KENYA BANKERS
ASSOCIATION

STATE OF THE BANKING INDUSTRY REPORT

2026

Unlocking MSME Financing
For Economic Transformation

KBA CENTRE FOR
RESEARCH ON FINANCIAL
MARKETS AND POLICY®

CENTRE FOR RESEARCH ON

FINANCIAL MARKETS AND POLICY®

STATE OF THE BANKING

2026 INDUSTRY REPORT

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

Unlocking MSME Financing For Economic Transformation

The *State of the Banking Industry Report (SBIR)* 2026 is a flagship annual publication of the Kenya Bankers Association (KBA) Centre for Research on Financial Markets and Policy®. The report provides a comprehensive assessment of developments in Kenya's banking sector and its contribution to economic transformation.

It serves as an authoritative source of evidence-based analysis for policymakers, financial institutions, investors, development partners, researchers, academia and the general public by presenting an integrated perspective on the industry's performance, emerging risks, structural changes and economic outlook.

The 2026 edition places particular emphasis on the evolving role of banks in financing Kenya's productive sectors, especially Micro, Small and Medium Enterprises (MSMEs), which remain central to employment creation, innovation and inclusive economic growth. Moreover, the analysis presented in this publication draws upon the Kenya Bankers Association's bank-level financial database, compiled from audited financial statements of commercial banks covering more than two decades of industry performance. The database is complemented by official statistics from the Central Bank of Kenya (CBK), the Kenya National Bureau of Statistics (KNBS), the National Treasury, the International Monetary Fund (IMF), the World Bank and other reputable national and international institutions. The report also incorporates evidence from recent research undertaken by the KBA Centre for Research on Financial Markets and Policy®, including studies published through the KBA Working Paper Series, thereby linking empirical research with contemporary policy discussions.

The report adopts both an industry-wide and bank-tier analysis approach; allowing readers to appreciate differences in performance across large, medium and small banks.

While the report has benefited immensely from comments, discussions and technical inputs from banking practitioners, regulators, academics and other stakeholders, the interpretations, analysis and conclusions presented herein remain those of the Contributors and should not necessarily be attributed to the Kenya Bankers Association Governing Council, member institutions or any organization whose data and/or publications have been referenced.

Published by Kenya Bankers Association Centre for Research on Financial Markets and Policy®

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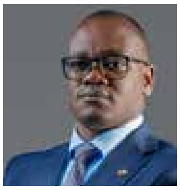

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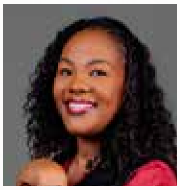

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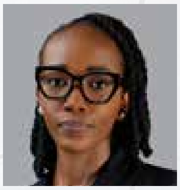

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* **CRFMP** is the Centre for Research on Financial Markets and Policy®

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FOREWORD

The State of the Banking Industry Report 2026 is published at a point where the industry is transitioning from an era focused primarily on financial stability towards one that equally prioritises innovation, sustainability, digital transformation and inclusive economic growth.

Banking is no longer measured solely by the mobilisation of deposits and extension of credit. Its success is assessed by its ability to facilitate productive investment, support enterprise development, promote financial inclusion, manage emerging risks and contribute meaningfully to national development.

Against this backdrop, this year's report examines these transformations through the lens of Kenya's evolving economic landscape. Particular attention is given to the role of the banking sector in financing Micro, Small and Medium Enterprises (MSMEs), whose contribution to employment creation and economic growth remains indispensable. Expanding sustainable access to finance for MSMEs continues to represent one of the most important opportunities for accelerating inclusive growth, strengthening private sector competitiveness and enhancing economic resilience. As highlighted throughout this report, achieving this objective requires continued innovation in credit risk assessment, greater use of digital financial services, stronger credit information systems, improved risk-sharing mechanisms and supportive policy frameworks.

The report further demonstrates that while the banking industry experienced renewed balance sheet expansion in 2025 on account of stronger deposit mobilisation and improved profitability, important structural challenges remain. Nonetheless, banks have continued to demonstrate resilience by strengthening capital positions, investing in technology, expanding digital financial services and integrating environmental, social and governance (ESG) considerations into business strategy.

The Kenya Bankers Association remains committed to supporting evidence-based policy making through rigorous research and constructive stakeholder engagement. The insights presented in this report reflect the continued work of the KBA Research and Policy Department in generating policy-relevant research that informs industry practice and contributes to strengthening Kenya's financial system.

It is our hope that the 8th edition of the State of the Banking Industry Report 2026 will serve as a strategic reference for policymakers, financial institutions, investors, researchers and development partners.

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
CRFMP	Centre for Research on Financial Markets and Policy®
CRWA	Capital to Risk Weighted Assets
CSFED	Centre for Sustainable Finance and Entreprise Development
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
KES	Kenya Shillings
KESONIA	Kenya Shilling Overnight Interbank Average
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
RBCP	Risk-Based Credit Pricing Framework
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 banking landscape continues to be reshaped by heightened geopolitical uncertainty, slower global economic growth, rapid technological innovation, climate-related risks and an increasingly complex regulatory environment. These developments have fundamentally transformed the role of banking from traditional financial intermediation towards enabling resilient, inclusive and sustainable economic development.

The performance of banking systems is no longer measured solely by the amount of credit extended or deposits mobilised, but increasingly by their ability to allocate financial resources efficiently, support productive investment, foster innovation and strengthen economic resilience. Against this backdrop, the State of the Banking Industry Report 2026 examines how Kenya's banking sector responded to these structural changes while continuing to support national economic transformation.

- Global output growth moderated while inflationary pressures remained elevated owing to rising food and energy prices. Domestically, Kenya's real GDP grew by 4.6% in 2025, following 4.7% growth in 2024, supported by strong performance in the services sector and improved agricultural output. Inflation remained well contained within the target range. The external sector also remained manageable with the current account at 2.4% in 2025.
- The banking industry recorded renewed growth across its balance sheet while maintaining strong capital adequacy, liquidity and profitability.
    - As at the end of 2025, the total banking sector assets increased by 10.3% to Kes 8.35 trillion, thereby reversing the 1.6% contraction recorded in the previous year. This recovery was accompanied by broad-based growth across all bank tiers.
    - Customer deposits, which is the principal source of industry funding, increased by 9.9% to Kes 6.38 trillion in 2025. This points to continued public confidence in the banking system. Large banks remained dominant, accounting for 75.4% of total industry deposits, while small banks registered the fastest deposit growth of 22.3%, increasing their market share from 7.1% to 7.9%.

> **The performance of banking systems is increasingly measured by their ability to allocate financial resources efficiently, support productive investment, foster innovation and strengthen economic resilience.**

- Total banking sector liabilities expanded by 8.9%, rising to Kes 6.95 trillion, thereby signaling improved funding conditions across the industry.
- Net loans and advances recovered by 6.9% to Kes 4.35 trillion in 2025, more-than offsetting the 4.2% contraction recorded a year earlier.
- However, deposit mobilisation continued to outpace lending growth, resulting in the industry's Loan-to-Deposit Ratio declining from 70.1% in 2024 to 68.1% in 2025. This indicates that while banks successfully mobilised domestic savings, a growing share of these resources helped boost liquidity more than private sector lending.
- Investments in government securities increased by 18.8%, raising their share of total banking assets from 27.8% in 2024 to 29.9% in 2025, while the share of loans and advances declined from 48.1% to 46.5%.
- Asset quality improved, with the industry Non-Performing Loan (NPL) ratio declining to 14.7% in 2025 from 16.0% in 2024 towards pre-pandemic levels. Despite lower NPL ratios, banks strengthened their credit risk buffers thereby increasing loan loss provisions by 16.5% to Kes 97.87 billion. This reflects a more conservative provisioning approach to enhance resilience against future credit losses.
- The ratio of Core Capital to Total Risk-Weighted Assets (TRWA) rose to 18.1% and Total Capital to TRWA to 20.6%, both comfortably above regulatory minimums of 10.5% and 14.5%, respectively.
- Operating income declined marginally (2.1%) to Kes 1.03 trillion, mainly due to lower loan interest income and foreign exchange gains. However, income from investments in government securities increased significantly, reflecting banks' continued preference for lower-risk investments.
- Operating expenses fell by 6.3% to Kes 822.97 billion in 2025 following lower funding costs and reduced interest expenses. This was despite administrative costs increasing by 12.6% in 2025.
- Consequently, operational efficiency improved, with the Cost-to-Income Ratio declining from 61.0% to 58.4%, on account of stronger net operating income and better cost management across all bank tiers.
- Net Interest Margin (NIM) increased from 7.4% in 2024 to 7.9% in 2025.
- Profit before tax was up by 17.6% to close the year at Kes 306.0 billion. Medium-sized banks recorded the fastest profit growth, while small banks returned to profitability despite remaining relatively weak.

- Deposit-taking Microfinance Banks (MFBs) recorded modest asset and loan growth but continued to face high NPLs (29.1%) and subdued lending. Stronger customer deposits improved funding stability, although much of the additional liquidity was invested in low-risk assets rather than new lending.
- Kenya's economic outlook for 2026 depicts moderate growth anchored by stronger credit growth. Inflation is expected to continue easing amid improving financial conditions. Nonetheless, higher global fuel prices, geopolitical uncertainty, climate risks and elevated global interest rates remain key downside risks.

Chapter 1: Introduction

Heightened geopolitical uncertainty, rapid technological transformation, evolving regulatory developments and growing sustainability concerns have increasingly influenced the relationship between banking sector development and economic growth. While banks remain the primary intermediaries of financial resources, their contribution to economic development is no longer assessed solely by the volume of credit extended, but increasingly by their quality, inclusiveness and resilience.

In Kenya, Micro, Small and Medium Enterprises (MSMEs) account for most businesses, generate significant employment and contribute substantially to national output[1]. As such, strengthening the nexus between banking and MSME financing has become indispensable to achieving inclusive, resilient and sustainable economic growth. It is against this backdrop that the Kenya Bankers Association (KBA) State of the Banking Industry (SBI) Report 2026 examines how evolving macroeconomic conditions, policy reforms, financial innovation and market developments continue to reshape the banking sector's capacity to mobilise savings, intermediate credit and support productive investment within an increasingly interconnected financial ecosystem.

Consistent with this perspective, it is evident from the analytical work published by the Kenya Bankers Association Centre for Research on Financial Markets and Policy, that expanding sustainable access to finance for MSMEs remains one of the most important frontiers for Kenya's long-term economic transformation. The evidence demonstrates that although the banking sector remains well capitalised and liquid, formal MSME lending continues to fall below its potential owing to persistent structural constraints including information

> **Expanding sustainable access to finance for MSMEs remains one of the most important frontiers for Kenya's long-term economic transformation.**

1. The recent MSME Survey done by the Kenya National Bureau of Statistics in 2016, established that there were over 7.4 million MSMEs in Kenya, which employed over 14.4 million Kenyans across all sectors of the economy. These MSMEs contributed approximately 33.8% the national GDP in 2015. See https://www.knbs.or.ke/wp-content/uploads/2023/09/2016-Micro-Small-and-Medium-Enterprises-Basic-Report.pdf

Sustainable MSME credit expansion will be driven not by relaxed lending standards, but by information-driven, risk-sensitive lending supported by digital innovation, robust credit infrastructure and effective risk-sharing mechanisms.

asymmetry, collateral rigidities, elevated transaction costs and heightened perceptions of credit risk (Tiriongo *et al*. 2026[2]; Wairimu & Kiragu, 2026[3]; Kimani, 2026[4]).

More fundamentally, the studies argue that sustainable credit expansion cannot be achieved through relaxed lending standards, but through a fundamental shift towards information driven and risk sensitive lending, supported by a robust credit information infrastructure, the revised Risk-Based Credit Pricing Framework (RBCP) and digital financial innovation alongside strengthened risk-sharing mechanisms. (Mangla and Getenga, 2026[5] and Kimani, 2026[6]).

The research further establishes that MSMEs are far from homogeneous; differences in sectoral risk, repayment behaviour and growth prospects require differentiated lending strategies, while digital finance, alternative data, credit guarantees, ESG integration and climate-risk analytics provide new opportunities to deepen financial inclusion without compromising financial stability or portfolio quality (Muli *et al*., 2026[7]; Ochenge, 2026[8]; Ndwiga, 2026[9]; Wambui and Nyangoma, 2026[10]).

Nonetheless, it is noteworthy to take cognisant of the mounting external headwinds from the global economy (IMF, 2026)[11]. Although global economic growth remained relatively stable at an estimated 3.5% growth in 2025, the international environment has continued to be increasingly shaped by slower trade expansion, tightening financial conditions and rising policy uncertainty. Escalating trade tensions, protectionist measures and weakening investor confidence continue to cloud the global outlook, with growth projected to moderate to 3.0% in 2026 (**Table 1A**).

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10. Wambui and Nyangoma (2026), "Leveraging Data for Climate Risk Assessment and Green Capital: A Case Study of the Africa Climate and Nature Data Platform (ACNDP)" KBA Working paper WPS/08/26, March *(https://www.kba.co.ke/wp-content/uploads/2026/05/WPS0826-Wambui-Nyangoma.pdf)*
11. *https://www.imf.org/-/media/files/publications/weo/2026/update/july/english/text.pdf*

Figure 1: Global Economy Performance

	Projections		
	2025	2026	2027
World Output	**3.5**	**3.0**	**3.4**
Advanced Economies	1.9	1.7	1.8
United States	2.1	2.3	2.2
Euro Area	1.4	0.9	1.2
Japan	1.1	0.6	0.7
Emerging & Developing Economies	**4.5**	**3.8**	**4.5**
China	5.0	4.6	4.1
India	7.7	6.4	7.1
Sub-Saharan Africa			
Nigeria	4.0	4.1	4.3
South Africa	1.1	1.1	1.3

Source: IMF WEO July 2026

Meanwhile, as the global disinflation trend that started in early 2024 has lost traction, primarily driven by surging global energy and food prices, global headline inflation is projected to average 4.7% in 2026 before moderating to 3.9% in 2027. These developments spilled over to emerging markets and frontier economies through exchange rate volatility, capital flow adjustments and changing investor risk preferences.

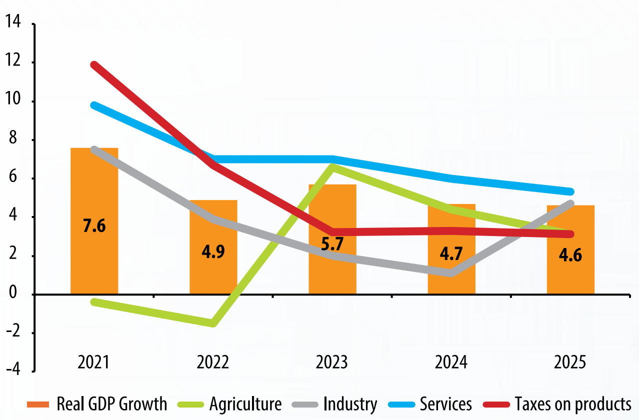
Kenya's economic performance, however, remained broadly resilient (**Figure 2A**). The sustained real GDP growth momentum in 2025 was underpinned by strong activity in the services sector and a rebound in agricultural production.

Domestic, inflationary pressures remained well contained throughout the year, with the headline inflation lying below the midpoint of the target range (**Figure 2B**) on account of relatively stable energy prices. Additionally, the non-core inflationary movements were largely attributable to fluctuations in prices of seasonal commodities (such as vegetables) rather than broad-based demand pressures.

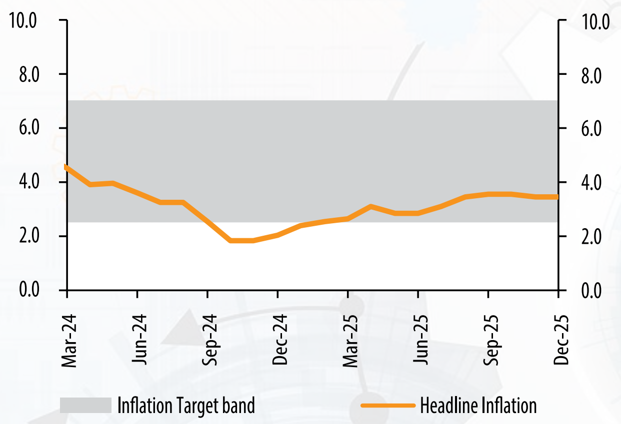
Similarly, the external sector developments painted a nuanced picture. Kenya's current account deficit widened modestly to an estimated 2.4% of GDP in the twelve months to December 2025, compared to 1.3% in 2024, largely due to lower service receipts and secondary income transfers.

