Role of Bank Supervision Department

In keeping with its responsibilities of ensuring prudent management of banking institutions in order to protect depositors' funds, the department conducts both on-site inspection as well as off-site surveillance of banking institutions. The department's approach to supervision of banking institutions is geared to ensuring that the institutions meet reasonable prudential standards with respect to capital, assets quality, management effectiveness and competence, earnings and liquidity (CAMEL). Appraising applications for new banking institutions as well as new branches for existing ones, is a key role. Applications for renewal of annual banking licences are also processed. The department also approves external auditors for banks and financial institutions.

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CONTENTS

MESSAGE FROM THE GOVERNOR 3

DIRECTOR'S FOREWORD 4

CHAPTER 1

EVOLUTION & ROLE OF THE BANK SUPERVISION DEPARTMENT

1.1 Historical Background & Evolution 5
1.2 Role of Bank Supervision 5
1.3 Methodology of Supervision 6
1.4 Future Outlook 6

CHAPTER 2

CURRENT SUPERVISORY ISSUES

2.1 International Convergence of Standards 8
2.2 Basle Committee 8
2.3 The East and Southern African Banking Supervisors Group 9
2.4 Role of External Auditors 9
2.5 Internal Control Systems 10
2.6 Internal Audit 10
2.7 Audit Committee 10
2.8 Fraud and Laundering 11
2.9 Deposit Protection Fund 11

CHAPTER 3

RECENT DEVELOPMENTS IN THE DOMESTIC BANKING INDUSTRY

3.1 Overview 13
3.2 Institutions and Branch Development 13
3.3 Staffing in the Sector 14
3.4 Institutions under CBK Management/Liquidation 14
3.5 Complaints from the Public 15

CHAPTER 4

DEVELOPMENT IN BANKING REGULATION

4.1 Overview 17
4.2 Monetary Policy 17
4.3 Exchange Rates 17
4.4 Interest Rates 17
4.5 Amendments to the Banking Act 17
4.6 The Internal Loans Act 17
4.7 Exchange Controls 18
4.8 Cash Ratio 18
4.9 Overnight Lending by CBK 18
4.10 Frauds 18
4.11 Foreign Exchange Exposure 18
4.12 Renewal of Banking Licences 18
4.13 Tax Accounts 19
4.14 Prudential Guidelines 19

CHAPTER 5

PERFORMANCE ANALYSIS OF THE BANKING SECTOR

5.1 Overview 21
5.2 Performance Rating 21
5.3 Capital Adequacy 22
5.4 Asset Quality 22
5.5 Earnings 23
5.6 Liquidity 23
5.7 Balance Sheet Structure 24
5.8 Market Share 24

APPENDICES

I Global Balance Sheet Structure 27 *

II Banks and NBFIs 1994 Assets 28 *

III Banks and NBFIs 1994 Liabilities and Equities 28 *

IV Commercial Banks Operating in Kenya as at 30th June, 1994 29 *

V Financial Institutions Operating in Kenya as at 30th June, 1994 32 *

VI Building Societies Operating in Kenya as at 30th June, 1994 35 *

VII Collapsed Banking Institutions in Kenya - (1984 to 1994) 36 *

VIII Institutions under CBK Management 38 *

IX Summary of responses to Basle Committee Questionnaire 39 *

2
We are pleased to launch the first edition of the Bank Supervision Annual Report. The purpose of this Report is to inform the banking sector and the general public about developments in the Kenyan banking system.

This report comes at a time when the Kenyan financial system is undergoing rapid and profound changes arising from our liberalized economic environment and from the current transition process of non-banks converting into banks or merging with their parent banks. This development has called for the strengthening of our bank surveillance operations.

Over the last one and a half years, a number of reforms have been implemented in the financial sector including liberalisation of interest rates, removal of restrictions on domestic borrowing by foreign-controlled companies and relaxation of exchange controls. Thus, the financial system now allows for more availability of both local and foreign sources of finance. This flexibility has its attendant risks. In order to cope with the increased risks, supervision will have to be intensified and interactions between bankers and supervisors enhanced.

Our primary objective now is to ensure that stability and public confidence is enhanced in the financial sector and that the functioning of the sector is safe, sound and consistent with our overall Kenyan monetary policy targets.

Micah Cheserem
Governor, Central Bank of Kenya
The powers of supervision of banking institutions were first vested with the Central Bank under Section 19 of the Banking Act, 1968. The Banking Act had been enacted following the establishment of national central banks in 1966/68 by each of the three East African countries. This was after the phasing out of the East African Currency Board which had been the monetary authority serving these countries during the colonial and immediate post-colonial period. The Banking Act has seen considerable revision over the years to reflect the changes that have taken place in the banking sector. Presently, the Banking Act, 1989 spells out these powers under section 32 of the Act.

