Unpacking the Capital Raising Requirements for Banks under the Business Laws (Amendment) Act, 2024

July 2025

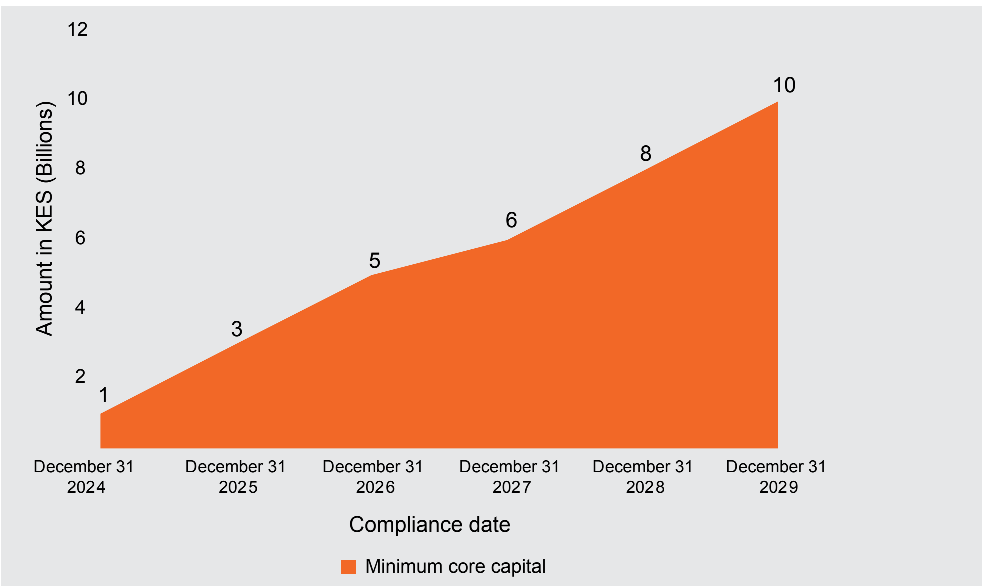
Outline of the requirements

In a significant move to bolster the stability and resilience of Kenya's financial sector, the Business Laws (Amendment) Act, 2024 ("the Act"), which was decreed into law on 11 December 2024 and commenced on 27 December 2024, has introduced sweeping changes to the Banking Act.

Among the most impactful amendments is the substantial increase in the core capital requirement for banks and mortgage finance companies, which has been raised from KES 1 billion to a staggering KES 10 billion. This ambitious reform, is set to be phased in over a five-year period, from 31 December 2024 to 31 December 2029 as follows:

KES 10b

– the core capital for banks and mortgage finance companies just surged tenfold from KES 1 billion, a major regulatory shift



UGX 120bn

(approx. KES 4.3bn) was the previous minimum capital requirement for banks in Uganda, a figure that has since been revised upwards to UGX 150bn (approx. KES 5.4bn)

Benchmarking

Kenya's approach mirrors similar reforms in other African nations. In Nigeria, the Central Bank of Nigeria (CBN) launched a comprehensive Banking Sector Recapitalisation Programme in April 2024, requiring banks to significantly increase their minimum paid-in common equity capital. Under this programme, commercial banks must raise their capital to NGN 500bn (approx. KES 40.6bn) for international licenses, NGN 200bn (approx. KES 16.3bn) for national licenses, and NGN 50bn (approx. KES 4.1bn) for regional and merchant banks. Non-interest banks also face new capital requirements.

Banks have a 24-month period, ending on 31 March 2026, to comply. Similarly, in July 2023, Uganda revised its minimum capital requirements for banks – from UGX 120bn (approx. KES 4.3bn) to UGX 150bn (approx. KES 5.4bn); and credit institutions – from UGX 20bn (approx. KES 700m) to UGX 25bn (approx. KES 900m), effective 30 June 2024.

To comply with the revised minimum capital requirements, banks in both Uganda and Nigeria adopted remarkably similar strategies aimed at strengthening their financial positions and ensuring regulatory compliance. A key approach in both countries was raising fresh equity through rights issues, private placements, or public offerings to boost their capital base. Additionally, mergers and acquisitions played a significant role, with smaller or undercapitalised banks either merging with or being acquired by larger institutions to meet the new thresholds.

Another common strategy was the reclassification or downgrading of banking licenses, allowing institutions to operate under categories with lower capital requirements while maintaining business continuity. Furthermore, regulatory authorities in both Uganda and Nigeria mandated banks to submit detailed implementation or capital restoration plans, outlining their paths to full compliance within the stipulated timelines.

The banking sectors in Kenya, Uganda, and Nigeria share several broad similarities that shape their regulatory and operational landscapes. All three countries have strong regulatory oversight, tiered banking structures, and a focus on digital innovation and financial inclusion. They also face similar macroeconomic vulnerabilities, such as inflation and currency volatility,

17.4%

was Kenya's Non-Performing Loan (NPL) ratio by March 2025, an increase from 16.4% in December 2024, reflecting a deterioration in asset quality

29.7%

of the total loan portfolio comprised public sector loans as of April 2024

prompting regulatory emphasis on risk management and consolidation. These shared features provide a useful blueprint for Kenyan banks to adopt proven strategies from their regional peers as they work to meet new capital requirements.

