CENTRAL BANK OF KENYA

1999

BANK SUPERVISION ANNUAL REPORT

ROLE OF BANK SUPERVISION DEPARTMENT

The role of the Bank Supervision Department is to promote a sound and stable banking system in Kenya. To realise this objective, the department focuses its activities on enforcing the requirements of the Banking Act and prudential regulations, fostering liquidity and solvency of banking institutions, ensuring efficiency in banking operations and encouraging high standards of customer service.

The department conducts both on-site examinations and off-site surveillance of banking institutions to ensure they attain and sustain minimum specified performance standards regarding capital, assets, management, earnings and liquidity.

Other key functions of the department include revision of the banking legislation and preparation of prudential guidelines on the interpretation and application of the banking laws. It also updates the industry on worldwide developments in banking licences for new institutions as well as new branches of existing institutions, annual renewal of the banking licences, approval of external auditors and inspection of new premises for banking institutions.

BANK SUPERVISION ANNUAL REPORT

Bank Supervision Annual Report, prepared by the Central Bank of Kenya, starting with the December1997 edition, are available on the Internet at address: **http://www.centralbank.go.ke**

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GOVERNOR'S MESSAGE

During 1999, the banking sector enjoyed relative stability compared to the previous year. Restructuring of the five banks placed under statutory management in 1998 was quite successful with three of the banks having re-opened by April, 2000.

Like the other sectors of the economy, performance of the banking sector was adversely affected by the economic slump leading to an increase of non-performing loans, increased provisions for bad loans and a sharp drop of profits.

The issue of capitalisation of small and medium size banks to meet the shs.200m capital requirement occupied the attention of Central Bank and the banking institutions. To meet the requirement, a number of institutions injected fresh capital while eight others merged. Since minimum capital has been raised to shs.500m to be gradually met by year 2005, institutions are being encouraged to merge not only to meet the capital requirement but also to be strong and competitive.

The banking industry also devoted a lot of resources for the year 2000 date change. Adequate preparations were made and the roll over was smooth.

Many initiatives were taken in the on-going strengthening of prudential supervision of the banking system. Tripartite meetings with auditors, the institutions and Central Bank were held before the 1999 audited results were released; the disclosure requirements were tightened and a process of presenting inspection reports to boards of directors was initiated. A variety of amendments to banking legislation were effected, the most notable being that facilitating the implementation of Basle Capital Accord.

As indicated in the previous Bank Supervision Annual Reports, Central Bank of Kenya embarked on measures to promote the micro finance sector. A Division to handle micro finance issues was formed and in conjunction with Association of micro finance institutions of Kenya (AMFI), has formulated a strategy for the regulation of micro finance institutions.

Looking into the future, there are many challenges facing the banking industry. To survive, institutions must be ready to adopt the new technological changes, reduce costs and uphold good corporate governance.

In conclusion, I would like to thank the banking industry for the co-operation extended to Central Bank of Kenya in 1999 and look forward to continued co-operation in the future.

MICAH CHESEREM
GOVERNOR

SEPTEMBER, 2000

CHAPTER ONE

RECENT DEVELOPMENTS IN THE LOCAL BANKING INDUSTRY

1.1. Overview

The banking sector was relatively stable during 1999. One non-bank financial institution was placed under statutory management while a bank, which was undergoing restructuring, was re-opened. One commercial bank that was licensed during 1998 to undertake micro finance business started operations at the end of the year. During the year under review, many banking institutions downsized their branches, four institutions merged to form two new institutions while one institution converted to a commercial bank. Moratorium on licensing of new foreign exchange bureaus continued during the year.

Audited results for the year indicate that the sector's performance remained fair. Aggregate profits dropped for the second year running largely due to additional provisioning for increased levels of non-performing loans.

1.2 Institutions and Branch Development

As at the end of December 1999, the total number of banking institutions was 67 out of which 53 were commercial banks, 8 non-bank financial institutions (NBFIs), 2 mortgage finance companies (MFCs) and 4 building societies. In terms of ownership, there were five locally incorporated foreign banks, one non-bank financial institution and six foreign bank branches. The state had shareholding in five banking institutions and three non-bank financial institutions. The number of locally owned banks with branches and subsidiaries outside the country remained at four with eight branches located; one in Malawi, three in Tanzania, two in Uganda, one in Pakistan and one in London.

Reflecting the branch rationalisation measures by banks, the number of branches of banking institutions decreased from 677 in 1998 to 505 in 1999 with four big banks accounting for majority of the branch closures. However, there was still some branch expansion especially in the main urban areas, notably Nairobi, Mombasa and Kisumu. On a provincial basis, Coast Province followed Nairobi with the largest number of bank branches (Table 1).

TABLE 1: BRANCH NETWORK OF THE BANKING INDUSTRY

PROVINCE	BANKS		NBFIs*		MFC's**		TOTAL	
	1998	1999	1998	1999	1998	1999	1998	1999
CENTRAL	96	61	1	1	3	3	100	65
COAST	81	75	3	2	2	2	86	79
EASTERN	59	35	0	0	1	1	60	36
NAIROBI	170	157	13	13	8	11	191	181
N. EASTERN	5	5	0	0	0	0	5	5
NYANZA	65	43	2	0	2	2	69	45
RIFT VALLEY	132	69	2	1	4	4	138	74
WESTERN	27	20	0	0	1	0	28	20
TOTAL	635	465	21	17	21	23	677	505

* Non-Bank Financial Institutions

** Mortgage Finance Companies

1.3 Foreign Exchange Bureaus

Foreign Exchange Bureaus were introduced in 1995 with the primary objective of providing healthy competition in the foreign exchange market in the liberalised financial sector. By December 1999, there were 48 licensed and operational foreign exchange bureaus, thirty eight based in Nairobi, seven in Mombasa and one each in Nakuru, Kisumu and Eldoret.

Foreign exchange bureaus are permitted to buy and sell foreign currency in cash, and may also buy travellers' cheques, personal cheques and bank drafts but are not allowed to sell these instruments without explicit authority from Central Bank. Weekly average transactions by bureaus increased from US$12.9 million in 1998 to US$19.5 million in 1999 while their foreign exchange transactions as at the end of 1999 accounted for 5% of the total foreign exchange transactions.

From March 1999, Central Bank of Kenya placed a moratorium on licensing of new Bureaus to facilitate monitoring and evaluation of existing bureaus in terms of performance and compliance with Central Bank regulations.

1.4 Institutions under Restructuring

In 1999, after experiencing liquidity problems, only one non-bank financial institution was placed under statutory management . The year was spent striving to restructure the five banks placed under statutory management in 1998. This was done by the statutory managers assisted by committees of depositors and one of the banks was re-opened in August, 1999. In the course of year 2000, two of the other institutions were re-opened and one was placed under liquidation while one non-bank financial institution is still under statutory management.

The restructuring model adopted in the case of the three banks that have been re-opened has been by capitalising the banks through conversion of deposits to equity with depositors becoming shareholders. However, the asset side of the respective balance sheets are still weighed by the huge portfolio of non-performing loans and their ultimate survival will depend on the success of the recoveries. However, the banks are struggling to attract new business with varying degrees of success.

The restructuring of the National Bank of Kenya which had also faced liquidity problems in 1998 continued. While the main shareholders supported the bank by providing assistance in terms of long-term loans, the stability and continued solvency of the bank will be ensured only by injection of equity.

1.5 Mergers and Conversions

In 1994, the banking sector in Kenya comprised 33 banks and 48 non-bank financial institutions. A large number of non-bank financial institutions were owned by banks and had been established during the era of interest rate controls when the lending rates for the NBFIs were higher than those for commercial banks. After liberalisation of the interest rates and introduction of cash ratio for NBFIs, there were no longer notable advantages of maintaining NBFIs and the policy of NBFIs converting to banks or merging with banks was formulated. This led to gradual change of the structure of the banking system where the number of banks increased with corresponding fall in the number of NBFIs. Appendix V shows the mergers and conversions since 1994.

Some of the NBFIs that converted to banks were not well capitalised and were ill prepared for commercial banking. Three of the banks that later collapsed in 1998 arose from these conversions. To address the capitalisation issue of the banking industry, the Banking Act was amended in 1997 to require banks to raise their paid-up capital from shs.75 million to shs.200 million over a two year period. After further review, the Banking Act was again amended in 1999, to raise capital gradually to reach shs.500 million for banks and shs.375 million for NBFIs by end of 2005.

While the banking institutions may raise the increased capital from other sources, it is expected that many of the small and medium size banks will merge not only to meet the capital requirements but also to become more competitive. In 1999, approvals were granted for eight institutions to merge to form four institutions. The Central Bank is encouraging more mergers and enabling legislation has been forwarded to Parliament to make the process smooth.

1.6 Developments in Information Technology

During the year under review, the banking sector embraced the changes occurring in information technology. The banks which are front runners have already achieved branchless banking. The big banks expanded their networks of Automated Teller Machines (ATMs) while the small and medium size banks are exploring possibility of establishing shared ATMs. The use of credit, debit and charge cards has also expanded.

Several banks entered into the internet banking and established websites. However, internet banking is still at its infancy. A major constraint that banks have been facing in their endeavour to computerise and introduce other technology related products is the lack of modernisation in telecommunications sector. However, the Government has taken intiatives to liberalise the sector and banks will be beneficiaries of the process.

1.7 Employment in the Banking Industry

For the third year running, employment in the banking industry maintained a downward trend. Total staff members dropped from 15,023 to 14,189 between 1998 and 1999. With the exception of supervisory/section head cadre who went up from 1,575 to 2,129, all the other cadres reflected reduction in numbers. The reductions arose due to retrenchments, improved systems leading to off-loading of staff and closure of some branches and mergers (Table 2).

TABLE 2: EMPLOYMENT IN THE BANKING INDUSTRY

	1998				1999						
CATEGORY	BANKS	NBFIs	TOTAL	(%)	BANKS	NBFIs	TOTAL	(%)	UNDER CBK MGT.	GRAND TOTAL	(%)
MANAGEMENT	3,205	221	3,426	23	3,170	175	3,345	24.0	88	3433	24.20
SUPERVISORY SEC. HEADS	1,438	137	1,575	11	2,011	97	2,108	15.1	21	2129	15.00
CLERKS & SECRETARIAL STAFF	7,656	320	7,976	53	6,479	268	6,747	48.3	72	6819	48.10
OTHER CATEGORIES	1,878	168	2,046	14	1,662	100	1,762	12.6	46	1808	12.70
TOTAL	14,177	846	15,023	100	13,322	640	13,962	100	227	14189	100

1.8 Training and Human Resource Development

In the past, the large banks had established training schools to cater for training of their staff while the small and medium size banks have been utilising the Kenya School of Monetary Studies especially in the last two years. One of the banks however sold its training school and will be outsourcing training for its staff and indications are that this trend may continue. With the shift in focus in banking to being technology dependent, the curriculum of the training institutes have also undergone considerable change.

1.9 Customer Service

Some areas of customer service improved while others deteriorated. In cheque clearing, the time taken has been reduced considerably in most areas of the country. As the profit margins of banks started to decline, some large banks have resorted to closing branches and raising minimum balances for opening and operating accounts. This forced many customers to move to a few banks that could accommodate them leading to congestion and attendant deterioration in customer service due to the large number of customers. It is however expected that, over time, branches will be opened where current ones are being closed as competition in the financial sector picks up.

1.10 Year 2000 Date Change

The banking sector, like many other sectors in the country had smooth roll-over with no major date-related problem occurring. The fact that no major Y2K problems occurred in all countries has led to conclusions that there was no threat at all. This may be misleading and the real reason why there were no disruptions was due to the elaborate preparations and resources devoted to deal with the problem.

The Central Bank closely monitored progress by the banking sector in Y2K preparations through specified returns, workshops and on-site verification by bank examiners. The National Y2K Coordinating Committee was also closely monitoring the progress in the banking sector together with the other sectors of the economy.

1.11 Bearer Certificates of Deposit (BCDs)

The Bearer Certificates of Deposit ceased to be financial instruments on 31st December, 1999. The decision to phase out the BCDs was made in April, 1999, and institutions were however given time to wind them down progressively. The instrument was introduced in 1991 with the objective of attracting deposits of those not willing to be identified. The instrument gained popularity and at its peak in August, 1998, there was shs.22 billion oustanding. The instrument started being misused and there were indications that it may even have been used for money laundering.

