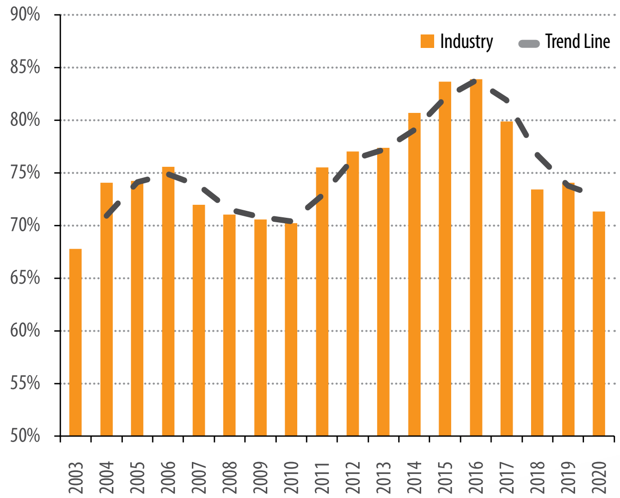
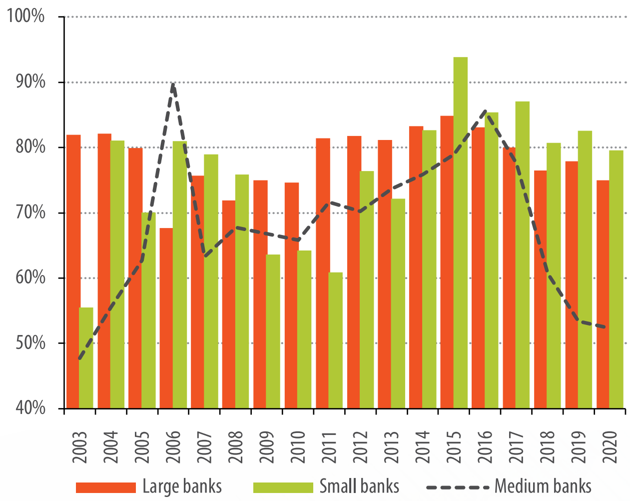


Figure 7b. Loan-to-deposit ratio across bank tiers



Source: KBA

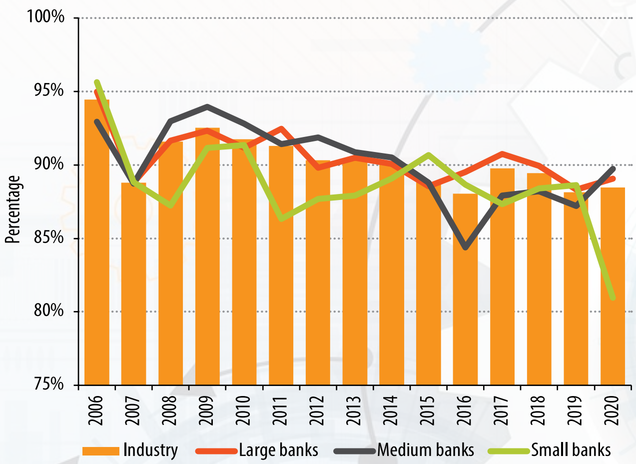
2.4 Loan-to-deposit ratio

Banking sector liquidity, as measured by gross loans-to-deposit (LTD) ratio, declined in 2020; more than reversing the recovery recorded in 2019 from the dip in 2018 (Figure 7). This was on account of a faster build-up in the banking system's deposits growth that outpaced the growth in gross loans. Divergence across banks, however, was also evident, reflecting the fact that size matters for bank liquidity position. Another interesting finding was that for small banks, the need to maintain high liquidity positions is important as a safeguard to shocks due to their limited ability and capacity to access funds from alternative sources. Thus in 2020, the LTD ratio was highest among small banks at 79.6 percent, as medium and large banks recorded 52.4 percent and 75.0 percent, respectively. For the large banks, the high LTD ratio was reflective of the profitability-liquidity tradeoffs as banks adjusted to the prevailing business environment amidst uncertainty caused by the pandemic. In essence, the pandemic appears to have triggered preferences for liquidity over profitability for the tier 1 banks.

2.5 Deposit-to-total liability ratio

The banking sector's deposit-to-total liability ratio (DLR), a measure that captures the extent to which banks rely on wholesale funding to cut costs on the liability side of the balance sheet, rose marginally to 88.5 percent in 2020, from 88.1 percent in 2019. This measure differed across the different tiers of banks, rising for the medium and large banks, but contracting substantially for the small banks **(Figure 8)**. The sharp decline in DLR for small banks can be attributed to the very low growth in deposits registered by small banks during the period, as shown in Figure 6.

Figure 8: Deposit-to-total liability ratio



1989: Standard Chartered Bank introduced Kenya's first Automated Teller Machine (ATM).
CREDIT / SCB

Chapter 3:

ASSET QUALITY

3.1 Asset quality

The quality of assets across the industry players deteriorated in 2020, largely due to the adverse effects of the pandemic on households and enterprise earnings. The negative economic impact of COVID-19 occasioned an increase in the sector's non-performing loans (NPLs), which stood at Kshs. 433.7 billion as at end 2020 compared with Kshs. 334.3 billion in December 2019.

The gross NPLs in 2020 represented about 14.5 percent of gross loans; a growth from 12.5 percent as at the end of 2019, with the observed increase in the ratio associated with an increase in the volume of NPLs on one hand and a decline in the loan growth on the other. Similar to other developments in the industry, the evolution of the loan quality was heterogenous across bank sizes.

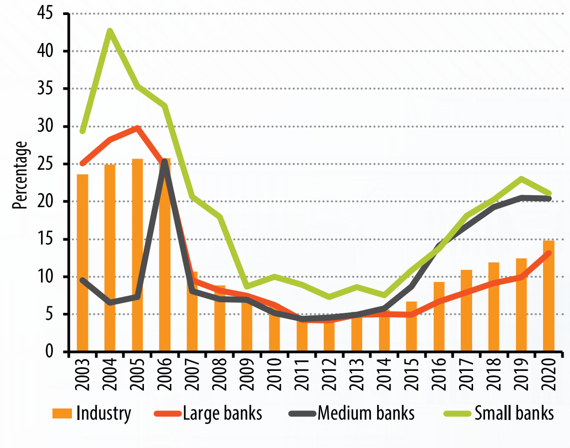
While small banks saw a reduction in NPLs during the year, their NPLs as a ratio of gross loans was the highest at 21.1 percent, above the industry level. For the medium and large size banks, their NPL ratio in 2020 stood at 20.4 percent and 13.2 percent, respectively **(Figure 9a)**. At the sectoral portfolio level, asset quality is also non-homogenous, with the building and construction sector posting the highest NPLs ratio at 24.3%, followed by agriculture sector (21.6%), and trade sector (19.7%) **(Figure 9b)**.

The asset quality movements described above vindicates the deployment the emergency measures adopted in March 2020 to mitigate against the adverse effects of the pandemic on enterprises and households[5]. The emergency measures saw a sizeable proportion (54.1 percent) of the banking sector's loan book valued at Kshs. 1.63 trillion restructured as at end 2020. Going forward, NPLs formation will be more pronounced and will be a function of the speed and magnitude of economic recovery and the exposure of banks to sectors most affected by the pandemic.

> "While small banks saw a reduction in NPLs during the year, their NPLs as a ratio of gross loans was the highest at 21.1 percent, above the industry level.