The major objective of a Bank Supervision Department is to ensure prudent financial risk management in the banking system. This is in order to create a healthy environment in which depositors enjoy greater protection, and hence maintain the public confidence in the soundness and stability of the system. However, the role of Bank Supervision Department is supportive of and complementary to that of the institution’s management upon whom rests the primary responsibility of prudential management of the institution. The board of directors, in keeping with its responsibility of funding and supervising the affairs of

the institution, should advise and formulate sound policies in all the significant areas of the bank’s operations. The management team should, on its part, devise effective internal control systems to ensure compliance with the board policies and also with the legal regulatory requirements. The board and management should, thus, support each other for effective management.

This report is intended to inform the banking industry about current issues in bank supervision, report on developments such as the amendments to the Banking Act and global banking which may be of interest to the banking community. It also provides industry-wide trend analysis on liquidity, deposits, advances, capital and reserves and any other pertinent information.

It is our hope that the players in the banking industry will find the report informative and educative. We welcome observations and comments on any aspect of this inaugural edition that will help us improve future publications.

Apollo A. Wanguria
Director, Bank Supervision Dept.
1.1 Historical Background & Evolution

The Bank Supervision Department was started in April 1969 as a small office under the then Controller’s Department, following the enactment of the Banking Act, 1968. The inspection office was later established as a full-fledged department under the Director of Inspection Department. The department has grown gradually over the years from those humble beginnings when it had only two members of staff to its current strength of 83 members.

This growth was in line with the developments in the banking sector. Around the time when the inspection office was started in 1969, there were only 10 banks and 6 financial institutions, two of which were subsidiaries of commercial banks. The banking sector had as at 31st December, 1994 36 commercial banks and 45 financial institutions, necessitating a corresponding expansion in the staff involved in bank inspection work.

From its inception up to 1987, the department had operated without any documented guidelines or inspection programmes, and the scope and depth of inspections relied very much on the initiative and knowledge of the individual inspectors. However, in 1988, the bank, with the assistance of the World Bank funded Financial Sector Reform programme, employed the services of three top local audit firms and a number of senior officers from Barclays Bank PLC, as consultants to assist in designing and documenting comprehensive inspection programmes and other returns for use, both in on-site inspections as well as in collecting data required for off-site surveillance. This was completed in 1990 and today, the department is able to carry out much deeper and more comprehensive inspections with the help of these inspection programmes.

The department has also undertaken the task of preparing prudential guidelines covering all aspects of banking which are intended to enhance the understanding of the provisions of the Banking Act as well as promote greater appreciation of the law by the management of banking institutions. This is in recognition of the principle that the primary responsibility for the prudential management of any banking institution rests with the institution itself. Six such guidelines have already been completed and circulated to all banking institutions and cover subjects on code of conduct, duties and responsibilities for directors, officers and employees, licensing, statutory returns and annual accounts, capital adequacy, appointment of external auditors, and provisions for bad and doubtful debts. Additional guidelines on liquidity management and prohibited business are being formulated and will be released soon.

1.2 Role of Bank Supervision Department

Arising from its role as a watch-dog over the financial system of the country, the Central Bank is empowered to inspect banking institutions in order to ensure the safety and soundness of the system. These powers were first defined in Section 19 of the Banking Act, 1968. The Act has since undergone numerous revisions to reflect the diverse developments and changes in both the nature and number of players in the market as well as the law and practice of banking. The current edition of the Banking Act, 1989 defines the Central Bank’s powers to inspect banking institutions under section 32.

In keeping with its responsibilities of ensuring prudent management of banking institutions in order to protect depositors’ funds, the Bank conducts both on-site inspections as well as off-site surveillance of banking institutions. The Central Bank, thus, requires banking institutions to periodically furnish it with statistical and other returns covering key areas of their operations to enable it to form an opinion on the financial soundness of the institution on a continuous basis. Some of the more relatively critical returns are the liquidity position which is required to be submitted to the Central Bank of Kenya every 10 days, Balance Sheet on a monthly basis, quarterly statement of Profit & Loss and monthly foreign exchange statistics, among others.

The Bank’s approach to supervision of banking institutions is geared to ensuring that the institution meets reasonable prudential standards with respect to capital, asset quality, management effectiveness and competence, earnings and profitability and finally, liquidity and liability management. This approach which goes under the acronym “CAMEL” has enabled the Bank to monitor effectively the performance of each banking institution against the performance standards set by the Central Bank.

Although inspections and surveillance cover banks and financial institutions which are licensed to operate under the Banking Act, the Central Bank was, with effect from 1988, given the mandate to also inspect Building Societies which fall under the general supervision of the Registrar of Building Societies.