1.12 Cheque Clearing in Kenya

As part of customer service by the commercial banks, the issue of the period that cheques take to clear has continued to be a general public concern. Occasionally, disputes have arisen which at times end up in courts of law. The Kenya Bankers Association sets the rules and regulations in respect of cheques clearing and the current cheque clearing arrangements are as follows:

Cheques drawn from across the country excluding designated remote areas, are cleared within three working days after the cheque has been lodged in the Clearing House. However, the depositor is expected to withdraw funds within five (5) days from the day the cheque is deposited. Below is the cheque clearing process:

Day 1	-	Is the day the customer deposits the cheque in the bank.
Day 2	-	Date the cheque is lodged at the clearing house
Day 3 & 4	-	Clearing days
Day 5	-	The cheque depositor can withdraw funds

High Value Clearing is a cheque clearing arrangement under which cheques with amounts in excess of Kshs 10m are cleared within two working days after the cheque is lodged in the Clearing House. However, for remote areas, the remote area rule applies **while under the designated remote areas,** cheques are cleared within ten (10) working days from the day the cheque is lodged in the Clearing House. In total it is expected that the depositor will be able to withdraw the funds within twelve (12) working days from the day the cheques is deposited. Under this arrangement, the clearing process is as follows:

Day 1	-	Is the day the customer deposits the Cheque in the bank
Day 2 to Day 11	-	Clearing days
Day 12	-	The cheque depositor can withdraw funds

The designated remote areas are: Garissa, Hola, Loitokitok, Lamu, Lodwar, Maralal, Mandera, Marsabit, Wajir and Kapsokwony. As a further improvement of the payments system, the Central Bank and the Kenya Bankers Association are closely working together to enhance electronic cheque clearing and this is expected to reduce local cheque clearing period to two (2) working days.

1.13 Developments in Bank Supervision

With the increasing challenges in the financial sector and especially after the collapse of the five institutions in 1998, the Central Bank of Kenya appreciated the urgent need of enhancing the capacity of Bank Supervision Department. The staff complement was increased through transfers from the other areas of Central Bank and through direct employment while training of staff was intensified both locally and overseas.

At the beginning of 1999, some attempt to hold trilateral meetings between the Central Bank, external auditors and the institutions before release of the 1998 audited results was initiated and was relatively successful.This process was further improved in Year 2000 and tripartite meetings were held with nearly all institutions before end March 2000 to review the 1999 audited results. The department also embarked on presentation of inspection reports to Boards of directors, which has made the board members get fully informed about the financial performance of their institutions. This approach has recorded a significant success in enforcing the corporate governance role of the board of directors.

With increased staff, the department was able to inspect 38 institutions and it is expected that the goal of inspecting all institutions once a year will be achieved soon. To further enhance corporate governance, the Department continued with the directors seminars. Efforts of harmonising supervisory issues continued with dialogue between the Supervision Departments of the three East African Central Banks.

CHAPTER TWO

CURRENT SUPERVISORY ISSUES

2.1 International Accounting Standards

The Institute of Certified Public Accountants of Kenya (ICPAK) adopted the International Accounting Standards (IAS) in 1998 and many companies started its implementation in 1999. With respect to the banking institutions, the applicable accounting standards is IAS 30 and except for a few issues in interpretation relating to provisioning for bad and doubtful debts, there has not been any problem in the implementation of the standards and most of the banking institutions have implemented them.

The adoption of IAS in Kenya is commendable since it is in line with the recommendations of the Basel Committee for effective banking supervision and which the regional grouping of supervisors, i.e. East and Southern Africa Supervisors Forum (ESAF), has resolved to implement across the sixteen countries in the sub-region.

2.2 Implementation of Core Principles for Effective Banking Supervision

The Core Principles for effective banking supervision are practices which all supervisory authorities should strive to achieve. To assist in objective determination of level of implementation, the Basel Committee has formulated detailed methodology to be utilised in the assessments. While the IMF and World Bank are carrying out the assessments as part of their wider Financial Sector Assessments Programmes (FSAP), the regional groupings like ESAF can formulate ways for organising peer assessments. In the meantime, each country is expected to carry out objective self-assessment of the extent of implementation.

A review of how well various countries in the East and Southern Africa region have implemented the core principles shows that the following particular Core Principles have generally posed problems in implementation:

a) Autonomy of the Supervisory Authorities (*Core Principles 1, 2*).

In some countries, the Central Banks still do not have full independence in regulatory matters especially in licencing and revocation of licences.

b) Assessment of Country and Market Risks as well as Derivatives (*Core Principles Nos 11, 12, 13*).

In some countries in the area, the examiners are not well exposed in evaluating market risks and derivatives.

c) Money Laundering (*Core Principle No. 15*)

Although it is well acknowledged that money laundering is becoming a problem in the region, many countries do not have anti-money laundering legislation. This makes effective prudential supervision difficult.

d) Consolidated Supervision (*Core Principle No. 20*)

Several of the economies in the region do not have complex banking groups and hence have not implemented consolidated supervision.

e) Prompt Corrective Actions (*Core Principle No. 22*)

For a variety of reasons, sometimes beyond the Supervisory Authority, prompt corrective action is not taken thus worsening the problems of institutions with problems.

2.3 Non-Performing Loans

The high level of non-performing loans continues to be an issue of major supervisory concern in Kenya. The level of non-performing loans has been increasing steadily from shs.56 billion in 1997, shs. 83 billion in 1998 to shs.97 billion in 1999.

There are two main reasons for the increase in non-performing loans. First, the depressed performance in the economy and secondly, the Central Bank of Kenya in co-operation with the external auditors has strictly enforced the classification guidelines and hence a sizeable portion of the increase is attributed to better identification. It would be important to note that while the non-performing advances are high, the banks were holding shs. 54 billion in provisions against the debts and could write-off the debts to clean up the balance sheets.

A variety of solutions have been floated to assist in reducing the level of non-performing loans including:

a) Formation of a Credit Reference Agency where banks can exchange information on the bad borrowers. While a private sector credit reference bureau is in operation, its full operation has been hampered by lack of legislation to allow banks to exchange information but enactment of the necessary legislation is in process.

b) Improvement in the Court system – While formation of Credit Reference Bureaus and improvement in the credit risk assessment may prevent future loans becoming deliquent, the current stock of the non-performing loans needs to be quickly resolved. The success of this would be possible if the judicial and court systems are operating efficiently. A number of initiatives have been taken to improve the judicial system through appointment of more judges, provision of physical facilities and amendment of the relevant laws.

c) Non-performing Assets Recovery Trust (NPART) – Proposals have been made on forming a body to take over the non-performing assets from the banking system. Such bodies have worked relatively well in several countries where the government has issued bonds to fund the non-performing loans from government owned banks. In Kenya, a similar move could be adopted to resolve the Government owned banks saddled by non-performing loans. However, it would be difficult to adopt in the case of private sector banks.

2.4 High Lending Interest Rates

Compared to the developing countries, the lending rates in Kenya are relatively high. The management of interest rates falls in the realm of monetary and fiscal policies. However, banks are perceived to have some contribution to make in the current high rates of interest which makes it a supervisory concern as well.

The main causes of the relatively high interest rates in Kenya can be attributed to the following:

- High domestic debt
- Effect of the cash ratio
- Inefficiency in the banking sector
- High levels of non-performing loans

- Perceived risk by the investors
- Lack of competition in the banking sector

From the above list, it is obvious that some of the causes of the relatively high lending interest rates are in the domain of Government rather than banks. There are however some causes that banks would need to address. Compared to the other countries, the banks in Kenya operate on very wide interest rate margins of upto 10%. This is largely due to lack of effective competition, use of outdated systems and procedures, poor risk assessment and weak corporate governance. The banks must therefore seriously address these issues in order to contribute to the reduction of the lending interest rates in the country.

2.5 Operational Risk

Banks in Kenya have in the normal course of business been addressing the operational risks focussing largely on the conventional internal controls. There is however need to strengthen operational risk management because of the increased insecurity as well as technological advancements.

There has been escalation of armed bank robberies in banks leading to considerable losses. While it is the Government's responsibility to improve the general security, banking institutions are required to play their part by strengthening or modifying their internal controls. Some of the measures they should consider undertaking include:preventing vital information falling into wrong hands, enhancing physical security of premises to control and limit entry; adopting methods to make stolen cash unusable. As the banks acquire modern technology in their daily operations, new risks emerge and they must evolve techniques of addressing them which involve retraining their staff.

2.6 Micro Finance

Despite the relatively considerable development of the formal banking sector in Kenya, a large section of population have been left out and their access to credit is mainly through micro-finance institutions. Micro-finance institutions have been funded by donors and for them to sustain their operations, local funding through deposit taking would be necessary.

The Central Bank of Kenya has in the past focused on the regulation of the formal banking sector. However, the Bank now appreciates the need to extend its mandate to regulation of micro-finance in order to play a more direct role in poverty alleviation.

In order to ensure orderly and sustained development of the micro-finance institutions, some form of Central Bank regulation has been deemed essential and the Central Bank is working in liaison with the Association of Micro-Finance Institutions (AMFI) to draw both the policy and regulatory framework.

2.7 International and Regional Co-operation

In the year under review, Central Bank of Kenya continued to co-operate with the various international and regional organisations. The Basel Committee provides invaluable guidance on most supervisory issues, while the East and Southern Africa Banking Supervisors Group (ESAF) co-ordinates the supervisory issues within sixteen member countries in this region.Within East Africa, the three Central Banks continued their co-operation which aims to harmonise the banking practices within the sub-region. Whenever requested, Central Bank of Kenya participated in the activities organised by Common Market for Eastern and Southern Africa (COMESA). There have also been requests for participation in activities from the Southern African Development Co-operation (SADC) although Kenya is not a member.

2.8 Criminalisation of Bouncing Cheques

The acceptability of cheques as a payment instrument has continued to be eroded by the frequent occurence of bouncing cheques especially personal cheques. This has culminated to insistence on hard cash settlement of payments or through bankers cheques. In order to instil discipline and restore respectability of this financial instrument, appropriate measures are being undertaken to ensure that bouncing of cheques is made a criminal offence.

CHAPTER THREE

RECENT CHANGES IN BANKING LAWS AND REGULATIONS

3.1 General

The amendments in the Banking Act and Building Societies Act in 1999 were part of the on-going programme to implement all the Core Principles of Effective Banking Supervision. Since 1997, there have been extensive review of the Banking Act while the Building Societies Act was revised in 1999.

3.2 Amendments to the Banking Act

The specific areas covered in 1999 were as follows:

- The Banking Act was amended in the relevant sections to redefine capital to conform with the Basel Capital Accord. Minimum capital was also enhanced from shs.200 million to shs. 500 million but the increaments would be gradual up to 2005.

- The Central Bank was granted powers to prescribe limits to be invested in immovable property.

- The corporate veil was lifted by requiring disclosures of ultimate shareholders in case of companies and also where shares are held by nominees.

- Restructuring of institutions was made easier by allowing right of set-off by a Statutory Manager.

- Procedures for voluntary liquidation were stipulated.

3.3 Amendments to Building Societies Act

The building societies operating in the country have been having competitive advantage over the institutions regulated under the Banking Act and doing similar business. To provide a level playing field, the Building Societies Act was amended in the following areas:

- The Building Societies would have core capital and would also maintain a gearing ratio.

- The directors would be subjected to "fit and proper" criteria.

- Credit facilities to directors would be restricted.

- Liquidity requirements similar to those of other institutions.

- Central Bank was granted powers to issue administrative sanctions when deemed necessary.

- Central Bank was granted powers to collect information.

3.4 Monetary Penalties

In 1998, the Banking Act was amended to give the Minister for Finance powers to prescribe penalties. The relevant gazette notice was issued in June 1999. The notice specifies the range of violations which would be subject to monetary penalties and the method which would be followed in levying the penalties. It is expected that the enforcement of the Banking Act will be enhanced considerably arising from the ability to levy penalties. However, the imposing of penalties will be used as a last resort after the other less punitive options have been exhausted. A transparent and objective system will be utilised in implementing the penalties.

3.5 Proposed Changes in Legislation

The review of legislation will be continued until all the core principles are implemented.

The following other proposals have been submitted to Parliament and if passed, they will be law by January, 2001:

- Power to share information with other Supervisory Authorities.
- Reporting of change of ownership in banks to Central Bank.
- Procedures to facilitate merging of institutions.
- Making issuance of bouncing cheques and cheque kiting a criminal offence.

CHAPTER IV

PERFORMANCE OF THE BANKING SECTOR

4.1 Macroeconomic Developments

4.1.1 Growth in GDP

For the fourth consecutive year, a slowdown was recorded in the economy in 1999. Growth in real gross domestic product (GDP) decelerated to 1.4% compared with 1.8% and 2.3% in 1998 and 1997 respectively. The dismal economic performance has been accompanied by high population growth rates averaging 2.4% per annum thus translating into falling per capita income and worsening poverty.

4.1.2 Inflation

The first half of 1999 was characterised by relatively low and stable underlying and overall inflation. Inflationary pressures, however, emerged in the second half of the year. The pursuit of a tight monetary policy stance helped to moderate the increase and inflation rates remained within the single digit target. By December 1999, underlying month-to-month inflation was 7.6% while overall inflation was 8%. The average annual underlying inflation in December 1999 was 5.1% while average annual overall inflation was 3.5%.

4.1.3 Money Supply and Reserve Money

The money supply growth slowed down in 1999 reflecting the tight monetary stance during the year. Broad money supply (M3) comprising of shs. 312.1bn grew by 2.8% which was within the 5.0% target and lower than the growth of 3.3% in 1998.