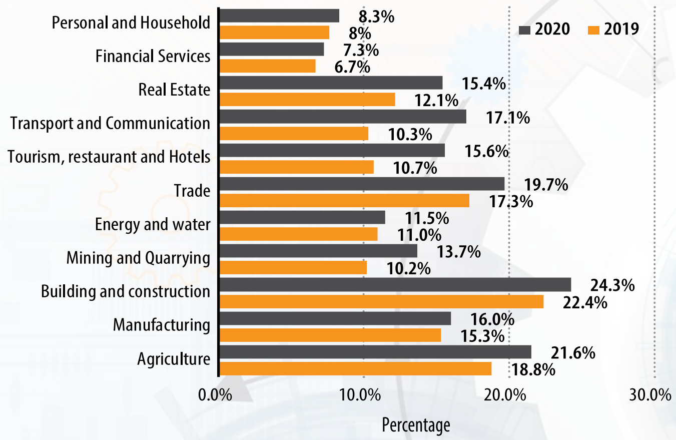
Figure 9: Banking system asset quality developments

Figure 9a: Gross NPLs to Gross Loans Ratio



Source: KBA & CBK

Figure 9b: Sectoral NPL Ratio

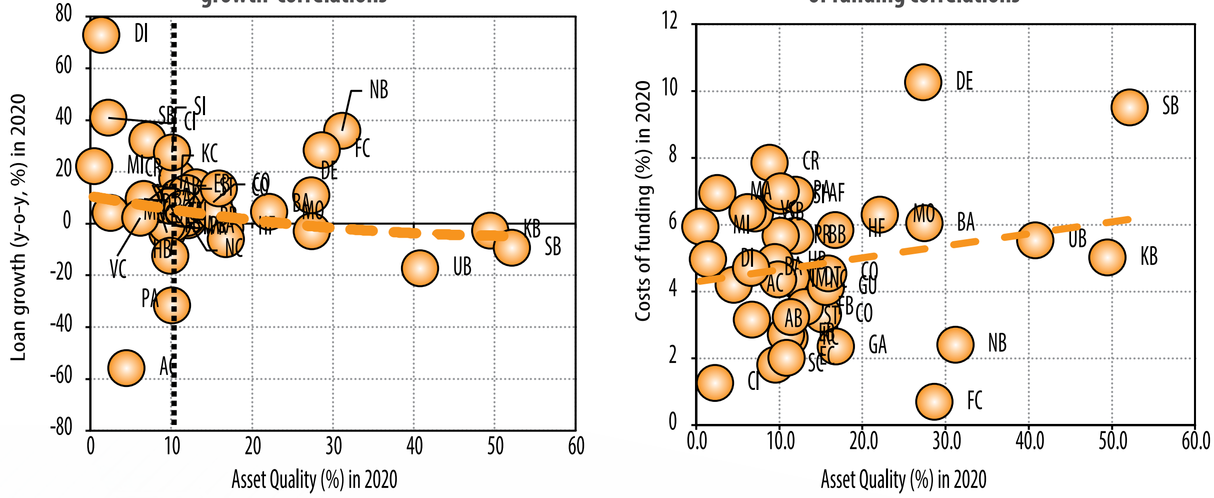


5 See highlights here: https://www.centralbank.go.ke/uploads/press_releases/1908080057_Press%20Release%20-%20Emergency%20Measures%20to%20Mitigate%20the%20Adverse%20Economic%20Effects%20on%20Bank%20Borrowers%20from%20the%20Coronavirus%20Pandemic.pdf See IMF's April 2021 Regional Economic Outlook : https://www.google.com/search?q=regional+economic+outlook+kenya&rlz=1C1BNSD_enKE930KE930&oq=regional+economic+outlook+kenya+&aqs=chrome..69i57j33i22i29i30l3.11336j0j15&sourceid=chrome&ie=UTF-8

Figure 10: Relationship between asset quality with funding costs and credit growth

Figure 10a. Asset quality and loan growth correlations

Figure 10b. Asset quality and cost of funding correlations



Source: CBK, KNBS; *projection

The asset fragility characterised above has profound implications on the banking sector risk uptake as they impair bank balance sheets, depress credit growth, increase cost of funding, and eventually delay economic recovery. As **Figure 10** shows, high NPL ratio formation hampers credit growth and is associated with increasing a banks' cost of funding.

3.2 Total provisions

Amidst deteriorated economic performance and quality of assets held by banks, the provisioning for loan losses (LLPs) increased by 47.5 percent to Kshs.198.1 billion in 2020 from Kshs.134.3 billion in 2019 (Figure 11). At the industry level, LLPs absorbed 45.7

Figure 11: Loan loss provisions

Figure 11a. Loan loss provisions

Figure 11b. Y-o-Y growth in loan loss provisions

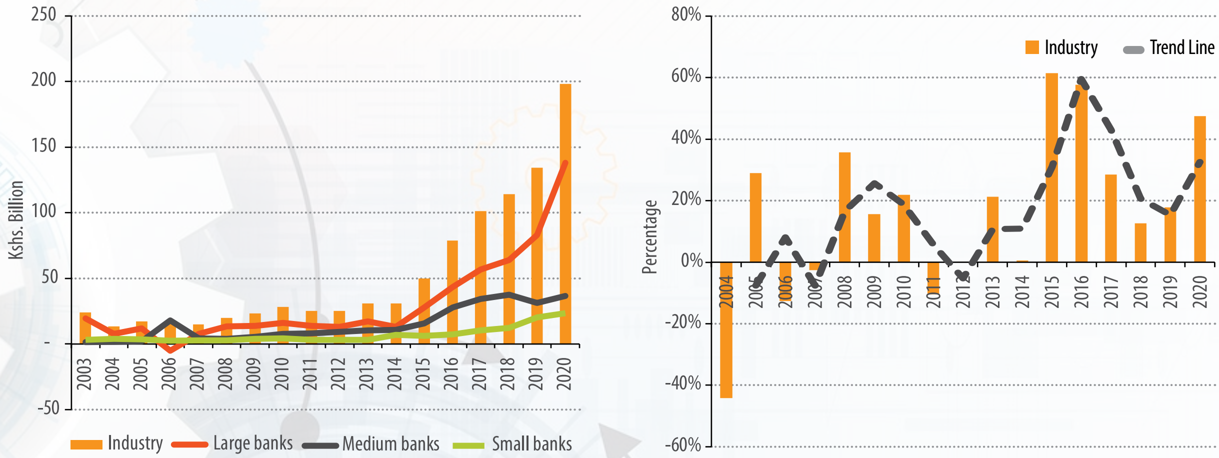


Figure 11: Loan loss provisions

Figure 11c. Loan loss provisions-to-NPLs ratio

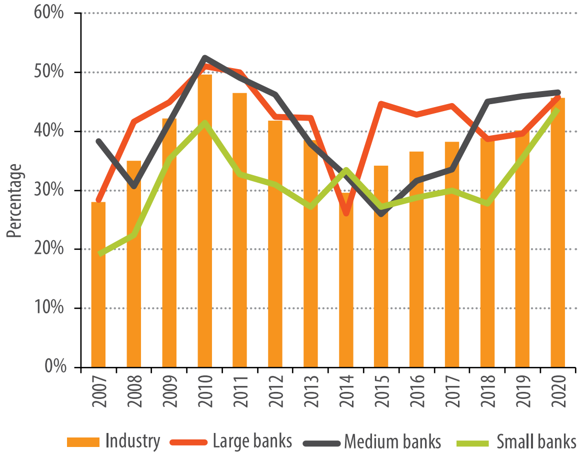
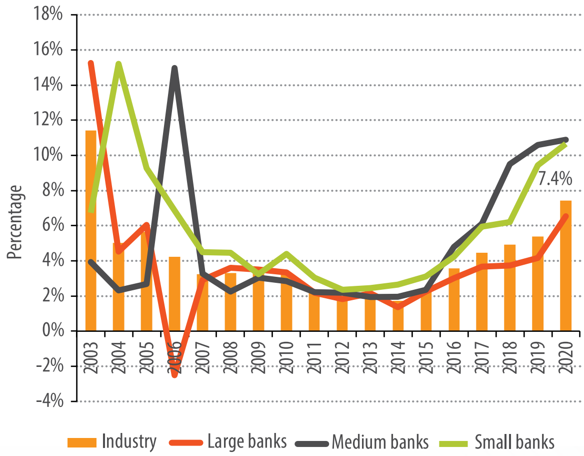


Figure 11d. Loan loss provisions-to-loans ratio



percent of NPLs compared to 40.2 percent in 2019. This, however, differed across bank categories, with small banks reporting LLPs equivalent to 43.8 percent of NPLs, as medium and large banks posted LLP ratios of 46.6 percent and 45.8 percent, respectively.

