

CENTRAL BANK OF KENYA



CREDIT OFFICER SURVEY

JANUARY-DECEMBER 2012

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1.0 FOREWORD

1.1 KENYAN BANKING SECTOR PERFORMANCE

For the year 2012, the Kenyan Banking Sector demonstrated continued growth. Some of the sector's performance indicators were as follows:

- The aggregate balance sheet increased by 14.72 percent from Kshs 2.052 trillion in January 2012 to Kshs 2.354 trillion in December 2012.
- Gross loans expanded by 12.40 percent from Kshs 1.21 trillion in January 2012 to Kshs 1.36 trillion in December 2012.
- Deposits grew by 14.29 percent from Kshs 1.54 trillion in January 2012 to Kshs 1.76 trillion in December 2012.
- Total shareholders funds increased by 21.16 percent from Kshs 299.49 billion in January 2012 to Kshs 362.87 billion in December 2012.
- Gross non-performing loans increased by 13.33 percent from Kshs 54.33 billion in January 2012 to Kshs 61.57 billion in December 2012.
- Unaudited pre-tax profits stood at Kshs 89.574 billion for 31st December 2011 compared to Kshs 107.685 billion for 31st December 2012 recording an increase of 20.22 per cent.

1.2 CREDIT OFFICER SURVEY

Credit risk is the single largest factor affecting the soundness of financial institutions and the financial system as a whole and lending is the principal business for most banks. The total percentage of loans to total assets for the year ended 31st December 2012 was 57.8%. In order to identify potential risks and enhance understanding of credit risk, the Central Bank of Kenya introduced a quarterly Credit Officer Survey effective March 2012. So far CBK has undertaken four credit officer surveys for the quarters ending 31st March 2012, 30th June 2012 and 30th September 2012 and 31st December 2012.

For the quarter ended 31st December 2012, CBK received Credit Officer Survey responses from 41 operational banks and 1 mortgage finance company. The list of the respondents is attached to this report as **Annex II**. Charterhouse Bank Ltd which is currently under statutory management was excluded from the survey.

CENTRAL BANK OF KENYA
MARCH 2013

2.0 EXECUTIVE SUMMARY

2.1 SURVEY METHODOLOGY

The credit officer survey for the year 2012 comprised five questions that focused on:-

- Demand for credit.
- Credit standards.
- International trade finance.
- Non-Performing loans.
- Credit recovery efforts.

The survey targeted senior credit officers of all 42 operational banks and 1 mortgage finance company. Charterhouse Bank Ltd, which is currently under statutory management, was excluded from the survey. Forty one institutions responded. The list of the respondents is attached to this report as **Annex II**.

2.2 KEY FINDINGS

The key findings from the survey are detailed below.

2.2.1 Demand for credit

In year 2012, demand for credit increased in 9 sectors out of the 11 sectors. Demand for credit from the Mining & Quarrying and Trade sectors remained unchanged in the year.

The survey indicated that decrease in the cost of borrowing and the drop in the Central Bank Rate were the greatest factors that led to an increased demand for credit in the year.

2.2.2 Credit Standards

In year 2012, banks eased credit standards for Agriculture, Manufacturing and Trade sectors. In all the other sectors, the banks credit standards remained unchanged.

2.2.3 International Trade Finance

There was a general optimism in the economy due to the fall in interest rates and as a result banks increased supply of international finance to Manufacturing, Energy and Trade sectors.

2.2.4 Non-Performing Loans

For the first quarter of 2013, most banks expect the levels of non-performing loans to increase due to expected rise of political risk arising from March 2013 elections.

2.2.5 Credit Recovery Efforts

Banks expect to intensify their credit recovery efforts in almost all the sectors over the first quarter of 2013.

3.0 SURVEY FINDINGS

3.1 Demand for Credit

3.1.1 Observations

There was a general optimism in the economy due to the fall in interest rates and as a result, the demand for credit generally increased in nine economic sectors. However, demand for credit from Trade and Mining & Quarrying sectors largely remained constant in the year. Demand for credit from the Manufacturing sector increased from 29 percent in the quarter ended September 2012 to 51 percent in the quarter ended December 2012. **Table 1** in Annex I details the trend in demand for credit over the four quarters in 2012.

3.2 Factors affecting demand for credit

3.2.1 Observations

In 2012, the drop in Central Bank Rate (from 18 per cent in June 2012 to 9.50 percent in January 2013) and decrease in the cost of borrowing had the most significant impact in increasing demand for credit. Loans from non banks had a neutral effect on demand for credit in year 2012 as indicated in **Table 2** in Annex I.