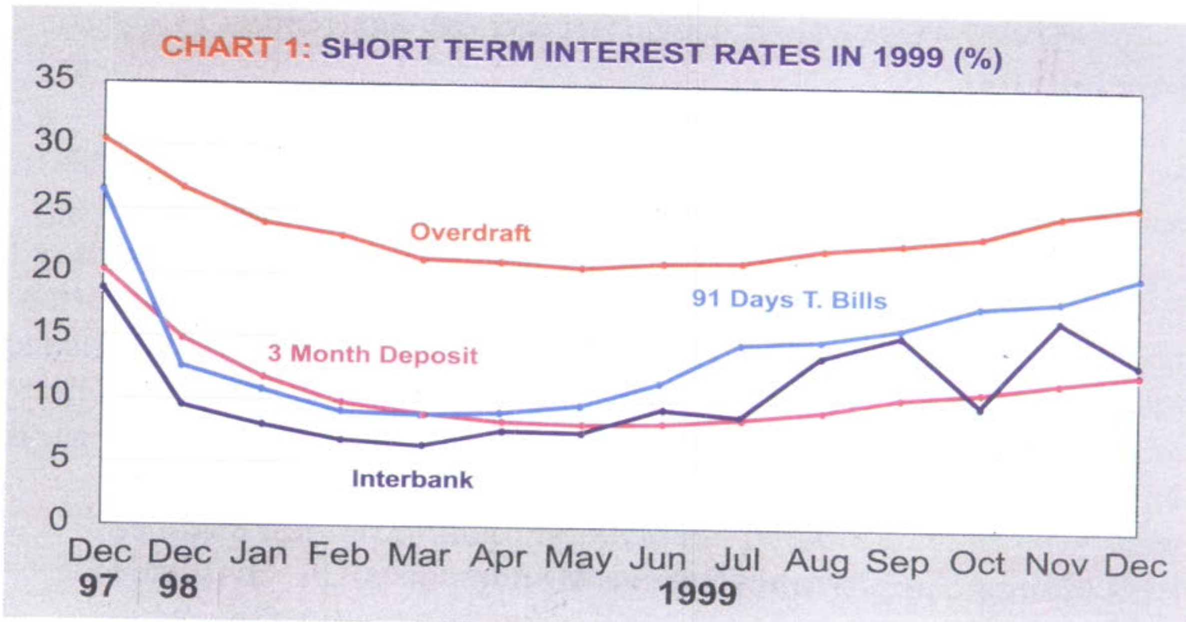
Reserve money, comprising currency in circulation and deposits of commercial banks and NBFIs at the Central Bank, increased by shs.4.0 billion or 5.3% compared to a decline of shs.0.9 billion or 1.1% in the previous year. The reserve money at shs.79 billion in December 1999, was above target by shs.11.7 billion partly due to the demand for year end festivities and the Y2K date change precaution measures undertaken by institutions, including non-bank financial institutions.

4.1.4 Interest Rates

During the first few months of 1999, there was a general decline in interest rates. This trend however reversed and the rates depicted an upward trend for most of the year (Table 3 and Chart 1).

TABLE 3: INTEREST RATES (%)

	1997	1998	1999											
FACILITY	Dec-97	Dec-98	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Overdraft	30.4	26.6	23.9	22.9	21.1	20.9	20.5	20.9	21.0	22.0	22.5	23.1	24.8	25.7
Treasury Bill	26.4	12.5	10.7	9.0	8.8	9.0	9.6	11.3	14.5	14.8	15.8	17.6	18.1	20.0
Inter-bank	18.7	9.4	7.9	6.7	6.3	7.5	7.4	9.3	8.8	13.5	15.6	9.8	16.5	13.0
3-Months Deposit	20.2	14.7	11.7	9.7	8.9	8.3	8.1	8.2	8.6	9.2	10.3	10.8	11.6	12.1



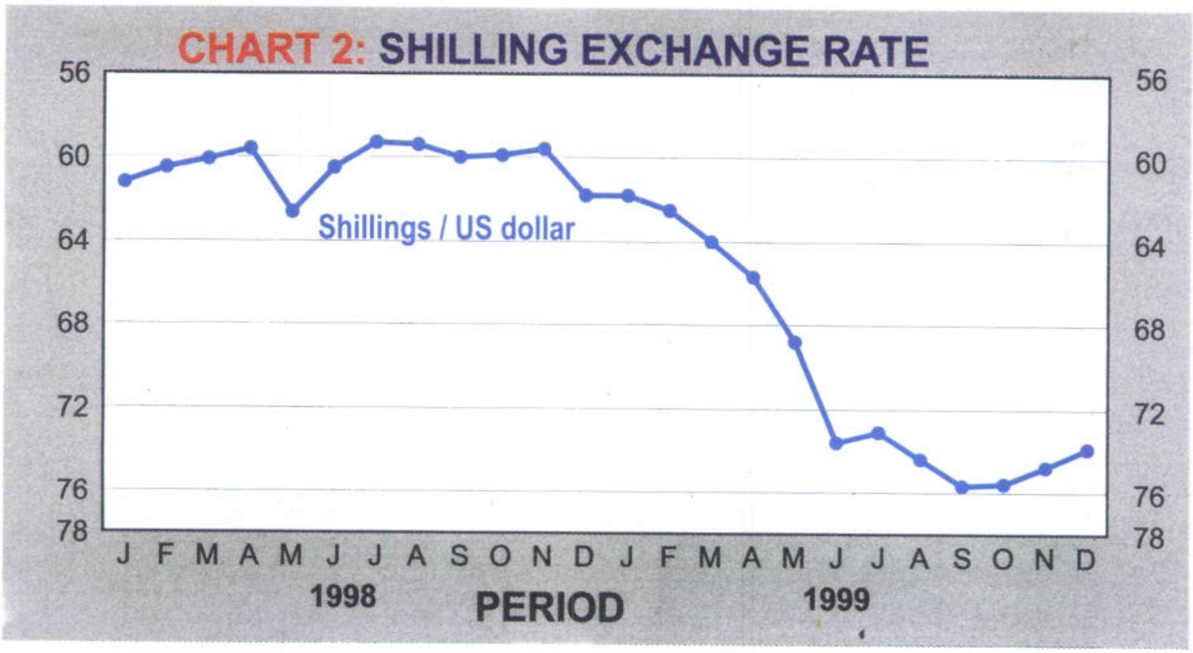
- The 91 day Treasury bill rate fell from 12.5% in December 1998 to 8.8% in March 1999 and then rose steadily to 20% in December, 1999.
- The overdraft rate fell from 26.6% in December 1998 to 20.8% in May and then rose steadily to 25.7% in December, 1999.
- The 3-month deposit rate fell from 14.7% at end of 1998 to 8.1% in May, 1999 but rose to 12.1% in December, 1999.

4.1.5 Exchange Rates

The Kenya shilling weakened against the major international currencies in the first half of 1999, but strengthened in the last quarter of the year. Against the U.S Dollar, the shilling weakened from a rate of shs.61.8 in December, 1998 to shs.75.7 in September, 1999 and then appreciated steadily to trade at shs.73.9 in December, 1999 (Table 4 and Chart 2).

TABLE 4: SHILLING EXCHANGE RATES; 1999

MONTH	Dec-98	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
USD	61.8	61.8	62.5	64	65.7	68.8	73.6	73.1	74.4	75.7	75.6	74.8	73.9
ST. Pound	103.2	102.0	101.8	103.8	105.8	111.2	117.5	115.1	119.6	122.8	125.3	121.5	119.3
Deustchemark	37.0	36.7	35.8	35.7	35.9	37.4	39.1	38.7	40.4	40.6	41.4	39.6	38.1
Uganda Shilling	22.1	22.1	22.0	21.6	21.9	22.2	19.6	19.9	19.7	19.7	20.0	20.1	20.3
Tanzania Shilling	11.0	11.0	10.8	10.8	10.6	10.3	9.7	10.5	10.6	10.5	10.6	10.7	10.8



The fluctuations in the exchange rate are linked closely to the interest rates with the shilling depreciating when the interest rates fall and appreciating when the interest rates increase.

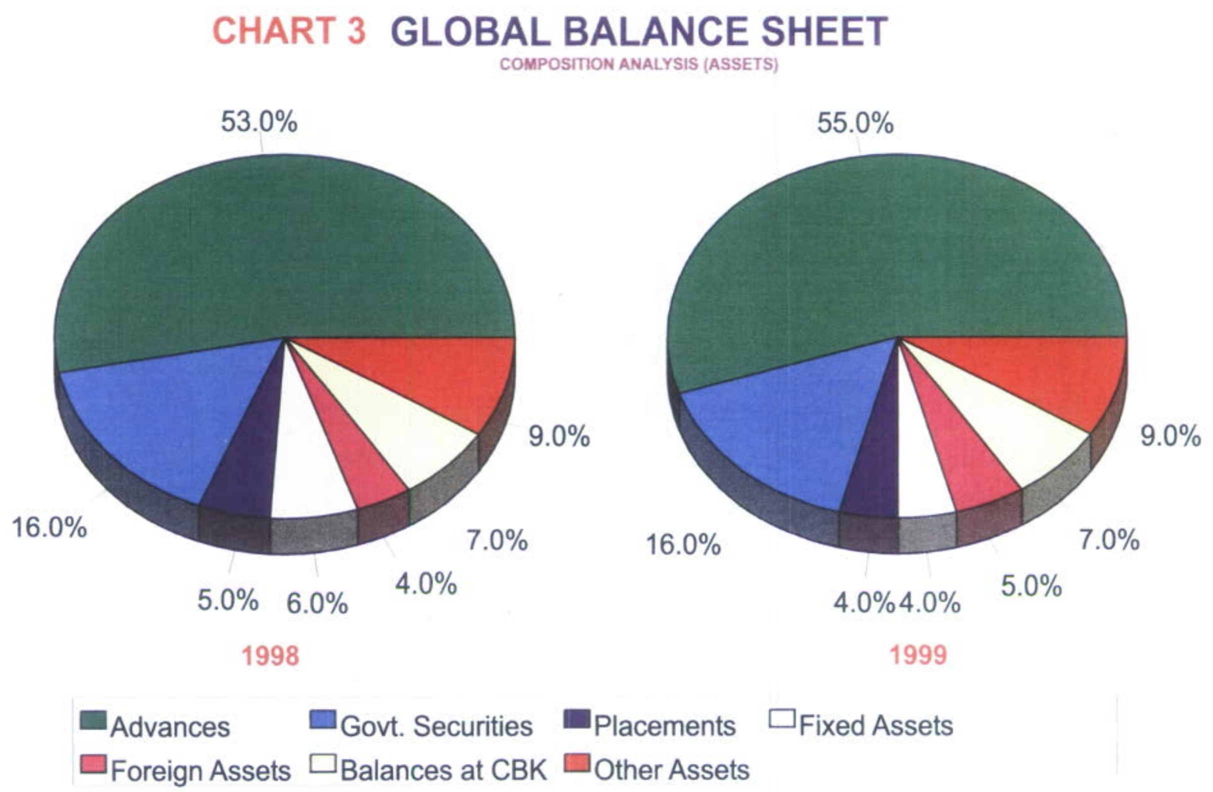
4.2 Overview of Financial Performance

The poor performance in the banking sector during 1999 was a reflection of the depressed state of the economy in general. Total assets and liabilities declined from shs.433bn in December, 1998 to shs.418bn in December 1999 while the proportion of non-performing loans to total loans rose from 32% to 35% in the same period. Due to increased provisions for the non-performing loans by most institutions, profitability of the banking sector declined sharply from shs.4.4bn in 1998 to only shs 0.2 billion in 1999. However, the capital base of the sector rose by 2.5% to shs.47bn while high average liquidity was quite high at 41%.