Analyses of the cost of risk, measured by the loan loss provisions as a proportion of the net loans and advances, LLPs absorbed 7.4 percent of net loans in 2020 compared to 5.4 percent in 2019, with the cost of risk varying widely across banks. Again, this varied across bank categories, with small, medium, and large banks respectively depicting LLPs ratios of 10.7 percent, 10.9 percent, and 6.5 percent of loans, during the period. Going forward, the increase in the level of provisioning relative to NPLs will be a significant mitigating factor of the COVID-19 effects on the asset quality of banks in 2021.

3.5 Capital adequacy

Banking industry capitalization in 2020 remained adequate, strong and robust. As **Table 1** shows, the banking sector's capital adequacy, as measured by the ratio of total capital to risk-weighted assets, rose to 19.0 percent in 2020 from 18.8 percent in 2019, above the statutory minimum requirement of 14.5 percent. This was supported by an increase in the total capital growth (10.1 percent) which outpaced the growth in total risk-weighted assets (8.9 percent) during the period. Similarly, the ratio of core capital to total risk-weighted assets remained stable at about 16.6 percent in 2020, above the statutory minimum level of 10.5 percent. Moreover, the ratio of core capital to total deposits that declined to 17.1 percent in 2020 from 17.9 percent in 2019, remained well above the statutory minimum requirement of 8.0 percent. The adequate capital levels reflected above enabled banks to weather the storm of COVID-19 pandemic without requiring huge injections of additional capital and enhanced their ability to absorb credit losses and lend to the real economy, notwithstanding the uncertainty created by the pandemic.

Table 1: Capital adequacy ratios

	2016	2017	2018	2019	2020	Statutory Minimum CAR
Core Capital/TRWA (%)	15.6	16.0	16.5	16.6	16.6	10.5
Total Capital/TRWA (%)	18.6	18.5	17.8	18.8	19.0	14.5
Core Capital/Total Deposits (%)	18.1	18.3	17.3	17.9	17.1	8.0

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

Humble beginings: Equity Building Society's first branch serving farmers in Murang'a 1984) .

CREDIT / EQUITY BANK

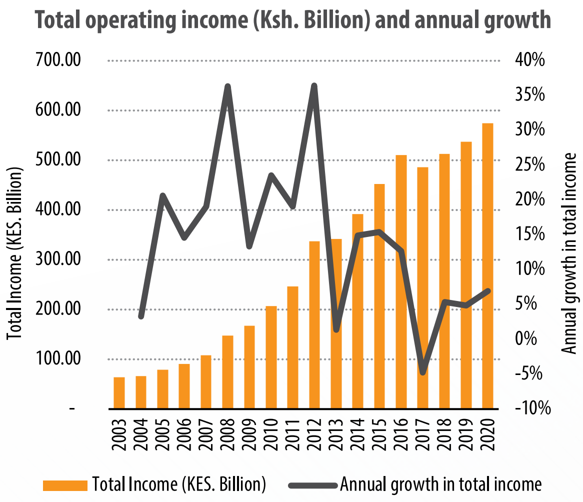
Chapter 4:

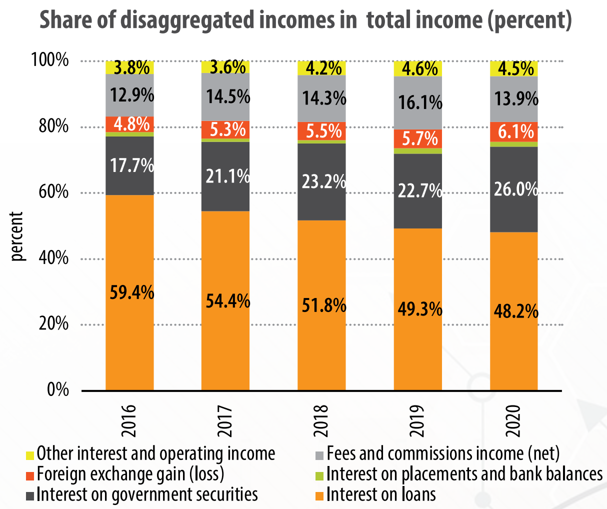
FINANCIAL PERFORMANCE

4.1 Total operating income

The banking sector total income in 2020 rose by 6.9 percent, higher than a 5.4 percent growth in 2019. This was on account of a strong growth in interest income on loans by 4.5 percent, interest on government securities (22.4%), foreign exchange gains (14.7%) and other interest and operating income (5.4%). During the same period, however, income from fees and commissions and interest on placements contracted by 7.8 percent and 10.5 percent, respectively, as shown in **Figure 12**.

Figure 12: Total operating income





Source: KBA

Typically, changes in income year on year reflect portfolio shifts and rebalancing, and banking sector identification of new business opportunities within existing investment options during the year, amidst growing uncertainty occasioned by COVID-19 pandemic.

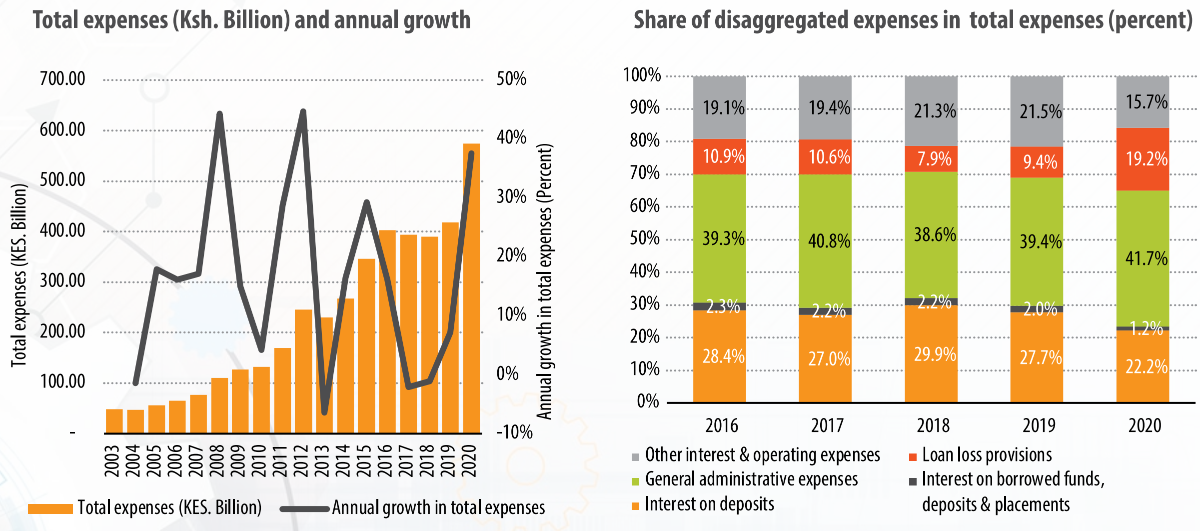
In terms of income shares, interest on loans and advances was the most important component, accounting for 48.2 percent of the total income in 2020. However, its relative importance over the last five years declined as interest income on government securities edged up, to account for 26.0 percent in 2020 from 22.7 percent in 2019. The other notable income stream for banks in 2020 was fees and commissions that represented 13.9 percent of total income, despite their proportion declining from 16.1 percent in 2019.

4.2 Total operating costs

The banking industry's costs rose by 37.5 percent in 2020 to Kshs. 574.6 billion from Kshs. 417.8 billion in 2019, driven by the rise in interest expenses on deposits by 9.9 percent, loan loss provisions (by 45.8%), and expenses on other interest and other operating expenses (32.0%). However, expenses on interest on borrowed funds, deposits & placements, and general administrative costs declined by 14.2 percent and 13.0 percent, respectively.

