DEVELOPMENTS IN THE KENYAN BANKING SECTOR FOR THE QUARTER ENDED 30th JUNE 2013

A. OVERVIEW OF THE BANKING SECTOR PERFORMANCE

During the quarter ended June 30th, 2013, the sector comprised 43 commercial banks, 1 mortgage finance company, 9 deposit taking microfinance institutions, 7 representative offices of foreign banks, 107 foreign exchange bureaus and 2 credit reference bureaus.

The Kenyan Banking Sector recorded enhanced performance with the size of assets standing at Ksh. 2.5 trillion, loans & advances amounting to Ksh. 1.5 trillion, while the deposit base stood at Ksh. 1.9 trillion and profit before tax of Ksh. 61.5 billion as at 30th June 2013. During the same period, the number of bank customer deposit and loan accounts stood at 18.9 million and 3.8 million respectively.

Structure of the Balance Sheet

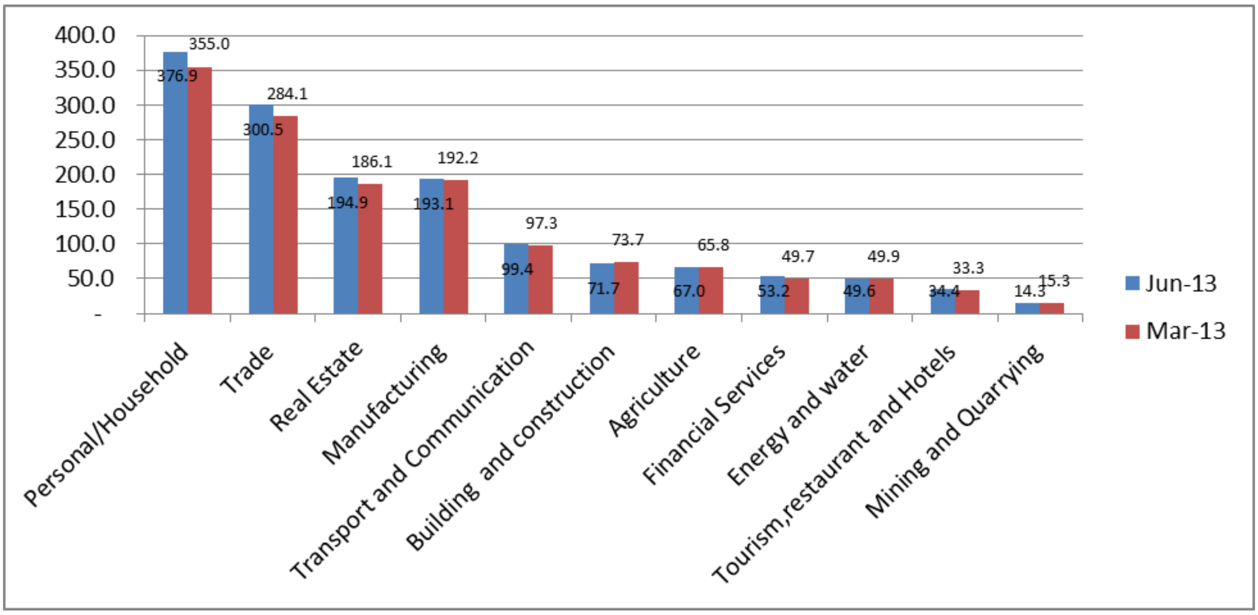
i) Assets

The banking sector's balance sheet size increased by 3.7 percent from Ksh. 2.42 trillion in March 2013 to Ksh. 2.51 trillion in June 2013. The major components of the balance sheet were loans and advances, government securities and placements, which accounted for 55.7 percent, 22.4 percent and 6.2 percent of total assets respectively.

ii) Loans and Advances

The sector's gross loans and advances increased from Ksh. 1.40 trillion in March 2013, to Ksh. 1.45 trillion in June 2013 which translated to a growth of 3.6 percent. The growth, which stood at Ksh. 50.0 billion, was in 8 sectors as shown in Chart 1 with 3 sectors registering a marginal decline occasioned by faster loan repayment rate compared with the rate at which new loans were being made in those sectors during the period.

Chart 1: Sectoral Distribution of Loans (March 2013 Vs June 2013)



iii) Deposit Liabilities

Deposits, which constitute the main source of funding for the banking sector, accounted for 73.9 percent of total funding liabilities. The deposit base grew by 4.5 percent from Ksh. 1.78 trillion in March 2013 to Ksh. 1.86 trillion in June 2013 mainly due to branch expansion, remittances and receipts from exports.