4.3 Structure of the Balance Sheet

4.3.1 Composition of Assets

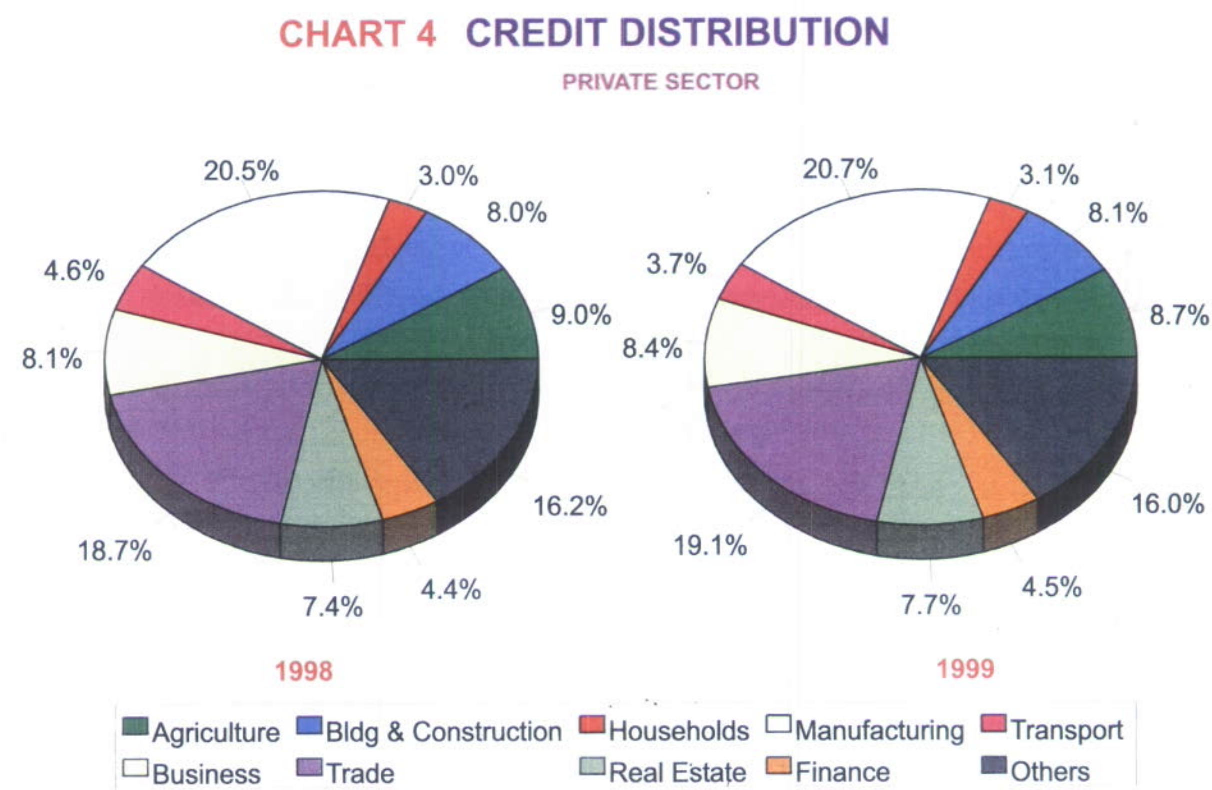
Total assets of the banking sector, at shs.418bn, at the end of December, 1999 was 4% lower than the level recorded at the end of December, 1998 (Appendix I). Total assets of the five institutions undergoing restructuring and management, at shs.12.bn, formed 3% of total assets of the banking sector. In terms of composition, loans and advances continued to constitute the major component of assets and, including foreign loans, at shs.229bn, or 55% of total assets, were 2 percentage points higher than the proportion recorded in 1998. Other major assets are Government securities at shs.68bn or 16% of total assets and balances at the Central Bank of Kenya whose share remained 7% of total assets. Placements with other banking institutions as at the end of 1999 stood at shs.18bn, having dropped from shs.22bn in December, 1998 (Chart 3).



Non-performing advances, at shs.97bn, constituted 35% of total gross advances and was 16% above the level of shs.83 billion recorded in 1998. Provisions made for these non-performing advances were shs.55bn or 56% of total non-performing advances.

4.3.2 **Credit Distribution**

The distribution of credit to the private sector did not show much change between 1998 and 1999. The agricultural sector, which accounted for 24.6% of the GDP enjoyed only 8.7% of credit. On the other hand, the manufacturing sector, which accounted for 13.2% of GDP received 20.7% of credit while the trade sector which accounted for 12.6% of GDP received 19.1% of credit (Chart 4).

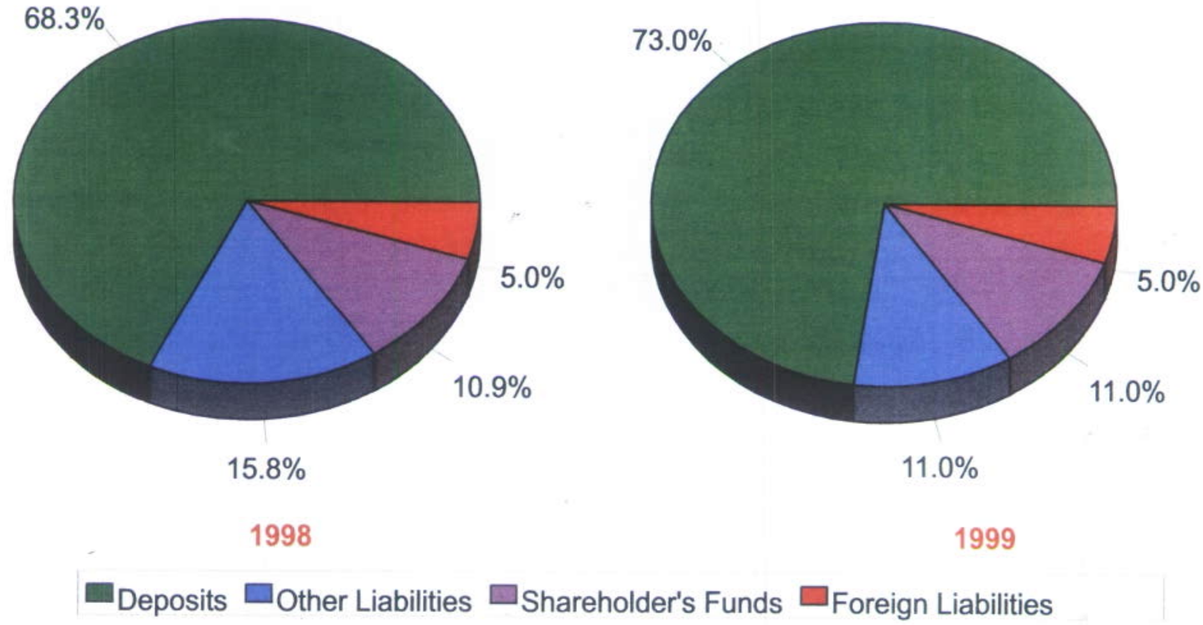


4.3.3 **Liabilities**

Total liabilities stood at shs.371bn and were 4% lower than the level recorded in 1998. Total liabilities for the institutions undergoing restructuring and management, at shs.15bn, formed 4% of total liabilities of the banking sector. Total deposits which stood at shs.306bn were 2.3% above the 1998 level and continued to form the largest share of total liabilities. Total deposits constituted 73% of total liabilities compared to 69% recorded in 1998 while the share of foreign liabilities remained at 5%, the same level as in 1998 (Chart 5).

CHART 5 GLOBAL BALANCE SHEET

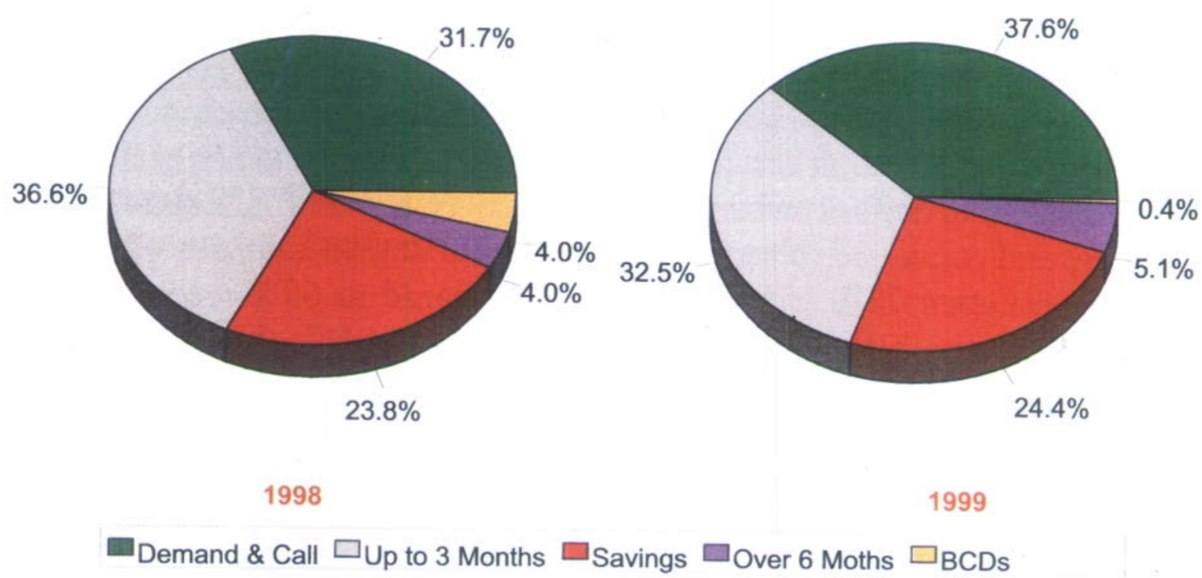
COMPOSITION ANALYSIS (LIABILITIES)



4.3.4 **Deposit Distribution**

During the year, the structure of deposit composition changed with the share of 3-months deposits falling by four percentage points from 37% in 1998 to 33% in 1999 while demand and call deposits whose share was 32% in 1998 increased to constitute 38% of the total deposits. By end of 1999, Bearer Certificates had been phased out as required by the Central Bank of Kenya policy. (Chart 6).

CHART 6 COMMERCIAL BANKS ANALYSIS OF DEPOSITS



4.3.5 **Capital and Reserves**

Total capital base (shareholders funds) of the banking industry, at shs.47bn, as at the end of 1999 was 2.5% above the level of shs.46 bn recorded in 1998. Paid-up/assigned capital, at shs.27bn, as at end of 1999 was 11% higher than the 1998 level of shs.25 bn while reserves, at shs.20bn, were 3% lower than the reported level of shs.21bn as at December, 1998.

4.4 Structure of Profit and Loss Account

4.4.1 **Profitability**

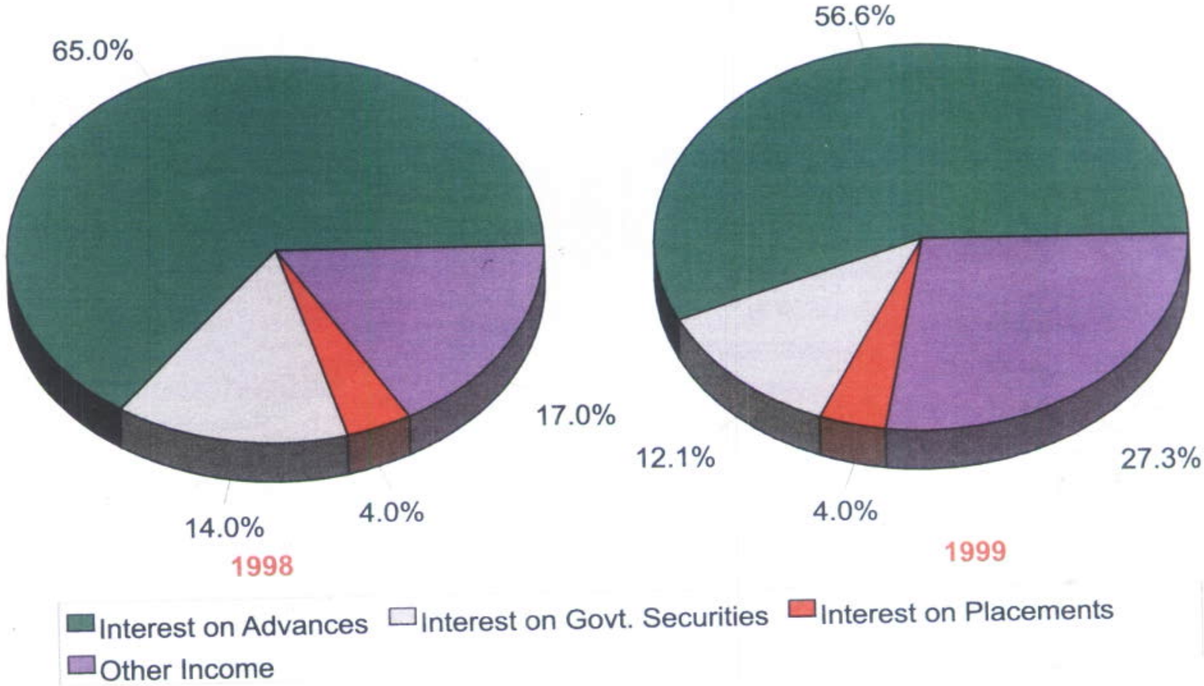
Profitability in the sector for the year ending December, 1999 declined steeply with aggregate net profits before tax standing at only shs 0.2 bn compared to shs 4.4bn recorded in 1998. Forty-seven institutions made profits of shs 10.6 bn while twelve institutions made losses of shs 10.4bn to give the net figure of shs 0.2 bn. The decline was mainly due to the general economic slump which required higher provisions for non-performing loans. The charge for bad and doubtful debts during the year was shs 16bn an increase of 16% from the 1998 level of shs.14bn.