Figure 2: Domestic Economy Performance

2(a): Economic Growth



2 (b) Inflation Trend



Source: KNBS

Equally, 2025 saw four major developments in the policy front.

- **First**, the moratorium on licensing new commercial banks[12] was lifted.
- **Second**, continued regulation of Digital Credit Providers (DCPs). By December 2025, the number of licensed DCPs had reached 195 institutions[13].
- **Third**, enactment of the Virtual Assets Service Providers Act 2025[14].
- **Fourth**, introduction of a revised Risk-Based Credit Pricing (RBCP).
- **Fifth**, launch of National Financial Inclusion Strategy (NFIS) 2025–2028[15].
- **Sixth**, issuance of both the Kenya Green Finance Taxonomy and the Climate Risk Disclosure Framework[16].

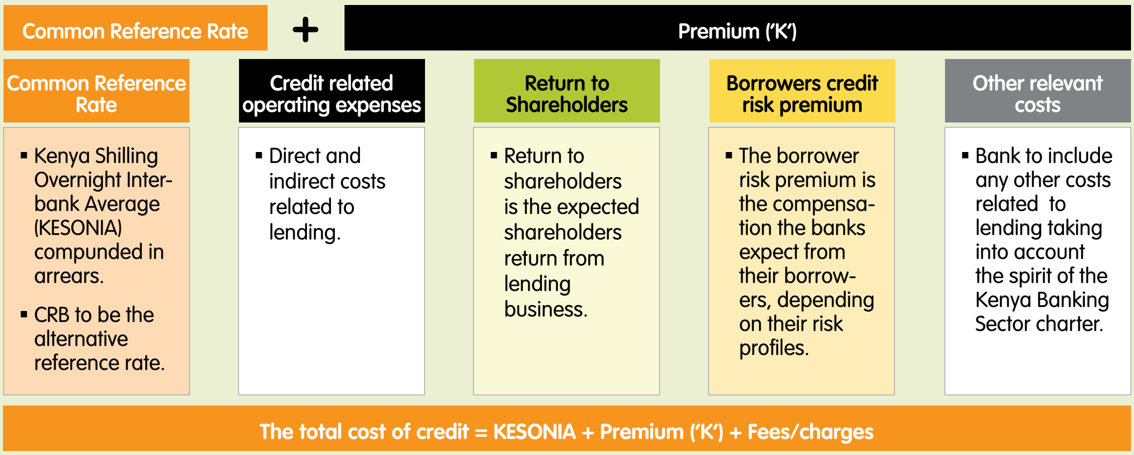
Box 1: Revised Risk-Based Credit Pricing (RBCP) framework

The revised Risk-Based Credit Pricing (RBCP) framework aims to enhance transparency, improve transmission of monetary policy and align lending rates more closely with borrower risk profiles. The revised Risk-Based Credit Pricing Model adopted the Kenya Shilling Overnight Interbank Average (KESONIA) as the primary reference benchmark for variable rate loans, with the Central Bank Rate serving as an alternative benchmark where necessary.

Unlike administrative benchmarks, KESONIA reflects actual overnight market conditions and therefore provides a more objective and market responsive foundation for pricing credit. Under the framework, lending rates are determined according to the formula presented in **Chart 1**, where the total lending rate is obtained as the sum of KESONIA and the Premium ("K"), where the premium includes the costs related to lending, return to shareholders and the risk profile of the borrower.

Consequently, the total cost of credit is equal to KESONIA + K + Fees and Charges. KESONIA is applicable to all variable rate loans except for foreign currency denominated loans and fixed rate loans. Where KESONIA is not practical, customers may be availed the use of the Central Bank Rate (CBR) as the alternative reference rate.

Chart 1: Computation of lending rates under the RBCPM



Note: The new model will apply to all variable loan rate loans except for foreign currency denominated loans and fixed rate loans.

Source: KBA

12. The moratorium was originally intended to consolidate the sector following episodes of institutional distress and strengthen supervisory oversight. See https://www.centralbank.go.ke/uploads/press_releases/164519156_Press%20Release%20-%20Lifting%20of%20Moratorium%20on%20Licensing%20New%20Commercial%20Banks%20in%20Kenya.pdf
13. See https://www.centralbank.go.ke/uploads/press_releases/233147333_Press%20Release%20%20-%20%20Licensing%20of%20Digital%20Credit%20Providers.pdf
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16. https://www.centralbank.go.ke/kenya-green-finance-taxonomy-climate-risk-disclosure-framework/

CHAPTER 2:

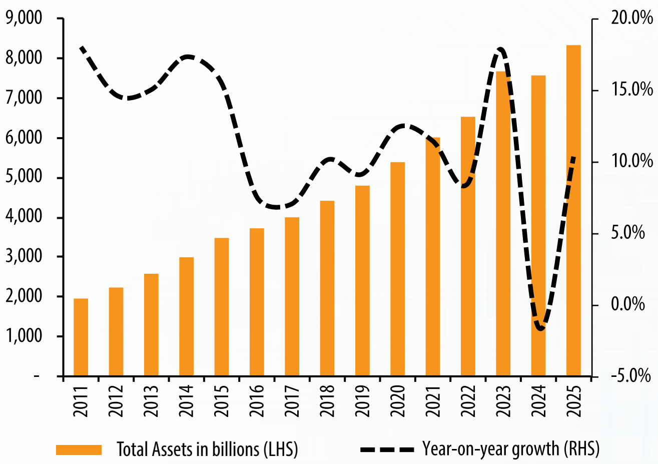
Industry Growth and Balance Sheet Dynamics

2.1 Banking System Total Assets

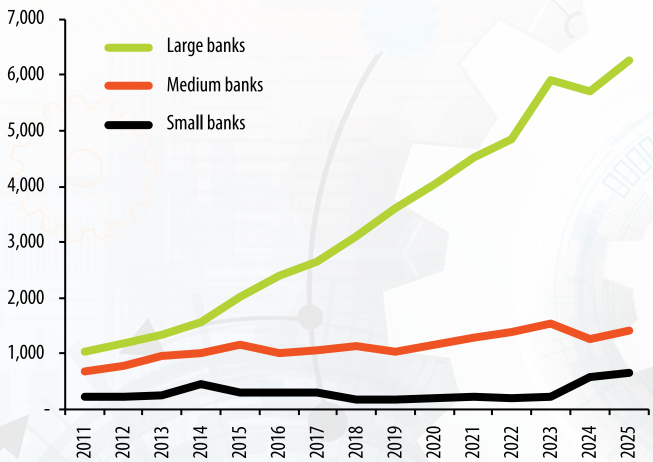
The banking sector's total assets expanded by 10.3% to Kes 8.35 trillion in 2025 from Kes 7.57 trillion in 2024, reversing the 1.6% contraction recorded in the previous year (Figure 3A). The growth was recorded across all three bank tiers, albeit with a slight variation in the magnitude. Large banks expanded their asset base by 9.5%, reaching Kes 6.26 trillion in 2025. Medium-sized banks recorded stronger growth of 11.4%, with total assets rising to Kes 1.42 trillion, while small banks registered the fastest expansion at 16.5%, increasing their asset base to Kes 671.09 billion (**Figure 3B**).

Figure 3: Banking System Total Assets

3(a): Trends in Industry Total Assets



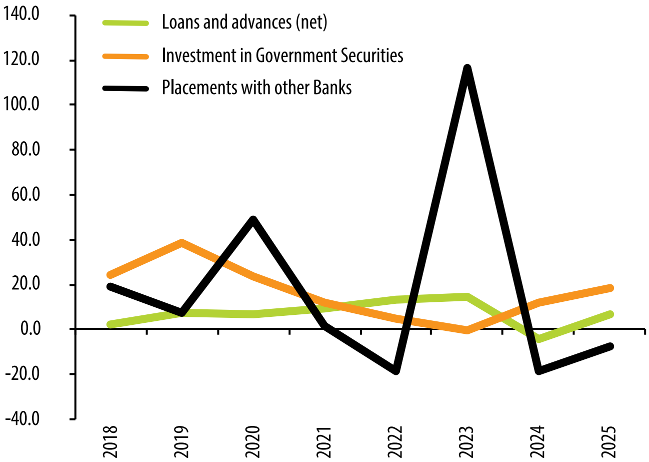
3(b): Total Assets by bank Ties, Annual (Kes Billions)



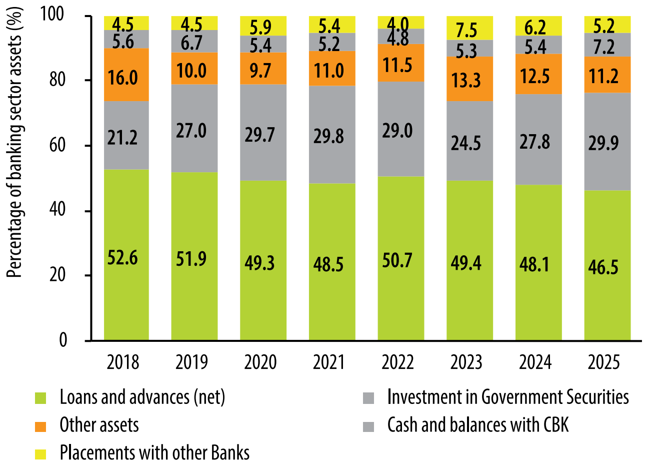
Source: KBA

Figure 3: Banking System Total Assets

3(c): Year-on-year Growth in Selected Assets (%)



3(d): Disaggregated Asset Structure (%)



Source: KBA

8.4

Total Banking Sector assets (Kes in trillions)

4,370

Gross Loans (Kes in billions)

674.4

Non-Performing Loans (Kes in billions)

The industry's asset growth in 2025 was driven by increased investment in government securities holdings, which grew by 18.8% during the year. This growth was complemented by a 6.6% increase in net loans and advances, thereby reversing the 4.2% contraction recorded in 2024 (**Figure 3C**). The expansion in the industry's asset base was further supported by a significant 47.3% increase in cash and balances with the Central Bank of Kenya (CBK), while other assets contracted marginally by 1.3%, compared with a growth of 7.6% in the previous year.

Nevertheless, loans and advances remained the largest component of bank assets, accounting for 46.5% of total assets in 2025, although this represented a decline from 48.1% in 2024. The reduced share of loans and advances was accompanied by an increase in investments in government securities, whose share rose to 29.9% from 27.8% over the same period, on account of the industry's continued shift toward relatively lower-risk assets. In addition, placements with other banks declined to 5.2% in 2025 from 6.2% in 2024 (**Figure 3D**).

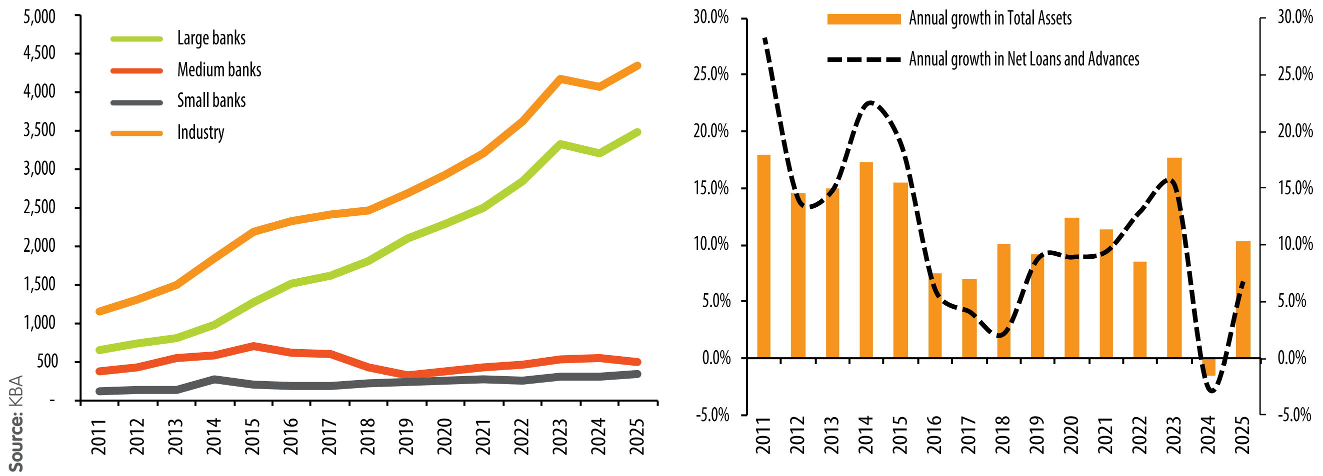
2.2 Banking System Loans and Advances

The uneven recovery in bank lending across tiers in 2025 underscores that monetary policy transmission remains uneven, with differences in bank characteristics continuing to influence the supply of credit across the banking sector. As **Figure 4A** shows, large banks expanded their loan portfolio from Kes 3.22 trillion in 2024 to Kes 3.49 trillion in 2025, while small banks increased lending from Kes 309.98 billion to Kes 347.52 billion. In contrast, medium banks remained on a declining trajectory, with loans and advances falling from Kes 544.10 billion in 2024 to Kes 506.8 billion in 2025.

At the industry level, loans and advances recovered from Kes 4.07 trillion in 2024 to Kes 4.35 trillion in 2025. However, as Figure 4B illustrates, the pace of credit expansion has remained below that of total assets since 2016, except for a temporary reversal in 2022 when loan growth outpaced asset growth. The persistence of this pattern suggests that, despite the recovery in lending, banks have continued to allocate a growing share of their balance sheets to non-credit assets, particularly government securities, reinforcing the longer-term decline in credit intensity.

Figure 4:Banking System Loans and Advances

4(a): Total Net Loans and Advances (Kes. Billion) **4(b): Annual Growth in Total Assets vs Net Loans and Advances**



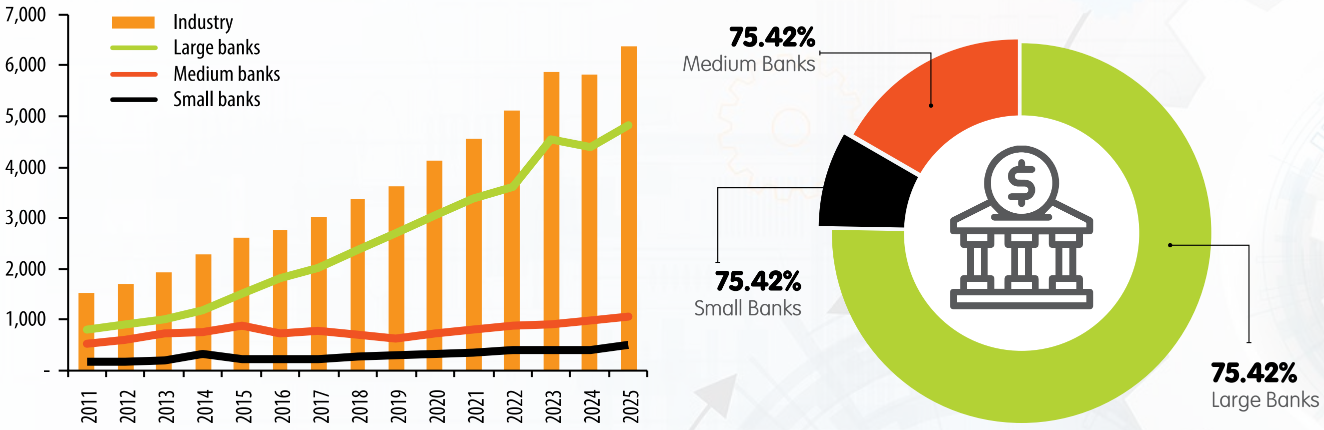
2.3 Banking System Deposits

Customer deposits continued to serve as the principal source of funding across all bank tiers, although the pace of deposit mobilization differed substantially across bank tiers, on account of differences in market positioning, customer reach and funding capacity. As **Figure 5A** shows, the total customer deposits increased by 9.9% to Kes 6.38 trillion in 2025. Large banks remained the dominant custodians of deposits, accounting for approximately 75.4% of total industry deposits in the current year, with their deposit base increasing by 9.4% to Kes 4.82 trillion. Medium-sized banks recorded a comparatively slower growth rate of 7.1%, bringing their deposits to Kes 1.06 trillion, which is equivalent to 16.6% of total industry deposits in 2025.