Besides inspection duties, the Bank Supervision Department is also charged with the task of appraising applications for new banking institutions as well as for opening new branches of existing institutions. The department also physically inspects any new banking premises for suitability for banking operations. It also processes applications for renewal of annual banking licences as well
as approving external auditors for banks and financial institutions, among its other functions.

1.3 Methodology of Supervision

The Department uses both on-site and off-site inspections in supervising banking institutions. On-site inspections are conducted regularly with the target of visiting an institution at least once every year. During the on-site inspection, the financial condition of an institution is assessed and rated. The rating is on five tier basis, namely strong, satisfactory, fair, marginal and unsatisfactory. The assessment and rating is based on the examination of six important areas of the institution's operation, i.e., capital adequacy, asset quality, management capability, earnings, liquidity and (for banks) foreign exchange operations. The examination also focuses on internal controls and quality of customer service. The findings of the on-site inspection is discussed with the senior management of the institution at an exit-meeting and is also communicated to the board of directors in a report to which they are expected to respond within a given period, normally 30 days. After the response has been received from the institution, a follow-up inspection is carried out in order to verify that corrective action has been taken in the areas that exceptions or weaknesses were noted. In cases where the financial condition of an institution is found to be weak, a meeting is held with the board of directors and a course of action agreed to rectify the weaknesses.

The off-site inspection is a continuous process whereby information is obtained from banks and financial institutions by way of statutory/prudential returns. The returns include liquidity (every 10 days), monthly balance sheet, monthly profit & loss account, annual audited accounts. The information gathered from the returns is analyzed to determine the performance of the institutions with emphasis on liquidity and solvency. The institutions are then rated and the management of those institutions which are adversely classified are informed accordingly and asked to rectify the weaknesses. When risk-management areas that require more in-depth on-site inspection are identified, inspectors are sent on-site to undertake detailed inspection.

Where necessary the skills and expertise of the external auditors and other specialists are used to assist investigations and to provide input on any specific issues that are of concern. The information obtained off-site is also verified when the inspectors undertake on-site inspections.

Meetings are held with the management of various banks and financial institutions in which matters pertaining to both on-site and off-site inspection are discussed. At such meetings, often the duties and responsibilities of both management and supervisors are continuously reviewed and highlighted.

It should be noted, however, that the supervisor can only focus on what is within his powers to achieve, namely, to create a regulatory and supervisory environment that will facilitate the optimisation of the quality and effectiveness of risk-management in the banking system. Thus the running of an institution is entirely in the hands of the Directors and the management of the institution.

1.4 Future Outlook

The focus of the Department for the coming period will be dictated by the developments that are envisaged in the banking sector. With some financial institutions poised to convert into commercial banks in the coming two years, the Department will be charged with overseeing the conversion process. Apart from the conversion that will in some cases involve mergers and restructuring, the Department will keep abreast of the developments in the market as the banking environment becomes more competitive due to the increase in commercial banks that offer similar, if not the same, services. The competition will mean that banking institutions will not only manage their businesses: but will also have to manage their customers. Successful bankers in the period ahead will have to be knowledgeable about and responsive to their customers' needs to an unprecedented degree. The Department will, therefore, focus part of its examination on determining how banking institutions relate to their customers.

As the industry becomes more competitive, banks will move into widely differing fields, and offer widely varying services, such that the term “universal banking” will become applicable. The commercial banks will move beyond deposit-taking and lending to become active players in such markets as foreign exchange dealings, insurance, stock-broking, credit cards and other areas. The Department hopes to further develop its supervisory skills in order to deal with new products in the market as they emerge.

A commercial bank will find itself competing not only with its more ambitious and aggressive counterparts, but with the services provided by state-of-the-art technology. Through use of advanced technology, banks will be able to, if they are not already, restructure their costly branch
networks in a manner which will not only reduce costs significantly, but also enhance the quality of services they deliver to consumers. Much of the processing work which used to be performed within the branch has now begun to be handled at centralised processing units, and the trend will continue. More importantly, information technology will play a key role in the delivery of improved customer service. The focus for the Department will, therefore, be towards developing computer literacy amongst its staff and having on board Electronic Data Processing (EDP) examiners.

As banks endeavour to maximise their profitability, they are adapting their operations to meet specific needs by offering corporate banking services, retail or personal banking services, advice centres and “transactions only” outlets. Business and product lines that fail to meet the harsh test of profitability are being abandoned and new ones developed to take their place. Paternalistic cultures are being dropped as a new entrepreneurial spirit takes hold. The almost automatic “job-for-life” approach is being replaced by a regime founded on more rapid advancement for high performers. More specialists are being hired to meet customer demand for more sophisticated and expert services. In order to keep abreast of these developments, the Department will increasingly put to work multi-disciplinary teams to tackle specific supervisory issues.