Case for capital increase

The amendments introduced in the Act are aimed at enhancing financial stability and offering better protection for depositors against systematic risk. The law was enacted on the backdrop of deteriorating asset quality within the sector driven by adverse business conditions.

The banking industry's stock of non-performing loans (NPLs) rose from KES 461 bn in 2021 to KES 503 bn in 2022, and further to KES 621 bn in 2023. This situation is deteriorating, as the ratio of NPLs to total loans reached 15.7% in March 2024, levels not seen since 2006.

This was primarily due to slow loan growth and high lending rates, worsened by inflation and rising interest rates in a tough economic climate. By March 2025, Kenya's asset quality worsened as the NPL ratio rose to 17.4% from 16.4% in December 2024, driven mainly by a 6.6% increase in gross NPLs versus a modest 0.6% rise in gross loans, according to the Central Bank.

Furthermore, Kenyan banks have substantial exposure to the government via investments in government securities and loans provided to government and state-owned enterprises. As of April 2024, public sector loans made up 29.7% of the total loan portfolio. While this strategy allows government to access credit, it limits the level of liquidity that banks are able to avail to the private sector.

Non-performing loans (NPLs) were unevenly distributed across bank tiers, with major banks recording a gross NPL ratio of 12.8%, while medium and small banks reported higher levels at 17.5% and 21.3%, respectively. This trend highlights rising credit risk in the economy.

Elevated NPL levels pose serious challenges by limiting banks' lending capacity and weakening the transmission of monetary policy, ultimately slowing economic growth. However, more critical than the volume of NPLs is the adequacy of Loan Loss Reserves (LLRs), which act as a financial buffer to absorb expected losses without depleting capital.

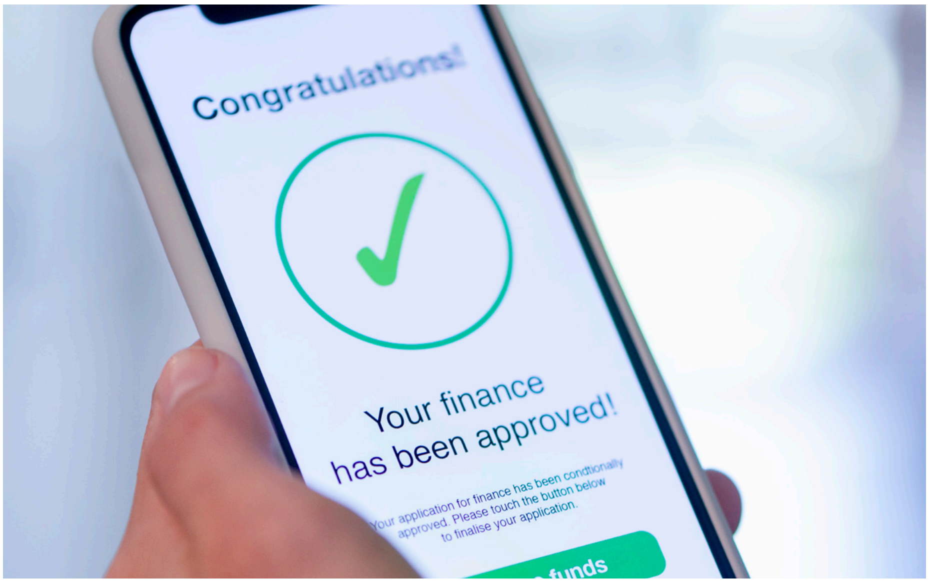
The portion of NPLs not covered by these reserves represents the real threat to financial stability. Banks with high NPLs and low reserve coverage are especially vulnerable to borrower defaults due to their limited loss-absorbing capacity. In response, the Central Bank of Kenya's move to raise the minimum core capital requirement is strategic - it strengthens banks' ability to build reserves, enhances resilience to potential losses, and increases their capacity to support credit growth in the economy.

The proposed tenfold increase in the bank capital requirement will have significant ramification for the banking sector. Many tier three banks are likely to face difficulties in meeting this rigorous standard.

To ensure compliance with the new regulations, these banks may need to consider various recapitalisation paths. As of 31 December 2024, 24 out of 38 commercial banks did not meet the proposed core capital requirement of KES 10bn, while ten banks fail to meet the proposed 31 December 2025 minimum requirement of KES 3bn.

22%

was the Kenyan banking sector's impressive sector-wide Return on Equity (RoE) in 2024, making it an attractive opportunity for investors



That said, the Kenyan banking sector presents an attractive opportunity for investors, boasting a sector-wide Return on Equity (RoE) of 22% in 2024. However, not all lenders are equal, Tier three banks continue to grapple with elevated funding costs. Among the ten banks that fall short of the proposed minimum capital requirement for December 2025, six reported losses in 2024, while the remaining four posted an average RoE of just 6.8%. This dynamic potentially creates a compelling entry point for larger institutions, which could leverage their capital strength to invest and benefit from the sector's strong returns.