3.3 Credit Standards

3.3.1 Observations

In 2012, banks eased credit standards for agriculture, manufacturing and trade sectors, while credit standards for all the other eight sectors remained unchanged. **Table 3** of Annex I shows the trend in credit standards over the four quarters in 2012.

3.4 Factors affecting credit standards

3.4.1 Observations

Although credit standards were generally eased in year 2012 as a result of general optimism in the economy, constraints relating to the bank's capital position resulted in tightening in credit standards near the year end as banks built up their capital positions in order to

comply with the enhanced capital adequacy requirements. This trend in factors affecting the banks credit standards in 2012 is as indicated in **Table 4** of Annex I.

3.5 International Trade Finance

3.5.1 Observations

There was a general optimism in the economy due to the fall in interest rates and as a result, the banks increased supply of international finance to Manufacturing, Energy and Trade sectors as shown in **Table 5** in Annex I.

3.6 Non-Performing Loans (NPLs)

3.6.1 Observations

In the first quarter of 2012, in an environment of high interest rates, banks had an expectation that NPLs will rise. In the second half of the year, there was an expectation for a drop in NPLs which coincided with the fall in CBR from a high of 18% in June 2012.

However, in the fourth quarter of 2012 there was an expectation of NPLs increasing in the first quarter of 2013 in the Trade, Tourism, Transport & Communication, and Real Estate Sectors as result of increased political risk arising from March 2013 elections. This trend on expectations of NPLs is shown in **Table 6** of Annex 1.

3.7 Credit Recovery Efforts

3.7.1 Observations

Credit recovery efforts were intensified across all sectors in the period March 2012 to June 2012 when interest rates were high but with the fall of the CBR which resulted in fall in interest rates banks subsequently eased their credit recovery efforts as can be observed in the periods ended September 2012 and December 2012 in **Table 7** of Annex I.

As a proactive measure, some institutions indicated their intention to intensify their credit recovery efforts in the first quarter of 2013 to curb any form of negative outcomes caused by the March 2013 elections as well as to recover any non-performing loans mainly arising from the high interest rate regime recently experienced by the sector.

4.0 ANNEX I

	Dec-12			Sep-12			Jun-12			Mar-12		
	Increased	Remained	Decreased	Increased	Remained	Decreased	Increased	Remained	Decreased	Increased	Remained	Decrease
	Unchanged			Unchanged			Unchanged			Unchanged		
Agriculture	25%	58%	18%	18%	63%	20%	18%	58%	25%	21%	55%	24%
Manufacturing	51%	34%	15%	29%	54%	17%	40%	29%	31%	25%	43%	33%
Building and construction	55%	38%	8%	46%	34%	20%	29%	34%	37%	38%	25%	38%
Mining and Quarrying	12%	76%	12%	19%	62%	19%	10%	68%	23%	15%	67%	18%
Energy and water	34%	51%	15%	24%	63%	13%	31%	59%	10%	21%	55%	24%
Trade	54%	37%	10%	57%	31%	12%	52%	33%	14%	63%	22%	15%
Tourism,restaurant and Hotels	26%	51%	23%	25%	55%	20%	38%	45%	18%	17%	56%	27%
Transport and Communication	46%	41%	12%	35%	53%	13%	41%	34%	24%	30%	43%	28%
Real Estate	51%	32%	17%	35%	40%	25%	38%	17%	45%	26%	31%	43%
Financial Services	36%	51%	13%	24%	57%	19%	38%	38%	25%	25%	53%	23%
Personal/Household	50%	28%	23%	54%	32%	15%	42%	24%	34%	29%	22%	49%

	Dec-12			Sep-12			Jun-12		
	Increased	Remained	Decreased	Increased	Remained	Decreased	Increased	Remained	Decreased
	Unchanged			Unchanged			Unchanged		
Internal Financing	13%	45%	43%	13%	56%	31%	9%	46%	46%
Loans from other banks	17%	41%	41%	15%	48%	38%	5%	59%	35%
Loans from non banks	13%	65%	23%	3%	69%	28%	3%	52%	45%
Issuance of debt securities	18%	66%	16%	9%	77%	14%	3%	85%	12%
Issuance of equity	13%	71%	16%	6%	78%	17%	3%	79%	18%
Cost of borrowing	54%	13%	33%	34%	15%	51%	8%	3%	89%
Available investment opportunities	44%	44%	12%	32%	47%	21%	26%	50%	24%
Drop in CBR*	74%	21%	5%	72%	28%	0%	-	-	-
Political Risk**	12%	29%	59%	-	-	-	-	-	-

