Central Bank of Kenya

Credit Officer Survey

September 30, 2021

CENTRAL BANK OF KENYA COMMERCIAL BANKS' CREDIT OFFICER SURVEY FOR THE THE QUARTER ENDED SEPTEMBER 30, 2021

1.0 COMMERCIAL BANKS' CREDIT OFFICER SURVEY

1.1 BACKGROUND

Credit risk is the single largest factor affecting the soundness of financial institutions and the financial system as a whole. This is because lending is the principal business for banks. The ratio of gross loans to total assets increased slightly from 54.75 percent in the quarter ended June 30, 2021, to 54.85 percent in the quarter ended September 30, 2021.

The Central Bank of Kenya (CBK) undertakes a quarterly Credit Officer Survey to identify the potential drivers of credit risk. The survey requires senior credit officers of banks to indicate their banks perception or actual position in the immediate past quarter and the subsequent quarter in terms of demand for credit, credit standards, asset quality, credit recovery efforts, deployment of liquidity and impact of implementing new standards.

1.2 SURVEY METHODOLOGY

Senior Credit Officers[1] complete most of the survey and collate inputs from senior officers responsible for the other aspects. For the quarter ended September 30, 2021, 38 operating commercial banks and 1 mortgage finance company participated in the Commercial Banks Credit Officer Survey.

The survey sought to establish the lending behavior in the banking sector in respect to all the eleven economic sectors. Questions were posed on demand for credit, credit standards for approving loans, non-performing loans, credit recovery efforts, implementation of International Financial Reporting Standards (IFRS) 9 on Financial Instruments and implementation of IFRS 16 on Leases. The survey questions are generally phrased in terms of changes over the past three months or expected changes over the next three months.

The survey also included questions concerning liquidity in the banks. The banks were required to state their appetite for the deployment of liquidity towards an extension of credit, interbank lending and other forms of investment.

Following the declaration by the World Health Organization of coronavirus (COVID-19) outbreak as a pandemic in March 2020, CBK, through the credit officer survey, assesses the impact of the pandemic on the banking sector.

The survey also included questions relating to adverse impact of the pandemic on the banks and measures taken by banks to curb the adverse impact of the pandemic.

[1]These are officers involved in most of the credit and liquidity decisions hence are able to provide reasonably accurate and complete responses from their bank's perspective. They also collate input on non-credit aspects from their counterparts.

1.3 KENYAN BANKING SECTOR PERFORMANCE

The Kenyan Banking Sector recorded growth in the quarter ended September 30, 2021, compared to the quarter ended June 30, 2021. Some of the sector's performance indicators are as follows: -

- The aggregate balance sheet increased by 2.5 percent to Ksh.5,822.09 billion in September 2021, from Ksh.5,679.99 billion in June 2021.
- Gross loans increased by 2.7 percent from Ksh.3,110.07 billion in June 2021, to Ksh.3,193.26 billion in September 2021. The growth in gross loans was mainly due to increased advances in the Trade and Real Estate sectors.
- Total deposits increased by 2.3 percent from Ksh.4,249.41 billion in June 2021, to Ksh.4,345.72 billion in September 2021.
- The asset quality, measured by gross non-performing loans to gross loans ratio improved from 14.0 percent in June 2021, to 13.6 percent in September 2021. This was attributed to a 2.7 percent increase in gross loans which was higher than a 0.09 percent increase in non-performing loans.
- The total capital adequacy ratio decreased slightly from 18.9 percent in June 2021, to 18.8 percent in September 2021. This is as a result of a higher increase in total risk-weighted assets (2.3 percent) as compared to the increase in total capital (1.5 percent). The capital adequacy ratios reported in the two periods were above the minimum statutory limit of 14.5 percent.
- Quarterly profit before tax decreased by Ksh.1.45 billion from Ksh.50.53 billion in June 2021, to Ksh.49.08 billion in September 2021. This was as a result of a higher increase in expenses (4.7 percent) as compared to an increase in income (2.2 percent). Return on Assets decreased to 2.65 percent in September 2021 from 2.71 percent in June 2021.
- Return on Equity decreased from 22.67 percent in June 2021, to 21.97 percent in September 2021. This is a result of a decrease in quarterly profits before tax (2.87 percent) and an increase in total shareholders' funds (3.80 percent).
- Liquidity in the banking sector decreased slightly from 56.8 percent in June 2021, to 56.7 percent in September 2021. This was well above the minimum statutory ratio of 20 percent.

1.4 SUMMARY OF CREDIT OFFICER SURVEY FINDINGS

- **Demand for credit:** In the third quarter of 2021, the perceived demand for credit remained unchanged in eight economic sectors and increased in three sectors (Personal and Household, Trade and Manufacturing).
- **Credit Standards[2]:** In the third quarter of 2021, credit standards remained unchanged in eight economic sectors and were tightened in two sectors (Tourism and Real Estate). Tightening of credit standards in the two sectors is attributed to the adverse effects of the pandemic.

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

- **Expected Non-Performing Loans levels during the fourth quarter:** : 41 percent of the respondents indicated that NPLs are likely to fall in the fourth quarter of 2021. This is attributed to enhanced recovery efforts being implemented by most banks. 26 percent of the respondents expect the level of NPLs to rise in the fourth quarter of 2021 as a result of the continued COVID-19 pandemic. 33 percent of respondents expect NPLs to remain constant.

- **Non-Performing Loans per sector:** The respondents indicated that the level of NPLs is expected to remain constant in ten economic sectors and fall or remain unchanged in the Trade Sector.

- **Credit Recovery Efforts:** For the quarter ended December 31, 2021, banks expect to intensify their credit recovery efforts in all economic sectors. The intensified recovery efforts are aimed at improving the overall quality of the asset portfolio.

- **Implementation of International Financial Reporting Standard (IFRS) 9 on Financial Instruments:** IFRS 9 had a negative impact on banks' capital adequacy requirement due to increased provisioning, banks also faced challenges in estimating forward looking Macroeconomic overlays especially during the COVID-19 pandemic.

- This resulted in banks' injection of additional capital to accommodate the expected rise in credit losses and development of internal rating models to assess credit risks on all sectors including SMEs, and revamping their credit recovery efforts.

- **International Financial Reporting Standard (IFRS) 16 on Leases:** In the quarter ended September 30, 2021, a majority of the banks had implemented IFRS 16 (97 percent), and had assessed the impact of IFRS 16 (95 percent) on their financial performance and position. The banks indicated that implementation of IFRS 16 increased their risk weighted assets, which in turn decreased their capital adequacy ratios. This had a negative impact on the banks' retained earnings.

- **Liquidity risk:** During the quarter ended September 2021, 68 percent of the respondents indicated that their liquidity position had improved. The liquidity ratio remained above the minimum statutory ratio of 20 percent.

  Banks intend to deploy the additional liquidity by investing in Treasury Bonds (23 percent), lending to the private sector (21 percent), investing in Treasury Bills (19 percent), interbank lending (19 percent), taking advantage of CBK liquidity management through repos (12 percent), investing in other instruments including offshore (3 percent) and increasing their cash holding (3 percent).