The banking industry has changed more in the past few years than it has done since independence. Until 1986, the Kenyan banking system was firmly anchored within a safe harbour of regulation that protected it from the bracing winds of competition. But when the first banking crisis occurred in 1984, the comfortable intermediation way of business life came to an end. Through the late 1980s and early 1990s, a steady stream of regulatory legislative changes inundated the financial landscape, forcing bankers to reconsider their position. One of the most powerful influences on the evolution on the banking sector will be the Banking (Amendment) Bill which will provide for stronger capital base for commercial banks and financial institutions. The Bill will also seek to give the Central Bank additional powers to annually vet directors and management of banking institutions for “fit and proper” standards. It is the intention of the Department to conduct seminars for directors and management of banking institutions on their role and responsibilities as these institutions move towards enhancing corporate governance.
Global supervisory issues which pre-occupied bank supervisors during the review period were mainly those concerning the implementation of the recommendations of the Basle Committee on Banking Supervision. The recommendations relate to the international convergence of standards on capital adequacy, the role of external auditors, internal control systems and frauds, among other things. With the general liberalisation of the world economy, the recommendations included the management of the banks’ foreign exchange positions, lending in foreign currency, off-balance sheet items, and large exposures.

2.1 International Convergence of Standards

The Basle Committee on Banking Supervision was established as the international committee on Banking Regulations and Supervisory Practices at the end of 1974 after some serious disturbances in international currency and banking markets. It meets three or four times a year.

The committee formulates broad supervisory standards and guidelines and recommends statements of best practice. The individual central banks or monetary authorities are expected to take steps to implement them through detailed arrangements best suited to their own national systems. This way, the committee encourages convergence towards common approaches and common standards without attempting detailed harmonisation of member countries supervisory techniques.

In the recent years, the committee has devoted most of its time on capital adequacy. This resulted in the emergence of a weighted approach to the measurement of risk, both on and off the balance sheet, that provides a framework with a minimum capital standard of eight per cent of the risk weighted assets. Member countries were to adopt the framework by the end of 1992. It has since been introduced in virtually all countries. In Kenya, it was decided to gradually upgrade the requirement to the approved level. Our current standard is 7.5%.

Another area that has been successfully addressed is the limit to which a bank or a banking group may lend to:

a) any one customer;
b) companies or persons connected with the bank or banking group itself, and
c) particular sectors (e.g. real estate)

These items are adequately covered under our current Banking Act with the exception of (a) where the limit is being revised from the current 100 per cent of an institution’s paid-up capital and unimpaired reserves to the maximum of 25 per cent recommended by Basle Committee. In this connection, it is worth noting that in a number of countries, the maximum lending to any one customer is limited to 10 per cent of the institution’s capital and reserves.

Other areas currently being addressed include interest rate risk, the supervision of financial conglomerates, and the management and control of risks in derivatives. In addition to these, the committee has issued a package of proposals designed to incorporate within the capital accord the market risks arising from banks’ open positions in foreign exchange, traded debt securities, and equities. Many of these are complex issues which Bank Supervision Department has now to address in view of the decontrol over banking business, and particularly over foreign exchange transactions.

2.2 Basle Committee - Eighth International Conference of Banking Supervisors.

The eighth International Conference of Banking Supervisors was held on 12th and 13th October 1994. Banking supervisory authorities from about one hundred and thirty countries met in Vienna at the invitation of the Austrian National Bank and Federal Ministry of Finance. Eight international organisations were also represented. The Director of Bank Supervision Department, Central Bank of Kenya attended the conference.

The international conferences, held at two-yearly intervals, are designed to promote co-operation among national authorities in the supervision of international banking and to enable senior representatives of central banks and other supervisory authorities from a large number of countries to exchange views on a range of current issues of common concern. The two main themes of the conferences on this occasion were emerging markets and their financial conditions and risk management systems.

The conference addressed a number of aspects of supervision in emerging markets. Sub-topics included the scope and quality of supervision, market entry, asset quality, recapitalizing banks with a historic overhang of bad debts and managing problem cases. Other aspects addressed included risk management, for traditional banking activities and for derivatives, management of market risk and managing risks in financial conglomerates. Conference participants welcomed the leadership played by the Basle Committee in these areas and supported its efforts to develop sound supervisory standards for risk management, building on the best practices used by the major international banks in this area. The conference recognised the need for greater public awareness that the removal of controls as economies become deregulated cre-
ates additional problems for bank supervision. To some extent, therefore, supervision of market participants has to replace more formal regulation of markets. In this process, it is essential that those overseeing the liberalisation process are convinced of the need to devote additional resources to supervision.