*Drop in CBR (question relating to drop in CBR introduced in September 2012 quarter)

**Political risk (responses on political risk collected in December quarter only)

	Dec-12			Sep-12			Jun-12			Mar-12		
	Tightened	Remained	Eased	Tightened	Remained	Eased	Tightened	Remained	Eased	Tightened	Remained	Eased
	Unchanged			Unchanged			Unchanged			Unchanged		
Agriculture	15%	70%	15%	17%	76%	7%	17%	66%	17%	37%	63%	0%
Manufacturing	12%	66%	22%	19%	70%	12%	24%	53%	24%	43%	55%	3%
Building and construction	38%	53%	10%	41%	49%	10%	39%	21%	39%	66%	27%	7%
Mining and Quarrying	12%	73%	15%	18%	72%	10%	20%	61%	20%	36%	59%	5%
Energy and water	5%	80%	15%	13%	79%	8%	12%	76%	12%	24%	71%	5%
Trade	12%	61%	27%	29%	52%	19%	17%	67%	17%	40%	50%	10%
Tourism,restaurant and Hotels	14%	74%	12%	26%	67%	7%	25%	50%	25%	31%	62%	8%
Transport and Communication	22%	61%	17%	29%	57%	14%	25%	49%	25%	44%	46%	10%
Real Estate	34%	54%	12%	42%	51%	7%	39%	22%	39%	73%	20%	7%
Financial Services	5%	88%	8%	17%	76%	7%	17%	65%	17%	35%	58%	8%
Personal/Household	23%	64%	13%	33%	57%	10%	33%	35%	33%	57%	40%	2%

	Dec-12			Sep-12			Jun-12		
	Tightened	Remained	Eased	Tightened	Remained	Eased	Tightened	Remained	Eased
		Unchanged			Unchanged			Unchanged	
Bank's cost of funds & Balance sheet constraints	45%	45%	10%	51%	41%	8%	71%	29%	0%
Constraints relating to Bank's capital position	32%	66%	2%	28%	65%	8%	28%	67%	6%
Competition from other banks	17%	66%	17%	15%	62%	23%	27%	59%	15%
Competition from DTMs, Saccos, & other Credit Providers	7%	78%	15%	0%	82%	18%	3%	82%	15%
Expectations regarding general economic activity	23%	62%	15%	30%	38%	33%	54%	34%	11%
Drop in CBR*	7%	51%	41%	10%	48%	43%	-	-	-

*Drop in CBR (question relating to drop in CBR introduced in September 2012 quarter)

	Dec-12			Sep-12			Jun-12			Mar-12		
	Increased	Remained Constant	Fall	Increased	Remained Constant	Fall	Increased	Remained Constant	Fall	Increased	Remained Constant	Fall
Agriculture	15%	85%	0%	11%	84%	5%	8%	78%	14%	15%	74%	10%
Manufacturing	40%	55%	5%	24%	66%	11%	13%	63%	25%	28%	60%	13%
Building and construction	0%	84%	16%	10%	85%	5%	21%	68%	11%	10%	79%	10%
Mining and Quarrying	8%	90%	3%	8%	89%	3%	0%	97%	3%	3%	89%	8%
Energy and water	26%	72%	3%	19%	69%	11%	3%	81%	17%	19%	78%	3%
Trade	43%	50%	8%	28%	55%	18%	17%	56%	27%	35%	55%	10%
Tourism,restaurant and Hotels	13%	84%	3%	13%	84%	3%	14%	81%	5%	16%	74%	11%
Transport and Communication	24%	66%	10%	21%	77%	3%	17%	72%	11%	11%	76%	13%
Real Estate	8%	79%	13%	8%	81%	11%	27%	65%	8%	8%	72%	19%
Financial Services	10%	87%	3%	3%	95%	3%	5%	84%	11%	11%	84%	5%
Personal/Household	5%	86%	8%	6%	83%	11%	9%	88%	3%	11%	70%	19%