2.0 SURVEY FINDINGS

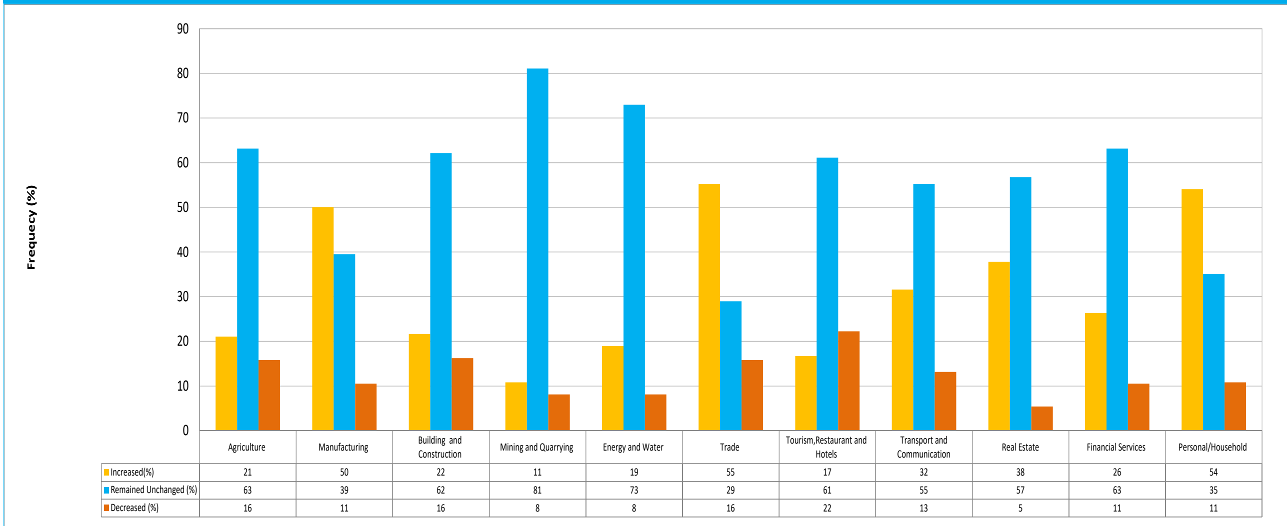
2.1 Demand for Credit

- In the third quarter of 2021, the perceived demand for credit remained unchanged in eight economic sectors. It increased in three sectors.
- The main sectors with unchanged demand for credit are Mining and Quarrying, Energy and Water, Agriculture and Financial Services. Perceived demand for credit increased in Personal and Household, Trade and Manufacturing sectors. This is attributed to the ongoing normalcy of Economic activities.
- **Chart 1** and **Table 1** below present the trend in the perceived demand for credit in the last two quarters.

Table 1: Change in Demand for Credit

Percentage (%)	June 2021			September 2021		
	Increased	Remained Unchanged	Decreased	Increased	Remained Unchanged	Decreased
Agriculture	21	56	23	21	63	16
Manufacturing	41	41	18	50	39	11
Building and Construction	16	46	38	22	62	16
Mining and Quarrying	5	74	21	11	81	8
Energy and Water	23	62	15	19	73	8
Trade	51	28	21	55	29	16
Tourism, Restaurant and Hotels	16	47	37	17	61	22
Transport and Communication	26	56	18	32	55	13
Real Estate	13	43	44	38	57	5
Financial Services	28	54	18	26	63	11
Personal and Household	59	24	17	54	35	11

Chart 1: Demand for Credit



2.2 Factors Affecting Demand for Credit

- In the quarter ended September 30, 2021, all the eleven factors affecting demand for credit had no significant impact. This is depicted in **Chart 2** and **Table 2**.
- Issuance of equity, issuance of debt securities, Internal Financing and loans from non-banks were cited as having had the least impact on the demand for credit during the quarter under review. These were reported by 92 percent, 92 percent, 87 percent and 85 percent of the respondents respectively.

Chart 2: Factors affecting Demand for Credit

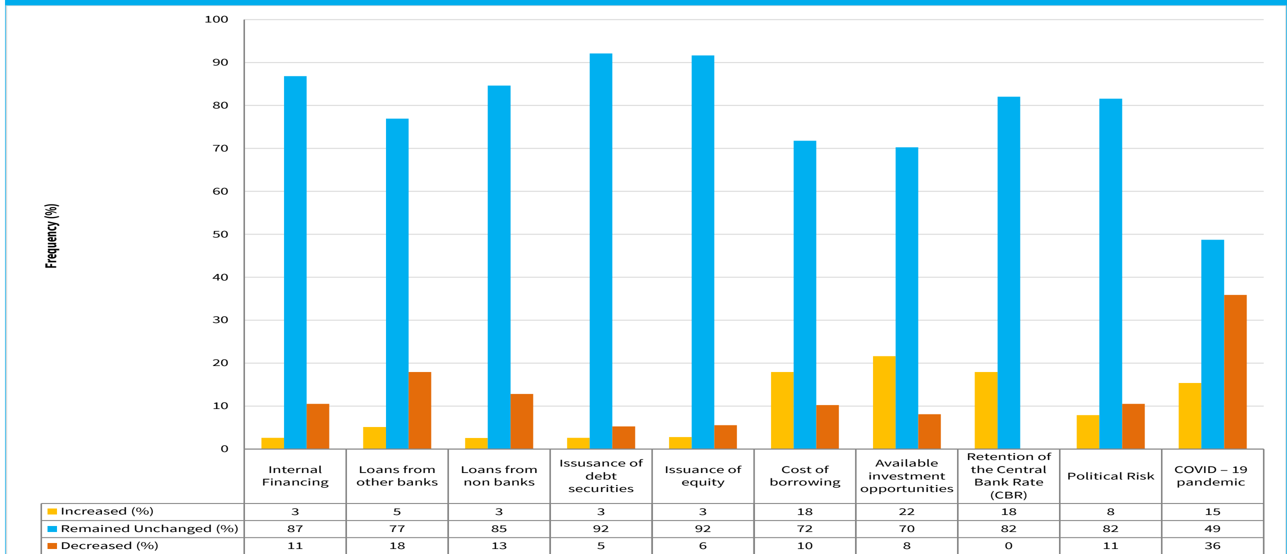


Table 2: Factors Affecting Demand for Credit

Percentage (%)	June 2021			September 2021		
	Increased	Remained Unchanged	Decreased	Increased	Remained Unchanged	Decreased
Internal Financing	5	82	13	3	87	11
Loans from other banks	8	77	15	5	77	18
Loans from non-banks	8	85	7	3	85	13
Issuance of debt securities	5	92	3	3	92	5
Issuance of equity	5	92	3	3	92	6
Cost of borrowing	18	74	8	18	72	10
Available investment opportunities	18	56	26	22	70	8
Reduction of the Central Bank Rate (CBR)	10	87	3	18	82	0
Political Risk	0	95	5	8	82	11
Repeal of Interest Rate Capping	26	72	2	15	49	36
COVID – 19 pandemic	8	23	69	8	23	69

2.2 Credit Standards

- In the third quarter of 2021, credit standards remained unchanged in eight economic sectors and were tightened in two sectors (Tourism and Real Estate).
- Tightening of credit standards in the two sectors is attributed to the adverse effects of COVID – 19 pandemic. This was to avoid possibility of non-performing loans as a result of the pandemic.
- In Personal and Household sector, an equal number of respondents (39 percent) indicated that the credit standards were both tightened and remained unchanged.
- This is presented in **Chart 3** and **Table 3** below.