The number of deposit accounts increased from 17.3 million in March 2013 to 18.9 million in June 2013 representing a growth of 1.6 million accounts or 9.2 percent.

iv) Capital and Reserves

The banking sector registered improved capital levels in June 2013 with total capital growing by 2.3 percent from Ksh. 355.7 billion in March 2013 to Ksh. 364.0 billion in June 2013. Shareholders' funds increased by 5.0 percent from Ksh. 375.6 billion in March 2013 to Ksh. 394.4 billion in June 2013. Similarly, the ratio of total capital to total risk-weighted assets registered a marginal increase from 23.2 percent in March 2013 to 23.3 percent in June 2013. However, core capital to total risk weighted assets declined marginally from 20.3 percent to 20.2 percent over the same period occasioned by a higher increase in risk weighted assets than the increase in capital.

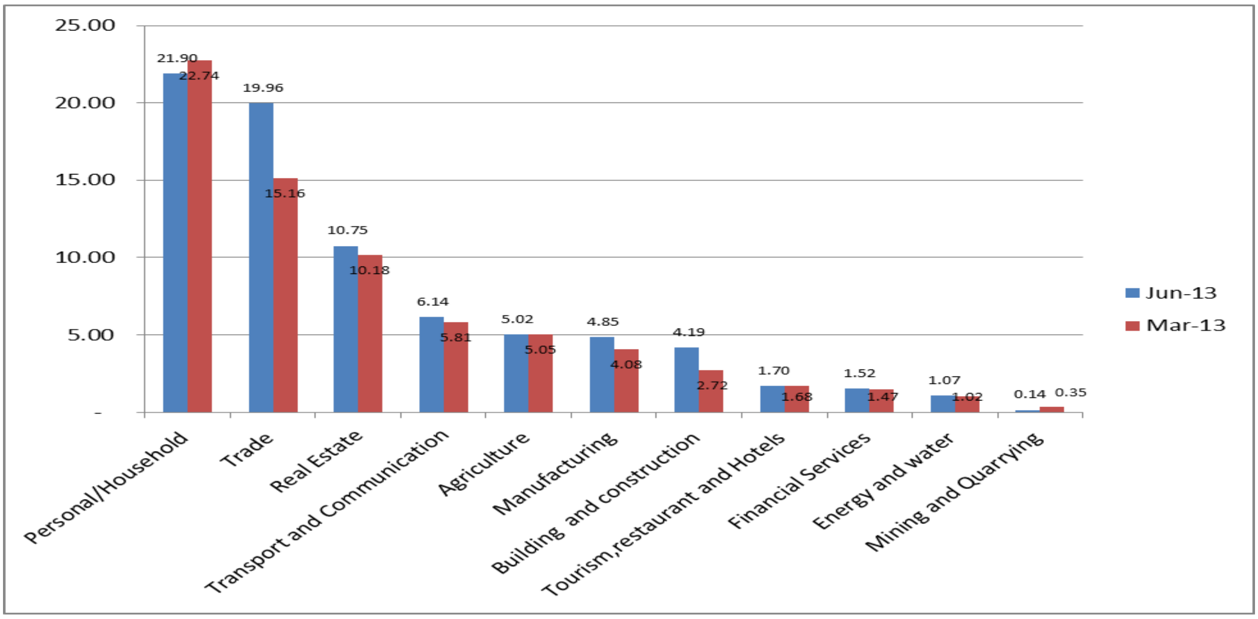
Other Banking Sector Performance Indicators

i) Assets Quality

The stock of gross non-performing loans (NPLs) increased by 10.0 percent from Ksh. 70.3 billion in March 2013 to Ksh. 77.3 billion in June 2013. The ratio of gross NPLs to gross loans increased from 5.0 percent in March 2013 to 5.3 percent in June 2013. The upsurge in NPLs levels was partly attributable to the reduced economic activities experienced during the period towards and after the March 2013 general elections. Similarly, the quality of assets, measured as a proportion of net non-performing loans to gross loans declined from 2.0 percent to 2.3 percent over the same period.

During the period under review, 8 out of 11 sectors registered increase in NPLs by Ksh. 7.0 billion with Personal/Household, Agriculture and Mining & Quarrying being the only sectors that registered a decline as shown in Chart 2 below.