In contrast, small banks experienced the strongest growth in customer deposit, having risen by 22.3% to Kes 506.7 billion. Consequently, their share of industry deposits rose from 7.13% in 2024 to 7.9% in 2025 (**Figure 5B**). The significance of the 2025 performance extends beyond simple balance sheet expansion. Stronger deposit growth implies that the banking sector now commands an even larger pool of domestic savings available to finance economic transformation. The challenge is therefore shifting from mobilizing deposits to deploying those deposits efficiently.

Figure 5: Banking System Deposits

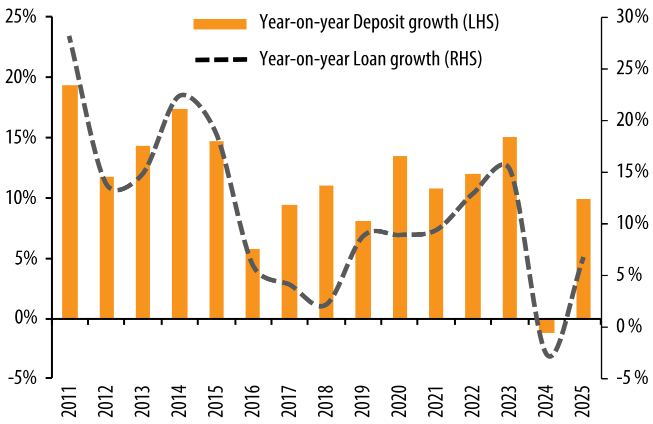
5(a): Total Deposits, Annual (Kes. Billion) **5(b): Share of Total Deposits by Bank Tiers in 2025**



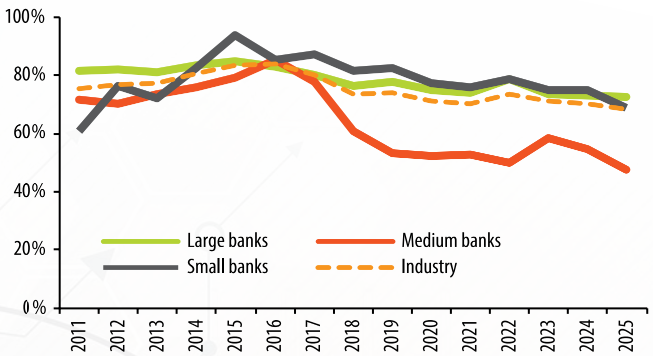
Source: KBA

Figure 6: Banking System Loan-to-Deposit Ratio

6(a): Annual Growth in Loans vs Deposits

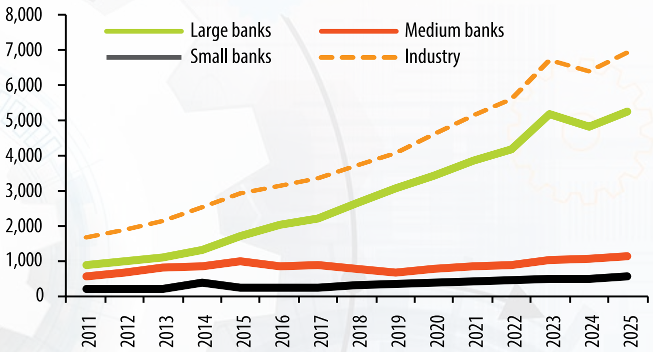


6(b): Loan to Deposits ratio



Source: KBA

Figure 7: Banking System Liabilities



Source: KBA

2.4 Banking System Loan-to-Deposit Ratio

The Loan-to-Deposit Ratio (LDR), also known as the Advances-to-Deposit Ratio (ADR), measures the extent to which customer deposits are transformed into credit, and therefore serves as an important indicator of the banking sector's intermediation function. Despite recovery in lending in 2025, deposit mobilization outpaced loan growth (**Figure 6A**). Consequently, the industry's LDR declined from 70.1% in 2024 to 68.1% in 2025.

A similar pattern is evident across the different bank tiers (**Figure 6B**), where the Loan-to-Deposit Ratio declined across all the three bank tiers, with the ratio for the medium sized banks remaining lower than the industry average.

The decline in Loan-to-Deposit Ratio (LDR) brings to the fore a dual narrative regarding the industry's performance. On one hand, it reflects the industry's continued success in strengthening the deposit funding base through robust deposit mobilization strategy. On the other hand, it also points to the incomplete transmission of these financial resources into productive lending, as banks increasingly continue to allocate a larger share of their balance sheets to lower-risk, more liquid investments rather than expanding lending at a comparable pace

2.5 Banking System Liabilities

As **Figure 7** shows, the total banking sector liabilities increased from Kes 6.38 trillion in 2024 to Kes 6.95 trillion in 2025, reversing the 4.8% contraction recorded in the previous year. The recovery was evident across all three banking tiers, with each recording positive liability growth during the period.

Large banks continued to account for the largest share of the increase, with liabilities rising from Kes 4.8 trillion to Kes 5.2 trillion, while medium and small banks also registered positive growth, reaching Kes 1.1 trillion and Kes 571.3 billion, respectively, in 2025. The contribution of all three tiers to the expansion in liabilities highlights the broad-based nature of the recovery and indicates that funding conditions improved across the sector rather than being concentrated among the largest institutions.

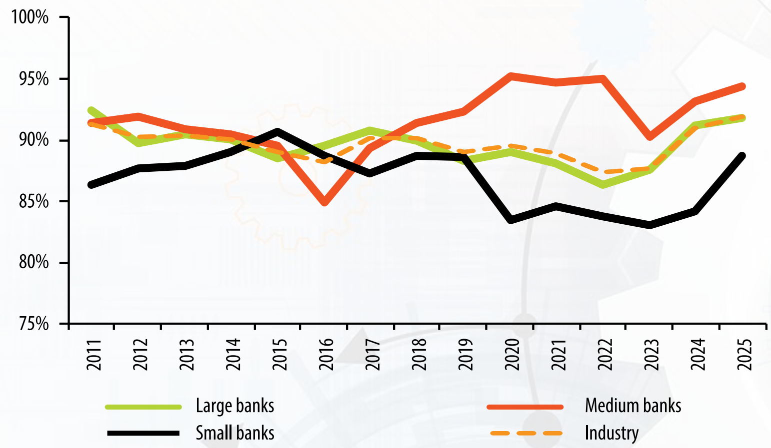
High deposit-to-liability ratios underscore the sector's stability, while emphasizing the strategic imperative to broaden funding sources as financial markets evolve.

2.6 Banking System Deposit-to-Liability Ratio

The sector's funding profile continues to be anchored on a strong and stable deposit base. While this strengthens resilience, it also points to the need for greater funding diversification. As **Figure 8** shows, the deposit-to-liability ratio improved marginally from 91.0% in 2024 to 91.9% in 2025, underscoring the continued dominance of customer deposits as the primary source of bank funding. The improvement was evident across all bank tiers, with medium-sized banks recording the highest ratio at 94.3%, followed by large banks at 91.8% and small banks at 88.7%. The consistently high deposit-to-liability ratios across the industry reaffirm banks' preference for stable, relatively low-cost funding over more volatile wholesale borrowing, thereby strengthening the sustainability of the sector's funding model and its capacity to withstand external funding shocks.

However, the sector's increasing reliance on deposits raises an important strategic consideration. While a deposit-driven liability structure enhances funding stability, excessive dependence on a single source of funding may constrain funding flexibility and increase concentration risk as financial markets deepen. Consequently, there remains a need to progressively diversify banks' liability structures through appropriately designed long-term funding instruments and capital market solutions. Equally important, the expanding pool of stable deposits should increasingly be intermediated into productive sectors of the economy to support sustainable economic growth.

Figure 8: Deposit to Liability Ratio



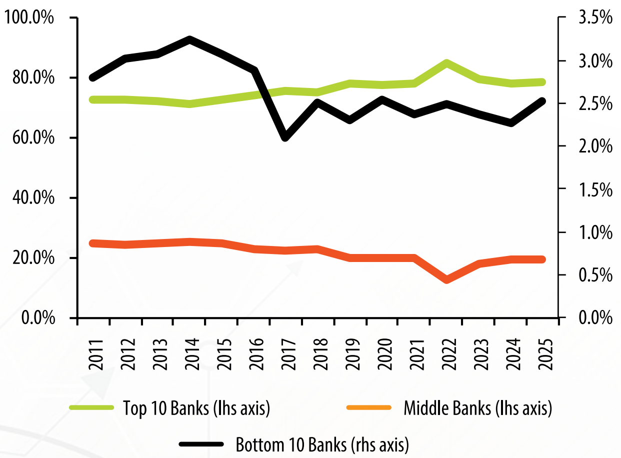
2.7. Banking sector structure and competition

The Kenyan banking sector continues to exhibit a highly concentrated structure, although important shifts within the market suggest a gradual evolution in competitive dynamics. As illustrated in **Figures 9A–9C**, the Top 10 banks consistently dominate the industry, controlling approximately 72% - 85% of total assets, loans and deposits over the period 2003–2025. This sustained dominance speaks to the entrenched market position of large institutions. More significantly, it is attributable to their extensive branch networks, stronger capital bases and superior capacity to mobilize deposits and extend credit.

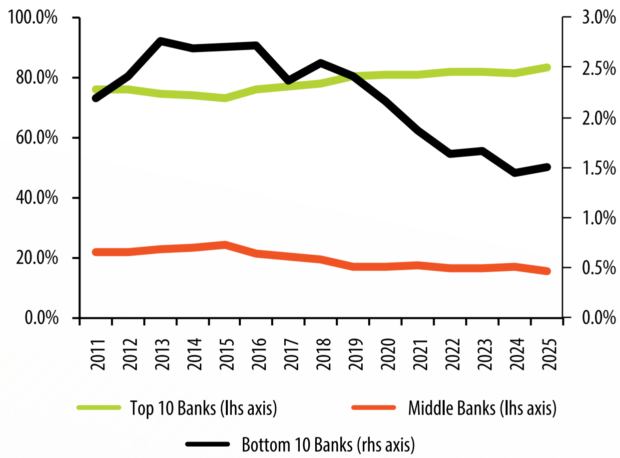
Beneath the apparent stability in market shares, the data reveal a gradual strengthening of medium-sized banks alongside a continued erosion of the smallest banks' market presence. Consistent with this trend, the Herfindahl-Hirschman Index (HHI) increased through 2024 before easing modestly in 2025 (**Figure 9D**), indicating that although market concentration remains elevated, competitive pressures have strengthened at the margin.

Figure 9: Banking Sector Market Structure

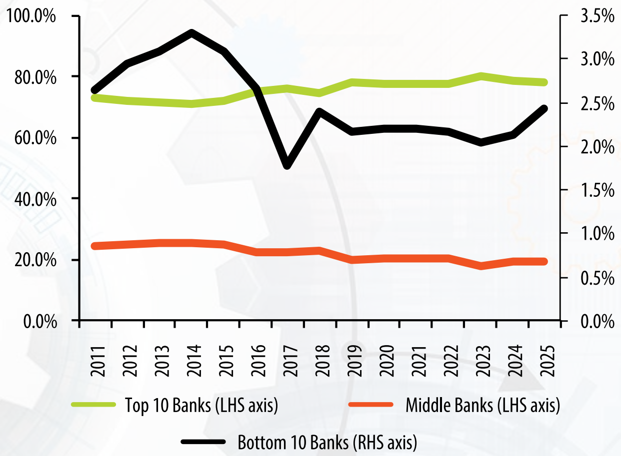
9(a): Concentration of Assets



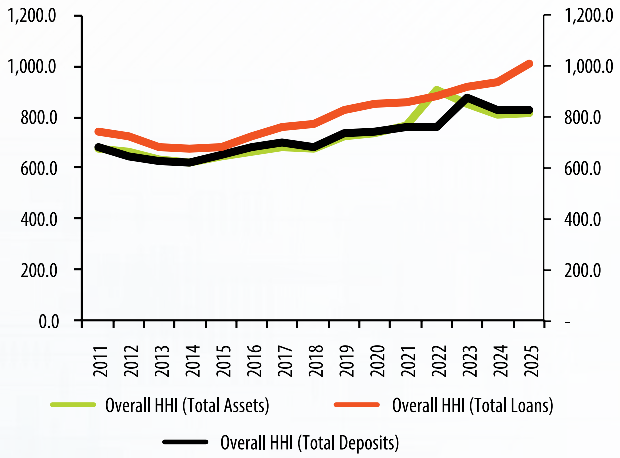
9(b): Concentration of Loans



9(c): Concentration of Deposits



9(d): Concentration (HHI)



Source: KBA

Chapter 3

Asset Quality and Credit Risk

3.1 Asset Quality

Asset quality remains a critical barometer of banking sector soundness, reflecting the extent to which banks' loan portfolios are exposed to credit risk and their capacity to absorb potential losses. Measured by the ratio of gross non-performing loans (NPLs) to gross loans, the industry's NPL ratio improved to 14.7% in 2025 from 16.0% in 2024 (**Figure 10**). This improvement was largely driven by large banks, whose NPL ratio declined to 13.4% from 14.9%.

Given that these institutions account for the majority of industry lending, the reduction in impaired assets among large banks had a significant positive effect on the sector's overall asset quality. Medium-sized banks also recorded notable progress, with their NPL ratio falling to 14.5% from 16.9%. In contrast, small banks experienced a deterioration in asset quality, with the NPL ratio rising to 28.6% from 26.7%.

Despite the improvement, the industry's NPL ratio remains well above pre-pandemic levels, indicating that underlying credit vulnerabilities have not been fully resolved. Moreover, while the month-on-month gross loan growth remained relatively stable throughout 2025, the month-on-month gross NPLs exhibited considerable volatility before contracting sharply towards the end of the year (**Figure 11**).

3.2. Loan Loss Provisions

Loan loss provisions provide a critical indication of the banking sector's preparedness to absorb expected credit losses and sustain financial stability during periods of stress. Beyond being a prudential requirement, provisioning reflects management's assessment of underlying credit risks and the extent to which banks are willing to recognise potential vulnerabilities before they crystallise into actual losses.

In 2025, the Kenyan banking sector adopted a more conservative provisioning stance, with total loan loss provisions increasing by 16.5%

Figure 10: Gross NPL to Gross Loans

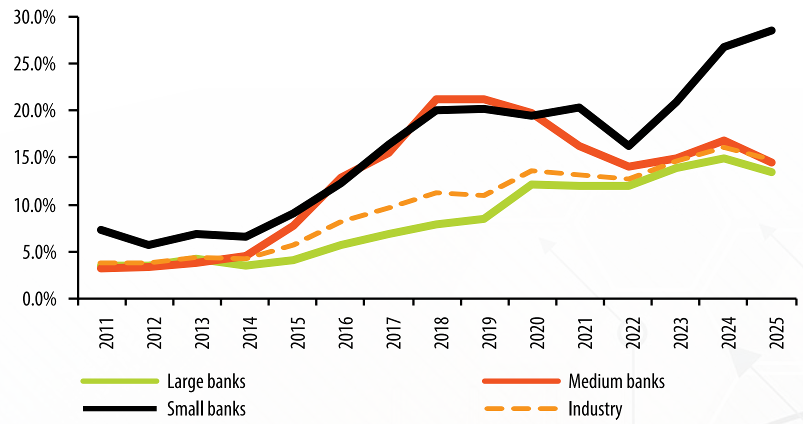
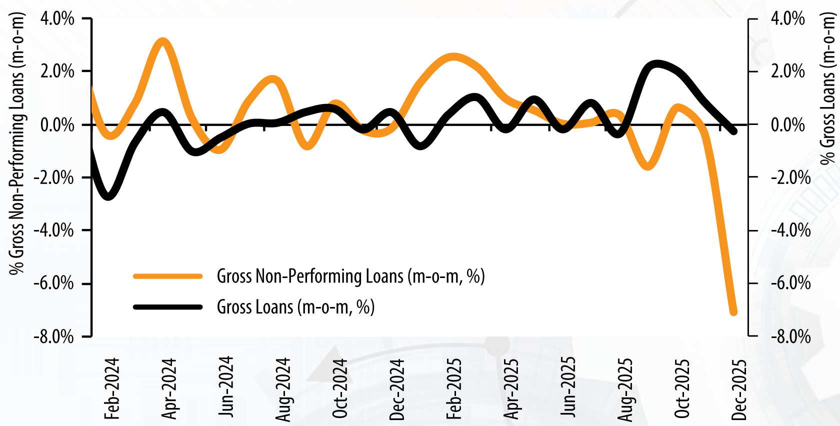


Figure 11: Growth in Gross NPL vs Gross Loans



Source: KBA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to Kes 97.87 billion, up from Kes 83.99 billion in 2024 (Figure 12). This increase occurred despite the improvement in the industry's NPL ratio from 16.0% in 2024 to 14.7% in 2025.