Chart 3: Credit Standards

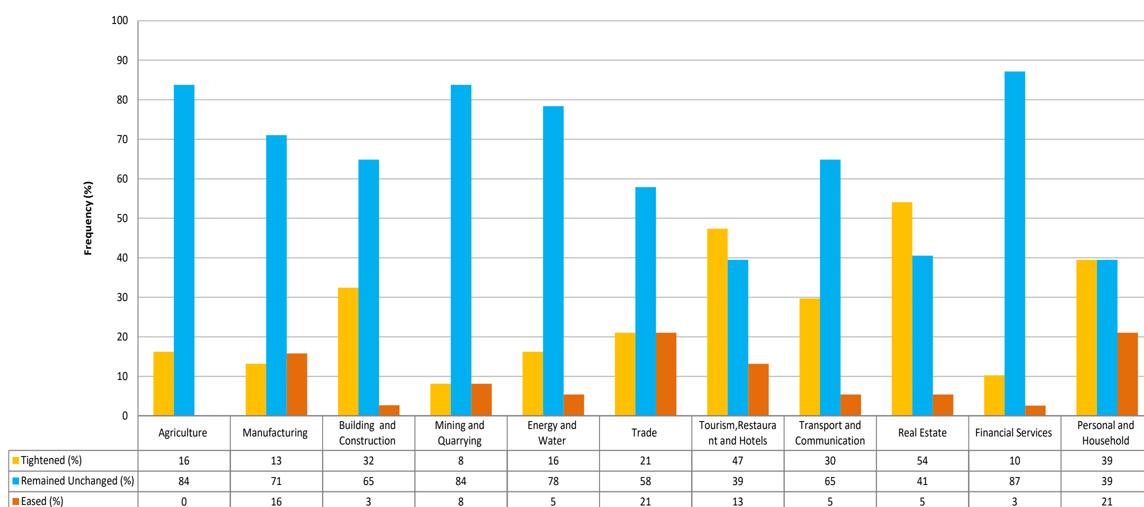


Table 3: Credit Standards for Loans to Various Economic Sectors

Percentage (%)	June 2021			September 2021		
	Tightened	Remained Unchanged	Eased	Tightened	Remained Unchanged	Eased
Agriculture	18	79	3	16	84	0
Manufacturing	15	72	13	13	71	16
Building and Construction	34	55	11	32	65	3
Mining and Quarrying	13	82	5	8	84	8
Energy and Water	16	79	5	16	78	5
Trade	23	62	15	21	58	21
Tourism, Restaurant and Hotels	53	37	10	47	39	13
Transport and Communication	38	56	6	30	65	5
Real Estate	55	42	3	54	41	5
Financial Services	13	87	0	10	87	3
Personal and Household	37	47	16	39	39	21

2.4 Factors Affecting Credit Standards

- In the quarter ended September 30, 2021, seven factors had little impact on credit standards whereas one factor had an impact resulting to tightening of credit standards.
- Political risk, Investment in Government Securities, Reduction of the Central Bank Rate (CBR), and Competition from Saccos, Microfinance banks, and other Credit Providers are the main factors that had no impact on credit standards. These were reported by 97 percent, 95 percent, 90 percent and 89 percent of the respondents respectively.
- Expectations regarding general economic activity led to tightening of credit standards in Tourism and Real Estate sectors.
- A comparison of the trend in the factors affecting the banks' credit standards are shown in **Chart 4** and **Table 4**.

Chart 4: Factors affecting Credit Standards

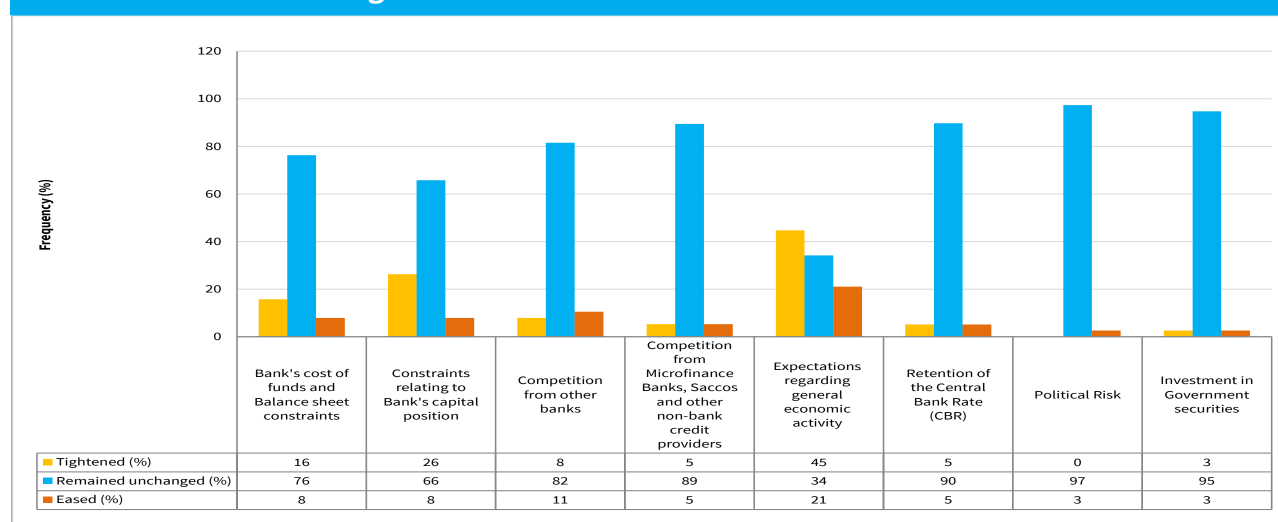


Table 4: Factors affecting credit standards

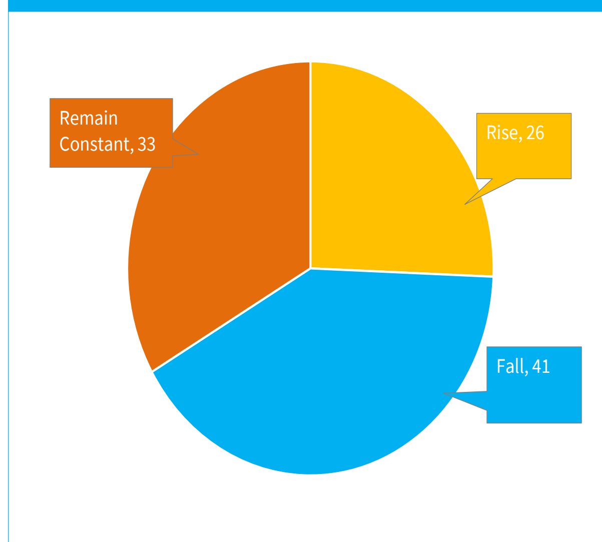
	June 2021			September 2021		
	Tightened	Remained Unchanged	Eased	Tightened	Remained Unchanged	Eased
Bank's cost of funds and Balance sheet constraints	26	69	5	16	76	8
Constraints relating to Bank's capital position	26	67	7	26	66	8
Competition from other banks	13	79	8	8	82	11
Competition from DTMs, Saccos, and other Credit Providers	8	87	5	5	89	5
Expectations regarding general economic activity	49	38	13	45	34	21
Reduction of the Central Bank Rate (CBR)	15	79	6	5	90	5
Political Risk	8	90	2	0	97	3
Investment in Government Securities	0	97	3	3	95	3