As a share of total costs, general administrative expenses accounted for the largest proportion, at 41.7 percent in 2020 slightly up from 39.4 percent in 2019, and interest on deposits whose share declined to

Figure 13: Total operating costs



Source: KBA

22.2 percent in 2020 from 27.7 percent in 2019. Other substantive cost items included loan loss provisions which accounted for 19.2 percent of the total costs in 2020 compared to 9.4 percent in 2019, reflecting the additional forward provisioning for loan losses that banks had to make to cover themselves against the deteriorated asset quality during the year. Interest on borrowed funds, deposits, and placements in 2020 accounted for a marginal 1.2 percent largely unchanged from 2.0 percent recorded in 2019 **(Figure 13)**.

Figure 14: Cost-to-income ratio

Figure 14a. Cost-to-income ratio

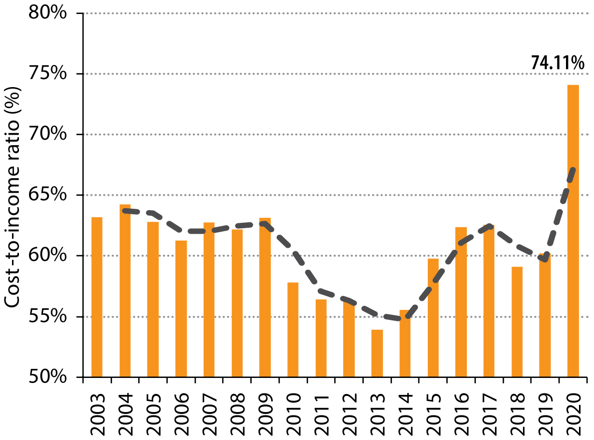
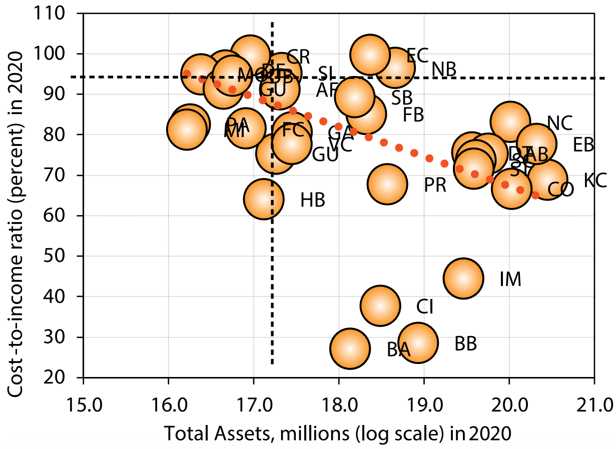


Figure 14b. Cost-to-income ratio and bank size correlations



Source: KBA

4.3 Cost-to-income ratio

The cost-to-income ratio, measure of bank's efficiency, substantially edged upwards to 74.1 percent in 2020 from 60.2 percent in 2019 (Figure 14). This ratio reflects a strong relationship with bank size and its business model. As **Figure 14b** shows, an inverse relationship exists between cost-to-income ratio and bank size, implying that larger banks enjoy economies of scale and thus are able to optimize their costs. In a broader sense, a bank's funding modalities and revenue diversification avenues have an implication on its cost-to-income ratio. For example, a recent study (Roengpitya, Tarashev, Tsatsaronis and Alan Villegas, 2017[6]) indicates that the ratio is favorable to retail funded banks than wholesale funded banks.

4.4 Net interest margin

The banking industry's net interest margin dipped marginally by 0.03 percent in 2020 to 5.67 percent from 5.70 percent in 2019; depicting mixed movements across bank sizes. For the large and medium size banks their net interest margins declined, but for the small banks, this measure edged up. The gaps across the banks however, remained stable. The large banks' interest margin was 5.7 percent above the industry average of 5.4 percent during the year, while that of medium and small banks stood at 4.7 percent and 3.9 percent, respectively. **(Figure15)**. Behind the divergence in net interest margins across bank categories, several exogenous elements can be seen at play but most notably the influence of monetary policy and its transmission to market interest rates. In particular, the extended period of accommodative monetary policy stance that prevailed in most of 2020 can be attributed to a gradual and sustained reduction in interest rate spreads **(Figure 16)**.

"In a broader sense, a bank's funding modalities and revenue diversification avenues have an implication on its cost-to-income ratio.

6 Roengpitya, R., Tarashev, N., Tsatsaronis, K. and Alan Villegas, (2017), "Bank business models: popularity and performance", BIS Working Papers No 682, December. (https://www.bis.org/publ/work682.pdf)

Figure 15: Bank net interest margin

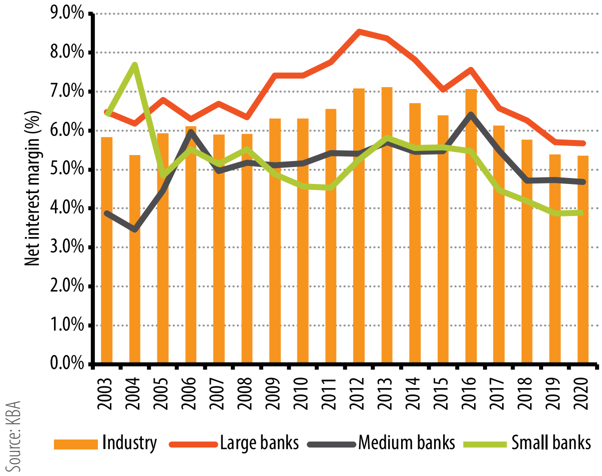
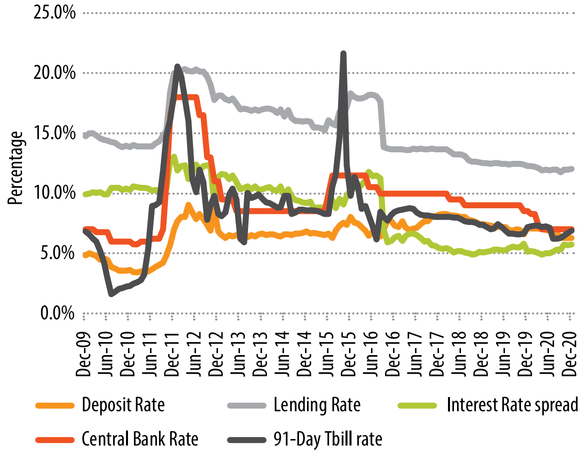


Figure 16: Evolution of key interest rates



4.5 Cost of funding

The cost of funding of the banking industry on average remained largely unchanged, declining marginally by 0.1 percent from 2.0 percent in 2019 to 1.9 percent in 2020. Despite the relative stability in the cost of funding, marked differences across bank sizes were evident. The average funding cost for large banks at 1.7 percent in 2020 was below the industry average, while that for medium and small banks, respectively at 2.5 percent and 2.8 percent, were above the industry average of 1.9 percent **(Figure 17a)**. The lower funding costs among large banks point to three factors all linked to economies of scale. First, they are more diversified and thus perceived as safer. Second, unlike small-sized banks, they can take advantage of their physical footprint across the country to mobilize more retail deposits that are often cheaper than wholesale deposits, utilizing their cost efficiency feature. Third, large banks have a lower NPL ratio, which positively correlates with lower funding costs as **Figure 17b** shows.