The increase in provisions was largely driven by large banks, whose provisioning expenses rose from Kes 70.30 billion to Kes 81.69 billion, with provisions relative to total loans increasing from 2.43% to 2.61%. Given that these institutions account for sizable proportion of industry lending, their actions largely determined the sector's overall provisioning profile. Medium-sized banks recorded the most pronounced strengthening in coverage, with provisions increasing by 26.2% from Kes 5.76 billion to Kes 7.27 billion. Consequently, the provisions-to-loans ratio rose from 1.19% to 1.61%. Small banks also increased provisions to Kes 8.91 billion from Kes 7.93 billion, thereby maintaining the highest provisions-to-loans ratio in the sector at 2.97%.

From a capital adequacy perspective, the industry's provisions-to-total-capital ratio rose modestly from 7.51% in 2024 to 7.77% in 2025, while provisions relative to risk-weighted assets increased from 1.47% to 1.60% (Figure 13). These trends indicate that banks allocated a slightly larger proportion of their capital resources to absorb expected losses, thereby reinforcing the sector's shock-absorbing capacity without materially compromising solvency positions. While this strengthening of provisioning buffers enhances confidence in the resilience of the banking system, it also points to the trade-off between prudence and intermediation. Resources committed to provisioning reduce the immediate capacity to expand lending, particularly in segments perceived to be riskier.

Tier level analysis shows that, while the provision-to-NPL ratio improved modestly relative to 2024, the increase was primarily driven by large banks, whose provisioning coverage improved (Figure 14). Medium-sized banks also recorded a modest improvement, while small banks maintained broadly stable provisioning levels. Despite these gains, provisioning coverage in 2025 remained below the peaks observed during the COVID-19 period. This is alluded to banks moderated precautionary provisioning as asset quality continues to strengthen.

Figure 12: Loan Loss Provision

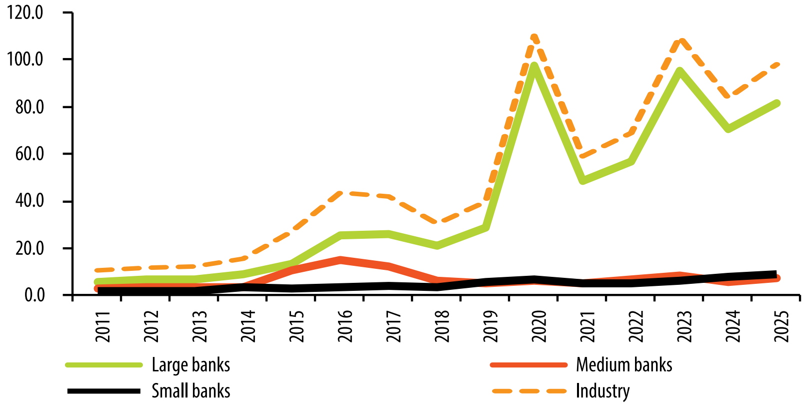


Figure 13: Coverage Ratio

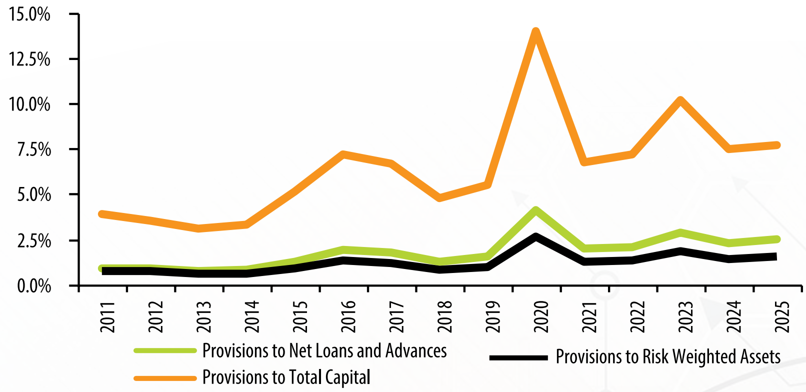
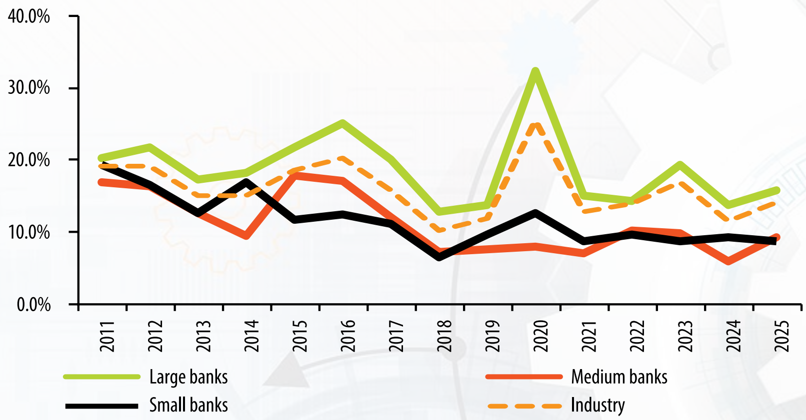


Figure 14: Provision to NPL



Source: KBA

Figure 15: Core Capital to TRWA

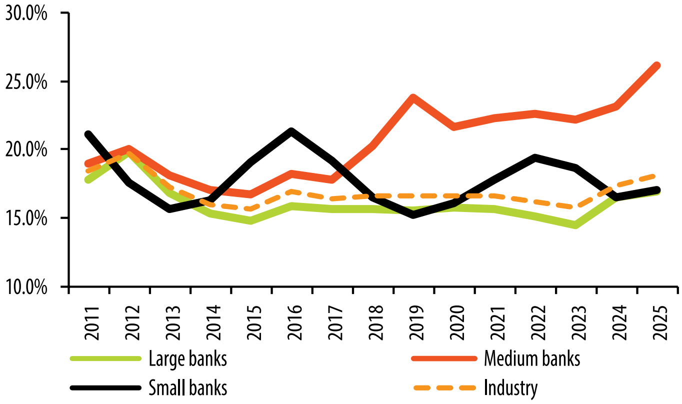


Figure 16: Total Capital to TRWA

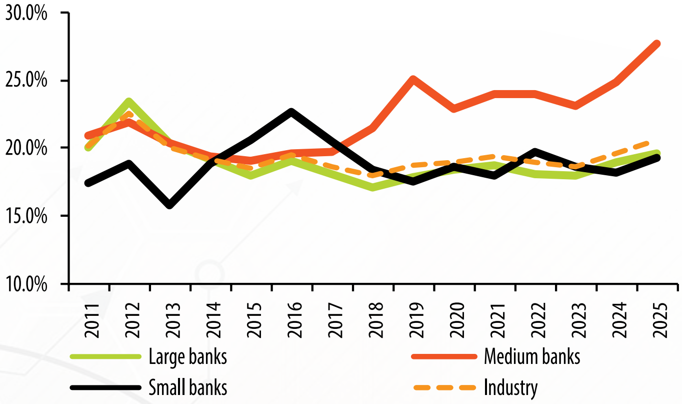
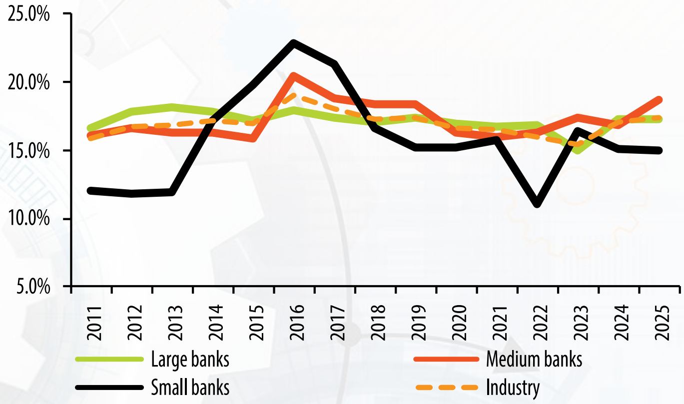


Figure 17: Core Capital to Total Deposits



Source: KBA

3.3. Capital and Lending Capacity

Kenya's banking sector remained strongly capitalized in 2025, with all key capital adequacy indicators remaining comfortably above the statutory minimum requirements.

The sector's Core Capital to Total Risk-Weighted Assets (TRWA) ratio, a key measure of financial resilience and loss-absorbing capacity, improved to 18.1% from 17.4% in 2024, significantly exceeding the regulatory threshold of 10.5% (Figure 15). The improvement was largely driven by continued capital accumulation through retained earnings, stronger profitability and prudent dividend policies, which collectively enhanced the sector's capacity to absorb shocks while supporting future business expansion. Across peer groups, medium-sized banks remained the most strongly capitalized, recording a substantial increase in the ratio to 26.1% from 23.2% in 2024. Large banks improved their ratio to 17.0% from 16.5%, while small banks strengthened their position to 17.1% from 16.5% despite ongoing asset quality challenges.

A similar trend was observed in the Total Capital to Total Risk-Weighted Assets ratio, which provides a broader assessment of solvency by incorporating both core and supplementary capital. The sector-wide ratio rose to 20.6% in 2025 from 19.6% in the previous year, remaining well above the statutory minimum of 14.5% (Figure 16). Medium-sized banks again recorded the strongest performance, with the ratio increasing to 27.7% from 24.9%, while large banks improved to 19.6% from 18.9% and small banks strengthened to 19.3% from 18.2%.

The sector also maintained a strong capital buffer relative to customer deposits. The Core Capital to Total Deposits ratio increased to 17.3% in 2025 from 17.0% in 2024, more than double the regulatory minimum requirement of 8.0% (Figure 17). The improvement reflects stronger growth in capital relative to deposits and reinforces depositor protection and institutional resilience. Large banks maintained a stable ratio of 17.3%, indicating balanced growth in both capital and deposit liabilities. Medium-sized banks recorded a notable increase to 18.7% from 16.9%, while small banks posted a marginal decline to 15.0% from 15.1%, though remaining comfortably above the regulatory threshold.

Chapter 4
Financial Performance

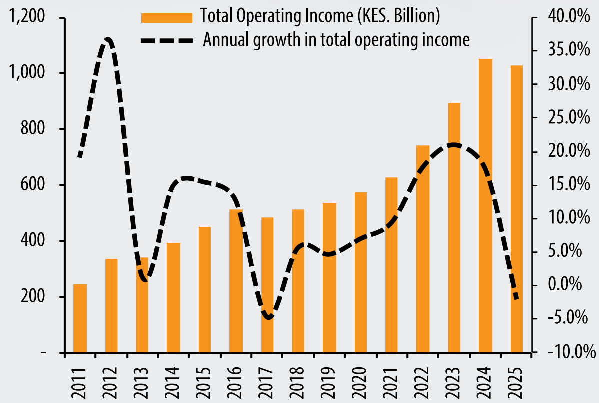
4.1. Operating Incomes

The total operating income declined by 2.1% to Kes 1.03 trillion in 2025 from Kes 1.05 trillion in 2024 (Figure 18A), largely due to a significant reduction in foreign exchange gains and lower interest income from loans and advances and reduction in interest on placements and bank balances.

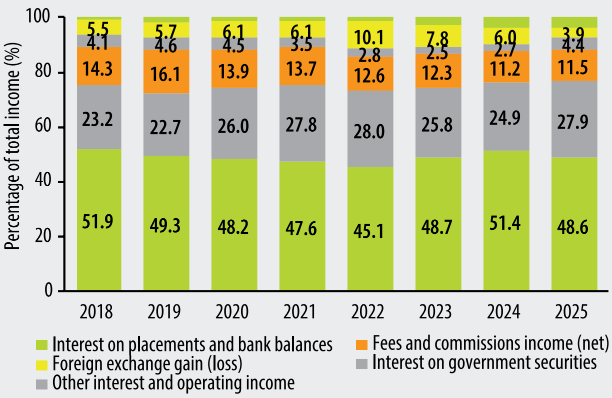
Interest income from loans and advances, which remained the single largest income source, declined by 7.5% to Kes 500.4 billion, mirroring the slower pace of credit expansion and subdued demand for private sector borrowing. In contrast, income from government securities increased by 9.6% to Kes 287.2 billion, on the back of banks' continued preference for sovereign instruments amid lingering credit risks and attractive risk-adjusted returns. Consequently, the proportion of government securities interest to total income increased from 24.9% in 2024 to 27.9% in 2025 (**Figure 18B**).

Figure 18: Operating Incomes

18(a): Total Operating Income (Kes. Billion) and Annual Growth (%)



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



Source: KBA

> **Banks continued to rebalance their income streams in 2025, with stronger returns from government securities offsetting weaker loan interest and foreign exchange earnings amid subdued private sector credit demand.**

Moreover, the proportion of fees and commissions income remained stable, posting a marginal rise from 11.2% in 2024 to 11.5% in 2025. More broadly, there was a reduced contribution from on interest from loans which accounted for 48.6% in 2025, down from 51.4% in 2024 and foreign exchange gains, which accounted for 3.9% in 2025, down from 6.0% in 2024 and were offset by stronger contributions from government securities, which accounted for 27.9% in 2025, up from 24.9% in 2024.

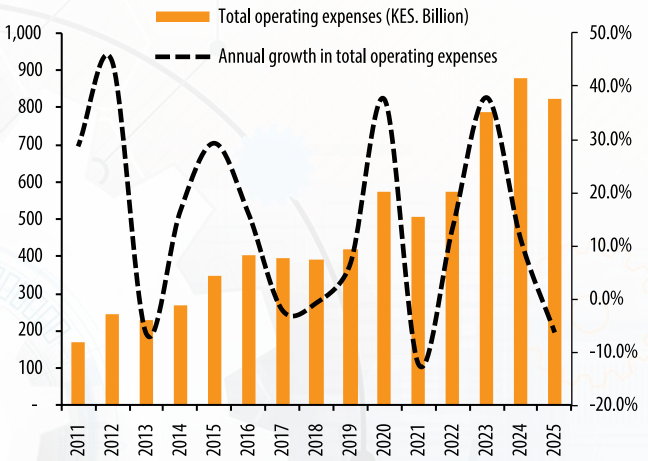
4.2. Operating Costs

The total operating expenditure declined by 6.3% to Kes 822.97 billion in 2025 from Kes 877.88 billion in 2024 (**Figure 19A**), largely driven by a significant reduction in interest expenses following the easing of funding costs and a lower interest rate environment. Interest on deposits, which remained the largest component of operating expenditure, declined by 22.2% to Kes 251.4 billion. Similarly, interest expenses on borrowed funds, deposits & placements declined by slightly more than half to Kes 17.6 billion. Consequently, total interest expense contracted by 25.4%.

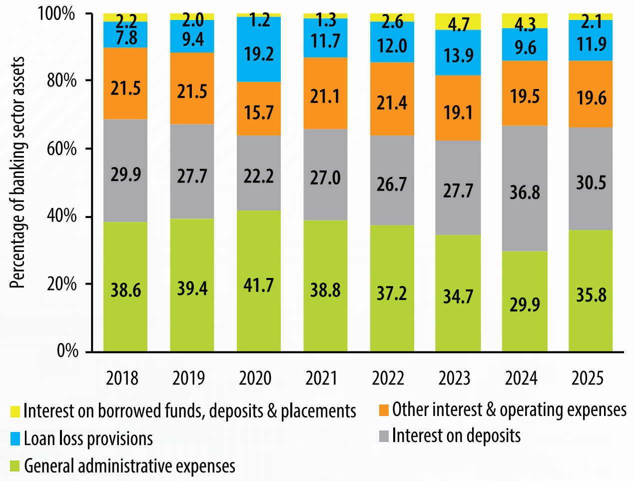
Moreover, the composition of operating expenditure shifted in 2025 as the share of the total funding costs declined from 41.1% in 2024 to 32.7% in 2025[17], while administrative expenses assumed a relatively larger proportion of total expenditure at 35.8% (**Figure 19B**). General administrative expenses increased by 12.6% to Kes 295.0 billion, on account of the banks continued investments in digital infrastructure, cybersecurity, regulatory compliance and branch optimization initiatives.