2.5 Non-Performing Loans (NPLs)

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

- 41 percent of the respondents indicated that NPLs are likely to fall in the fourth quarter of 2021. This is attributed to enhanced recovery efforts being implemented by most banks.
- 26 percent of the respondents expect the level of NPLs to rise in the fourth quarter of 2021 as a result of the continued COVID-19 pandemic.
- 33 percent of respondents expect NPLs to remain constant. This is depicted in **Chart 5**.

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



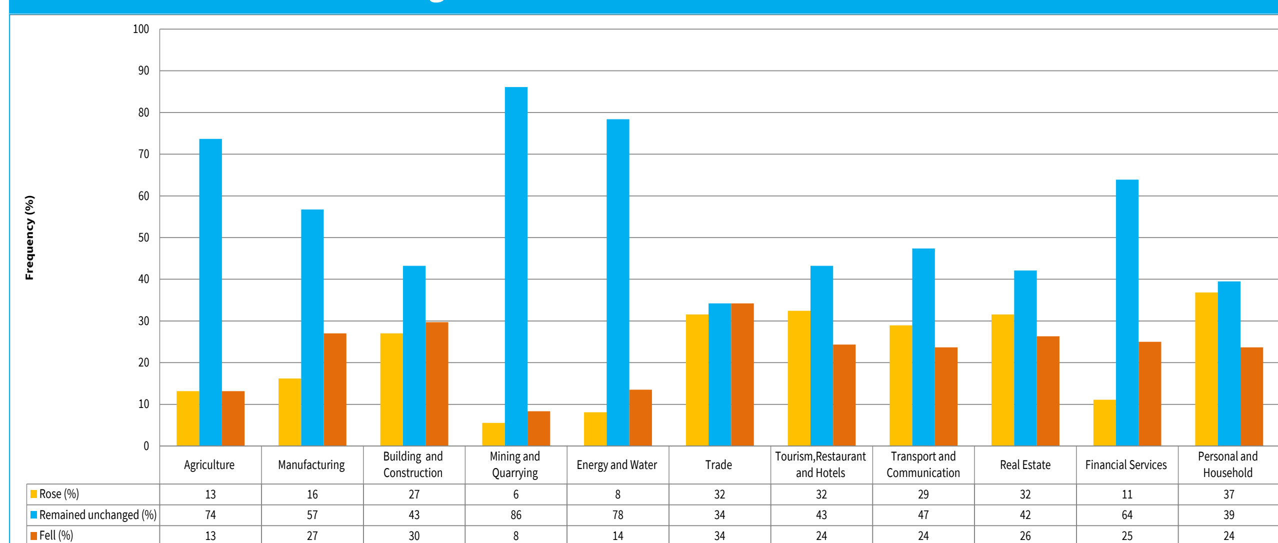
2.5.2 Expected Non-Performing Loans per sector during the next Quarter

- Respondents indicated that the level of NPLs is expected to remain constant in ten economic sectors during the next quarter.
- In Trade sector, an equal number of respondents indicated that the level of NPLs is expected to increase and remain constant.
- **Table 5** and **Chart 6** depicts this.

Table 5: Non-Performing Loans Trend Per Economic Sector

Percentage (%)	June 2021			September 2021		
	Rose	Remained Unchanged	Fell	Rose	Remained Unchanged	Fell
Agriculture	18	69	13	13	74	13
Manufacturing	26	61	13	16	57	27
Building and Construction	34	48	18	27	43	30
Mining and Quarrying	11	84	5	6	86	8
Energy and Water	8	84	8	8	78	14
Trade	39	37	24	32	34	34
Tourism, Restaurant and Hotels	50	26	24	32	43	24
Transport and Communication	41	41	18	29	47	24
Real Estate	50	24	26	32	42	26
Financial Services	16	76	8	11	64	25
Personal and Household	47	29	24	37	39	24

Chart 6: Non-Performing Loans



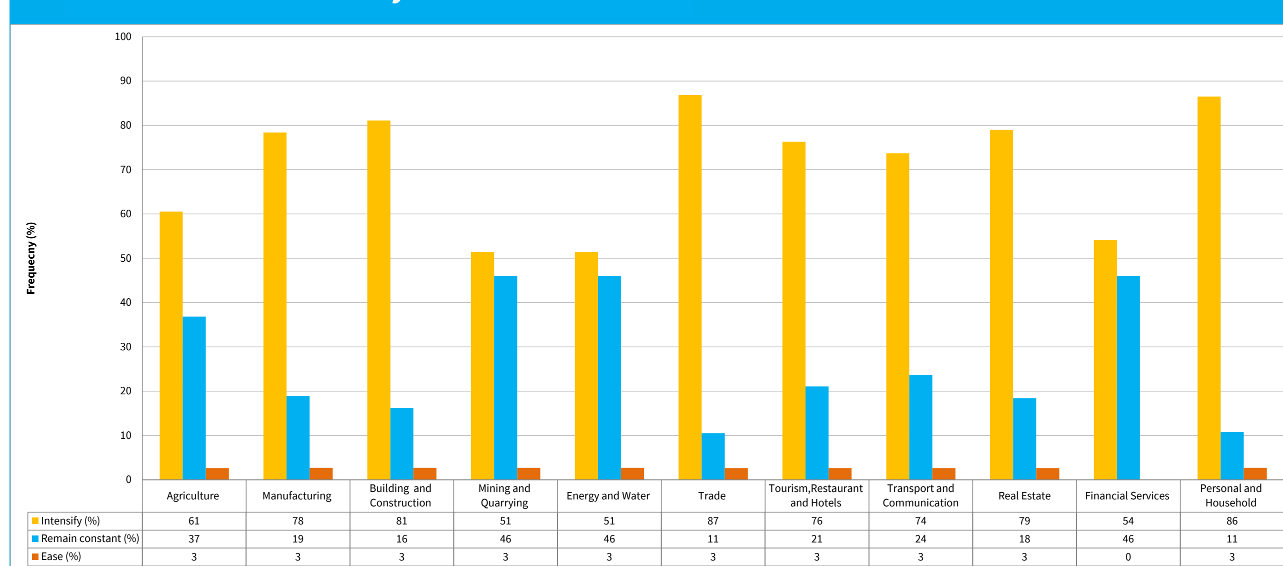
2.6 Credit Recovery Efforts in the Fourth Quarter of 2021

- For the quarter ended December 31, 2021, banks expect to intensify their credit recovery efforts in all economic sectors. The intensified recovery efforts are aimed at improving the overall quality of the asset portfolio.
- The main sectors that banks intend to intensify credit recovery efforts, in order to enhance reduction of NPLs therefore improving the overall quality of their asset portfolio, are:-
    i. Trade (87 percent).
    ii. Personal and Household (86 percent).
    iii. Building and Construction (81 percent
    iv. Real Estate (79 percent).
    v. Manufacturing (78 percent).
- The responses on the expected credit recovery efforts by the banks are depicted in **Chart 7** and **Table 6**.