4.4.2 **Income**

Total income of the banking sector decreased by 24% to shs.70bn in 1999 from shs.91bn in 1998 as shown in Appendix II. The composition of income continued to be dominated by income on advances. The interest earnings on advances at shs.41bn in the year was 31% below the level recorded in 1998. The second major source of income for banks was interest on Government securities which, at shs.9bn, in 1999 was 31% below the level recorded in 1998 of shs.12.9bn. Foreign exchange income increased to shs.4.5bn in 1999 up from shs.3.6bn in 1998 (Chart 7).

CHART 7 GLOBAL PROFIT & LOSS

COMPOSITION ANALYSIS (INCOME)



4.4.3 Expenses

Total expenses in the sector decreased by 15% from shs.87bn in 1998 to shs.70bn in 1999. Interest on deposits which formed 30% of total expenses stood at shs.21bn in 1999 down from shs.43bn in 1998. Salaries and wages at shs.15bn in 1999 constituted 21% of total expenses while bad debts charge at shs.16bn accounted for 23% of total expenses (Appendix II).

Over the years, interest on deposits has consumed the highest proportion of total income. Provisions for bad debts which accounted for 3.1% of total income in 1996 increased substantially to 23.4% in 1999. During the same period, the proportion of total income consumed by salaries and wages increased from 13.6% to 21.3% (Table 5).

TABLE 5: EXPENDITURE ITEMS AS A PERCENTAGE OF TOTAL INCOME

		1996	1997	1998	1999
		%	%	%	%
1	Interest on Deposits	45.3	45.9	47.2	29.9
2	Salaries & Wages	13.6	13.5	15.0	21.3
3	Other Expenses	10.8	11.4	13.0	18.8
4	Bad Debts Charge	3.1	5.5	15.1	23.4
5	Occupancy Costs	2.4	2.1	2.2	3.0
6	Other Interest Expenses	1.9	2.1	2.2	2.9
7	Director's Emoluments	0.2	0.4	0.5	0.5
8	**Profit Before Tax**	**22.7**	**19.2**	**4.7**	**0.2**
9	**Total**	**100.0**	**100.0**	**100.0**	**100.0**

4.5 Market Share

Banking business in 1999 as in other years continued to be dominated by a few banks with 8 banks controlling 67% of the market share of total net assets and 69% of total deposits. Distribution among the Non-bank financial institutions was more skewed with two institutions controlling 72% of the market share in terms of total net assets and 70% in terms of deposits (Tables 6 and 7).

TABLE 6: BANKS RANKING BY ASSETS AND DEPOSITS AS AT DECEMBER, 1999

PEER GROUP RANGE Shs' billion	NUMBER OF INSTITUTIONS	NET ASSETS Shs' billion	MARKET SHARE %	DEPOSITS Shs' billion	MARKET SHARE
Over 10	8	262	67	195	69
5-10	7	46	12	25	9
3-5	12	46	12	32	11
1-3	15	29	7	21	8
0-1	11	8	2	7	2
GRAND TOTAL	**53**	**392**	**100**	**280**	**100**

TABLE 7: NBFIs RANKING BY ASSETS AND DEPOSITS AS AT DECEMBER, 1999

PEER GROUP RANGE Shs' billion	NUMBER OF INSTITUTIONS	NET ASSETS Shs' billion	MARKET SHARE %	DEPOSITS Shs' billion	MARKET SHARE
Over 10	1	13	48	11	53
5-10	1	7	24	3	17
3-5	1	4	14	3	15
1-3	1	2	8	2	8
0-1	6	2	6	1	7
GRAND TOTAL	**10**	**27**	**100**	**20**	**100**

4.6 Year End Performance Rating

Performance rating of banks and NBFIs continued to be on the basis of capital adequacy, asset quality, earnings and liquidity (CAEL). Institutions are rated on a five tier system as shown below:-

Strong	-	Excellent performance in all parameters
Satisfactory	-	Good performance in most of the parameters.
Fair	-	Average performance and meets minimum statutory requirements.
Marginal	-	Below average performance in some of the parameters.
Unsatisfactory	-	Poor performance in most parameters and violates minimum statutory requirements.

Based on the above system, the overall performance rating of the banking sector during 1999 was fair, the same as in 1998. As at the end of 1999, 10 banks with total net assets of shs.121bn, controlling 31% of total assets, were rated strong, sixteen banks with net assets of shs.93bn or 24% of total assets were rated satisfactory while 27 banks controlling shs.177bn or 45% of total assets were rated fair and below (Table 8).

TABLE 8: YEAR END OVERALL PERFORMANCE RATINGS - BANKS

	1998			1999		
PERFORMANCE CATEGORY	NUMBER OF INSTITUTIONS	NET ASSETS Shs' billion	%	NO. OF INSTITUTIONS	NET ASSETS Shs' billion	%
STRONG	11	123	31	10	121	31
SATISFACTORY	21	103	26	16	93	24
FAIR & BELOW	21	174	44	27	177	45
TOTALS	53	400	100	53	391	100
OVERAL RATING	**FAIR**			**FAIR**		

In case of the non-bank financial institutions, 2 institutions with net assets of shs.5 billion or 17% of total assets, were rated strong, 2 NBFIs controlling shs.2 billion or 8% of total assets were rated satisfactory while 6 NBFIs with shs.20 billion in assets or 75% of total assets of NBFI's were rated fair and below (Table 9).

TABLE 9: YEAR END OVERALL PERFORMANCE RATINGS - NBFIs

	1998			1999		
PERFORMANCE CATEGORY	NUMBER OF INSTITUTIONS	NET ASSETS Shs. billion	%	NO. OF INSTITUTIONS	NET ASSETS Shs' billion	%
STRONG	5	6	17	2	5	17
SATISFACTORY	4	9	26	2	2	8
FAIR & BELOW	7	20	57	6	20	75
TOTALS	16	35	100	10	27	100
OVERALL RATING	FAIR			FAIR		

TABLE 10: YEAR END OVERALL PERFORMANCE RATINGS - BANKS AND NBFIs

	1998			1999		
PERFORMANCE CATEGORY	NUMBER OF INSTITUTIONS	NET ASSETS Shs. billion	%	NO. OF INSTITUTIONS	NET ASSETS Shs' billion	%
STRONG	16	128	29	12	125	30
SATISFACTORY	25	112	26	18	96	23
FAIR & BELOW	28	194	45	33	197	47
TOTALS	69	434	100	63	418	100
OVERALL RATING	**FAIR**			**FAIR**		

4.6.1 **Capital Adequacy**

The basis of rating capital was the proportion of capital to deposit liabilities (gearing ratio) except where capital and reserves are below the minimum requirement when the rating is denoted unsatisfactory. There are however plans to start rating capital in terms of capital to risk weighted assets. Based on gearing ratio, the overall capital of banks and NBFIs was rated satisfactory. 39 institutions controlling 46% of assets had strong capital base 13 institutions controlling 44% of assets were rated satisfactory while 11 institutions controlling 10% of assets were rated fair and below (Table 11).

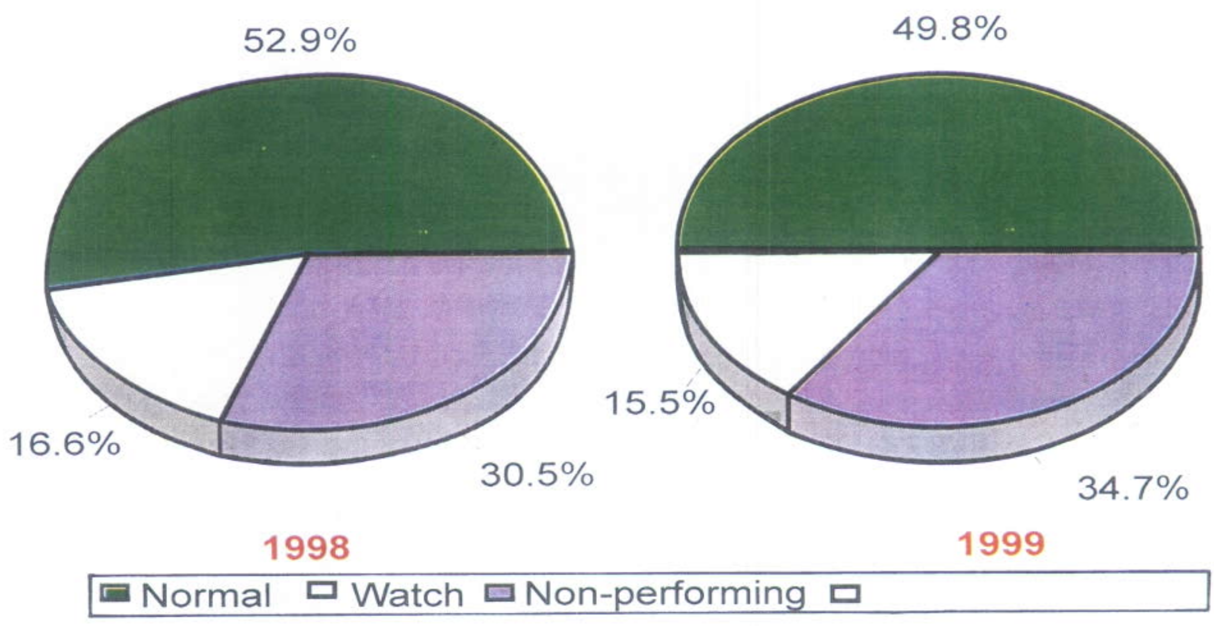
TABLE 11: YEAR END CAPITAL ADEQUACY: BANKS AND NBFIs

	1998			1999		
PERFORMANCE CATEGORY	NUMBER OF INSTITUTIONS	NET ASSETS Shs' billion	(%)	NUMBER OF INSTITUTIONS	NET ASSETS Shs' billion	(%)
STRONG	38	254	59	39	195	46
SATISFACTORY	22	132	30	13	183	44
FAIR & BELOW	9	48	11	11	40	10
TOTALS	69	434	100	63	418	100
OVERALL RATING	SATISFACTORY			SATISFACTORY		

4.6.2 **Asset Quality**

Loans and advances continued to form the largest portion of total assets for banking institutions. The level of non-performing loans in the banking sector remained high and as at December, 1999 stood at shs.97bn compared to shs.83bn in 1998. Non-performing loans as a proportion of total loans was 35% in December, 1999 compared to 32% in December 1998. The cause of the increase in non-performing loans was the depressed performance of the economy as well as the stricter enforcement of the loan classification guidelines. Against the bad debts were provisions of shs.55bn or 57% of non-performing loans (Chart 8).

CHART 8 RISK CLASSIFICATION OF ADVANCES



It should be appreciated that provisioning is prudent and banking institutions are encouraged to provide when there is potential risk of loss instead of declaring profits which may be non-existent. The trends in non-performing loans, provisions and profits over the last three years are shown in Table 12.

TABLE 12: TRENDS IN NON-PERFORMING LOANS, PROVISIONS AND PROFITS 1997-99								(Shs 'M')
Year	Non-Pertorming Loans (NPL)	Balance Sheet Provisions	Total Loans (TL)	Profits Before Tax & Provisions	Provisions Charge for the Year	Profits Before Tax	NPL/TL (%)	(Prov.)/ NPL (%)
1999	97,299	54,622	284,238	16,504	15,749	158	34	56
1998	83,485	41,187	268,580	18,137	13,786	4,351	31	49
1997	69,001	23,265	227,271	20,889	4,630	16,259	30	34

The basis of rating asset quality is the proportion of non-performing loans, net of provisions, to total loans. As already noted, the provisions for bad and doubtful debts for 1999 increased to shs 16 billion from shs 14 billion in 1998. Since the provisions are netted off in assessing the rating for asset quality, the effect was to improve the asset quality rating from **marginal** in 1998 to **fair** in 1999. 17 institutions controlling 21% of assets had strong asset quality, 9 institutions with 32% of assets had satisfactory asset quality while 37 institutions controlling 46% of assets had their asset quality rated fair and below (Table 13).

TABLE 13: YEAR END ASSET QUALITY: BANKS AND NBFIs

	1998			1999		
PERFORMANCE CATEGORY	NUMBER OF INSTITUTIONS	NET ASSETS Shs' billion	(%)	NUMBER OF INSTITUTIONS	NET ASSETS Shs' billion	(%)
STRONG	24	65	15	17	88	21
SATISFACTORY	10	103	24	9	136	32
FAIR & BELOW	35	266	61	37	194	46
TOTALS	69	434	100	63	418	100
OVERALL RATING	MARGINAL			FAIR		

4.6.3 Earnings

The basis of rating earnings is the return on assets (ROA). There was a sharp drop in net profits from shs.4.4bn in 1998 to shs 0.2 billion in 1999. The return on assets declined from 0.8% to 0.04% in the two periods. However, in terms of rating, profitability remained within the range of **marginal** in the two periods. 14 institutions controlling 40% of assets had their profitability rated strong, 8 institutions with 9% of assets had their profitability rated satisfactory while 41 institutions with 50% of assets had their profitability rated fair and (Table 14).