Figure 19: Operating Costs

19(a): Total Operating Cost (Kes. Billion) and Annual Growth (%)



19(b): Share of Disaggregated Costs in Total Operating Cost

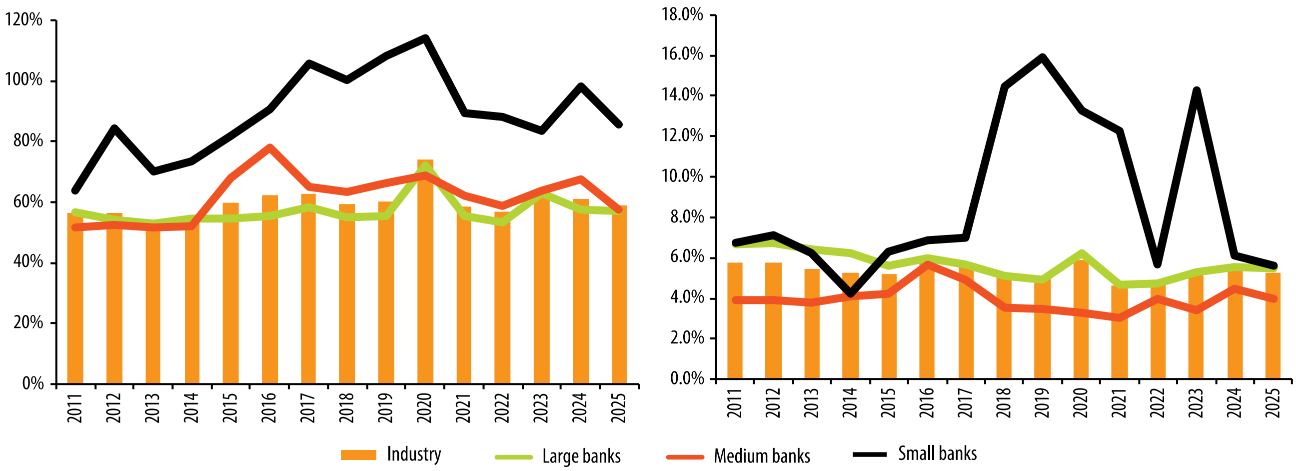


Source: KBA

17. The share of interest expense on customer deposits declined from 36.8% of total operating expenditure in 2024 to 30.5% in 2025, while the share of interest expense on borrowed funds, deposits and placements fell sharply from 4.3% to 2.1% over the same period. Consequently, the combined share of total funding costs declined from 41.1% in 2024 to 32.7% in 2025.

Figure 20: Cost-to-Income Ratio and Cost-to-Asset Ratio

20(a): Industry Cost-to-Income Ratio **20(b): Industry Cost-to-Asset Ratio**



Source: KBA

4.3. Cost-to-Income Ratio

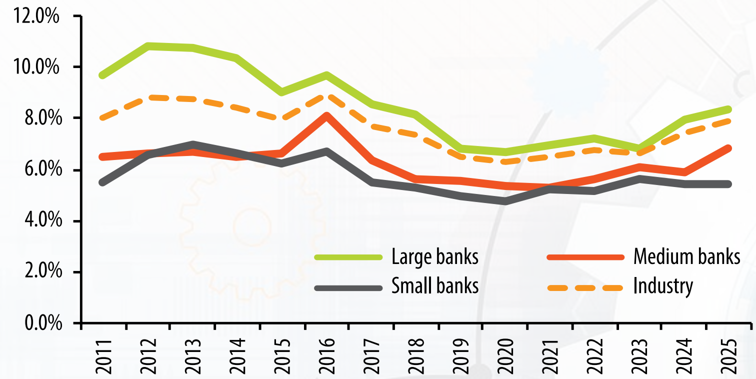
The banking sector recorded notable improvements in operational efficiency in 2025, as reflected in the decline in the Cost-to-Income Ratio (CIR) to 58.4% from 61.0% in 2024 (**Figure 20A**). The improvement was driven by stronger growth in net operating income relative to operating expenses and was evident across all bank tiers. Large banks recorded a marginal decline in CIR to 57.1% from 57.6%, while medium-sized banks posted the largest improvement, with the ratio falling to 57.4% from 67.7%. Small banks also improved, with the CIR declining to 85.4% from 98.3%. Similarly, the Cost-to-Assets Ratio remained broadly stable at 5.2% in 2025, compared to 5.4% in 2024 (**Figure 20B**). While large banks maintained the ratio at 5.5%, medium-sized and small banks recorded notable improvements, with the ratio declining to 4.0% from 4.5% and to 5.6% from 6.1%, respectively.

4.4. Net Interest Margin

The banking sector's Net Interest Margin (NIM), which measures the extent to which a bank generates net interest income from its interest-earning assets after accounting for the cost of funding those assets, improved to 7.9% in 2025 from 7.4% in 2024[18] (**Figure 21**), on account of lower funding costs and resilient asset yields. The improvement was largely driven by a sharp decline in interest expenses, which more than offset the moderation in gross interest income and enabled banks to strengthen earnings from their core intermediation activities despite slower credit growth.

7.9%
Net Interest Margin in 2025 across the banking industry

Figure 21: Net Interest Margin



Source: KBA

18. A higher Net Interest Margin (NIM) reflects stronger earnings from core lending and investment activities, efficient asset-liability management and improved pricing of both assets and liabilities.

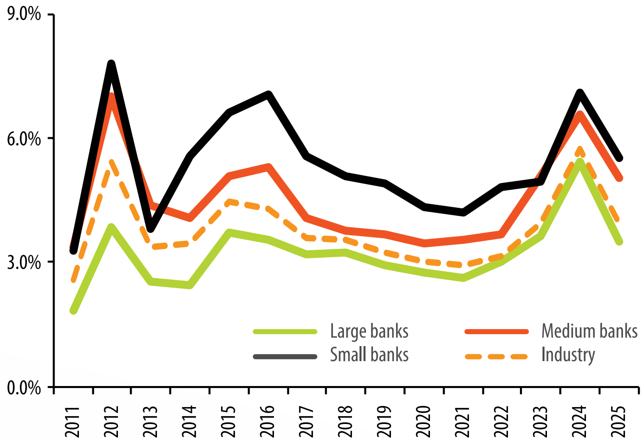
The improvement in NIM was evident across most bank tiers. Large banks increased their NIM to 8.4% from 7.9% in 2024, benefiting from their ability to mobilise low-cost deposits and optimise asset allocation. Medium-sized banks recorded the strongest improvement, with NIM rising to 6.8% from 5.9%. In contrast, small banks maintained a stable NIM of 5.4%, as funding pressures and limited pricing power continue to constrain the expansion of interest spreads among these banks.

4.5 Cost of Funding

The banking sector's Cost of Funds (COF) declined significantly to 3.9% in 2025 from 5.7% in 2024 (**Figure 22**), on the back of easing monetary conditions and improved liquidity. The decline in funding costs lowered banks' interest expenses and provided strong support to net interest income.

The decline in the Cost of Funds was evident across all bank tiers. Large banks recorded the lowest funding costs, with the COF declining to 3.5% from 5.4% in 2024, as supported by their strong retail deposit franchises and ability to mobilise stable, low-cost deposits. Similarly, medium-sized banks registered a notable improvement, with the COF declining to 5.0% from 6.6%, while small banks recorded a reduction to 5.5% from 7.1%, although they continued to face relatively higher funding costs due to their narrower deposit base and greater reliance on term deposits.

Figure 22: Cost of Funding



Source: KBA

High deposit-to-liability ratios underscore the sector's stability, while emphasizing the strategic imperative to broaden funding sources as financial markets evolve.

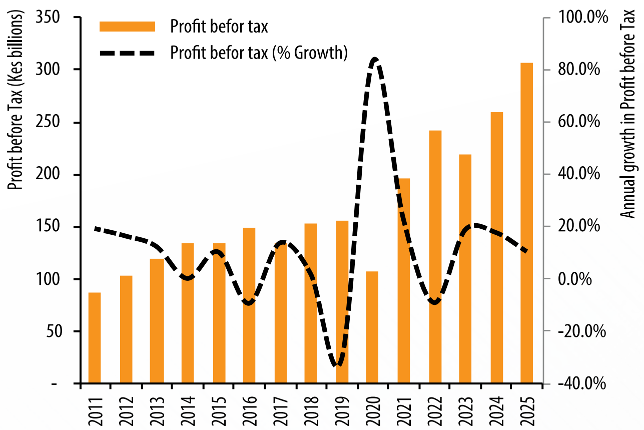
4.6. Profitability

The banking sector recorded a strong recovery in profitability, with profit before tax increasing by 17.6% in 2025 to Kes 306.0 billion from Kes 260.1 billion in 2024 (**Figure 23A**). The improvement was driven by lower funding costs, resilient operating income and stronger net interest margins, which more than offset the impact of higher administrative expenses and increased loan loss provisions.

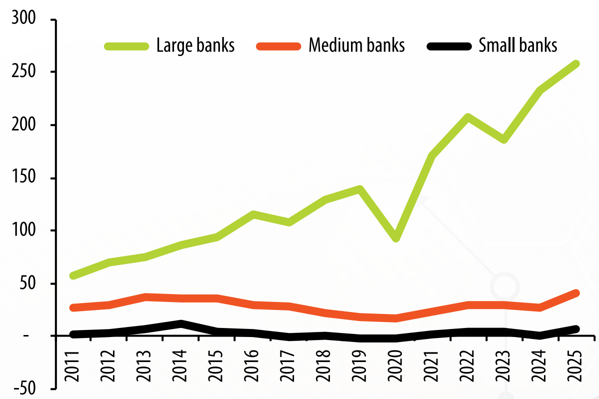
The recovery in profitability was broad-based across all bank tiers (**Figure 23B**). Large banks remained the primary drivers of industry earnings, with pre-tax profits increasing by 11.1% to Kes 258.2 billion, supported by diversified income streams, stronger market positions and lower funding costs. Medium-sized banks recorded the strongest relative growth, with profits rising by 52.4% to Kes 41.3 billion. Small banks also registered a significant turnaround, with pre-tax profits increasing from Kes 623.1 million to Kes 6.5 billion, although their contribution to total industry profitability remained relatively modest. Moreover, industry Return on Asset (ROA) and Return on Equity (ROE) improved modestly (**Figure 23C** and **Figure 23D**). Large banks remained the most profitable, medium-sized banks recorded gradual recovery, while small banks improved but continued to post the lowest returns due to persistent profitability and scale constraints.

Figure 23: Profitability

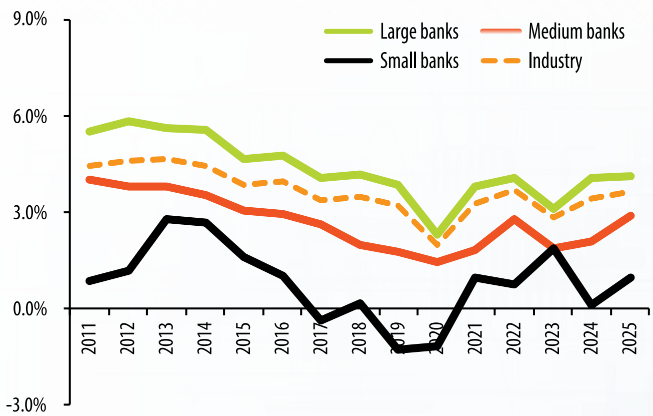
23(a): Profit before Tax



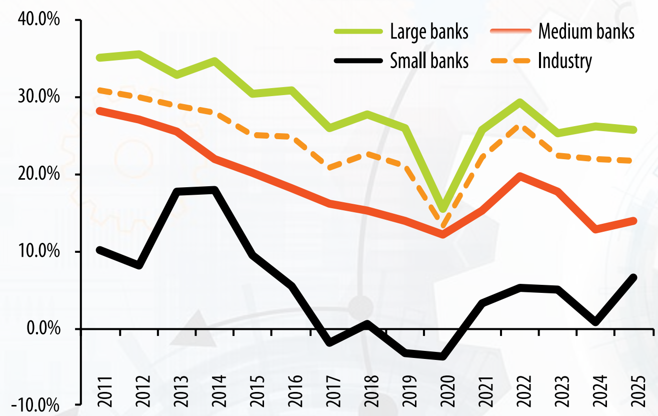
23(b): Profit before Tax, by bank Tiers



23(c): Bank Return on Assets



23(d): Bank Return on Equity

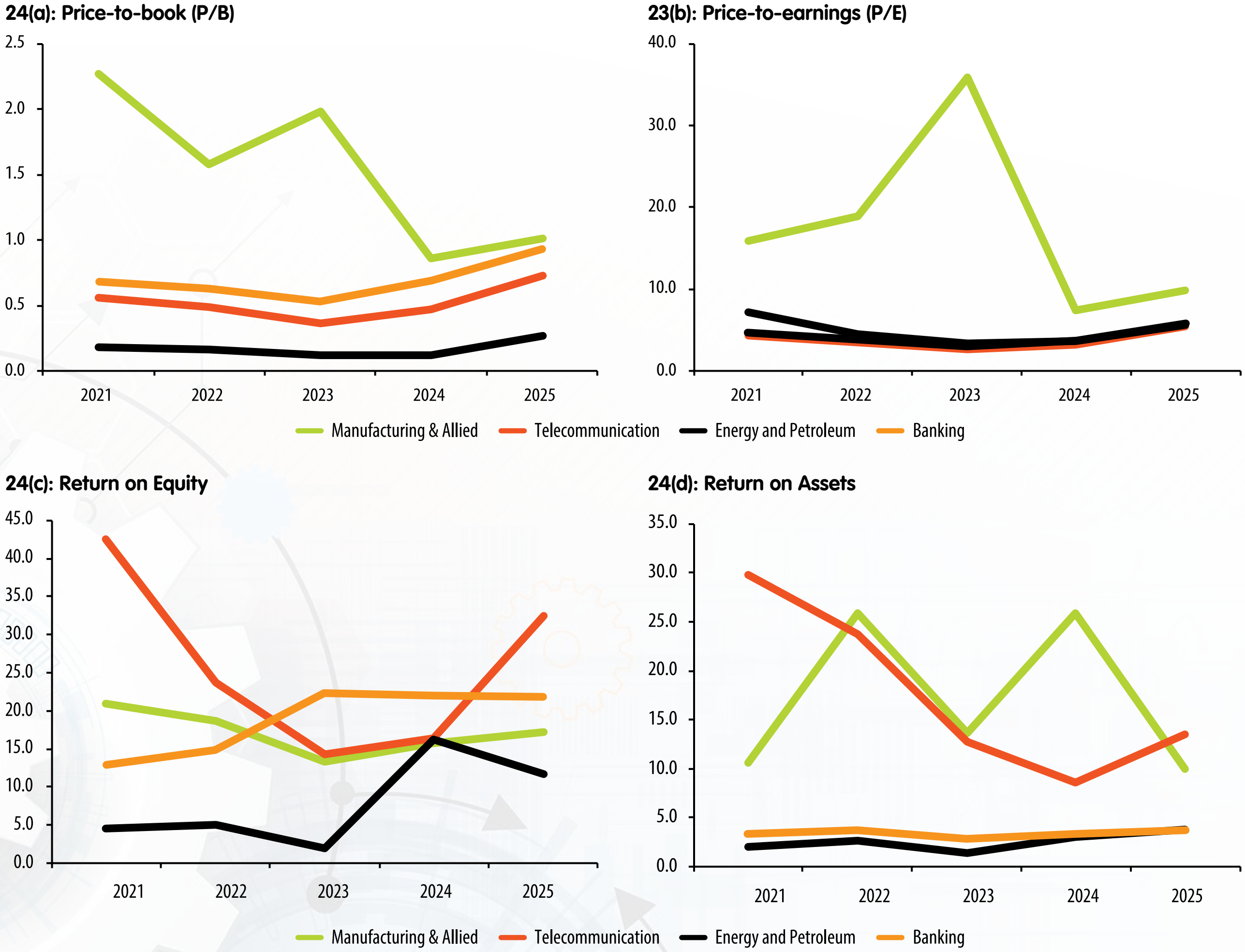


Source: KBA

4.7 Comparative Analysis of Bank vs. Non-Bank Market Valuation

The valuation metrics reveal clear differences in how investors price firms across sectors of the Nairobi Securities Exchange (NSE). Banking institutions generally traded at or slightly below their book value in 2025, with most banks recording Price-to-Book (P/B) ratios ranging between approximately 0.6 and 1.7 (**Figure 24A**). This relatively narrow valuation range reflects investor confidence in the sector's growth potential, albeit that the market continues to assign conservative valuations to banking stocks. In contrast, manufacturing and telecommunications firms attracted considerably higher P/B multiples. Conversely, several firms in agriculture, insurance, energy and commercial services continued to trade below book value despite recording positive profitability. The pattern is equally evident in Price-to-Earnings (P/E) multiples (**Figure 24B**), where banks continued to trade at relatively modest earnings multiples despite maintaining healthy profitability. Hence, this shows that investors perceive banking earnings as stable and predictable rather than high growth. By comparison, selected manufacturing, agricultural and investment services firms commanded substantially higher earnings multiples. While the conservative valuation of banks presents attractive value-investment opportunities, it also signals investor expectations of moderate earnings growth. On the basis of the profitability indicators presented in **Figure 24C**, the Telecommunication and the banking sectors remained the strongest performers in terms of Return on Equity (ROE) and the Return on Assets (ROA) (**Figure 24D**).