Table 6: Credit Recovery Efforts

	June 2021			September 2021		
	Intensified	Remained Unchanged	Eased	Intensified	Remained Unchanged	Eased
Agriculture	51	46	3	61	37	3
Manufacturing	71	26	3	78	19	3
Building and Construction	79	18	3	81	16	3
Mining and Quarrying	42	55	3	51	46	3
Energy and Water	43	54	3	51	46	3
Trade	74	24	2	87	11	3
Tourism, Restaurant and Hotels	70	27	3	76	21	3
Transport and Communication	74	24	2	74	24	3
Real Estate	76	21	3	79	18	3
Financial Services	46	54	0	54	46	0
Personal and Household	84	13	3	86	11	3

Chart 7: Credit Recovery Efforts



	Agriculture	Manufacturing	Building and Construction	Mining and Quarrying	Energy and Water	Trade	Tourism,Restaurant and Hotels	Transport and Communication	Real Estate	Financial Services	Personal and Household
Intensify (%)	61	78	81	51	51	87	76	74	79	54	86
Remain constant (%)	37	19	16	46	46	11	21	24	18	46	11
Ease (%)	3	3	3	3	3	3	3	3	3	0	3

2.7 International Financial Reporting Standard (IFRS) 9 on Financial Instruments

- The International Financial Reporting Standard (IFRS) 9 on Financial Instruments became effective from January 1, 2018. This standard replaced International Accounting Standard (IAS) 39 on Financial Instruments (Recognition and Measurement).
- IFRS 9 introduced a new method of determining provisions for expected losses on loans extended by lending institutions.
- Institutions are required to recognize expected credit losses at all times and to update the amount of expected credit losses recognized at each reporting date to reflect changes in the credit risk of financial instruments.
- The Central Bank of Kenya assesses: -

  i. The challenges that banks still experience in the implementation of IFRS 9 and the mitigation measures implemented.
  ii. Whether banks have made any changes in the assumptions used in IFRS 9 and if they are more reliable.

2.7.1 Challenges experienced in the Implementation of IFRS 9

- Most banks have adopted a tight credit risk appraisal, ensuring that facilities are well secured and that alternative sources of repayment are available.
- However, implementation of IFRS 9 has had some challenges. These include: -

  i. Negative impact on capital adequacy due to increased provisioning.
  ii. Estimation of future looking Macroeconomic overlays is especially challenging in a pandemic environment.
  iii. Incorporating reliable macro-economic factors in the model is challenging in an uncertain economy.
  iv. Cost implication for the relevant technology, consultants and personnel training.
  v. Incorporating an effective interest rate in the model is difficult as it is cumbersome to implement without automation.
  vi. Lack of adequate historical data for assessment and re- modeling of the IFRS 9 assumptions and parameters including probability of default (PD) and loss given default (LGD).

2.7.2 Mitigation Measures implemented in dealing with challenges faced in the Implementation of IFRS 9

- Banks have implemented the following mitigation measures: -

  i. Injected additional capital to accommodate the expected rise in credit losses.
  ii. Developed internal rating models to assess credit risks across all sectors including for SMEs. Banks have therefore introduced unsecured credit products for SMEs.
  iii. Automation of the models to minimize errors and gaps in implementation.
  iv. Banks have engaged consultants to validate the assumptions to ensure that they are reliable.
  v. The focus of banks is now more on secured lending.
  vi. Banks have revamped their credit recovery efforts.

2.7.3 Changes made by commercial banks on the assumptions used in IFRS 9

- The use of forward-looking information is a key component of the Expected Credit Loss (ECL) impairment approach. Commercial banks are now considering historic, current and forward-looking information (including macro-economic data).

- This aims at ensuring that credit losses are recognized at an early stage, rather than waiting for an incurred loss event to occur before credit losses are recognized.
- ECLs are measured in a way that is not just determined by evaluating a range of possible outcomes, adjusted for the time value of money, but also considering 'reasonable and supportable' information about past, present and future events and economic conditions.
- During the quarter under review, the survey revealed the following:-

  i. The Forward-Looking Information (FLI) depends largely on projected available macro-economic data. This is data is important but the data is not readily available from the government.
  ii. IFRS 9 introduced volatility in month-on-month impairment forecasting and actuals because of consideration of expected future loss as opposed to actual loss. Estimation of future looking Macro Economic overlays is especially challenging in a pandemic environment.
  iii. Lack of uniformity in Probability of defaults (IFRS 9 models) across all banks in Kenya.

2.7.4 Actions by the commercial banks to ensure that the assumptions are reliable

- Some of the respondents have indicated that they are currently reviewing their assumptions on a quarterly basis to ensure that they are reliable. This aims at ensuring that losses in different sectors are reflected accurately in the model.
- Some banks have also indicated that their model parameters (probability of default and loss given default) are updated twice yearly to ensure all parameters are up to date and relevant.
- Some banks have done data cleanup to ensure its integrity and automation of the model to minimize errors.
- Change assumptions on Probability of Default (PD) computation from portfolio based to sector based.

2.8 International Financial Reporting Standard (IFRS) 16 on Leases

- The International Financial Reporting Standard (IFRS) 16 on Leases became effective from January 1, 2019. This standard replaced International Accounting Standard (IAS) 17 on Leases.
- The main difference between IAS 17 and IFRS 16 is the treatment of operating leases by lessees. Under IAS 17, a lessee was not obligated to report assets and liabilities from operating leases on their balance sheet but instead report the leases as off-balance sheet items. IFRS 16 changes this by requiring lessees to recognize operating leases right of use (ROU) assets and lease liabilities on the balance sheet.
- IFRS 16 aims to improve the quality of financial reporting for companies with material off balance sheet leases.

2.8.1 Implementation of IFRS 16

- During the quarter ended September 30, 2021, 97 percent of the respondents had implemented IFRS 16. This is depicted in **Chart 8**.

2.8.2 Assessment of the impact of IFRS 16

- During the quarter ended September 30, 2021, 95 percent of the respondents had assessed the impact of IFRS 16 on their financial performance and position. This is depicted in **Chart 9**.