Figure 17: Cost of funding

Figure 17a. Cost of funding

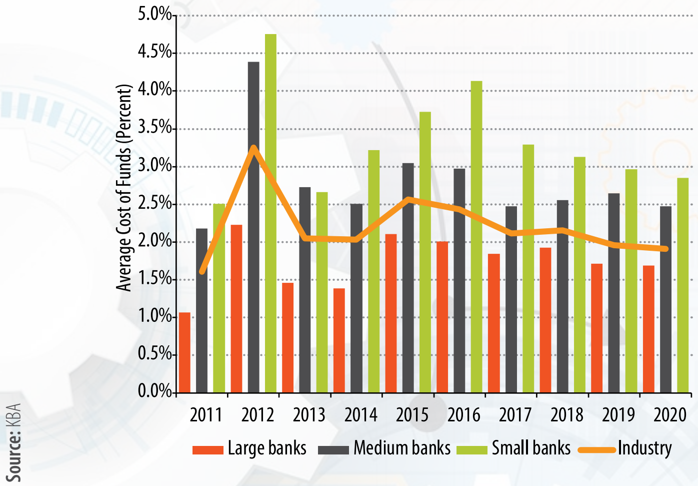


Figure 17b. Cost of funding and asset quality correlation

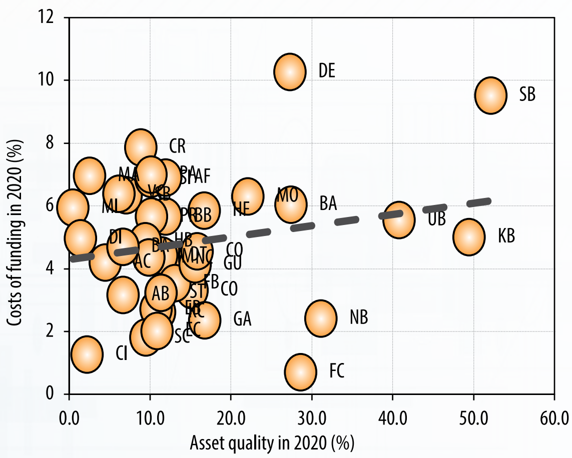
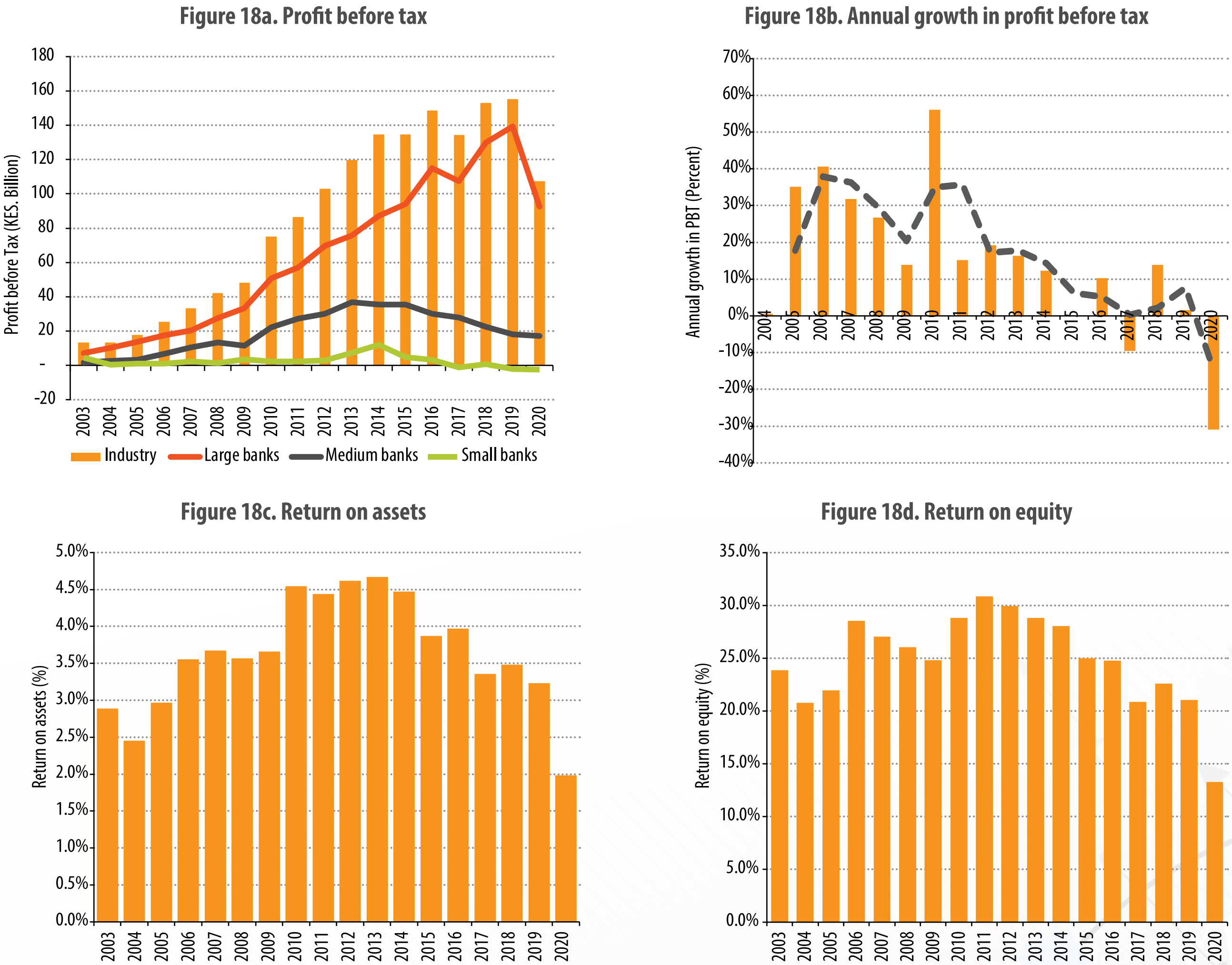


Figure 18: Profit before tax, return on assets and equity



Source: KBA

4.6 Profitability

The profitability of the banking sector fell drastically in 2020, largely on the adverse effects of the pandemic on businesses. Profit before tax fell by 30.9 percent year on year to Kshs. 107.3 billion in 2020, reflecting the lowest since 2012. There was however mixed performance across bank categories during the period. For instance, large banks experienced the sharpest decline in profitability by 33.5 percent to Kshs. 92. 7 billion, as medium and small banks posted relatively lower declines in profitability by 5.8 percent and 13.1 percent, respectively **(Figure 18)**. Reasons cited for the dip in profitability across the industry included growth in impairment losses and the impact of the monetary policy rate cut on interest margins.

Consequently, the average return on assets (ROA) fell to 2.0 percent in 2020 at a pace faster than the trend declines noted over the past few years **(Figure 18c)**. The average return on equity (ROE), similarly fell to 13.3 percent during the period from an average of 21.1 percent in 2019 **(Figure 18d)**, attributed mainly to an increase in loan loss provisions as asset quality of the banking sector deteriorated.