TABLE 14: YEAR END EARNINGS: BANKS AND NBFIs

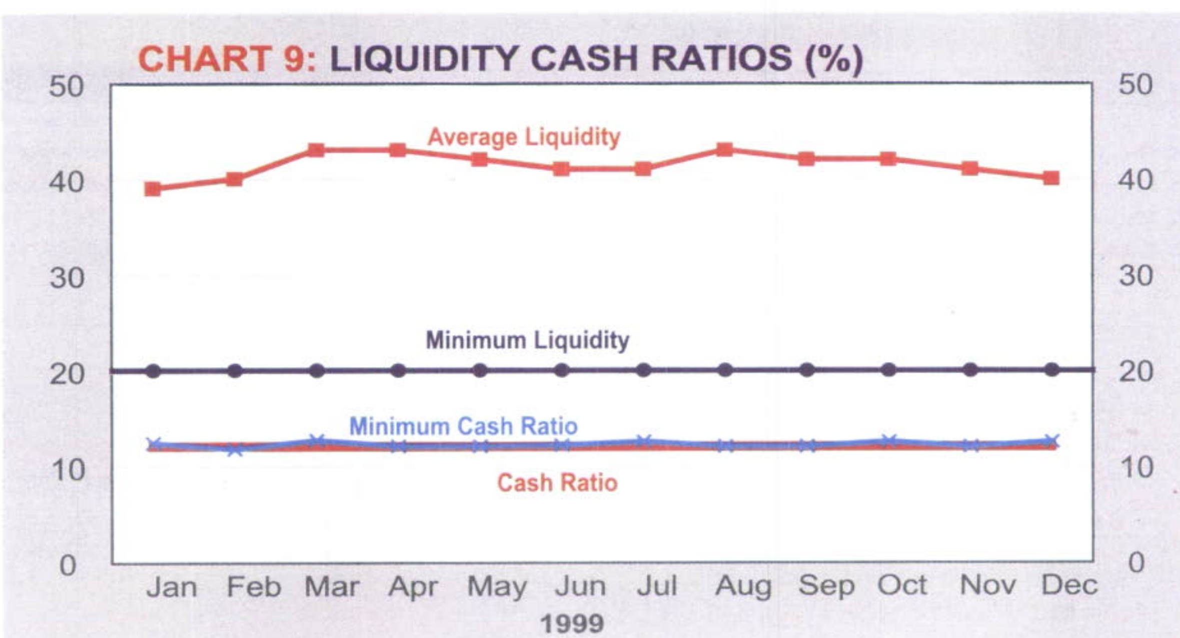
	1998			1999		
PERFORMANCE CATEGORY	NUMBER OF INSTITUTIONS	NET ASSETS Shs' billion	(%)	NUMBER OF INSTITUTIONS	NET ASSETS Shs' billion	(%)
STRONG	20	200	46	14	169	40
SATISFACTORY	10	38	9	8	39	9
FAIR & BELOW	39	196	45	41	210	50
TOTALS	69	434	100	63	418	100
OVERALL RATING	FAIR			MARGINAL		

4.6.4 **Liquidity**

Over the last few years, banks have tended to keep a relatively high proportion of their assets in Treasury Bills. Therefore, the average liquidity of the banking system as measured by the ratio of net liquid assets to total deposits, for 1999 was 41% which was above the minimum statutory level of 20% and was rated strong. This was higher than the average level recorded in the previous year of 38%. Liquidity of 48 institutions was rated strong and satisfactory while liquidity for 15 institutions was rated fair and below (Table 15 and chart 9).

TABLE 15: YEAR END LIQUIDITY: BANKS AND NBFIs

	1998			1999		
PERFORMANCE CATEGORY	NUMBER OF INSTITUTIONS	NET ASSETS Shs' billion	(%)	NUMBER OF INSTITUTIONS	NET ASSETS Shs' billion	(%)
STRONG	39	225	52	38	236	56
SATISFACTORY	10	54	12	10	107	26
FAIR & BELOW	20	155	36	15	75	18
TOTALS	69	434	100	63	418	100
OVERALL RATING	STRONG			STRONG		



APPENDIX I

BANKING SECTOR GLOBAL BALANCE SHEET ANALYSIS AS
AT DECEMBER, 1998 AND DECEMBER, 1999. (AUDITED)

Figures in Kshs. million

	BANKS 31.12.99	BANKS** RESTR.	TOTAL BANKS	NBFIs 31.12.99	NBIFs** RESTR.	TOTAL NBFIs	GRAND TOTAL	% 31.12.99	TOTAL 31.12.98	% 30.12.98	GROWTH 98/99(%)
A. ASSETS											
1. Cash	7,108	36	7,144	64	0	64	7,208	2%	5,851	1%	23.2%
2. Balances at CBK	28,555	49	28,604	751	4	755	29,359	7%	30,600	7%	-4.1%
3. Placements	12,848	949	13,797	3,930	38	3,968	17,765	4%	22,244	5%	-20.1%
4. Government Securities	65,070	822	65,892	1,963	73	2,036	67,928	16%	69,514	16%	-2.3%
5. Investments	4,308	0	4,308	115	0	115	4,423	1%	3,912	1%	13.1%
6. Advances(net)	196,967	9,012	205,980	17,596	184	17,780	223,760	54%	219,229	51%	2.1%
7. Foreign Loans	5,853	3	5,856	0	0	0	5,856	1%	8,164	2%	-28.3%
7. Other foreign Assets	20,972	348	21,320	0	0	0	21,320	5%	16,802	4%	26.9%
8. Fixed Assets	16,955	676	17,631	1,013	11	1,024	18,655	4%	24,343	6%	-23.4%
9. Other Assets	20,250	263	20,513	1,069	10	1,079	21,592	5%	32,866	8%	-34.3%
10. Total Assets	378,887	12,157	391,045	26,502	321	26,823	417,867	100%	433,525	100%	-3.6%
B. LIABILITIES											
11. Deposits *	281,026	4,683	285,709	19,835	318	20,153	305,862	73%	299,078	69%	2.3%
12. Accrued Interest	4,274	489	4,763	443	0	443	5,206	1%	7,542	2%	-31.0%
13. Foreign Liabilities	21,097	762	21,859	66	0	66	21,925	5%	19,839	5%	10.5%
14. Other Liabilities	25,313	8,949	34,262	3,367	92	3,459	37,721	9%	61,061	14%	-38.2%
15. Total Liabilities	331,709	14,884	346,593	23,712	410	24,122	370,715	89%	387,520	89%	-4.3%
16. Net Assets/(Liabilities)	47,178	(2,726)	44,452	2,790	(90)	2,701	47,153	11%	46,005	11%	2.5%
C. CAPITAL & RESERVES											
17. Paid up/Assigned Capital	23,798	1,477	25,275	2,021	65	2,086	27,361	7%	24,732	6%	10.6%
18. Reserves	23,379	(4,203)	19,177	769	(155)	615	19,791	5%	21,273	5%	-7.0%
19. Total Shareholders' Funds	47,178	(2,726)	44,452	2,790	(90)	2,701	47,153	11%	46,005	11%	2.5%
20. Contingent Liabilities	56,153	804	56,957	12	1	13	56,970		54,866		
21. Non-performing Advances	71,882	14,238	86,120	10,879	300	11,179	97,299		83,485		
22. Loan Loss Provisions***	42,190	7,695	49,885	4,591	146	4,737	54,622		41,187		
23. Total Assets and Contngencies	477,231	20,657	497,887	31,106	467	31,572	529,460		529,578		

Key : * Includes Interbank deposits

**** Banks/NBFIs under restructuring**

Some figures reported in 1998 report were later adjusted as follows: provisions from38.3bn to shs.41.2bn; Capital and reserves from shs.48.9bn to shs.46bn.

BANKING SECTOR GLOBAL PROFIT AND LOSS ANALYSIS AS AT 31.12.99 AND 31.12.98 (AUDITED)

APPENDIX II

Figures in Kshs. million

	Banks 31.12.99	Banks* Restru.	Total Banks	NBFIs 31.12.99	NBFIs* Restru.	Total NBFIs	Grand Total	% Total 31.12.99	Total 31.12.98	% Total 1998	Growth
A. INCOME											
1. Interest on Advances	35,193	1,946	37,140	4,235	47	4,282	41,421	59%	58,972	65	-42%
2. Interest on Placements	2,188	63	2,251	530	0	530	2,781	4%	3,978	4	-43%
3. Interest on Govt. Securities	8,772	106	8,878	191	2	193	9,071	13%	12,875	14	-42%
4. Foreign Exc. Gain/(Loss)	4,406	18	4,424	60	4	64	4,488	6%	3,572	4	20%
5. Other Interest Income	755	(13)	742	10	0	10	753	1%	873	1	-16%
6. Other Income	10,849	148	10,997	210	3	213	11,210	16%	10,997	12	2%
7. **Total**	62,163	2,268	64,431	5,237	56	5,292	69,724	100%	91,267	100	-121%
B. EXPENSES											
8. Interest on Deposits	19,149	(504)	18,645	2,156	35	2,190	20,835	30%	43,097	50	-107%
9. Other Interest Expenses	1,088	681	1,769	218	3	221	1,991	3%	2,018	2	-1%
10. Occupancy Costs	1,939	65	2,004	94	4	98	2,103	3%	2,026	2	4%
11. Director's Emoluments	372	2	374	8	2	9	383	1%	455	1	-19%
12. Bad Debts Charge**	10,049	4,443	14,491	1,708	146	1,854	16,346	23%	13,786	16	16%
13. Salaries & Wages	14,056	229	14,285	521	15	536	14,822	21%	13,700	16	8%
14. Other Expenses	12,014	675	12,689	391	7	398	13,087	19%	11,834	14	10%
15. Total	58,667	5,591	64,258	5,096	211	5,308	69,566	100%	86,916	100	-25%
16. Profit Before Tax	3,496	(3,323)	173	140	(156)	(15)	158		4,351		
C. PERFORMANCE INDICATORS											
Yield on Earning Assets	15.7%	11.5%	15.5%	17.8%	12.6%	18.5%	15.6%	109.6%	22.0%		
Cost of Funding Earning Assets	6.2%	1.0%	5.9%	8.4%	8.5%	8.4%	6.1%	42.9%	12.4%		
Interest Margin on Earning Assets	9.5%	10.5%	9.6%	9.4%	4.1%	10.1%	9.5%	66.8%	9.7%		
Yield on Advances	14.4%	11.6%	14.2%	19.1%	14.2%	19.0%	14.6%	108.0%	22.0%		
Cost of Deposits	6.3%	-9.3%	6.1%	10.8%	10.9%	10.8%	6.4%	38.2%	13.5%		
Return on Assets(Including Contingencies)	0.7%	-16.1%	0.0%	0.5%	-33.4%	0.0%	0.0%	0.0%	0.8%		
Return on Shareholders Funds	7.3%	121.9%	0.4%	5.0%	173.9%	-0.6%	0.3%	0.0%	8.9%		
Overhead to Earnings	61.8%	238.6%	68.0%	52.0%	312.9%	54.7%	67.0%	67.2%	45.8%		

*** Banks/NBFIs under restructuring**

Some figures reported in the 1998 report were later adjusted as follows:

Bad debts charge from shs.10.9 bn to shs.13.8 bn; profits from shs.7.3 bn to shs.4.4 bn.