Chart 8: Banks that have implemented IFRS 16 on Leases (%)

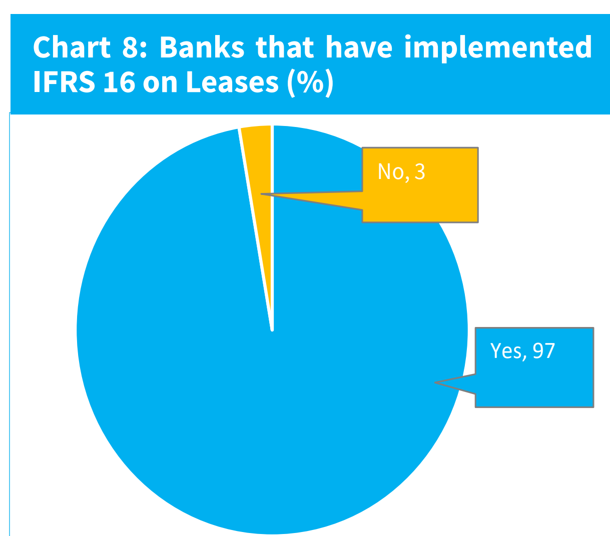
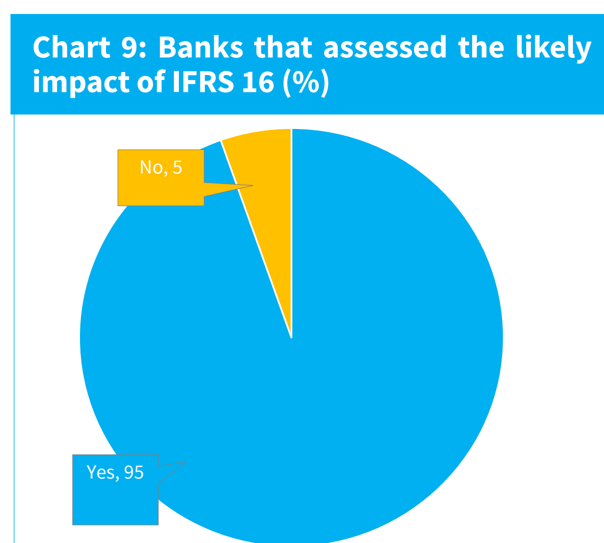


Chart 9: Banks that assessed the likely impact of IFRS 16 (%)



2.8.3 Impact of IFRS 16 on Banks' Financial performance and position

- Most of banks indicated that implementation of IFRS 16 increased their risk weighted assets, which has in turn decreased their capital adequacy ratios. It also had a negative impact on the banks' retained earnings.
- There has also been increase in assets.

2.8.4 Financial indicators for Leases

- Following the implementation of IFRS 16 on January 1, 2019, the value of the financial indicators for leases in the banking industry as at September 30, 2021 are indicated in **Table 7**.

Table 7: Financial elements bank value as at June 30, 2021

Banking Industry (Ksh '000)	June 2021	September 2021
Right of use (ROU) assets	33,639,644	33,445,169
Lease liabilities	29,553,247	28,099,976
Depreciation of the right of use asset	3,999,702	8,154,244
The finance charge associated with the lease liability	1,569,755	2,954,058

2.8.5 Challenges experienced in the Implementation of IFRS 16

- Most banks indicated that the major challenge they faced in implementation of IFRS 16 include:

    i. Cost of training their staff for compliance with the standard.
    ii. Clarity of lease agreement especially the issues related to restoration cost and possible maximum period of extension.

2.8.6 Mitigation measures on the challenges experienced in Implementation of IFRS 16

- As a mitigation measure, banks have indicated that they are: -
    i. Continuously bridging the gap through training for staff and ensuring they are updated on the changes in the leasing space.
    ii. Ensuring lease contracts are thoroughly vetted and drawn by professionals.
    iii. Regularly monitoring lease contracts.

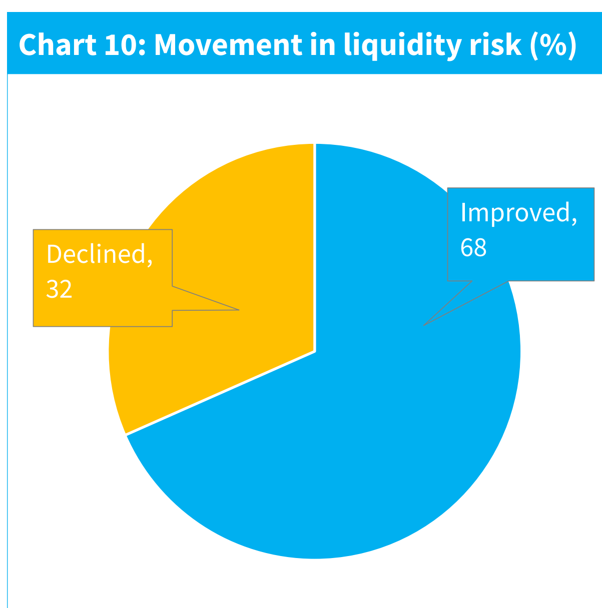
2.9 Liquidity Risk

- Banks were required to state the status of their liquidity positions, factors that led to improved liquidity, their plans with improved liquidity, measures being taken with deteriorated liquidity and their involvement in interbank activities during the quarter ended September 30, 2021.

2.9.1 Commercial Banks' liquidity positions

- During the quarter ended September 2021, 68 percent of the respondents indicated that their liquidity position had improved as indicated in **Chart 10**.

Chart 10: Movement in liquidity risk (%)



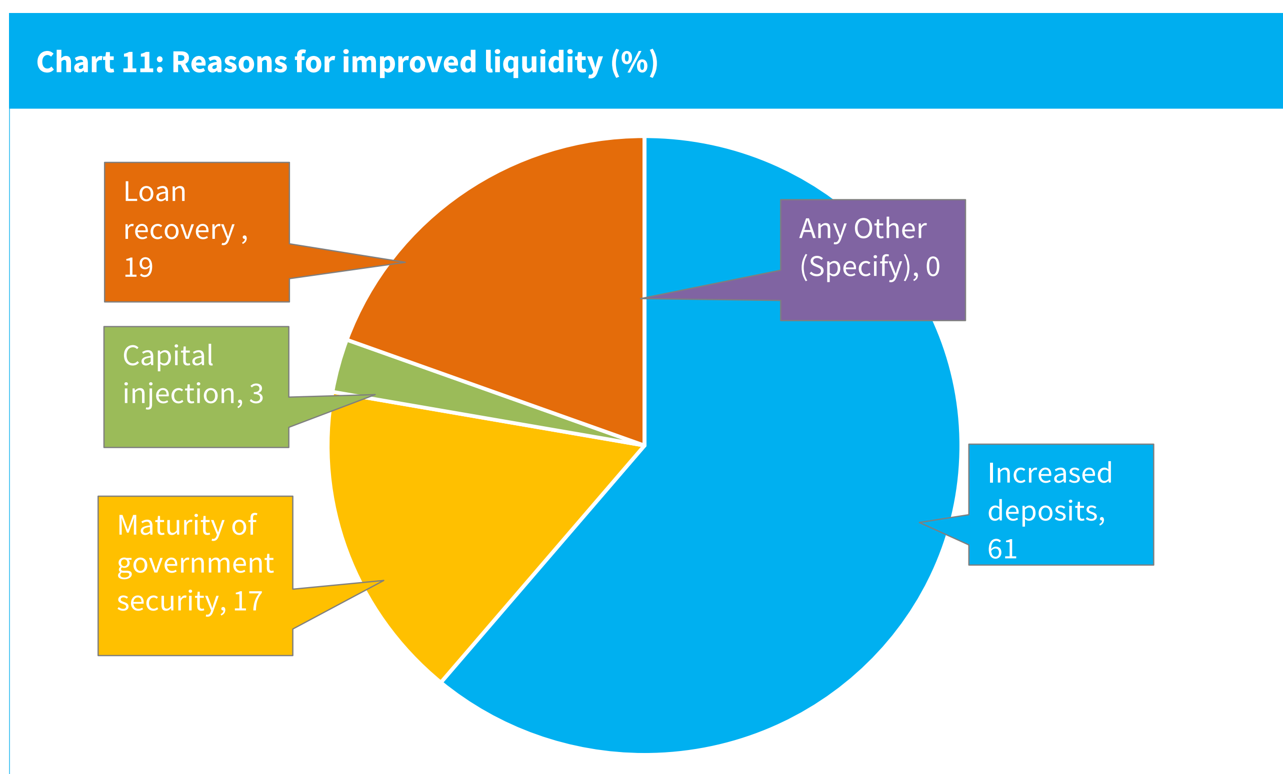
2.9.2 Factors that led to improved liquidity over the third quarter of 2021