Figure 24 Bank versus non-bank institutions market valuations



Source: NSE

Box 2: **Does earnings matter more for Banks than non-banks on the NSE?**

The 2025 valuation - profitability relationship reveals that investors continue to reward profitable firms, but the strength of this relationship differs markedly across sectors. As shown in **Chart 2**, at the Nairobi Securities Exchange (NSE) market, higher profitability (Return on Equity) is associated with higher market valuations (Price-to-Book ratio).

However, the distinction becomes sharper at the sectoral level. Among banks, the relationship between profitability and valuation appears relatively weak (**Chart 3**), with valuations clustered within a narrow range despite differences in returns. This reflects the heavily regulated nature of banking, where capital adequacy, asset quality, liquidity and dividend stability often weigh as heavily as profitability in determining investor sentiment.

Conversely, non-bank firms exhibit a much stronger positive relationship, with highly profitable companies commanding substantial valuation premiums (**Chart 4**). Investors appear more willing to reward growth prospects and superior earnings outside the regulated banking sector.

Thus, from the lens of an investors, the findings suggest that profitability is a stronger stock selection signal in non-bank sectors, while bank valuations require a broader assessment of balance sheet strength and regulatory resilience.

Chart 2: Association between Profitability and Market Valuations in 2025 - All NSE firms

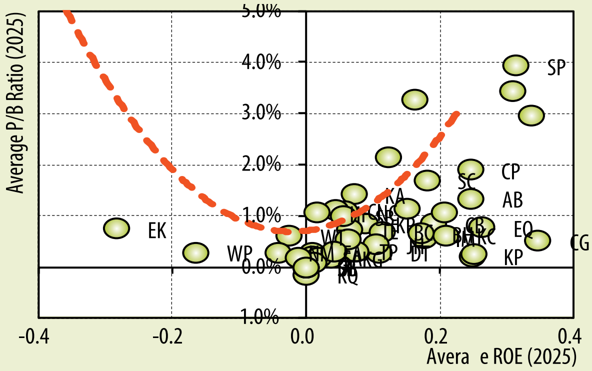


Chart 3: Association between Profitability and Market Valuations in 2025 - Banks

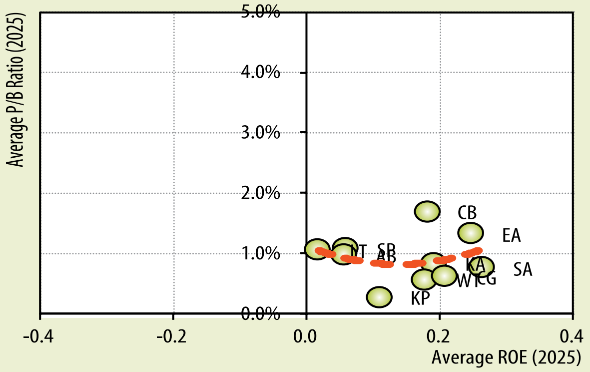
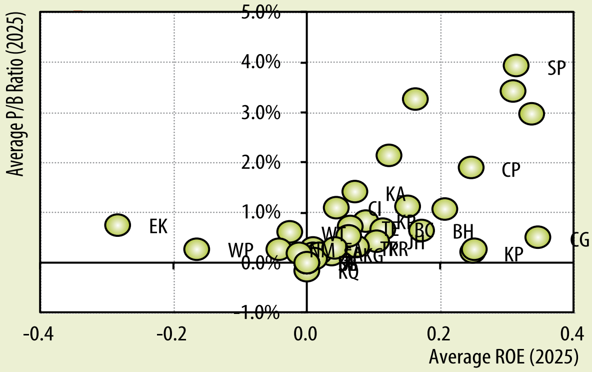


Chart 4: Association between Profitability and Market Valuations in 2025 - Non-banks



Chapter 5

Sustainable Finance & Enterprise Development

During the year under review, sustainable finance decisively shifted from a strategic ambition to a core business imperative across Kenya's banking sector. As climate volatility, biodiversity loss, and resource constraints increasingly dictate macroeconomic performance, financial institutions expanded their capacity to identify, manage, and mitigate environmental, social, and governance (ESG) risks while strategically directing capital toward green, high-impact growth.

> **Environmental risks continue to rank among the most severe global threats, underscoring the critical imperative for financial systems to accelerate the transition toward more resilient and sustainable economies.**
>
> – World Economic Forum, Global Risks Report 2026

Simultaneously, evolving international disclosure mandates, heightened regulatory expectations, and growing investor demand for market transparency accelerated the integration of sustainability across corporate governance, risk frameworks, and credit decisioning.

1. Regulatory Governance, Taxonomies & Mandatory Reporting Standards

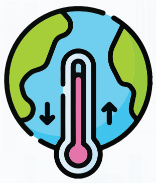
The year was marked by unprecedented regulatory alignment and ecosystem collaboration among commercial banks, the Central Bank of Kenya (CBK), standard-setting organizations, and development partners to solidify the sustainable finance regulatory architecture.

Through the Centre for Sustainable Finance and Enterprise Development (CSFED), the Association anchored industry leadership across key regulatory enforcement milestones:

- **Mandatory IFRS S1 & S2 Disclosures for PIEs:** In alignment with the national implementation roadmap established by the Institute of Certified Public Accountants of Kenya (ICPAK) and supported by the Nairobi Securities Exchange (NSE), commercial banks as Public Interest Entities (PIEs) completed their mandatory Sustainability Readiness Assessments. The sector actively mobilized tools and independent assurance protocols to ensure full compliance for mandatory reporting starting January 2027.
- **CBK Climate-Related Risk Disclosure Framework (CRDF):** Member banks operationalized the Central Bank of Kenya's CRDF, embedding standardized metrics to identify, measure, and report climate-related financial physical and transition risks across both balance sheet and off-balance sheet exposures.
- **Kenya Green Finance Taxonomy (KGFT):** Commercial institutions began integrating the official CBK Kenya Green Finance Taxonomy to standardize the classification

of environmentally sustainable economic activities, eliminate greenwashing risks, and streamline the origination of certified green financial products.

- **The Kenya Sustainable Finance Roadmap** - With financial support from WWF-Kenya and technical assistance from the International Finance Corporation (IFC), CSFED is leading the development of Kenya's Sustainable Finance Roadmap. In June 2025, the Centre convened a co-creation workshop that brought together members of the industry's Sustainable Finance Working Group, alongside representatives from the Capital Markets Authority (CMA) and the Institute of Certified Public Accountants of Kenya (ICPAK). The roadmap is being developed as a comprehensive, multi-stakeholder framework to guide the transition toward a more sustainable financial system that is aligned with Kenya's development priorities, as well as national climate and nature objectives. Structured around four pillars; ESG integration, climate and nature-related risk management, financing sustainability, and emerging issues it will set out both strategic directions and practical actions to advance the integration of sustainable finance across the financial sector.



2. Institutional Capacity & Skills Development

To bridge the gap between regulatory compliance and operational execution, KBA scaled its sector-wide capacity-building initiatives through the Sustainable Finance e-Learning Platform, executive roundtables, and specialized technical deep-dives. Over 62,000 bank professionals trained across 21 modular courses focusing on climate risk, responsible lending practices, and regulatory trends.

3. Evidence-Based Research & Quantifying the Financing Gap

To support risk-pricing models and unlock new market opportunities across the sector, KBA and CSFED expanded their strategic research repository during the year. Through "Quantifying Nature-Related Opportunities" (developed with support from WWF-Kenya and GIZ), the report mapped a USD 100–150 billion nature-positive market opportunity over the next decade quantifying critical short-to-long-term financing demand in agriculture (USD 1.7–2 billion), sustainable manufacturing (USD 20–30 billion), and wildlife conservation (USD 1 billion).

Addressing the risk perspective, "Nature's Bottom Line: The Economic and Financial Costs of Ecosystem Degradation in Kenya" (published with the World Bank and KEPSA) evaluated the severe macroeconomic financial threats environmental decline poses to national GDP and water availability. Together, these studies bridge the sector's financial gap by offering commercial banks the empirical baseline needed to measure ecosystem degradation risks while systematically channelling capital into high-impact green investment avenues.

4. Inclusive Enterprise Development (Inuka Program)

Recognizing that a competitive MSME ecosystem underpins long-term financial sector resilience, the Association deepened its enterprise support mechanisms.

During the period, member banks achieved a record milestone by disbursing Kes 326.5 billion to MSMEs more than double the initial Kes 150 billion industry pledge.

- **Inuka Enterprise Accelerator**: Piloted an intensive 12-week program providing business diagnostics, mentoring, and seed funding to high-growth MSMEs in key value chains (agriculture, manufacturing, textiles).
- **MSME Regional Connect Series:** Convened public-private policy dialogues across Nairobi, Embu, Mombasa, and Kisumu to reduce information asymmetry and streamline credit access.
- **Financial Inclusion for the Deaf:** Partnered with Christian Mission Aid to deliver customized financial literacy training for deaf entrepreneurs, strengthening their bankability.

Outlook: Sustainability Assurance & Future Readiness

As sustainability considerations solidify into formal regulatory frameworks through IFRS S1 & S2, the CBK Climate-Related Risk Disclosure Framework (CRDF), and the Kenya Green Finance Taxonomy (KGFT), Kenya's banking sector is positioned as a disciplined, transparent driver of green growth.

Looking ahead, the sector will shift its focus toward Sustainability Assurance, ensuring that green taxonomies, ESG disclosures, and climate targets are independently verified, audit-ready, and backed by robust data governance. By embedding sustainability into core financial stability models, KBA member banks will continue driving market innovation, regulatory alignment, and long-term shared prosperity.

CHAPTER 6:

MSME Financing and Credit Access

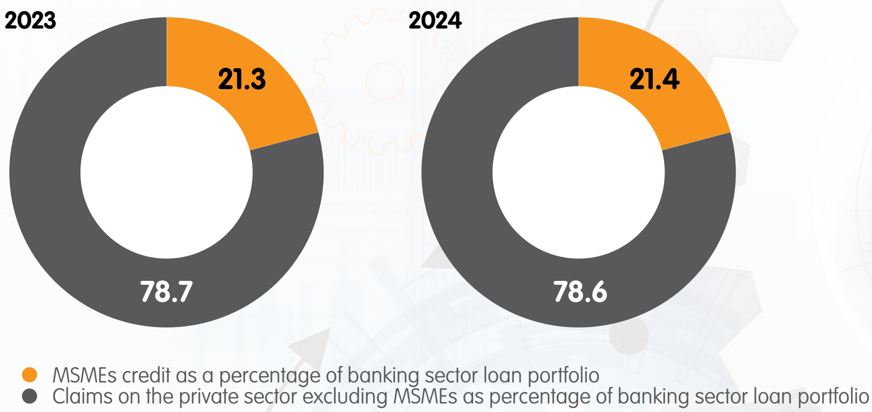
Kes327bn Annual credit disbursed to MSMEs in 2025.

6.1 MSME Credit Disbursements

The banking industry's commitment to expanding credit to micro, small and medium enterprises (MSMEs); doubling annual disbursements from KES 75 billion to KES 150 billion over a three-year period from October 2024, gained considerable momentum in 2025. Progress against the commitment is monitored monthly through the KBA MSME credit disbursement tracker, which aggregates lending reported by member banks across sectors of the economy.

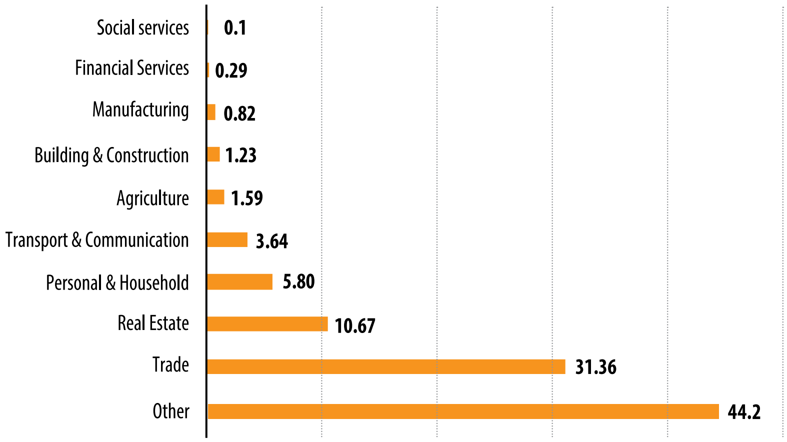
Data from the tracker shows that the industry disbursed **Kes 326.5 billion** in MSME loans in 2025, nearly three times the KES 150 billion annual commitment. The momentum has carried into 2026, with a further **Kes 100.90 billion**, disbursed in the first quarter of the year alone. The sustained growth in disbursements signals a structural shift in intermediation towards the segment that anchors enterprise creation and employment in the economy.

Figure 25: Credit to MSMEs sector (%)



Source: KBA

Figure 26: Share of Outstanding MSME Credit by Sector (%)



Source: KBA

31.4%
Share of MSME credit allocated to trade

The distribution of credit, however, remains highly concentrated across sectors. Trade accounted for the largest share of outstanding MSME credit, with KES 3.11 trillion, representing 31.36 per cent of the portfolio, followed by Real Estate (KES 1.06 trillion; 10.67 per cent), Personal and Household lending (KES 575.44 billion; 5.80 per cent), and Transport and Communication (KES 361.73 billion; 3.64 per cent). Productive sectors such as Agriculture (1.59 per cent), Building and Construction (1.23 per cent), Manufacturing (0.82 per cent) and Financial Services (0.29 per cent) accounted for relatively smaller shares of outstanding credit. The concentration of lending reflects both the composition of MSME borrowing and sector-specific differences in financing demand, collateral availability and perceived credit risk.

Despite the strong growth in lending, access to finance continues to be constrained by persistent barriers at the point of credit assessment. Analysis of loan application outcomes indicates that "inability to pay" remains the predominant reason for loan rejection, suggesting that affordability and repayment capacity continue to be the primary determinants of credit approval. Other commonly cited reasons include inadequate collateral, poor credit scores, inadequate documentation, poor account conduct and classification within higher-risk industries. These findings underscore that expanding credit is not solely a question of increasing liquidity within the banking sector, but also of strengthening enterprise capacity, improving financial management, expanding formalization and leveraging existing risk-mitigation mechanisms to improve borrower creditworthiness.

Together, these trends point to meaningful progress in expanding MSME finance while highlighting the importance of continued efforts to improve the quality of credit demand. As the industry works towards achieving the targeted annual increase in MSME lending under the MSME Financing Commitment, ongoing monitoring through the KBA MSME Credit Disbursement Tracker will provide an important evidence base for assessing not only the volume of lending but also its distribution across sectors, borrower segments and loan outcomes

6.2 Gender-Disaggregated MSME Credit Dashboard

A significant milestone in 2025 was the successful launch of the Gender-Disaggregated MSME Credit Dashboard, following its development phase reported in the 2025 edition of this report. Officially launched by the Kenya Bankers Association on 7 November 2025, the dashboard is the first industry-wide platform providing gender-disaggregated credit data on MSMEs in Kenya. Developed with support from FSD Kenya in collaboration with Metropol Credit Reference Bureau (CRB), the platform is publicly accessible through the KBA MSME Data Portal (msmedata.kba.co.ke).

The dashboard aggregates anonymized monthly credit data submitted by commercial banks, microfinance banks, SACCOs, digital credit providers and development finance institutions. Data is disaggregated by borrower gender, business size, product type, economic sector, county, institution type, collateral status and age band. For registered businesses, gender is classified using a 51 per cent ownership threshold, while loan quality is assessed using standard prudential classifications, with non-performing loans (NPLs) defined as facilities that are 90 days or more in arrears or classified as substandard, doubtful or loss.