APPENDIX III

LIST OF BANKING INSTITUTIONS AS AT 30TH JUNE, 2000

A. COMMERCIAL BANKS OPERATING IN KENYA AS AT 30TH JUNE, 1999

NAME OF BANK	PHYSICAL ADDRESS OF HEAD OFFICE *	TELEPHONE NO.
1. ABN-AMRO BANK N.V	ABN-Amro Building	710455/6,710514/5
P. O. BOX 30262, NAIROBI	Nyerere Road	710829/30,710972/3
2. AFRICAN BANKING CORP. LTD	Koinange Street	223922.251540/1
P. O. BOX 30359, NAIROBI		226712,217856
3. AKIBA BANK LTD.	Fedha Towers	331709,218360/1
P. O. BOX 49584, NAIROBI	Muindi Mbingu street	249633/4,249670/2
4. BANK OF BARODA (K) LTD.	Tom Mboya Street	227869,337611-2
P. O. BOX 30033, NAIROBI		229634,337913
5. BANK OF INDIA	Kenyatta Avenue	221414-7,218063
P. O. BOX 30246 , NAIROBI		218871
6. BARCLAYS BANK OF KENYA LTD	Barclays Plaza	332230/00
P. O. BOX 30120 , NAIROBI	Loita Street	
7. BIASHARA BANK OF KENYA LTD.	Investment House	221064,223168
P. O. BOX 30831 , NAIROBI	Biashara street	338384,220632
8. BULLION BANK LTD.	Nginda Lane	213740,214450
P. O. BOX 11666 , NAIROBI		
9. CFC BANK LIMITED	CFC Centre	340091,741861
P. O. BOX 72833 , NAIROBI	Chiromo road, Westlands	
10. CHASE BANK (KENYA) LTD.	Prudential Ass. Building	214899,244035
P. O. BOX 64042 , NAIROBI	Wabera Street	245611,330222
(changed name from United Bank Ltd w.e.f 15.11.95)		
11. CHARTER HOUSE BANK LTD.	Longonot Place	224842,224920
P. O. BOX 43252 , NAIROBI	Kijabe Street	242246/53
(changed name from Middle East Bank (K) Finance w.e.f,		
12. CITIBANK N.A.	Citibank House	7711221,717016
P. O. BOX 30711 , NAIROBI	Upper Hill Road	
13. CITY FINANCE BANK LTD.	Unity House	224238-9,332487
P. O. BOX 22741 , NAIROBI	Koinange St.	332532,2038/9
14. COMMERCIAL BANK OF AFRICA LTD.	Wabera Street	228881,340200
P. O. BOX 30437, NAIROBI		
15. CONSOLIDATED BANK OF KENYA LTD.	Consolidated Bank House	220175,340830
P. O. BOX 51337, NAIROBI	Koinange Street	340920
16. CO-OPERATIVE BANK OF KENYA LTD.	Kenya-Re Plaza	225579,228453/7
P. O. BOX 48231, NAIROBI	Taifa Road	25120/9
17. CO-OPERATIVE MERCHANT BANK	International Life House	228711/2/3
P. O. BOX 48231, NAIROBI	Mama Ngina Street	
18 CREDIT AGRICOLE INDOSUEZ	Re-Insurance Plaza	211175,210546
P. O. BOX 69562, NAIROBI	Taifa Road	

19. CREDIT BANK LIMITED	Mercantile Hse	222300,222317
P. O. BOX 61064, NAIROBI	Koinange st.	220789,332015
20. DAIMA BANK LTD.	Utalii House	330620330612
P. O. BOX 54319, NAIROBI	Off Uhuru Highway	330615,330617
21. DEVELOPMENT BANK OF KENYA LTD.	Finance House	340426,240401/2/3
P. O. BOX 30483, NAIROBI	Loita Street	340478,340416
22. DIAMOND TRUST BANK KENYA LTD.	Nation Centre	210988/008
P. O. BOX 61711, NAIROBI	Kimathi Street	(20 lines)
(merged with Premier Finance on 01.04.99)		
23. EQUATORIAL COMMERCIAL BANK LTD.	Sasini House	331122,338398
P. O. BOX 52467, NAIROBI	Loita street	330611,221114
24. EURO BANK LIMITED	Hamilton House	218879/63
P. O. BOX 43071, NAIROBI	Wabera Street	221367
25. FIDELITY COMMERCIAL BANK LTD.	I.P.S Building Society	242348,244187
P. O. BOX 34886, NAIROBI	Kimathi Street	
26. FINA BANK LIMITED.	Fina House	337002,337070
P. O. BOX 20613, NAIROBI	Kimathi Street	337089
27. FIRST AMERICAN BANK OF KENYA LTD.	I.C.E.A Building	333960-2
P. O. BOX 30691, NAIROBI	Kenyatta Avenue	215936/7
28. GUARDIAN BANK LIMITED.	View Park Towers	333877,228087
P. O. BOX 46983, NAIROBI	Monrovia Street	214460,214070
(Merger with First National Fin. Bank app. on 24-11-98)		
(Merger with Guilders Int. Bank app. on 31.12.1999)		
29. GIRO COMMERCIAL BANK LIMITED	Giro House	330129/339519
P. O. BOX 46739, NAIROBI	Kimathi Street	216005,330135/7/9
(Merger with Commerce Bank effective 11-12-98).		
30. HABIB BANK A.G. ZURICH	National House	330337-8
P. O. BOX 48361, NAIROBI	Koinange Street	
(Merger with Habib Africa Bank Ltd app. on 31.12.1999)		
31. HABIB BANK LTD.	Exchange Building	332540,215833
P. O. BOX 6906, NAIROBI	Koinange Street	
32. IMPERIAL BANK LTD.	IPS Building	225060,252175/8
P. O. BOX 44905, NAIROBI	Kimathi Street	
33. INVESTMENTS & MORTGAGES BANK LTD.	I & M Bank House	71994-8
P. O. BOX 30238, NAIROBI	2nd Ngong Avenue	
34. KENYA COMMERCIAL BANK LTD.	Kencom House	339441/3,339450/2
P. O. BOX 48400, NAIROBI	Moi Avenue	339446/9
35. MASHREQ BANK P.S.C	I.C.E.A Building	330562-6
P. O. BOX 11129, NAIROBI	Kenyatta Avenue	
(Changed to Dubai Bank on March, 2000)		
(changed name from Bank of Oman w.e.f 1.10.93)		
36. MIDDLE EAST BANK KENYA LTD.	Exchange Building	335168-72
P. O. BOX 47387, NAIROBI	Kenyatta Avenue	

37. NATIONAL BANK OF KENYA LTD.	National Bank Building	226471-8
(merged with KENYAC effected on 25.05.99)	Harambee Avenue	339690
P. O. BOX 72866, NAIROBI		
38. NATIONAL INDUSTRIAL CREDIT BANK LTD.	N.I.C. House	718200
P. O. BOX 44599, NAIROBI	Masaba Road	
39. PARAMOUNT BANK LTD.	Sound Plaza Building	449266-8
P. O. BOX 14001, NAIROBI		
merging with Universal Bank	Westlands	
40. PRIME BANK LTD.	Kenindia Hse.	211979,214869/70
P. O. BOX 43825, NAIROBI	Loita Street	334312
41. RELIANCE BANK LIMITED	Reliance Centre	444974,448525
P. O. BOX 39865, NAIROBI	Westlands	
42. SOUTHERN CREDIT BANKING CORP. LTD.	Southern Shield Complex	447077,44145
P. O. BOX 66171, NAIROBI	Waiyaki Way, Westlands	
43. STANBIC BANK KENYA LIMITED.	Stanbic Bank Building	335888
P. O. BOX 30550, NAIROBI	Kenyatta Avenue	
(changed name from Grindlays Bank w.e.f 1.7.93)		
44. STANDARD CHARTERED BANK (K) LTD.	Stanbank House	330200,331210
P. O. BOX 30003, NAIROBI	Moi Avenue	
45. THE DELPHIS BANK LTD.	Finance Hse.	228461/2,221875
P. O. BOX 44080, NAIROBI	Koinange St.	222076
46. TRANS - NATIONAL BANK LTD.	Transnational Plaza	224234-6
P. O. BOX 34353, NAIROBI	Mama Ngina Street	339201-4,339225
47. TRUST BANK LTD.	Trust Forte House	226413-5
P. O. BOX 46342, NAIROBI	Moi Avenue	216264/7
48. UNIVERSAL BANK LTD.	Chester Hse.	212229,212668
P. O. BOX 46307, NAIROBI	Koinange Street	219924
Merging with Paramount Bank		
49. VICTORIA COMMERCIAL BANK LTD.	Victor Hse.	225767,228732
P. O. BOX 41114, NAIROBI	2nd Floor	228950
50. K-REP BANK LIMITED	Ring Road	573141/8
P. O. BOX 39312, NAIROBI	Kilimani	571511,573148
51. INDUSTRIAL DEVELOPMENT BANK LTD.	National Bank Building	337079
P. O. BOX 44036, NAIROBI	Harambee Avenue	
(Converted to a Commercial Bank on 10.09.98)		

B. FINANCIAL INSTITUTIONS OPERATING IN KENYA AS AT 30TH JUNE, 2000

NAME OF INSTITUTION	PHYSICAL ADDRESS OF HEAD OFFICE *	TELEPHONE NO.
1. BANK OF INDIA FINANCE (K) LTD.	Kenyatta Avenue	221414-6
P. O. BOX 30246, NAIROBI		334359
2. CONSOLIDATED BANK FINANCE	N.H.C	337878
P. O. BOX 62299, NAIROBI	Aga Khan Walk	
3. CONSOLIDATED BANK MORTGAGE	Development House	340151/5
P. O. BOX 73636, NAIROBI	Moi Avenue	
4. DEVNA FINANCE LTD.	Devna House	40973,43495
P. O. BOX 1299, NAKURU	Nakuru	212370/1
5. FORTUNE FINANCE LTD.	Nginda Lane	224774,226633
P. O. BOX 47290, NAIROBI	Muranga Road	
(changed name from Bullion Finance w.e.f. 4.12.94)		
6. GLAD - AK FINANCE	Twiga Towers	226322
P. O. BOX 67437, NAIROBI		226365
(changed name from Kenya Network Finance)	Muranga Road	
7. KENYA COMMERCIAL FINANCE CO. LTD.	Kencom House	339074,339400
P. O. BOX 21984, NAIROBI	Moi Avenue	339033,339016
8. PRIME CAPITAL AND CREDIT LTD.	Kenindia House	223644,227910
P. O. BOX 46559, NAIROBI	Loita Street	218670,223139

C. MORTGAGE FINANCE COMPANIES OPERATING IN KENYA AS AT 30TH JUNE, 2000

NAME OF MORTGAGE FINANCE COMPANY	PHYSICAL ADDRESS OF HEAD OFFICE	TELEPHONE NO.
1. HOUSING FINANCE CO. (K) LTD.	Rehani House	221101,333910
P. O. BOX 30088, NAIROBI	Kenyatta Avenue	333920
2. SAVINGS AND LOAN (K) LTD.	Salama House	338777-8
P. O. BOX 45129, NAIROBI	Mama Ngina Street	

30TH JUNE, 2000		
NAME OF BUILDING SOCIETY AND	PHYSICAL ADDRESS OF HEAD OFFICE	TELEPHONE NO.
1. EAST AFRICAN BUILDING SOCIETY P. O. BOX 47499, NAIROBI	Fedha Towers Muindi Mbingu Street	224204,210304 214357,214176
2. EQUITY BUILDING SOCIETY P. O. BOX 75104, NAIROBI	Fourways Towers Muindi Mbingu Street	330433-4 337670,334265
3. FAMILY FINANCE BUILDING SOCIETY P. O. BOX 74145, NAIROBI	Fourways Towers Muindi Mbingu Street	211365,335003 214271
4. PRUDENTIAL BUILDING SOCIETY P. O. BOX 28759, NAIROBI	Protection House Haile Selassie Avenue	227233,227282

E. REPRESENTATIVE OFFICES OF FOREIGN BANKS OPERATING IN KENYA AS AT 30TH JUNE, 2000

NAME OF REPRESENTATIVE OFFICE	PHYSICAL ADDRESS IN KENYA	TELEPHONE NO.
1. THE BANK OF TOKYO-MITSUBISHI LTD. P. O. BOX 30441, NAIROBI	International life House Mama Ngina Street	220951
2. P.T.A. BANK P. O. BOX 48596, NAIROBI	NSSF Building Bishops Road	712250

- Head office of all commercial banks are located in Nairobi

- Head office of all NBFI's are also located in Nairobi except Devna Finance Ltd which is located in Nakuru

APPEND IV

LIST OF FOREX BUREAU AS AT AUGUST, 2000

	NAME OF FOREX BUREAU	PHYSICAL ADDRESS	PHONE NO.
1	**ACESAFE FOREX BUREAU** P.O. Box 72519, Nairobi	View Park Towers Nairobi	243495/6469
2	**ARISTOCRATS FOREX BUREAU LTD** P.O. Box 57386, Nairobi	Wilson Airport	606052/3
3	**BAY FOREX BUREAU** P.O. Box 40832, Nairobi	Jamia Plaza Kigali Street Nairobi	245233/245234
4	**BLUE NILE FOREX BUREAU** P.O. Box 69466, Nairobi	Bazaar Plaza	253435
5	**BLUE SEAS FOREX BUREAU** P.O. Box 99822, Mombasa Or Head Office, P.O. Box 10476, NAIROBI	Moi International Airport, Mombasa	011 432343 OR 02-244998
6	**CAPITAL FOREX BUREAU** P.O. Box 54210, Nairobi	Jubilee Insurance House	251704/08
7	**CENTRAL FOREX BUREAU** P.O. Box 43966, Nairobi	Posta Sacco Plaza	226777/331343
8	**CHASE BUREAU DE CHANGE** P.O. Box 45746, Nairobi	Gilfillan House	244497
9	**CONTINENTAL FOREX BUREAU** P.O. Box 49580, Nairobi	Old Mutual Building Kimathi Street	222140/330883
10	**CRATER FOREX BUREAU** P.O. Box 7357, Nakuru	George Morara Avenue - Nakuru	037 214183
11	**CROWN BUREAU DE CHANGE** P.O. Box 22515, Nairobi	Corner House Nairobi	250720/1/2
12	**DIANI FOREX BUREAU** P.O. Box 90775, Mombasa	Paradise Cottages Diani	0127-2205/ 011 226047
13	**DOWNTOWN CAMBIO** P.O. Box 42444, Nairobi	Wilson Airport	608659/602963
14	**FINERATE FOREX BUREAU** P.O. Box 39252, Nairobi	Bruce House	250406
15	**FOREX BUREAU AFRO** P.O. Box 14357, Nairobi	Jamia Plaza Kigali Street	250676 247041
16	**FORT JESUS FOREX** P.O. Box 89991, Mombasa	Old Town Mombasa	011 316717
17	**GIANT FOREX BUREAU** P.O. Box 56947, Nairobi	Chester House	823327
18	**GLORY FOREX BUREAU** P.O. Box 42909, Nairobi	Norwich Union House, Kimathi Street	244333/241164 243115