- During the quarter ended September 30, 2021, liquidity improved mainly as a result of: -

    i. Increased deposits (61 percent).
    ii. Loan recovery (19 percent
    iii. Maturity of government securities (17 percent).
    iv. Capital injection (3 percent).

- The drivers of improved liquidity are indicated in **Chart 11** below.

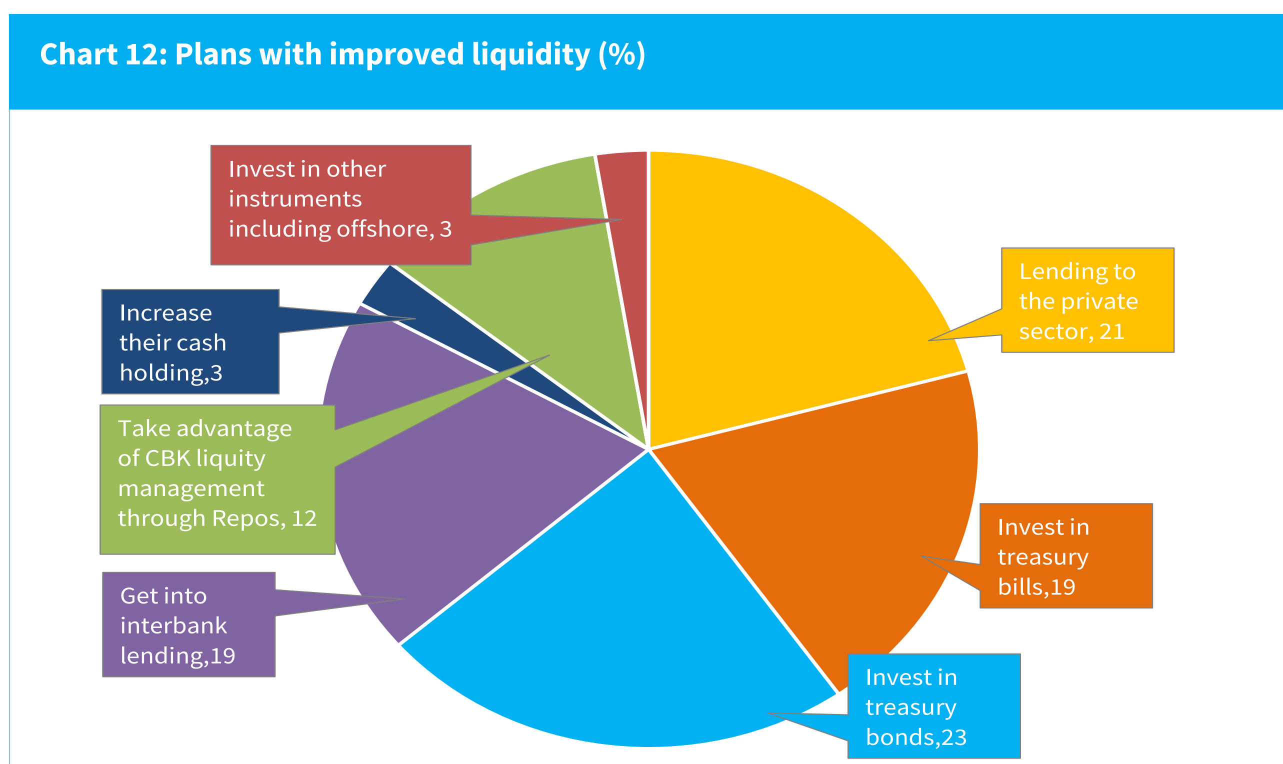
Chart 11: Reasons for improved liquidity (%)



2.9.3 Commercial Banks' plans with improved liquidity

- As indicated in Chart 12, with the improved liquidity, it is expected that in the fourth quarter of 2021, credit to private sector will increase as most banks intend to deploy the additional liquidity by investing in Treasury Bonds (23 percent), lending to the private sector (21 percent), investing in Treasury Bills (19 percent), interbank lending (19 percent), taking advantage of CBK liquidity management through repos (12 percent), investing in other instruments including offshore (3 percent) and increasing their cash holding (3 percent).

Chart 12: Plans with improved liquidity (%)



2.9.4 Measures being taken by Commercial banks to enhance deteriorated liquidity

- During the quarter ended September 2021, 32 percent of the respondents indicated that their liquidity position had deteriorated as indicated in **Chart 10**.
- These affected banks are enhancing their deposit mobilization campaigns to enhance their liquidity positions.

2.9.5 Commercial Banks' interbank activities during the quarter

- During the quarter ended September 30, 2021, 53 percent of the respondents indicated that their interbank lending activities increased. This is indicated in **Chart 13** below.
- 67 percent of the respondents indicated that their interbank borrowing decreased. This is indicated in **Chart 14** below.
- Interbank borrowing has generally decreased due to tightening of credit standards by institutions for all categories of facilities.