	Dec-12			Sep-12			Jun-12			Mar-12		
	Rise	Remained Constant	Fall	Rise	Remained Constant	Fall	Rise	Remained Constant	Fall	Rise	Remained Constant	Fall
Agriculture	13%	60%	28%	3%	63%	35%	20%	49%	32%	26%	55%	18%
Manufacturing	13%	55%	33%	5%	65%	30%	21%	52%	26%	36%	54%	10%
Building and construction	21%	49%	31%	23%	48%	30%	38%	45%	18%	58%	26%	16%
Mining and Quarrying	3%	74%	24%	0%	86%	14%	8%	81%	11%	19%	70%	11%
Energy and water	3%	69%	28%	3%	76%	22%	5%	79%	16%	14%	78%	8%
Trade	26%	46%	28%	20%	56%	24%	37%	34%	29%	51%	31%	18%
Tourism,restaurant and Hotels	28%	48%	25%	15%	49%	36%	23%	55%	23%	31%	53%	17%
Transport and Communication	18%	56%	26%	13%	63%	25%	28%	48%	25%	41%	46%	13%
Real Estate	20%	51%	29%	19%	45%	36%	35%	38%	28%	66%	22%	12%
Financial Services	0%	77%	23%	3%	76%	21%	16%	66%	18%	21%	68%	11%
Personal/Household	38%	38%	25%	20%	41%	39%	39%	42%	18%	64%	24%	12%

Table 7: Credit Recovery Efforts												
	Dec-12			Sep-12			Jun-12			Mar-12		
	Intensified	Remained Unchanged	Eased	Intensified	Remained Unchanged	Eased	Intensified	Remained Unchanged	Eased	Intensified	Remained Unchanged	Eased
Agriculture	28%	65%	8%	54%	41%	5%	50%	47%	3%	20%	48%	33%
Manufacturing	44%	49%	7%	48%	45%	8%	55%	42%	3%	22%	51%	27%
Building and construction	45%	48%	8%	67%	33%	0%	72%	28%	0%	38%	44%	18%
Mining and Quarrying	24%	68%	8%	32%	68%	0%	36%	64%	0%	9%	80%	11%
Energy and water	26%	63%	11%	35%	65%	0%	37%	63%	0%	5%	78%	16%
Trade	58%	35%	8%	61%	37%	3%	61%	34%	5%	35%	35%	30%
Tourism,restaurant and Hotels	41%	49%	10%	47%	53%	0%	53%	45%	3%	23%	54%	23%
Transport and Communication	45%	48%	8%	51%	46%	3%	63%	38%	0%	26%	49%	26%
Real Estate	61%	37%	3%	67%	33%	0%	71%	22%	7%	38%	35%	28%
Financial Services	23%	69%	8%	33%	67%	0%	45%	53%	3%	16%	66%	18%
Personal/Household	63%	30%	8%	68%	29%	3%	75%	23%	3%	43%	40%	18%

5.0 Annex II (List of Respondents)

LIST OF THE RESPONDENTS

1. African Banking Corporation Ltd.
2. Bank of Africa Kenya Ltd.
3. Bank of Baroda
4. Bank of India
5. Barclays Bank of Kenya Ltd.
6. CFC Stanbic Bank Ltd.
7. Chase Bank (K) Ltd.
8. Citibank N.A Kenya.
9. Commercial Bank of Africa Ltd.
10. Consolidated Bank of Kenya Ltd.
11. Co-operative Bank of Kenya Ltd.
12. Credit Bank Ltd.
13. Development Bank of Kenya Ltd.
14. Diamond Trust Bank (K) Ltd.
15. Dubai Bank Kenya Ltd.
16. Ecobank Kenya Ltd.
17. Equatorial Commercial Bank Ltd.
18. Equity Bank Ltd.
19. Fidelity Commercial Bank Ltd.
20. Fina Bank Ltd.
21. First Community Bank Limited.
22. Giro Commercial Bank Ltd.
23. Guardian Bank Ltd.
24. Gulf African Bank Limited.
25. Habib Bank A.G Zurich.
26. Habib Bank Ltd.
27. I & M Bank Ltd.
28. Imperial Bank Ltd.
29. Jamii Bora Bank Ltd.
30. Kenya Commercial Bank Ltd.
31. K-Rep Bank Ltd.
32. Middle East Bank (K) Ltd.
33. National Bank of Kenya Ltd.
34. NIC Bank Ltd.
35. Oriental Commercial Bank Ltd.
36. Paramount Universal Bank Ltd.
37. Prime Bank Ltd.
38. Standard Chartered Bank (K) Ltd.
39. Trans-National Bank Ltd.
40. Victoria Commercial Bank Ltd.
41. UBA Kenya Bank Ltd.
42. Housing Finance Ltd.