The dashboard was developed to provide the banking industry with a comprehensive, gender-disaggregated view of MSME credit flows in Kenya, enabling participating financial institutions to better understand who is accessing finance, on what terms and where persistent gaps remain. The platform supports evidence-based decision-making on product development, portfolio strategy and financial inclusion. The insights generated enable banks and other financial service providers to identify underserved market segments, monitor disparities in access to credit and design more gender-inclusive and gender-responsive financial products and services that better meet the needs of women-led MSMEs.

Although developed independently of the Women Entrepreneurs Finance (WE Finance) Code, the dashboard has since become an important enabler of Kenya's implementation of the Code following its adoption on 4 December 2025 alongside the National Financial Inclusion Strategy (NFIS) 2025–2028.

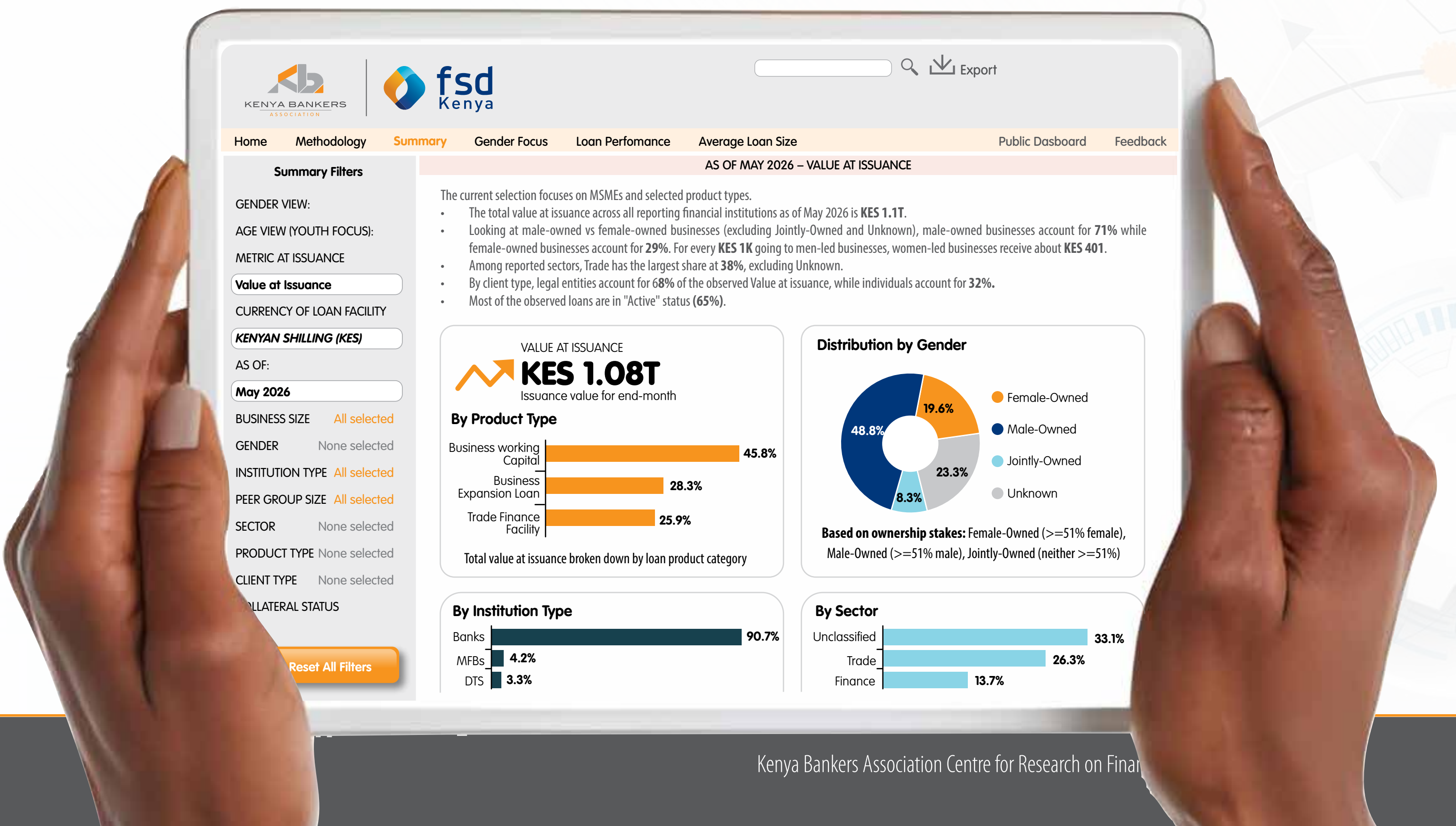
The standardized, gender-disaggregated data collected through the platform provides participating institutions with a robust evidence base for monitoring progress towards improving access to finance for women-led MSMEs while supporting broader policy dialogue on inclusive finance.

6.3 Key Insights as of December 2025

As of December 2025, the MSME credit book across reporting institutions stood at Kes 596.8 billion outstanding, spread across 1.26 million loans and 707,211 unique borrowers, with a cumulative value at issuance of Kes 1.06 trillion. Commercial banks account for 86.6 per cent of the outstanding value. Business working capital facilities dominate the book (45.8 per cent), followed by business expansion loans (29.4 per cent) and trade finance facilities (24.8 per cent), while trade is the largest reported sector. 73.4 per cent of the outstanding value is uncollateralized, evidence that MSME lending is increasingly extended on the strength of cash flows and credit history rather than traditional security. Lending remains geographically concentrated: Nairobi accounts for Kes 180.3 billion, about 30 per cent of outstanding value, followed by Mombasa (Kes 21.6 billion) and Nakuru (Kes 11.3 billion).

The December 2025 data confirms that women-led enterprises participate actively in formal credit yet command a significantly smaller share of its value. Women-led businesses account for 46 per cent of unique MSME borrowers and 42 per cent of loans, near parity with men-led businesses, but hold only 25 percent of the outstanding credit value, against 75 percent for men-led businesses: a gender gap of 49.1 percentage points. This is equivalent to women-led

Figure 27: Snapshot of the Gender-Disaggregated MSME Credit Dashboard



businesses holding approximately Kes 341 in outstanding credit for every Kes 1,000 held by men-led businesses.

The gender gap in MSME lending in Kenya largely reflects differences in average loan size rather than a complete exclusion of women from credit. Industry data show that women-owned MSMEs borrow substantially smaller amounts than men-owned firms. For example, women-led businesses receive on average about Kes 421,600 per loan versus about Kes 792,900 for men-led firms, approximately 53% of the men's average. This suggests women have access to credit but at smaller ticket sizes. The gap is driven by underlying factors: women's enterprises tend to be smaller and less formal, often lacking the typical collateral (land titles, fixed assets) and financial documentation that banks require for larger loans (Women's world banking, 2024). These financing constraints are compounded by traditional underwriting practices and gender norms, which together limit the size of loans extended to women. Policy implications include the need for financial institutions to redesign products (e.g. collateral-substitute lending, tiered underwriting or cash-flow–based scoring) and for policymakers to support credit guarantees, capacity building, and data-driven targets to close the gap.

6.4 Several factors explain why women's credit flows stay in smaller tranches.

Collateral expectations: Financial service providers commonly require land titles or other fixed assets as collateral, and studies point out that Kenyan women often last formal land titles or property deed. Without collateral, women are the funnelled into smaller unsecured loans or group loan products.

Business scale & formalization: According to KNBS MSME survey, Kenyan women-owned firms are disproportionately micro, informal, or unlicensed. This limits loan size: unregistered or cash-based businesses rarely qualify for large, long-term loans. Women-owned enterprises are more likely to operate informally, limiting their ability to provide the business registration, financial records, and transaction histories that financial service providers rely on when assessing the eligibility for larger loans (Women's world Banking, 2024). The typical woman entrepreneur's business has lower turnover and fewer verifiable assets, so underwriters restrict exposure.

Underwriting conventions: Conventional underwriting practices may also contribute to differences in loan size. Credit assessments for larger facilities typically rely on formal financial statements, verifiable business records, established credit histories and acceptable collateral. Women- owned enterprises are more likely to operate at a smaller scale, and in the informal sector, limiting the availability of the documentation and assets commonly required for large ticket lending (Women's world banking, 2024). These characteristics may influence both loan eligibility and the extended amount of credit.

Implications: This pattern implies that closing Kenya's gender financing gap requires enabling larger loans for women, not just increasing the number of loans. This underscores the importance of ensuring that existing lending frameworks, including the use of the movable assets as collateral and credit guarantees are fully leveraged to support the financing needs of women owned MSMEs. Financial institutions may also consider reviewing underwriting approaches to better recognize alternative sources of creditworthiness, including cash-flow performance and digital transaction histories, particularly for smaller but viable enterprises. The gender-disaggregated dashboard provides a valuable evidence base for identifying where disparities are most pronounced and for informing the design of more gender-responsive financial products. At the policy level, the availability of standardized, gender-disaggregated credit data strengthens monitoring under the National Financial Inclusion Strategy (2025–2028) and the Women Entrepreneurs Finance (WE Finance) Code, while supporting evidence-based dialogue on measures to improve access to appropriately sized finance for women-led businesses.

The findings should be interpreted considering several data limitations. First, the analysis is based on formal credit reported by regulated commercial banks, microfinance banks, SACCOs, digital credit providers and development finance institutions through the Metropol CRB. It therefore does not capture lending by non-reporting institutions or informal sources of finance. Second, business ownership is classified using a 51 per cent ownership threshold, meaning only businesses that are majority-owned by women are classified as women-led. Jointly owned businesses and enterprises with incomplete ownership information are reported separately and may not fully reflect the diversity of business ownership structures. Third, while the dataset provides comprehensive information on credit values, product characteristics and loan performance, the descriptive analysis presented here does not isolate the relative contribution of factors such as business size, sector, collateral, enterprise age or formalization to the observed differences in loan values. Consequently, the findings describe observed patterns in MSME lending rather than establishing causal relationships. Further analytical work using borrower-level data would be required to determine the extent to which these factors explain the observed gender disparities in loan size.

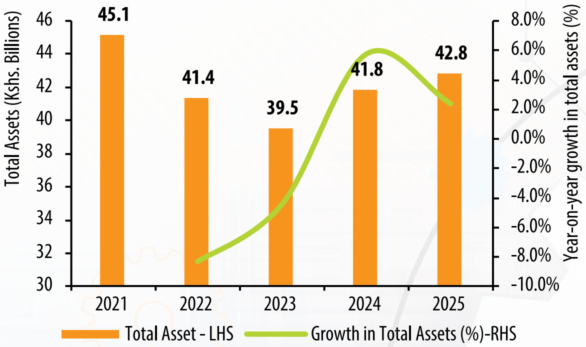
CHAPTER 7:
Performance of Deposit Taking Microfinance Banks

7.1 Assets growth and loan portfolio

The deposit-taking microfinance banks (MFBs)[19] asset base grew by 2.4% to Kes 42.8 billion in 2025, up from Kes 41.8 billion in 2024 (Figure 28A). At the same time, net loans and advances to customers grew by 3.0% to Kes 22.6 billion (**Figure 28B**), reversing the contraction experienced in 2024. Additionally, while lending activity improved in 2025, the pace of asset growth remained relatively modest, on account of continued cautious operation among the microfinance banks amid elevated credit risks and changing market conditions. Nonetheless, the recovery in the loan portfolio points to renewed demand for microfinance credit by households and micro, small and medium-sized enterprises (MSMEs), which constitute the primary clientele of MFBs.

Figure 28: MFB's assets and Net Loans

28(a): MFB's Total Assets

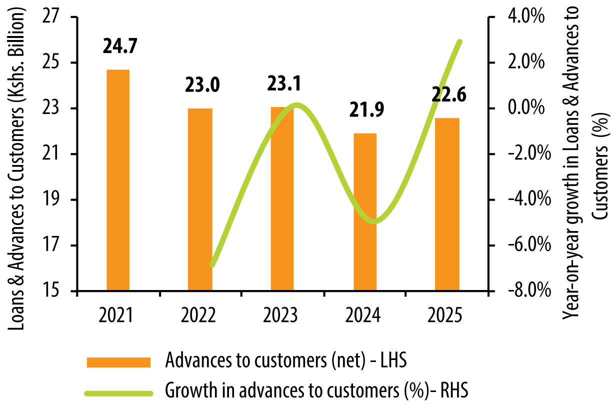


Source: KBA

19. The analysis is based on data from eleven out of the fourteen licensed deposit-taking microfinance banks in Kenya, specifically 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, Muungano Microfinance Bank PLC, LOLC Kenya Microfinance Bank PLC and Choice Microfinance Bank Limited. Data from Kenya Women Microfinance Bank PLC, Branch Microfinance Bank Limited and On It Microfinance Bank Limited was unavailable at the time of analysis. While the absence of these three 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 eleven reporting banks offers a meaningful insight into the evolving dynamics of the microfinance sector in Kenya.

Figure 28: MFB's Assets and Asset Growth

28(b): MFB's Net Loans to Customers



Source: KBA

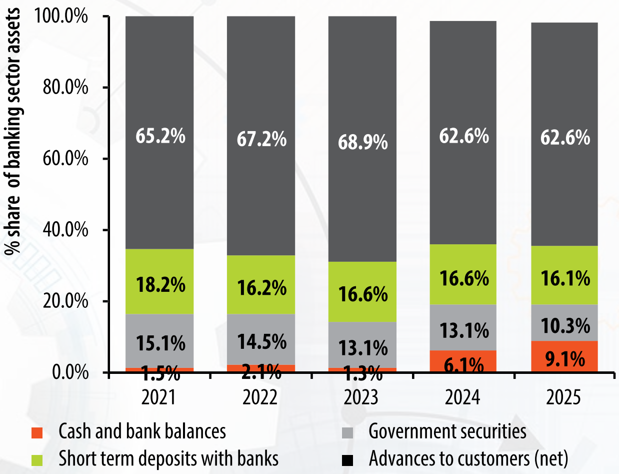
In terms of the MFB's asset composition, net loans and advances to customers remained the largest asset category, despite a slight decline from previous years. In 2025, net loans and advances to customers accounted for 62.6% of total assets, while short-term deposits with banks represented 16.1%. Government securities constituted 10.3% of total assets, whereas cash and bank balances increased to 9.1%, up from 6.1% in 2024.

Collectively, cash and bank balances, short-term deposits with banks and government securities accounted for over one-third of total assets. This trend speaks to the sector's continued preference for maintaining a relatively liquid asset portfolio. Consequently, the asset mix remains critical in supporting the sector's ability to meet short-term obligations, even as the liquidity ratio moderated to 37.6% in 2025 (**Figure 29B**) following stronger growth in customer deposits and other short-term liabilities than in liquid assets.

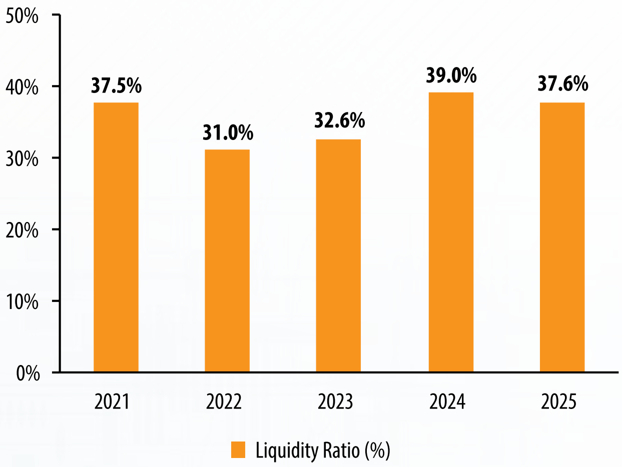
The continued allocation of funds to government securities further demonstrates prudent investment strategy, allowing the MFB's to generate stable returns while maintaining relatively low credit risk and preserving liquidity buffers. Moreover, while this conservative asset allocation enhances resilience against funding pressures, it also shows that a sizeable proportion of mobilized funds remains invested in liquid and low-risk assets rather than being deployed to customer lending.