Chart 13: Increase in interbank lending(%)

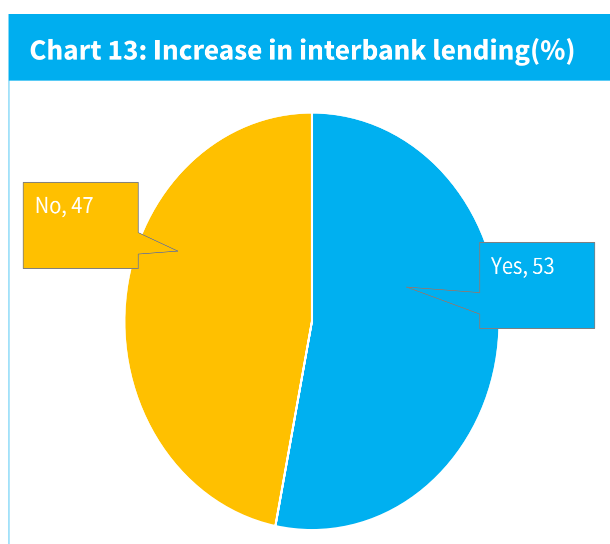
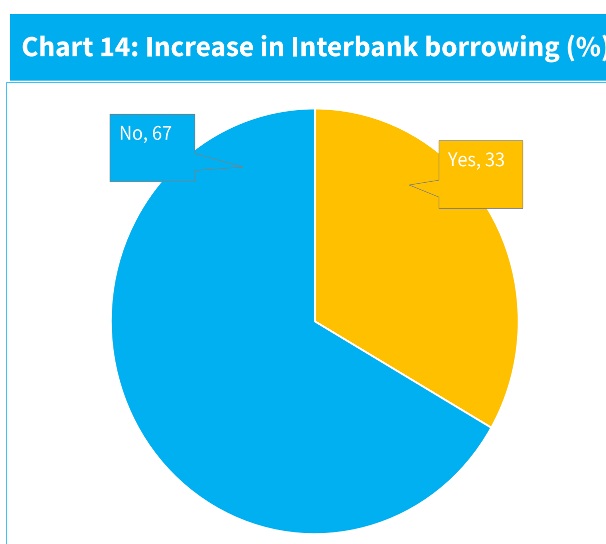


Chart 14: Increase in Interbank borrowing (%)



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

With the ongoing COVID-19 pandemic, the global economic outlook has been highly uncertain, with unprecedented volatility in the financial markets.

The adverse effects of the pandemic on the Kenyan economy indicate that the impact has been severe. In this regard, CBK through the credit survey assessed the impact of the pandemic on the banking sector. The survey covered areas relating to: -

i. Adverse impact of the pandemic on the banks
ii. Opportunities that have arisen from the pandemic
iii. The key risks that have been increased by the pandemic.
iv. Measures banks are taking to curb the adverse impact of the pandemic on banks' business.
v. Banks' experience after the expiry of the emergency measures on restructured loans introduced by CBK to mitigate the impact of the pandemic.

2.10.1 Adverse Impact of Coronavirus (COVID-19) pandemic on the banks

The commercial banks have indicated that the pandemic has had an impact on their business.

Some of the adverse effects include:

- Reduction in earnings due to likelihood of additional loan loss provisions and low loan revenue due to reduction in lending rates.

- Banks have had to absorb significant operational costs in extending forbearance credit support in terms of payments holidays and restructures for affected customers, this has led to deterioration of core capital position.
- Increased expenditure. Banks have been compelled to purchase Personal Protective Equipment (PPE) for staff as well as ensuring that their premises are well fumigated.
- Increased Non-Performing Loans, which may be attributed to slowdown in business, business closures and job losses.
- Decreased loans advanced to customers as banks become more cautious due to the high risk of credit default.

2.10.2 Opportunities arising from Coronavirus (COVID-19) pandemic on the banks

The commercial banks have indicated that the pandemic has had an impact on their business.

Some of the opportunities arising from the pandemic include:

- Adoption of digital platforms of lending.
- Increase in Lending to the Private Sector to support them through COVID-19.
- Institutions have devised methods of working from home as dictated by the effects of the pandemic leading to cutting of costs related to working in the office.
- Institutions have been able to conduct online meetings which may help cut meeting costs in the future if the same is continued.

2.10.3 Key Risks arising from Coronavirus (COVID-19) pandemic on the banks

Some of the key risks increased by the pandemic include:

- **Credit risk**: Due to increased requests from clients to avail moratorium on their facilities, non-performing loans are likely to increase not knowing when economic situation will improve. There is also uncertainty on customer incomes and employment coupled with reducing collateral values.
- **Operational risk**: Need for enhanced business continuity plans given risk of COVID-19 infection of bank staff.
- **Cyber security risk**: Due to increased use of digital banking.

2.10.4 Measures taken by banks to curb the potential impact of coronavirus pandemic

Commercial banks have put in place the following measures to curb the adverse impact of the pandemic: -

- Banks have implemented their Business Continuity Plans (identification of critical processes, critical staff and their back-ups.
- Granting client requests on loan moratorium depending on sectors.
- Banks have put in place work rotation plans for all staff members and automated their processes to ensure social distancing.
- Banks have assessed the various industries and

the expected impacts thereon and are reaching out to the affected customers to discuss restructuring to manage the situation.

- Banks have tightened their credit standards on granting of new loans to enable the assessment of the impact of the pandemic in each industry.
- Banks are actively reaching out and working with customers to understand their constraints caused by the pandemic and offering a number of reliefs including restructuring of facilities and providing moratoriums on both interest and principal where necessary.
- Giving payment holidays to the customers who have been adversely affected by the pandemic. This will enable them stay afloat and eventually be able to recover and get back to business.
- Supporting customers with working capital financing to cover the increase in working capital gap (due payments to suppliers and fixed costs) attributed to slowdown in revenues.

2.10.5 Respondents experiences after the expiry of the emergency measures on restructured loans by CBK to mitigate the impact of COVID-19

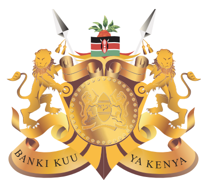
The respondents indicated their experiences after the expiry of the emergency measures on restructured loans as outlined below;

i. Banks feel there is need to consider the emergency measures as the adverse impact of the pandemic increased in part of the quarter under review due to the upsurge of the COVID cases and some sectors are still adversely affected.

ii. Most businesses are still feeling the adverse effect especially after the new pandemic measures were outlined by the Government in the quarter under review.

LIST OF RESPONDENTS

1. Absa Bank Kenya Plc.
2. Access Bank (Kenya) Plc.
3. African Banking Corporation Ltd.
4. Bank of Africa Kenya Ltd.
5. Bank of Baroda (K) Ltd.
6. Bank of India.
7. Citibank N.A Kenya.
8. Consolidated Bank of Kenya Ltd.
9. Co-operative Bank of Kenya Ltd.
10. Credit Bank Plc.
11. Development Bank of Kenya Ltd.
12. Diamond Trust Bank (K) Ltd.
13. DIB Bank Kenya Ltd.
14. Ecobank Kenya Ltd.
15. Equity Bank Ltd.
16. Family Bank Ltd.
17. First Community Bank Ltd.
18. Guaranty Trust Bank (Kenya) Ltd.
19. Guardian Bank Ltd.
20. Gulf African Bank Ltd.
21. Habib Bank A.G Zurich.
22. HFC Ltd.
23. I & M Bank Ltd.
24. Kingdom Bank Ltd.
25. KCB Bank Kenya Ltd.
26. Mayfair CIB Bank Ltd.
27. Middle East Bank (K) Ltd.
28. M Oriental Bank Ltd.
29. National Bank of Kenya Ltd.
30. NCBA Bank Kenya Plc.
31. Paramount Bank Ltd.
32. Prime Bank Ltd.
33. SBM Bank Kenya Ltd.
34. Sidian Bank Ltd.
35. Spire Bank Ltd.
36. Stanbic Bank Kenya Ltd.
37. Standard Chartered Bank (K) Ltd.
38. Victoria Commercial Bank Ltd.
39. UBA Kenya Bank Ltd.



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