Chart 2: Sectoral Distribution of NPLs (March 2013 Vs June 2013)



ii) Profitability

The banking sector profit before tax for the quarter ended June 2013 increased by 17.7 percent from Ksh. 28.2 billion in March 2013 quarter compared to Ksh. 33.2 billion for the quarter ending June 2013. Over the same period, total income stood at Ksh. 92.4 billion being an increase of 8.8 percent from Ksh. 84.9 billion registered in the first quarter of 2013. Whilst total expenses increased by 4.4 percent from Ksh. 56.7 billion in the March 2013 quarter to Ksh. 59.2 billion in the June 2013 quarter. On an annual basis, the profitability of the sector increased by 15.6 percent to Ksh. 61.5 billion from the Ksh. 53.2 billion registered in June 2012.

Interest on loans and advances, fees and commissions and government securities, which are the major sources of income accounted for 57.8 percent, 18.4 percent and 15 percent of total income respectively. On the other hand, interest on deposits, staff costs and other expenses were the key components of expenses, accounting for 30.6 percent, 28.9 percent and 23.8 percent respectively.

iii) Liquidity of the Banking Sector

For the period ended 30th June 2013, average liquid assets stood at Ksh. 769.0 billion while total liquid liabilities amounted to Ksh. 1,801.9 billion, resulting to an average liquidity ratio of 42.7 percent, against 42.8 percent registered in March 2013, and above the minimum statutory limit of 20 percent. The gross loans to deposits ratio decreased from 79.0 percent in March 2013 to 78.3 percent in June 2013 occasioned by a higher increase in mobilized deposits than the rate at which banks advanced credit.

B. BANKING SECTOR POLICY DEVELOPMENTS

i) Credit Reference Bureaus

The Credit Information Sharing (CIS) mechanism has continued to register increased usage by both the banks and the customers since its launch in July 2010. The number of credit reports requested by institutions stood at 2,907,375 in June 2013 up from 2,596,600 reports in March 2013, representing an increase of 12.0 percent or 310,775 reports. Over the same period, the number of reports requested by customers increased from 35,172 to 41,681 reports.

The number of credit reports requested by banks increased from 274,834 registered in the quarter ending March 2013 to 301,775 reports registered in the quarter ending June 2013. Similarly, credit reports requested by customers increased from 6,439 to 6,509 over the same period. The increased demand for credit reports by banks demonstrates the importance of these reports in improving credit appraisal standards.

Banks have now incorporated credit reference reports in their credit risk appraisal processes. It is expected that borrowers with good track record would be able to negotiate for competitive credit terms including accessing credit based on their credit record without a requirement for collateral.

ii) Agency Banking

The use of the agency banking model by banks has continued to improve access to banking services since its launch in 2010. As at 30th June 2013, CBK had authorized 13 commercial banks to offer banking services through third parties (agents). Since 2010, a total of 19,649 agents had been contracted facilitating over 58.6 million transactions valued at Ksh. 310.5 billion. This was an increase from 11 banks that had contracted 18,082 active agents facilitating over 48.4 million transactions valued at Ksh. 250.1 billion in March 2013.

The number of banking transactions undertaken through agents increased from 9.7 million registered in the quarter ending March 2013 to 10.2 million transactions registered in the quarter ending June 2013. Similarly, the value of banking transactions undertaken through agents increased from Ksh. 54.3 billion to Ksh. 60.4 billion over the same period. The increased number and value of transactions demonstrate the increased role of agent banking in promoting financial initiatives being championed by the Central Bank.

iii) Deposit Taking Microfinance Institutions

CBK granted U & I Deposit Taking Microfinance Institution (DTM) Ltd a licence in May 2013 to carry out community deposit-taking microfinance business. U & I DTM Ltd becomes the 9th licensed DTM and 2nd community based licensed DTM in Kenya. As at 30th June 2013, DTMs had gross loans worth Ksh. 22.5 billion compared to Ksh. 21.2 billion registered in March 2013 thus translating to a growth of 6.1 percent. Similarly, the deposits base stood at Ksh. 19.7 billion representing a growth of 20.1 percent from Ksh. 16.4 billion in March 2013. The long-term borrowings by DTMs decreased from Ksh.8.8 billion in March 2013 to Ksh. 7.0 billion as DTMs focus on enhancing deposits mobilization to support their increased lending. The number of DTMs deposit accounts and loan accounts stood at 1.9 million and 0.4 million respectively in June 2013 compared to 1.8 million deposit accounts and 0.4 million loans accounts registered at end of March 2013.

Banking Sector 2013 Outlook

The banking sector is expected to sustain its growth momentum on the backdrop of a stable macro-economic environment, domestic and regional expansion by banks and the increased economic activities through the devolved system of government.