Figure 19: Bank and non-bank return on investment trends

Figure 19a. Bank and non-bank RoE trends

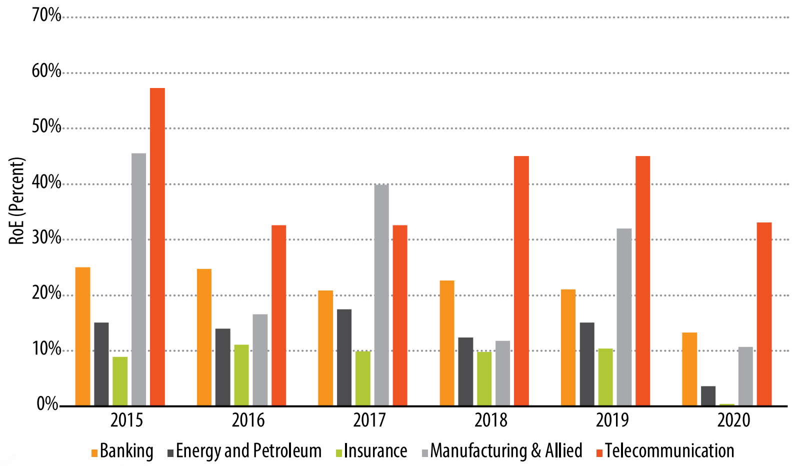
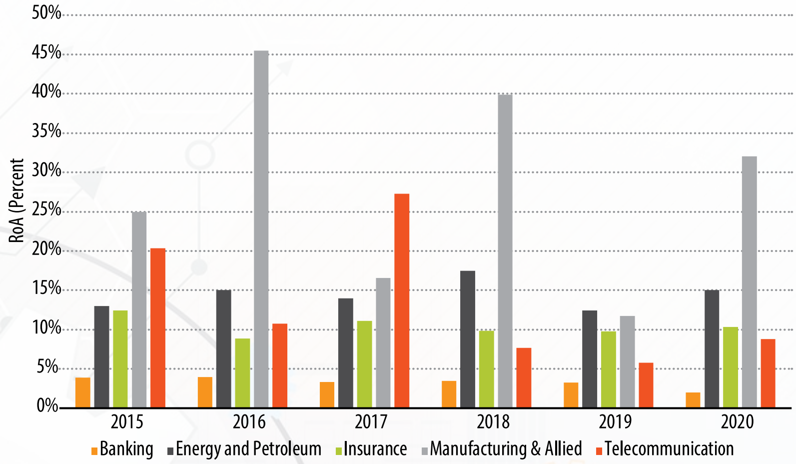


Figure 19b. Bank and non-bank RoA trends



Source: NSE and KBA

4.7 Comparative analysis of bank and non-bank performance

Sectoral heterogeneity both in terms of the return on equity and return on assets was evident. The average ROA of the banking sector has been the lowest, averaging about 3.6 percent over the period 2015-2020, when compared with average ROA of other firms listed at NSE, particularly firms in manufacturing and allied enterprises, telecommunication, insurance and energy and petroleum sectors. The average ROA for the banking sector in 2020 dropped to 2.0 percent, about 1.6 percentage points below the historical average.

Comparatively, the non-banking sector companies have consistently been more profitable than their banking sector counterparts. As shown in **Figure 19**, the NSE-listed telecommunication companies posted the highest average ROE while their insurance segment counterparts posted the least average ROE in 2020. This outcome has been evident since 2015, with the banking sector posting the third highest average ROE after firms in the telecommunication and manufacturing and allied sector. In particular, the banking sector average ROE since 2015 stood at 22.9 percent, declining sharply to 13. 3 percent in 2020 from 21.1 percent in 2019.

Based on these emerging trends, the banking sector profitability when paraded alongside other sectors' performances was moderate, reflective of normal profit levels.

> Comparatively, the non-banking sector companies have consistently been more profitable than their banking sector counterparts.

4.8 Corporate income tax contribution

The financial sector, and particularly the banking sector, is one of the cornerstones of the Kenyan economy on many fronts; job creation, value-addition, and as a source of tax revenue. In 2020 the banking sector's tax contribution remained strong, at Kshs. 42,361 million compared with Kshs. 55,437 million in 2019, largely reflecting the depressing effects of the pandemic on incomes **(Figure 20)**. This represented a 23.6 percent drop in the tax contribution. Despite this, the implicit tax rate - measured as the ratio of tax expenses over profit before tax- rose to 39.1 percent in 2020 from 35.7 percent in 2019. Nonetheless, the sector's total contribution to the economy, apart from the direct tax remittance, was the indirect "spillover" and multiplier effects on the real economy, especially in ensuring access to credit that is a pre-requisite for growth of enterprises.

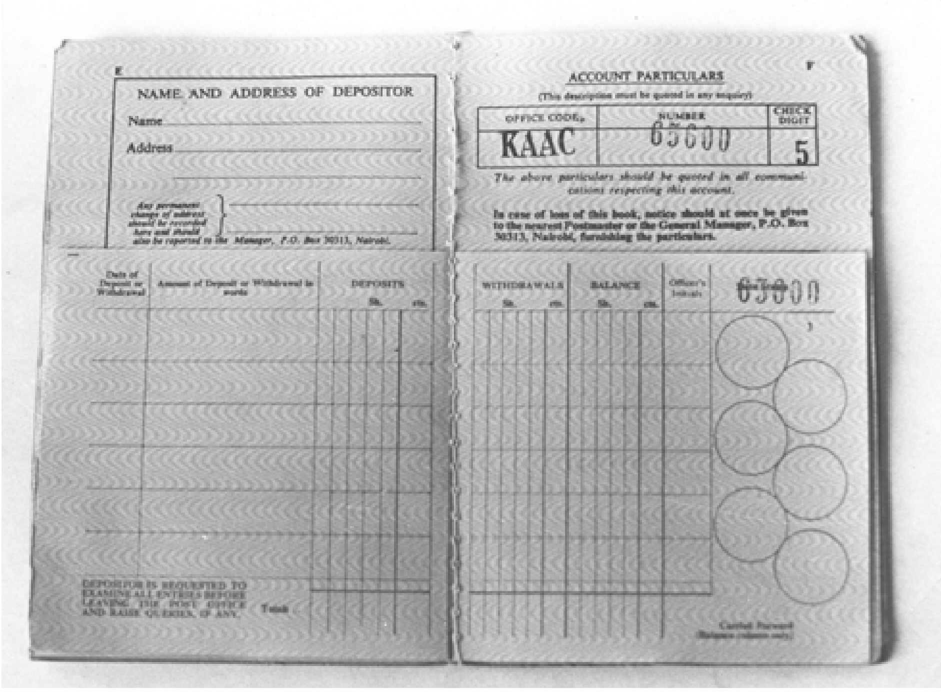


Figure 20: Corporate income tax, implicit tax rate, and tax-to-GDP ratio

Figure 20a. Corporate income tax

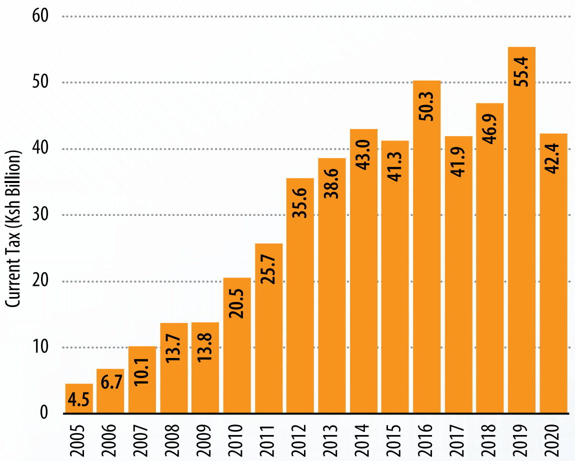
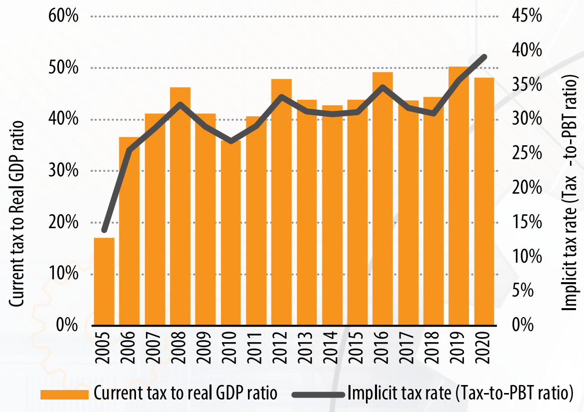


Figure 20b. Implicit tax rate and tax-to-GDP ratio



N/B: Numbers for 2020 are scaled by the Real GDP estimates of the first three quarters

Source: KBA

Chapter 5:

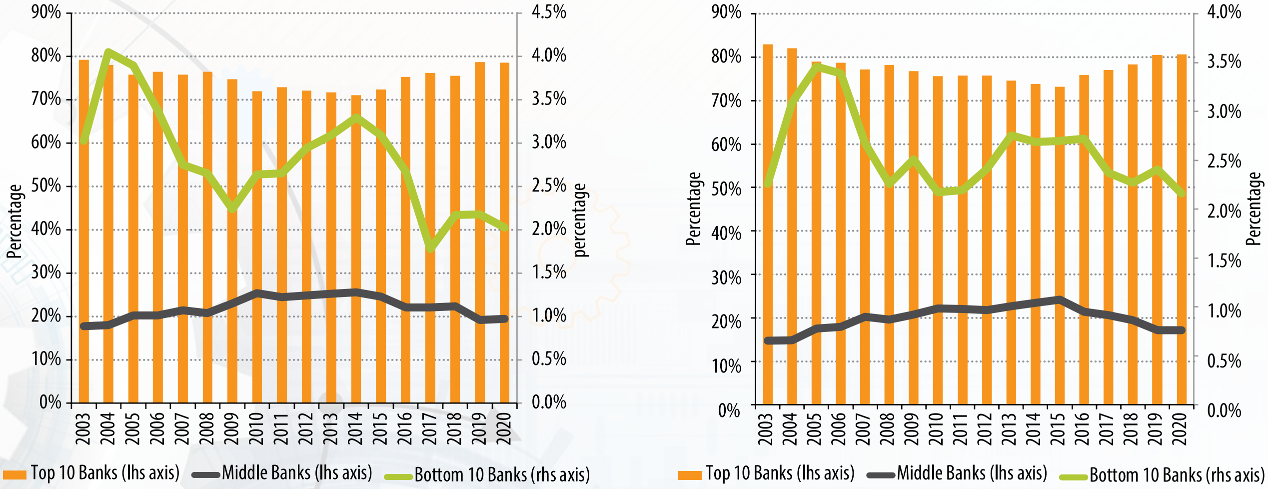
MARKET STRUCTURE– ON THE COURSE TO GREATER COMPETITIVENESS?

In 2020, the banking sector in Kenya continued to be characterized by a competitive market structure that partly underpins its resilience. The banking system concentration in assets, loans and deposits that had been declining since 2003, moderated in the last five years partly reflecting recent mergers and acquisitions by top banks as they pursued the benefits of economies of scale. Despite the moderation and slight uptick in shares held by top 10 banks the levels of concentration were below historical levels, indicating that the general improvement in market structure overtime was still on the long-term downward trajectory **(Figure 21)**.

Figure 21: Banking Sector Concentration Trends (shares)

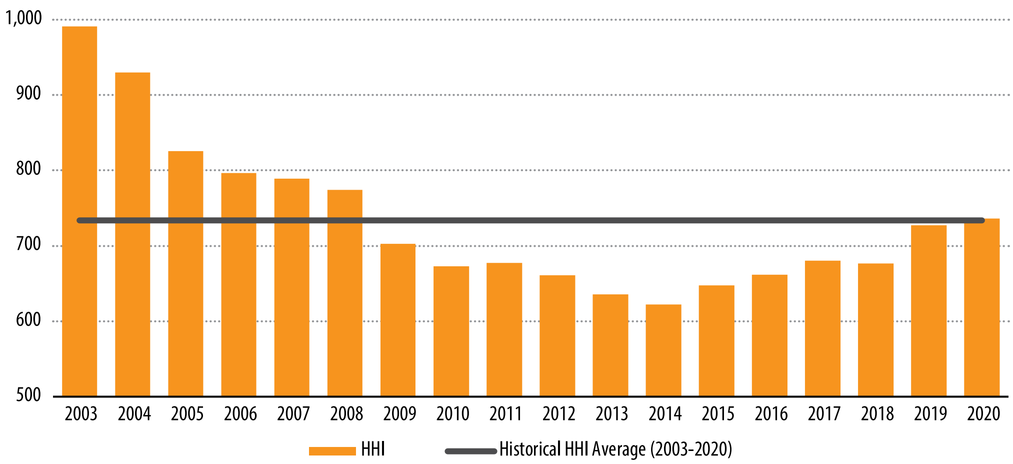
Panel A. Deposits, Loans and Asset concentration (top 10 banks) (Percent)

Panel B. Asset Concentration (Percent)



Source: KBA

Figure 22: Banking System Concentration (HHI)



HHI - Herfindahl -Hirschman Index

"Analyses of market concentration based on the Herfindahl-Hirschman Index (HHI), show that the market is not concentrated.

The top 10 banks in 2020 accounted for 77.7 percent of industry assets, 80.7 percent of loans and 78.6 percent of deposits; with the proportions largely unchanged from their 2019 levels. Over the same period, the bottom 10 banks accounted for 2.5 percent, 2.2 percent and 2.0 percent of industry assets, loans, and deposits, respectively.

Despite the above scenario in market shares, analyses of market concentration based on the Herfindahl-Hirschman Index (HHI)[7], show that the market is not concentrated. In particular, the HHI index for 2020 stood at 736.20 compared with 727.40 in 2019 **(Figure 22)**, reflecting a competitive market structure.

The subject of market structure continued to dominate discussions in research and analyses in 2020 due to divergent views presented by literature and commentators on the relationship between market structure and allocation of credit by banks. In this regard, the *Kenya Bankers Association Centre for Research on Financial Markets and Policy®* in its 2020 research agenda focused in part on market structure and attracting three empirical studies that were later published as KBA Working Papers. The three papers examined the subject of market structure from three perspectives, namely

7 The Herfindahl-Hirschman Index (HHI) is a commonly accepted measure of market concentration, computed by squaring the market share of each firm competing in a market and then summing the resulting numbers. 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.

(i) price and non-price competition interactions: implicit pricing of network size and differentiation effects ; (ii) market structure and banks pricing behaviour; and (iii) Competition and credit allocation.

Osoro and Kiplangat (2021)[8] examined the implicit pricing of network size and differentiation effects in the analyses of price and non-price competition interactions over the period 2006 to 2019. The study, while noting that bank branch network over the period had tripled and ATM networks increased four-fold, specifically assesses whether network convenience matters for price competition across the entire banking system. Their findings show that non-price competition indicators matter for a bank's pricing behaviour. In particular, the provision of an extensive branch network is associated with higher operating costs per unit of deposits - a 'shadow price' of deposits - but there are no direct pricing implications in the case of expansion in ATM network. Further, analyses of the impact of market structure on banks' pricing behaviour show that changes in the level of competition significantly affects net interest margins of banks. In fact, Muriithi (2021)[9]- in another KBA working paper - argues that policies directed at enhancing banking industry competitiveness would be appropriate in promoting market – based - pricing in the industry.

In another study on competition and credit allocation, focusing on the period 2006 to 2018, Kimani et al. (2021) report a notable increase in the level of competition in the banking sector in Kenya. They attributed the improvement in competition in the sector to the ongoing consolidation that continues to create more efficient and strong banks. The study, however, argues that while an increase in competition may improve allocation of credit in the short run, it may have adverse effects on the amount of credit supplied to the private sector by commercial banks in the long run as interest margins decline. In this regard, the continuing gradual improvement in market structure is highly likely to be non-distortionary and supportive of expansion in credit in the long run.

8 Osoro J. & Kiplangat J. (2021), 'Price and Non-Price Competition Interactions: Implicit Pricing of Network Size and Differentiation Effects', KBA Working Paper Series. Can be accessed via: https://www.kba.co.ke/downloads/WPS-47-2021.pdf.

9 Muriithi, D. (2021), 'Market Structure and Banks Pricing Behaviour – The Case of Kenya', KBA Working Paper Series, 2021. Can be accessed via: https://www.kba.co.ke/downloads/WPS-52-2021.pdf

Now (2021) and then (1953): Cash-in-Transit (CIT) services.
CREDIT / BM SECURITY

CHAPTER 6:

OUTLOOK

The banking industry in Kenya remains strong and robust, providing the much-needed driving force to steer the recovery of the economy. As the uncertainty created by the pandemic and its adverse effects on the economy dissipate, the sector's adequate capital and liquidity levels position it to play a crucial role in the recovery of the economy.