Further conclusions reached on supervision in emerging markets were that market entry needs to be carefully controlled so that licences are granted only to persons fit and proper to run banks; that means should be made available to “clean out” bad debts so that existing banks are not handicapped by a historic overhang from a previous era in competing with newly-licensed banks; and that banks in emerging markets need to be subject to limits on credit concentrations and on loans to owners or associates of the bank.

2.3 The East & Southern African Banking Supervisors Group (ESAF)

The idea of forming regional bank supervisors’ groups to complement the Basle Committee’s work was mooted at the International Conference of Bank Supervisors held in Cannes France, in 1992. As a result of this, ESAF was created in 1993. Its secretariat is hosted by the Bank of Namibia, in Windhoek. The group deliberates on issues pertinent to the banking industry in member countries, which include Botswana, Kenya, Lesotho, Malawi, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. The grouping is already involved in training of supervisors from the region’s central banks, as evidenced by the inaugural course held in Johannesburg, South Africa, in September, 1994.

In 1993 the Basle committee sent out questionnaires to various Bank Supervisors Worldwide in order to establish individual supervisory practices on various bank supervisory issues.

ESAF, with its secretariat in Namibia, collated members responses to the questionnaires and created a data bank which will be continuously updated whenever new information is received from member countries. The responses are reproduced in Annex IV.

2.4 Role of External Auditors

Risk management in a financial institution is a process which involves a number of key players, namely:

- Shareholders
- Management team
- Internal Auditors
- External Auditors
- Supervisory Authorities
- The public (in view of their deposits).

The supervisory authorities and the public place much reliance on opinions of external auditors of the financial institutions. This is mainly due to the fact that external auditors know of the risk management process of the institutions concerned, and the audit procedures they undertake.

The roles of the Bank supervisors and external auditors are, therefore, complementary. This is evident in the fact that Bank Supervisors partly rely on the results of the auditors’ work and are also empowered to engage accounting professionals to undertake additional tasks that complement the performance of their supervisory responsibilities. The institutions’ financial statements are subject to examination by external auditors and the latter’s opinion lends credibility to such statements and thereby assist in promoting confidence in the banking system.

The Banking Act requires the Central Bank to approve the external auditors appointed by financial institutions annually, before the auditors commence their duties. The need for the Bank’s approval of auditors arises out of the desire to ensure that the auditors appointed by the institutions have achieved acceptable standards of competence and independence necessary to supplement the supervisory role of the Bank. External auditors appointed by financial institutions and approved by the Bank are required to form an opinion on whether the institutions’ accounting and other records, and the internal control systems have been properly maintained by the management during the period examined, in accordance with the requirements of the Banking Act. In forming this opinion, they are expected to have regard to the nature and scale of the business undertaken by the institution. They are required to draw the Bank’s attention in their report to exceptional matters which may have come to their attention during the course of their audit work. The information provided by the external auditors is, therefore, very important in assisting the Bank to make a judgement on the adequacy of the institution’s records and systems and on whether the institution’s business is conducted in a prudent manner.

Our records indicate that currently only twelve audit firms have been appointed by the institutions and approved by us. This number will probably increase with the implementation of the requirement for a uniform financial year-end for all financial institutions.

2.5 Internal Control Systems

With the current pace of change in information technology, it is the responsibility of an institution’s directors
and the management to ensure that adequate records and systems are maintained. Regardless of whether or not an institution’s operations are computerised, there are basic internal control procedures which institutions should apply as a minimum. These procedures and systems become even more important in an era where banks are connected onto the SWIFT system of international transactions, and when all institutions are being urged to hook up onto the “REUTER” dealing system. The need for an effective internal audit system that complements the external auditors and hence the bank supervisor’s work, has become apparent. An internal control system should provide reasonable assurance that:-

a) the business is planned and executed in an orderly and prudent manner in adherence to established policies;

b) transactions and commitments are entered into in accordance with specific authority;

c) there are measures to minimise the risk of loss from irregularities, fraud and error, and to promptly identify them when they occur;

d) the accounting and other records of the business provide complete, accurate and timely information;

e) management is able to monitor on a regular and timely basis, the adequacy of the institution’s capital, liquidity, profitability and the quality of its assets, among other things;

f) management is able to identify, regularly assess and, where appropriate, quantify the risk of loss in the conduct of the business so that:-

- the risks can be monitored and controlled on a regular and timely basis;

- appropriate provisions can be made for bad and doubtful debts, and for any other exposures, both on- and off-balance sheet; and

g) management is able to prepare returns to the Central Bank completely and accurately and in accordance with the Bank’s instructions.

2.6 Internal Audit

It has been observed that some institutions do not have an audit function and those who do, do not use it effectively.