Paths to recapitalisation

Banks that do not currently meet the proposed requirement have four broad recapitalisation options; Raise funds, amalgamation, restructure, or exit/ divest.

Capital Raising

Undercapitalised banks may raise capital through a rights issue or other form of share subscription, inviting current or new shareholders to acquire new shares in the business, potentially at a discount. Banks that may be part of a group may have their parent raise equity or borrow funds to be subsequently injected as equity in the subsidiary bank.

Mergers & Acquisitions

Undercapitalised banks may pursue mergers with other local banks that will allow them to subsequently meet the capital requirements. They may also be acquired by foreign banks seeking an entry into Kenya that would subsequently recapitalise them.

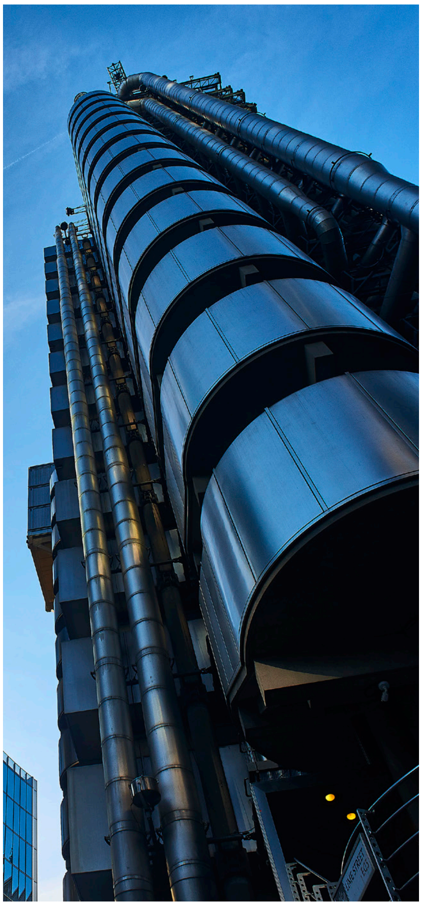
Restructuring

Although not currently provided for in the regulation, banks that struggle to recapitalise may seek the option of downgrading their licence – an approach already operational in other markets such as Nigeria and Uganda.

However, transitioning to a different licence type - such as from a commercial bank to a microfinance institution -could be complex and costly, involving changes to the business model, operations, and regulatory compliance. Subsequent operations may face higher cost of funds given an increased perceived risk with a downgraded licence. In contrast, capital raising or M&A strategies are generally less disruptive and more feasible with internal or external support.

KES 20m

is now the maximum fine financial institutions face for noncompliance, as the Act has introduced increased penalties



Exit/Divest

A last but undesirable option would be for the undercapitalised banks to exit banking business and give up their licences. Ultimately, this would involve liquidation. This process is complex, needing careful planning for winding down assets and liabilities, dealing with employees and other resources, as well as regulatory matters.

Key Considerations

As Kenyan banks navigate the transition toward the newly mandated minimum capital requirements, there are several key considerations they must take into account to ensure timely and effective compliance. First, banks should align their capital planning with the phased implementation timeline, which requires a gradual increase in core capital – from KES 1 bn to KES 3 bn by the end of 2025, and ultimately to KES 10 bn by 2029. This progression allows for strategic financial planning and minimises operational disruptions.

Banks must also evaluate their internal capacity to meet these targets. Institutions with strong profitability should consider retaining earnings as a primary means of capital accumulation. For smaller or less profitable banks, exploring the previously mentioned recapitalisation paths may be a necessary route to compliance. Additionally, banks that are subsidiaries of regional or international groups should assess the potential for capital support from parent companies, particularly if Kenya is a key market within the group's portfolio.

Operational efficiency is another critical area of focus in the prevailing environment. Banks should work to improve asset quality, reduce non-performing loans, and streamline operations to strengthen their overall financial health, but also to present them as attractive targets for investors.

Finally, the Act has also introduced increased penalties for noncompliance, with financial institutions now facing fines of up to KES 20m or three times the gross amount of the monetary gain made, or loss avoided by the failure to comply, whichever is higher.

Consequently, it is essential for all institutions to remain vigilant about regulatory compliance, as failure to meet the new capital thresholds could result in significant penalties. Additionally, the CBK should consider downgrading the licenses of banks that fail to comply with the new requirements. By proactively addressing these considerations, Kenyan banks can position themselves for long-term stability and growth in a more robust financial environment.

How we can help

We believe this regulatory change will positively boost confidence in the banking sector, which has a decline in asset quality in recent years. It will lead to a more stable and robust banking system capable of handling larger transactions and more domestic projects, while also withstanding economic shocks.
PwC has assisted banks to manage similar complex regulatory changes affecting capital requirements in different countries. With strong expertise in compliance, mergers and acquisitions, and business strategy, PwC supports commercial banks in growing, adapting, and staying competitive in a fast-changing financial environment.

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