	NAME OF FOREX BUREAU	PHYSICAL ADDRESS	PHONE NO.
19	**GOLDFIELD FOREX BUREUA** P. O. Box 46371, NAIROBI	Fedha Towers, Nairobi	332565/223761 244554/248713/4
20	**GREENLAND FOREX BUREAU** P.O. Box 72985, Nairobi	Uganda House, Kenyatta Avenue	246644/246145
21	**JODECI BUREAU DE CHANGE** P.O. Box 21819, Nairobi	Unit 1, JKIA	822845/50/824536 824544/246094 245863
22	**JORGS FOREX BUREAU CO. LTD** P.O. Box 88850, Mombasa	Jubilee Insurance, Mombasa	011 221069 011 225009
23	**KAREN BUREA DE CHANGE** P.O. Box 24673, Nairobi	Karen Provision Stores, Corner Langat Road	226431/4/5 447204/5/6
24	**LEO FOREX BUREAU** P.O. Box 3073, Mombasa	T.S.S. Towers, Nkruma Road, Mombasa	011 230369/7/8
25	**MAXFAIR FOREX BUREAU LTD** P.O. Box 66279, Nairobi	Corner Plaza Parklands Road	521902/521865
26	**METR OPOLITAN BUREAU DE CHANGE LTD** P.O. Box 7080, Nairobi	JKIA	820203
27	**MIDDLETOWN FOREX BUREAU** P.O. Box 41830, Nairobi	Westminister House(Kaunda Street)	211798/211227
28	**MUTHAIGA FOREX BUREAU** P.O. Box 63533, Nairobi	Muthaiga Shopping Centre, Nairobi	748883/750331
29	**NAIROBI BUREAU DE CHANGE** P.O. Box 54210, Nairobi	Moi Avenue, Mombasa	820777/251704/8
30	**NAIROBI FOREX BUREAU** P.O. Box 73194, Nairobi	Gujarat House, Muindi Mbingu St.	244767
31	**ORION FOREX BUREAU** P.O. Box 31958, Nairobi	Mercantile House Loita Street	337189/213910 711773
32	**OVERSEAS FOREX BUREAU** P.O. Box 45746, Nairobi	View Park Towers Monrovia/Utalii St.	216250
33	**PEARL FOREX BUREAU** P.O. Box 58059, Nairobi	City Market Muindi Mbingu Street	218335
34	**PEL FOREX BUREAU** P.O. Box 957, Kisumu	Allmran Plaza, Oginga Odinga Road, Kisumu	035 40972/22492
35	**PINNACLE FOREX BUREAU** P.O. Box 10020, Nairobi	Corner House, Kimathi Street	225571/219240

	NAME OF FOREX BUREAU	PHYSICAL ADDRESS	PHONE NO.
36	**PWANI FOREX BUREAU** P.O. Box 87200, Mombasa	Mombasa/Block 404 XVII/MI Abdel Nasseiz	011 22172 011 221734
37	**REDFOX FOREX BUREAU** P.O. Box 22758, Nairobi	Barwaka 1st Avenue	766511/763013 761212/223374 224513
38	**SECAS FOREX BUREAU** P.O. Box 28301, Nairobi	Moi International Airport - Mombasa	432366
39	**SOLID EXCHANGE BUREAU LTD** P.O. Box 19257, Nairobi	Terminal II JKIA	247684
40	**SPEEDY FOREX BUREAU** P.O. Box 45688, Nairobi	Jubilee Insurance Exchange , Nairobi	225941
41	**STERLING FOREX BUREAU LTD** P.O. Box 48984, Nairobi	Laxmi Plaza Biashara Street	228923/245315 340624
42	**TAIPAN FOREX BUREAU LTD** P.O. Box 42909, Nairobi	Stanley Hotel Building	244186/244188
43	**TRADE BUREAU DE CHANGE** P.O. Box 7080, Nairobi	Cotts House Nairobi	241107/241256
44	**TRAVELLERS FOREX BUREAU** P.O. Box 34535, Nairobi,	The Mall Westlands	44720/5/6
45	**UNION FOREX BUREAU** P.O. Box 43847, Nairobi	Sarit Centre, Westlands	448327/444345
46	**VILLAGE MARKET FOREX BUREAU** P.O. Box 625, Nairobi	Village Market Complex, Limuru Road	522473/520946
47	**WALLSTREET FOREX BUREAU** P.O. Box 6841, Eldoret	Bargetuny Plaza, Uganda Road	0321 63299
48	**YAYA CENTRE FOREX BUREAU** P.O. Box 76302, Nairobi	Yaya Centre	569097

APPENDIX V

MERGERS AND CONVERSIONS OF INSTITUTIONS SINCE 1994

A). MERGERS

NO.	INSTITUTION	MERGED WITH	CURRENT/PROPOSED NAME	DATE APPROVED
1	Indosuez Merchant Finance	Banque Indosuez	Credit Agricole Indosuez	10.11.94
2	Transnational Finance Ltd.	Transnational Bank	Transnational Bank Ltd.	28.11.94
3	Ken Baroda Finance Ltd.	Bank of Baroda (K) Ltd.	Bank of Baroda (K) Ltd.	02.12.94
4	First American Finance Ltd.	First American Bank Ltd.	First American Bank (K) Ltd.	05.09.95
5	Stanbic Bank (K) Ltd.	Stanbic Finance (K) Ltd.	Stanbic Bank Kenya Ltd.	05.01.96
6	Mercantile Finance Ltd.	Ambank Ltd.	Ambank Ltd.	15.01.96
7	Delphis Finance Ltd.	Delphis Bank Ltd.	Delphis Bank Ltd.	17.01.96
8	CBA Financial Services	Commercial Bank of Africa Ltd.	Commercial Bank of Africa Ltd.	26.01.96
9	Trust Finance Ltd.	Trust Bank (K) Ltd.	Trust Bank (K) Ltd.	07.01.97
10	National Industrial Credit Bank Ltd.	African Mercantile Ban. Corp.	NIC Bank	14.06.97
11	Giro Bank Ltd.	Commerce Bank Ltd.	Giro Commercial Bank	24.11.98
12	Guardian Bank Ltd.	First National Finance Bank Ltd.	Guardian Bank Ltd.	24.11.98
13	Diamond Trust Bank (K) Ltd.	Premier Savings & Finance Ltd.	Diamond Trust Bank (K) Ltd.	12.02.99
14	National Bank of Kenya Ltd.	Kenya National Capital Corp.	National Bank of Kenya Ltd.	24.05.99
15	Standard Chartered Bank (K) Ltd.	Standard Chartered Financial	Standard Chartered Bank (K) Ltd.	17.11.99
16	Barclays Bank of Kenya Ltd.	Barclays Merchant Finance Ltd.	Barclays Bank of Kenya Ltd.	22.11.99
17	Habib A.G. Zurich	Habib Africa Bank Ltd.	Habib Bank A.G. Zurich	30.11.99
18	Guilders Inter. Bank Ltd.	Guardian Bank Ltd.	Guardian Bank Ltd.	03.12.99
19	Universal Bank Ltd.	Paramount Bank Ltd.	Paramount Universal Bank	11.01.2000
20	Fidelity Commercial Bank	Southern Credit Bank Ltd.	Southern Fidelity Bank Ltd.	11.01.2000
21	Euro Bank Ltd.	Daima Bank Ltd.	Euro Daima Bank Ltd.	11.01.2000

APPENDIX V (Cont.)

MERGERS AND CONVERSIONS OF INSTITUTIONS SINCE 1994

B). FINANCIAL INSTITUTIONS WHICH CONVERTED INTO BANKS SINCE 1994

NO.	FINANCIAL INSTITUTION (OLD NAME)	COMMERCIAL BANK (NEW NAME)	DATE APPROVED
1	Universal Finance Ltd	Universal Bank Ltd	03.11.94
2	Akiba Loans & Finance Ltd	Akiba Bank Ltd	14.11.94
3	Diamond Trust Company Ltd.	Diamond Trust Bank Ltd	15.11.94
4	Credit kenya Finance Ltd	Credit Bank Ltd	30.11.94
5	Consolidated Finance Ltd	African Banking Corp. Ltd	08.12.94
6	Imperial Finance Co. Ltd	Imperial Bank Ltd	08.12.94
7	Finance Institution of Africa Ltd.	FINA Bank Ltd	13.01.95
8	Lake Credit Finance Ltd	Reliance Bank Ltd	13.01.95
9	Habib Kenya Finance Ltd.	Habib African Bank Ltd	26.01.95
10	City Finance Ltd.	City Finance Bank Ltd	23.03.95
11	Ari Credit Finance Ltd.	Ari Bank Corporation Ltd.	07.03.95
12	Credit Finance corporation Ltd.	CFC Bank Ltd	29.03.95
13	First National Finance Ltd.	First National Finance Bank Ltd	19.04.95
14	Prudential Finance Ltd.	Prudential Bank Ltd	12.05.95
15	Equatorial Finance Co. Ltd.	Equatorial Commercial Bank Ltd	23.06.95
16	Combined Finance Ltd	Paramount Bank Ltd	05.07.95
17	Southern Credit Finance Ltd	Southern Credit Banking Corp. Ltd	26.09.95
18	National Industrial Credit Ltd.	National Industrial Credit Bank Ltd	28.09.95
19	Euro Finance Ltd	Euro Bank Ltd	20.12.95
20	Victoria Finance Company Ltd	Victoria Commercial Bank Ltd.	11.01.96
21	Fidelity Finance Ltd.	Fidelity Commercial Bank Ltd.	07.03.96
22	Co-operative Finance Ltd	Co-operative Merchant Bank Ltd.	27.03.96
23	Investments & Mortgages Ltd.	Investments & Mortgages Bank Ltd	27.03.96
24	Credit & Commerce finance Ltd.	Commerce Bank Ltd	15.04.96
25	Development Finance Co. Ltd	Development Bank of Kenya Ltd	20.09.96
26	Charterhouse Finance Ltd	Charterhouse Bank Ltd	01.01.98
27	Industrial Development Bank Ltd.	Industrial Development Bank Ltd	10.09.98

APPENDIX VI

PRUDENTIAL SUPERVISION CIRCULARS ISSUED IN 1999

No.	Circular Number	Date of Issue	Title	Remarks
1.	1.	18.01.1999	Publication of audited accounts in national newspapers under section 22 of the Banking Act.	Prescribed format and minimum disclosure requirements
2.	6.	09.02.1999	Revised guidelines on loan classification for advances and provisioning for bad and doubtful loans –CBK/PG/10	Revised guidelines issued to ensure uniform treatment.
3.	8.	04.03.1999	Loans to directors and staff	New rules, issued relating to Directors loans.
4.	11.	24.03.1999	Treatment of general provisions for bad and doubtful debts.	Uniform treatment of general provisions for bad debts was issued.
5.	16.	23.04.1999	Appointment of directors and chief executives of banking institutions	Directors and Chief Executives to be cleared by CBK before appointment.
6.	21.	02.08.1999	Re-opening of Trust Bank Ltd	For information on successful re-opening of the bank.
7.	22.	18.10.1999	Year 2000 readiness questionnaire and verification.	Requirement for institutions to complete Y2K readiness questionnaire.
8.	23.	07.10.1999	Renewal of banking licences for the year 2000.	Reminder on requirements for renewal of licences.
9.	29.	22.12.1999	Bearer certificates of deposits (BCDs).	Reminder to end the winding down of BCDs.

FUTURE OUTLOOK

The future goals of Bank Supervision Department are:

- To work closely with the banking institutions to enhance corporate governance. It will also strive to improve the level of compliance of legal and prudential requirements by banking institutions.

- To strengthen its supervisory capacity and skills in order to cope with the challenges of the banking industry which is becoming increasingly sophisticated.

- To take necessary measures to ensure implementation of the remaining requirements of the Basle Committee's core principles for effective banking supervision.

- To work closely with the sixteen countries within the regional supervisors grouping of East and Southern African Forum (ESAF) as well as three East African Central Banks to harmonise banking legislation and supervisory practices within the region.

- To ensure stability of the financial sector, initiate measures to ensure other financial intemediaries not under Banking Act are also regulated. It will also evaluate ways in which the micro finance sector can be regulated and integrated into the banking system.

- To work closely with various stakeholders in restructuring of institutions under statutory management and ensure their long term viability.

NOTES