All institutions are encouraged to establish an internal audit function in order to facilitate a continuous and independent assessment and monitoring of the effectiveness of internal controls. The following control functions should form part of the internal audit function:

a) review of accounting and other records and of the internal control environment;

b) review of the appropriateness, scope, efficiency and effectiveness of internal control systems;

c) detailed testing of transactions and balances and the operations of individual internal controls to ensure that specific control objectives have been met;

d) review of the implementation of management policies; and

e) special investigations as directed by the Management.

It is important to ensure that the internal audit function is appropriately structured and has sufficient resources to enable it to provide an independent appraisal of internal controls. Normally, internal audit should not have authority or responsibility for the activities it audits. It should, however, have clearly defined terms of reference and its independence should be assured by an obligation to report directly and regularly to the audit committee, or in its absence to an executive specified by the Board. The internal audit function should be staffed with individuals who have relevant professional qualifications or the requisite experience.

2.7 Audit Committee

It is desirable that each institution has an audit committee. To this end, it is strongly recommended that all institutions appoint at least one non-executive director to undertake the audit committee function. For an audit committee to be effective, it is recommended that:-

a) the committee should have a formal constitution and terms of reference;

b) there should be a minimum of three members, all of whom should be non-executive and a majority of whom should be independent of the institution;

c) meetings should normally be attended by the External Auditors, the Head of Internal Audit, and the Finance Director.
d) The committee should have explicit authority to investigate matters within its terms of reference, and also have access to information and external advice.

The Bank recognises that smaller institutions may find it difficult to adopt all the above recommendations. The structure of the audit committee should, therefore, be commensurate with an institution’s needs and particular circumstances, and should have regard to its size, and also the volume and complexity of its transactions and commitments.

2.8 Fraud and Laundering

Money laundering may be defined as the conversion or transfer of money to disguise its illicit origin. It is a criminal offence to be knowingly involved in money laundering.

Illicitly-earned funds are finding a resting place within the walls of respected financial institutions, especially in the developed countries, to the detriment of the institutions’ corporate image and subsequently its operations. The Bank is concerned that such funds could be entering our systems. This underscores the urgent need for bankers to be in the forefront in fighting against money laundering in order to forestall the need for the authority to over-legislate and cripple their activities with bureaucracy.

Kenya’s financial sector has experienced a lot of frauds of late. Banking institutions have laid themselves open to direct losses either through negligence in screening undesirable customers, or criminals.

The problem of fraud and money laundering worldwide has attained such magnitude as to attract the attention of the Basle Committee on Banking Supervision. The Committee’s position is that banking supervisors have a role to play in encouraging ethical standards of professional conduct among banking institutions. Prevention of money laundering is currently receiving the Committee’s active attention.

The current Banking Act has no legal provisions specifically enacted to deal with money laundering. The Bank is, however, monitoring progress at the Basle Committee with the objective of formulating and issuing relevant prudential guidelines on the issue. In the meantime, it is recommended that the following be observed to minimise instances of fraud and money laundering:

- Adequate vetting procedures when recruiting employees.
- Proper identification of all persons/organisations conducting business with banks;
- High ethical and moral standards in carrying out banking business.
- Compliance with all laws and regulations governing financial transactions.
- Co-operation with law-enforcement authorities, within the confines of the law; and
- Provision of information and training for staff to ensure their ability to execute their responsibilities in accordance with the above recommendations.

As a rule of thumb, bankers should always question suspicious transactions whenever they come across them and, if not sure or satisfied, report to the authorities. The Bank has a Fraud Investigation Branch manned by competent senior police officers. The industry is advised to make use of their services whenever need arises.

2.9 Deposit Protection Fund

The Deposit Protection Fund was established under section 22 of the Banking (Amendment) Act in 1985 and became operational in September, 1986. The establishment of the Fund, was the most important structural change in the banking system to emerge after the 1984-86 banking crisis in Kenya. The Fund is meant to protect depositors, particularly small depositors, in the event of insolvency in any contributory institutions, and to foster public confidence in the banking institutions and thereby provide an environment conducive to a stable banking industry.

The management of the Fund is under a board, Deposit Protection Fund Board, whose membership comprises of the Governor of Central Bank of Kenya as Chairman, Permanent Secretary to the Treasury and two members appointed by the Ministry of Finance to represent the interest of contributing members of the banking industry. The Central Bank avails facilities and services of such officers as are necessary for the efficient execution of the functions of the Board.

Participation in the Fund is compulsory to all banking institutions. The current annual contribution towards the Fund is based on an assessment rate currently at 0.15% of the previous year’s average deposits with minimum contribution set at shs.300,000. The applicable assessment rate is subject to periodical review based on such factors as loss experience, interest rates, and rate of de-
ment rate is subject to periodical review based on such factors as loss experience, interest rates, and rate of deposit growth. The maximum amount of coverage for each depositor is shs. 100,000 on deposits held in the same contributory institution.