Figure 29: MFB's Asset Composition and Implication on Liquidity

29(a): MFB's Asset Composition



29(b): Liquidity Ratio (%)

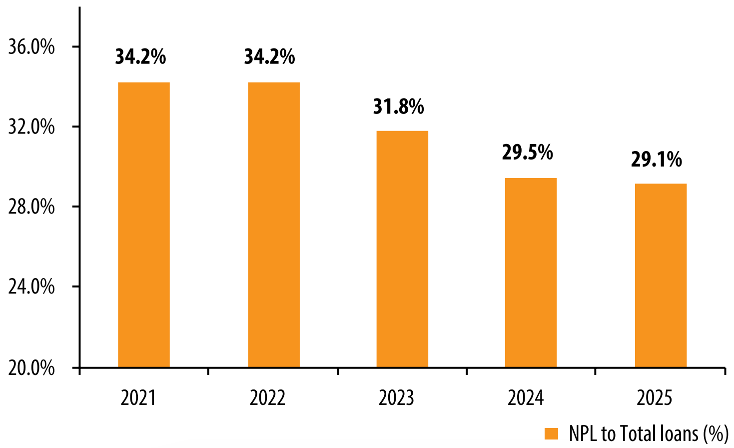


Source: KBA

7.2. MFB's Asset Quality Dynamics

Asset quality has remains a significant concern in this sector. The ratio of non-performing loans (NPLs) to gross loans stood at 29.1%, representing a marginal improvement from 29.5% recorded in 2024 (**Figure 30**). Elevated levels of non-performing loans continue to weigh on the sector's financial performance on four fronts. First, they increase impairment provisions, eroding earnings. Second, they constrain profitability by reducing net interest income and increasing credit-related expenses. Third, they diminish institutions' capacity to extend new credit as capital and liquidity become tied up in non-performing assets. Finally, they raise the overall cost of financial intermediation, as the MFB's adopt more conservative pricing and lending practices to compensate for heightened credit risk.

Figure 30: Asset Quality of Deposit-Taking MFBs



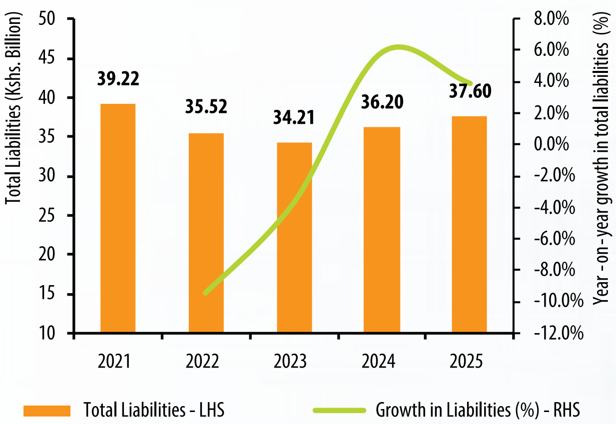
7.3 MFB's liabilities and Funding structures

The funding base of deposit-taking MFBs strengthened in 2025 because of robust deposit mobilization. Total liabilities rose by 3.9% to Kes 37.6 billion, largely driven by a 10.5% increase in customer deposits to Kes 30.8 billion (**Figures 31A** and **318B**). Consequently, customer deposits accounted for 86.7% of total liabilities, up from 81.2% in 2024, while the share of borrowings declined to 8.9% and other liabilities to 4.4% (**Figures 31C**).

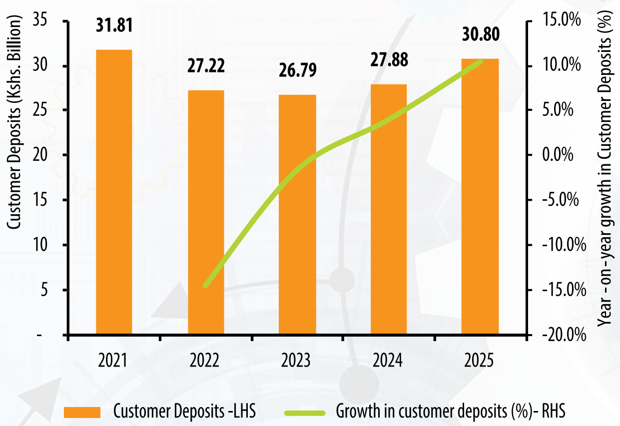
On one hand, the growing dominance of customer deposits reflects rising public confidence in deposit-taking MFBs and provides the sector with a stable, low-cost funding base, reducing reliance on expensive wholesale borrowing and refinancing risks. On the other hand, this stronger funding position was not accompanied by a corresponding expansion in lending. Instead, a sizeable share of the newly mobilized deposits was channeled into liquid assets. Hence, the MFB's are leaning more towards a cautious balance-sheet strategy that prioritized liquidity preservation over credit expansion amid elevated credit risk and persistent asset quality concerns.

Figure 31: MFB's Liabilities and Funding Structures

31(a): Total Liabilities



31(8): Customer Deposits



31(c): MFB's Liabilities Compositions

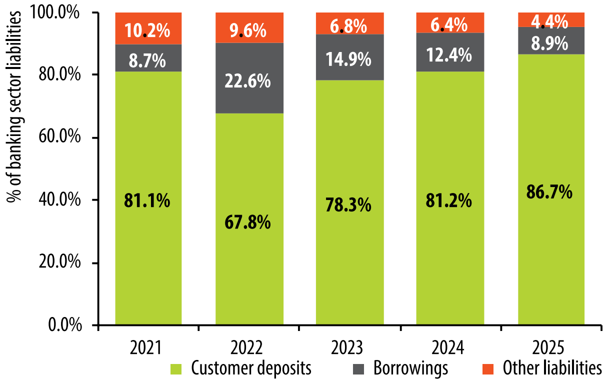
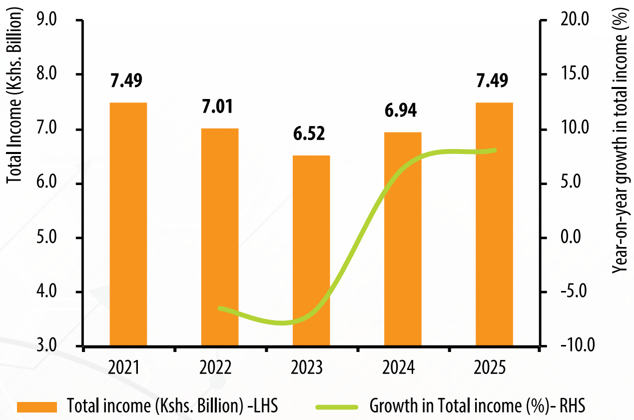
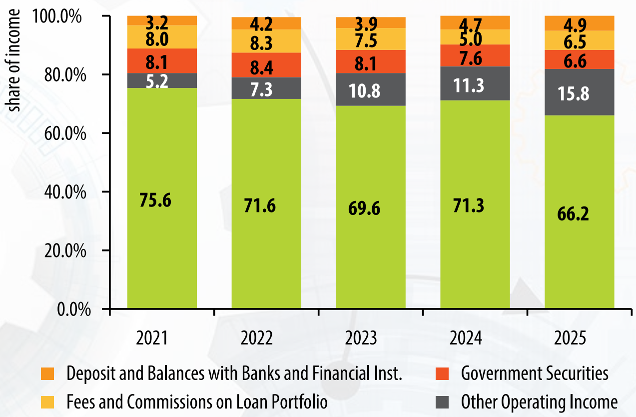


Figure 32: MFB's Income, Composition and Growth

32(a): Total Income



32(b): Income Structure



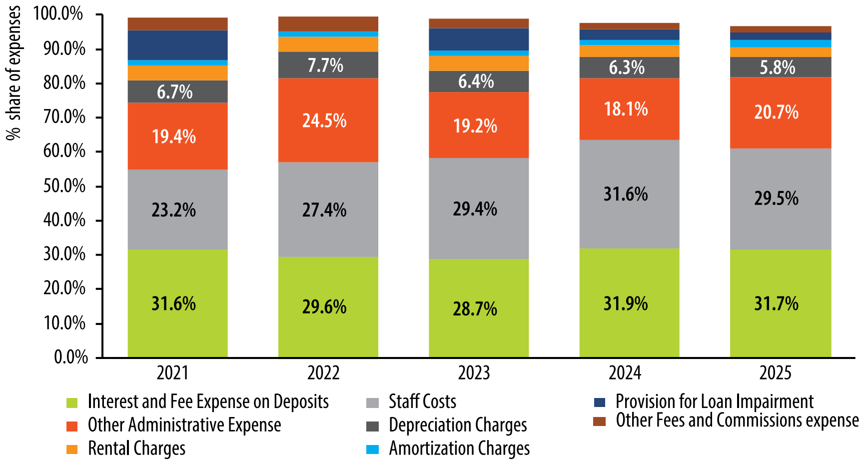
7.4 MFB's income performance

Deposit-taking MFBs recorded stronger earnings in 2025, with total income rising by 7.9% to Kes 7.49 billion (**Figure 32A**). Interest income from loans remained the backbone of earnings, accounting for 66.2% of total income, while income from deposits and balances with banks and other financial institutions increased to 15.8%. Government securities and fees and commissions on loans contributed 6.6% and 6.5%, respectively. Notably, the share of income derived from lending declined from 71.3% in 2024 to 66.2% in 2025 (**Figure 32B**). Greater earnings from placements with financial institutions and government securities strengthened revenue resilience, reduced reliance on credit income and provided a stable buffer against earnings volatility arising from persistent asset quality challenges.

7.5 MFB's total expenses, composition and growth

Total operating expenses rose to Kes 7.68 billion in 2025, with interest and fee expenses on deposits accounting for the largest share (31.7%), followed by staff costs (29.5%), other administrative expenses (20.7%), depreciation (5.8%) and rental expenses (2.7%) (**Figure 33**). The expenditure profile highlights the sector's balancing act between growth and efficiency. Moreover, significant staff and administrative costs reflect the labour-intensive nature of microfinance banking, driven by extensive customer engagement, credit appraisal and loan monitoring. These persistent cost pressures continue to squeeze their profitability.

Figure 33: MFB's Expenses, Composition and Growth



7.6 Profitability

The profitability of deposit-taking MFBs improved in 2025, but the sector remained under significant financial strain. The cost-to-income ratio declined markedly from 114.4% in 2024 to 102.5% (**Figure 34**), reflecting improved operational efficiency and stronger revenue generation. However, the ratio remained above the critical 100% threshold, indicating that operating income was still insufficient to fully cover operating expenses. Consequently, the sector recorded a pre-tax loss of Kes 0.85 billion, a substantial improvement from the Kes 1.95 billion loss reported in 2024 (**Figure 35**).

Figure 34: Cost-to-Income (%) of Deposit-taking MFB's

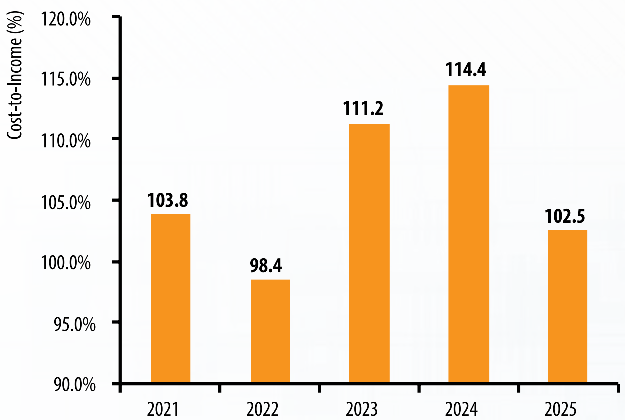
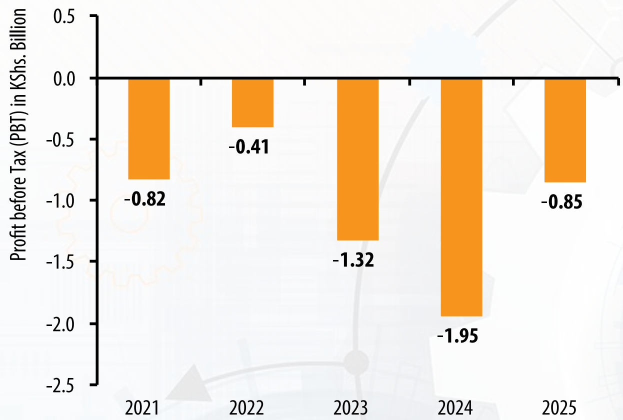
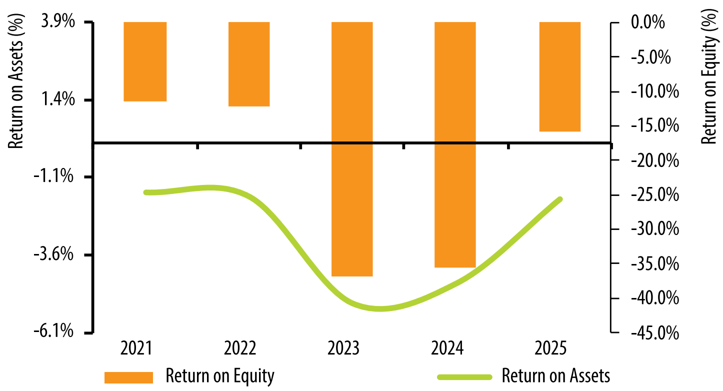


Figure 35: MFB's Profit Before Tax (PBT)



More broadly, the sector's profitability remained constrained by three persistent challenges. First, elevated funding and operating costs continued to compress earnings. Second, high loan impairment charges, driven by the sector's elevated non-performing loans, eroded profitability. Third, subdued credit growth limited the expansion of interest income. These factors translated into low Return on Assets (ROA) and Return on Equity (ROE) (**Figure 36**) as the sector continues to face challenges in generating positive returns from its assets and shareholders' capital.

Figure 36: MFB's Return on Assets and Return on Equity



CHAPTER 8: OUTLOOK

Kenya's economic outlook for 2026 is characterized by moderate but strengthening growth, easing inflation and improving financial conditions. Although the signing of the Middle East ceasefire in mid-2026 has significantly reduced immediate geopolitical risks, the global economy continues to operate in an environment defined by elevated uncertainty. The persistence of geopolitical tensions, evolving global trade dynamics, high public debt in advanced economies and the possibility of financial market corrections remain key downside risks.

The easing of global oil prices following the de-escalation of war in the Middle East is expected to provide meaningful relief to Kenya's import bill and inflation outlook. International crude oil and refined fuel prices have declined considerably from the peaks experienced during the conflict, although they remain above pre-conflict levels. Consequently, domestic fuel prices are likely to remain relatively contained. This will in turn moderate transport and production costs across the economy. Lower energy costs should gradually ease inflationary pressures, improve household purchasing power and reduce operating costs for businesses, thereby supporting stronger domestic demand. However, inflationary effects arising from earlier supply disruptions have not completely dissipated. Damaged logistics infrastructure, shipping bottlenecks and lingering supply chain adjustments continue to affect the prices of selected imported goods and petrochemical products. This has the implication of a gradual moderation of inflation, as opposed to a rapid one.

Global economic activity is expected to remain resilient despite continuing geopolitical uncertainties. Strong investment in digital technologies, artificial intelligence and advanced manufacturing is supporting growth in major economies, including several of Kenya's key trading partners. Continued expansion in global demand is likely to benefit Kenya through stronger exports, tourism receipts, remittances and foreign direct investment. Nevertheless, inflation remains above target in many advanced economies, prompting expectations that global interest rates will remain higher than historical norms. Moreover, elevated international borrowing costs may continue to constrain capital flows to emerging markets, thereby increase the cost of external financing and place pressure on sovereign debt sustainability across developing economies, including Kenya.

Domestically, Kenya's macroeconomic outlook remains broadly favourable, underpinned by declining inflation, exchange rate stability, improved agricultural production and strengthening business confidence. The anticipated recovery in private sector investment, supported by lower inflation and relatively stable interest rates, is expected to stimulate credit demand across manufacturing, agriculture, trade, infrastructure, renewable energy, affordable housing and digital enterprises. However, several domestic risks warrant close monitoring. One important uncertainty is the extent to which businesses absorb remaining increases in production costs or pass them through to consumers. If firms continue transferring higher input costs into retail prices, inflationary pressures could prove more persistent than currently anticipated. Additionally, weather-related risks, including the possibility of El Nino-induced flooding in October 2026 or other climate-related disruptions, could adversely affect agricultural output, food prices, infrastructure and household incomes. Given agriculture's significant contribution to Kenya's economy, climate shocks remain an important source of macroeconomic uncertainty.

For Kenya's banking sector, the outlook for 2026 is generally positive but requires prudent risk management. Lower inflation and improved macroeconomic stability are expected to support stronger credit growth as households and businesses regain confidence to borrow for consumption and investment. Demand for financing is likely to increase particularly among micro, small and medium enterprises (MSMEs), infrastructure projects, renewable energy investments, manufacturing firms and digital businesses. Improved economic activity should strengthen banks' loan portfolios, enhance asset quality and reduce non-performing loans as borrowers experience improved cash flows.

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