This *SBI Report* has brought to fore some areas of focus going forward. Most importantly, the expectations on the credit growth will depend on several considerations, including: the evolution of the asset quality in 2021; the balance between enterprises and households' resource needs on the one hand and government resource needs towards addressing the pandemic on the other.

Amidst deteriorating asset quality, the feedback loops between economic growth and credit growth are highly likely to be confined to the good credit book. This is particularly the case with the lapse in March 2021 of emergency measures on loan restructuring that offered support to segments of the economy highly depressed by the pandemic. Any further restructuring that would be based on the standard provisions of prudential regulations and respective banks' internal credit policy portends definitely tighter credit standards. This is against a backdrop of a protracted uncertainty in economic performance, its delayed recovery, and the slow pace of vaccinations of the population as a mitigation against the effects of COVID-19 pandemic on economic activity.

All taken together, credit growth is highly expected to be driven by a forward-looking view of credit risk. In this regard, credit growth is expected to remain modest – at best reflecting a single-digit growth level. This is in recognition of the fact that as economic agents that respond to both incentives and disincentives, the banking sector response to growing costs on loan loss provisioning, depressed incomes and below-trend reductions in profitability, will be a review of the credit expansion schemes.

With respect to developments on the market structure, the gradual structural adjustment towards more competitive market structure will continue anchored on the drive by banks to grow their presence and resilience strategies and the need to on-board various segments of the economy. Based on our previous views – posted on the 2020 SBI report, the recent market-driven mergers and acquisitions have been organic and have not come at the expense of competition. They are expected to yield favorable efficiency gains to the sector and enhance uptake of banking sector services.

Overall, the outlook of the banking sector appears strong underpinned by a number of factors, including adequate capitalization and liquidity levels, the banking sector's robust approach to treatment of asset quality deterioration and continued implementation of efficient and resilient business models. Nonetheless, the sector's total contribution to the economy is expected to grow, given its strong indirect "spillover" and multiplier effects on the real economy, especially in ensuring access to credit

APPENDICES

Table 1: Selected Balance Sheet and Profit & Loss Indicators

							Ksh. Billion
	2014	2015	2016	2017	2018	2019	2020
Balance Sheet							
Total Assets	3,011.9	3,477.6	3,739.2	4,002.7	4,397.9	4,810.0	5,405.7
Total Liabilities	2,534.6	2,938.8	3,137.7	3,358.6	3,721.7	4,081.1	4,508.3
Net Assets (Shareholders' Fund)	480.3	538.8	599.0	644.2	676.6	737.3	807.5
Customer Deposits	2,152.4	2,473.9	2,644.9	2,900.0	3,255.4	3,531.4	4,001.7
Other Deposits	130.3	143.0	121.5	126.4	97.8	100.5	107.7
Total Deposits	2,282.6	2,616.9	2,766.4	3,026.4	3,353.1	3,631.8	4,109.4
Loans and Advances to customers (net of provision)	1,782.9	2,114.4	2,206.4	2,272.7	2,311.7	2,495.4	2,663.7
Total loans and advances to customers	1,842.0	2,188.7	2,320.9	2,417.4	2,462.3	2,690.0	2,931.2
Cash and balances with CBK	167.5	196.3	162.5	160.7	248.6	321.5	291.5
Kenya government securities	483.1	539.1	625.3	750.3	934.3	1,297.1	1,603.6
Placements with other banks	133.1	146.9	115.1	167.4	199.6	215.2	320.7
Profit and Loss Account							
Income Sources							
Interest on loans and advances	228.2	274.4	303.4	264.7	265.2	265.1	276.9
Interest on government securities	59.8	67.6	90.4	102.8	118.9	122.0	149.2
Interest on placements and bank balances	5.0	9.9	6.7	4.8	5.3	8.5	7.6
Other Interest income	2.4	2.4	2.9	1.4	1.5	1.2	1.7
Total interest income	295.3	354.3	403.5	373.7	379.8	396.7	435.4
Net interest income	201.9	222.2	264.5	245.3	253.3	259.2	289.3
Foreign exchange gain (loss)	19.3	23.0	24.6	25.9	28.1	30.7	35.3
Fees and commissions income (net)	60.2	65.9	65.7	70.6	73.2	86.4	79.7
Other operating income	17.5	9.7	16.7	16.0	20.0	23.4	24.2
Total net operating income	284.1	302.3	358.3	357.9	374.7	399.8	428.7
Expense Components							
Interest on deposits	78.0	114.7	114.4	106.4	116.6	115.8	127.3
Interest on borrowed funds, deposits and placement from other banks	5.7	8.5	9.5	8.7	8.7	8.2	7.0
Other interest expense	8.1	10.7	13.0	13.3	12.3	13.5	11.7

							Ksh. Billion
	2014	2015	2016	2017	2018	2019	2020
Total interest expense	90.8	131.7	136.9	130.1	137.6	137.6	146.1
General administrative expenses	107.0	128.8	158.0	160.9	150.7	164.4	239.6
Other operating expenses	53.3	56.6	63.8	63.0	70.9	76.3	78.6
Total operating expenses	157.8	180.7	223.5	223.8	221.5	240.7	317.7
Operating profits before provisions	138.9	136.0	149.3	134.1	153.1	159.0	112.1
Losses on loans and advances	15.8	27.0	43.7	41.9	30.7	39.5	110.3
Profits Before Tax (after exceptional items)	134.6	134.6	148.4	134.3	153.0	155.3	107.3
Disclosures							
Total provisions (Loan loss provision and interest in suspense)	59.1	74.3	114.5	144.7	150.5	194.6	267.5
Non-performing loans net of provisions and suspense interest	45.3	71.9	101.1	119.9	143.0	139.7	166.2
Total Non-performing loans (Net of interest in suspense)	76.2	121.8	179.8	221.0	257.0	274.0	364.3
Total Provisions	30.9	49.9	78.7	101.2	114.0	134.3	198.1
Interest Suspense	28.2	24.4	35.8	43.5	36.5	60.3	69.5
Gross Non-performing loans	104.4	146.2	215.5	264.5	293.5	334.3	433.7
Realizable value of securities	42.1	67.3	96.3	110.4	130.8	132.6	155.0
Net NPL exposure	3.1	4.7	4.9	9.4	12.1	7.1	11.2
Total insider loans	81.3	90.3	101.8	99.1	104.5	103.6	127.5
Core Capital	393.1	443.0	525.7	546.6	581.1	631.2	686.7
Supplementary Capital	104.0	105.9	89.3	75.1	50.4	82.8	99.6
Total Capital	473.3	522.2	605.3	620.7	630.5	714.0	786.2
Quick Assets	954.4	986.3	1,087.8	1,362.3	1,672.4	1,833.9	2,215.8
Total Risk Weighted Assets	2,460.9	2,818.7	3,107.6	3,323.8	3,503.5	3,798.3	4,136.3
Selected Performance Ratios (%)							
Total Liabilities-to-Total Assets Ratio	84.2%	84.5%	83.9%	83.9%	84.6%	84.8%	83.4%
Shareholders' Funds-to-Total Assets Ratio	15.9%	15.5%	16.0%	16.1%	15.4%	15.3%	14.9%
Net Interest Margin-to-Total Assets Ratio	6.7%	6.4%	7.1%	6.1%	5.8%	5.4%	5.4%
Deposits-to-Asset Ratio	76%	75%	74%	76%	76%	76%	76%
Loan-to-Deposit Ratio	78%	81%	80%	75%	69%	69%	65%
Shareholders' Funds-to-Total Deposits Ratio	21%	21%	22%	21%	20%	20%	20%
Return on Assets	4.5%	3.9%	4.0%	3.4%	3.5%	3.2%	2.0%
Return on Equity	28.0%	25.0%	24.8%	20.8%	22.6%	21.1%	13.3%
Cost of Funds	2.1%	2.6%	2.5%	2.2%	2.2%	2.0%	2.0%

Source: KBA Financial Database

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