Since inception in 1986, the Fund has recorded significant growth both in terms of membership and resources. For the financial year ended in June 1987, the Fund’s membership was 36 with a net position of shs. 36m. In June 1992, membership increased to 82 with a net position of shs. 1,542m, whereas in June 1994 a record net position of shs. 1,730m was realised as membership stood at 90. The membership to the Fund declined in June 1994 compared to the previous year as result of eleven institutions being placed under liquidation.

To allow the Fund take more responsibilities, particularly in restructuring of distressed institutions, slight amendments were made to the banking laws. Section 37(3) of Banking Act was amended to allow the Fund to invest surplus funds not only in Treasury Bills but also in other Government securities. Section 41 of Banking Act was also amended to allow the Board acquire, hold or dispose of shares, stocks and debentures in an institution if it considered it desirable to reduce or avert risk of loss to the Fund.

The major impediment experienced by the Fund in the liquidation process is the poor nature of loans portfolio in most of the institutions. With the strengthening of the supervisory capability of the Central Bank, a sound banking system is, however, expected to emerge, thus minimising the exposure of the Fund in the future.

The Banking Act (Amendment) Bill 1994 proposes to increase membership of the Board of Directors of the Fund from the present four to seven. The additional members would be nominated from representatives of financial institutions. The second proposed change is the deletion of Section 41 of the Act which allows the Board to lend to or invest in an Institution.
CHAPTER 3

RECENT DEVELOPMENTS IN THE DOMESTIC BANKING INDUSTRY

3.1 Overview

During the last 10 years, Kenya’s banking sector has undergone three major disruptions arising from failure and subsequent placement under liquidation of banks and non-bank financial institutions. The first major disruption occurred between 1984 and 1986 when several indigenous banks and non-bank financial institutions failed. The failure was mainly attributed to imprudent lending practices by these institutions leading to high proportion of non-performing loans and hence their inability to meet maturing obligations and statutory requirements. Other major disruptions occurred in 1989 when the Government amalgamated one bank and nine non-bank financial institutions to form the Consolidated Bank of Kenya Limited in order to forestall their imminent collapse. The most recent disruption occurred in 1992/93 when 14 institutions were put under liquidation while another three institutions came under Central Bank management during 1994.

The banking system has also since 1991 undergone significant structural reforms. Until 1990, the sector was highly segmented and interest rates were controlled by the Monetary Authorities while quantitative ceilings on lending by banks were imposed. However, as part of the liberalisation of the sector, beginning 1990, interest rates for banks and non-bank financial institutions were harmonised and in July 1991, all interest rates were liberalised. Progressive relaxation of exchange controls began in February 1993 and extensive liberalisation had been achieved by May, 1994.

Another significant development in the financial sector was the establishment in 1990 of the Capital Markets Authority (CMA) which in addition to developing an active market for company shares, is also expected to play a significant role in the process of divestiture from parastatals by the Government. Several measures have also been taken to restructure the Stock Exchange in order to enhance its efficiency in financial intermediation and to create a sound legal/regulatory framework for the stock market. The developments will facilitate the restructuring of the capital base of financial institutions.

In order to instil discipline in the banking industry the Banking Act is undergoing a number of amendments. Some of these include the review/assessment of management/directors of an institution to ensure its soundness before renewal of the annual banking licence, and a uniform financial year-end for all the institutions.

In addition to the proposed amendments, non-bank financial institutions are encouraged to consider converting into commercial banks. This is expected to be achieved through mergers, acquisitions or sole conversions. As at end of 1994, fourteen non-banks had already received approval to convert into banks, while four had merged with their parent banks. Some amendments to the Banking Act are expected to bring non-bank financial institutions on a level playing field with commercial banks and include them in the requirement to observe all monetary policies issued by the Central Bank.

3.2 Institutions & Branch Development

Until the 1950s, Barclays Bank, Standard Bank, National and Grindlays Bank, (all British banks) were the only banks in Kenya. After Kenya’s independence, two domestically-owned banks were established: the Co-operative Bank of Kenya, which was opened in 1968 to provide services for members of the co-operative movement and the National Bank of Kenya, also established in 1968 as the first wholly government-owned commercial bank. The separation of the National and Grindlays bank into Kenya Commercial Bank and Grindlays International Bank followed in 1971.

Similarly at independence, there were three operational non-bank financial institutions, two of which were set up by existing commercial banks as subsidiaries. The three institutions were later licensed under the Banking Act enacted in 1968. Between 1968 to 1977, growth of the number of non-bank financial institutions was rather slow. By the end of 1977, there were seven non-bank financial institutions while at the end of 1983, the number had increased to 35.

In the period 1984 to June, 1994, the rapid growth of banks and non-bank financial institutions was, however, not matched by a corresponding effective prudential regulation, thereby leading to failure of some banks and non-bank financial institutions. The rate of growth in non-bank financial institutions (NBFI's) however exceeded that of banks because of the monetary policies and banking legislation that favoured financial institutions as opposed to banks. These include;

- Differentiation in minimum capital requirements that required financial institutions to maintain lower level of capital than banks.

- A minimum liquidity ratio of 12.5% was first imposed on banks in 1969 while financial institutions were not subjected to a minimum liquid assets requirement until 1974.
A minimum cash ratio was imposed on banks in December 1971. The requirement did not apply to non-bank financial institutions.

Differential regulation of interest rates has over time been in favour of non-bank financial institutions. In 1980, financial institutions were instructed to pay a minimum of 6% on savings accounts (the same as that applied for banks) while the maximum lending rate was 11% for banks and 14% for NBIs. This policy enabled financial institutions to get higher returns on their advances portfolio than banks.

Administrative credit ceilings by monetary authorities since 1972, have applied to banks only, leaving out financial institutions’ credit operations unconstrained.

As shown in Appendix IV and V, as at June, 1994 the total number of operational banks and financial institutions were 33 and 52, respectively. The total number of bank branches, including head offices, was 371 while the number of branches of financial institutions was 118. As shown in Table I, below, Nairobi Province had the highest number of banks and financial institutions as virtually all institutions are represented, and Central Province ranks second. In addition, there has been a continued concentration of bank network in Nairobi.

Table I: Distribution, Branch Network of Bank & Non-bank Financial Institutions

<table>
<thead>
<tr>
<th>Name of Province</th>
<th>No. of Bank Branches</th>
<th>%</th>
<th>No. of NBFI Branches</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nairobi</td>
<td>105</td>
<td>28.3</td>
<td>59</td>
<td>50.0</td>
</tr>
<tr>
<td>Coast</td>
<td>58</td>
<td>15.6</td>
<td>17</td>
<td>14.4</td>
</tr>
<tr>
<td>Rift Valley</td>
<td>69</td>
<td>18.6</td>
<td>11</td>
<td>9.3</td>
</tr>
<tr>
<td>Central</td>
<td>54</td>
<td>14.6</td>
<td>19</td>
<td>16.1</td>
</tr>
<tr>
<td>Nyanza</td>
<td>28</td>
<td>7.5</td>
<td>11</td>
<td>9.3</td>
</tr>
<tr>
<td>Eastern</td>
<td>30</td>
<td>8.1</td>
<td>1</td>
<td>0.9</td>
</tr>
<tr>
<td>Western</td>
<td>20</td>
<td>5.4</td>
<td>NIL</td>
<td>0</td>
</tr>
<tr>
<td>North Eastern</td>
<td>7</td>
<td>1.9</td>
<td>NIL</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL</td>
<td>371</td>
<td>100.0</td>
<td>118</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Similarly, as shown in Table II, the largest four banks have concentrated their branch network in the Rift Valley, Nairobi and Central provinces, respectively.

3.3 Staffing in the Sector

At the end of June, 1994, total wage employment in the banking sector (excluding Central Bank of Kenya) numbered about 15,800 personnel. The five leading banks, namely Kenya Commercial Bank, National Bank of Kenya, Standard Chartered, Barclays Bank and Co-operative Bank of Kenya Limited, accounted for 11,629 employees or 73.6% of total wage employment in the sector at the end of June, 1994. As shown in Table III, the cadre of clerks and secretarial staff constitutes the highest proportion of employees in the banking sector.

Table III: Employment per specified cadres in the Banking sector

<table>
<thead>
<tr>
<th>Category</th>
<th>No. of Staff</th>
<th>Percentage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management</td>
<td>2,686</td>
<td>17</td>
</tr>
<tr>
<td>Supervision/Section Heads</td>
<td>3,318</td>
<td>21</td>
</tr>
<tr>
<td>Clerks and Secretarial</td>
<td>7,110</td>
<td>45</td>
</tr>
<tr>
<td>Staff</td>
<td>2,686</td>
<td>17</td>
</tr>
<tr>
<td>Total</td>
<td>15,800</td>
<td>100</td>
</tr>
</tbody>
</table>

3.4 Institutions under CBK Management/Liquidation

The remarkable growth of the financial sector was marked by a significant increase in local participation. However, this expansion was not matched by a corresponding improvement in prudential regulation of the banking system. As a result, between 1984 and 1986, two banks and five financial institutions failed. The failure of these institutions was attributed to poor asset quality, lack of competent management, poor funds-management leading to inadequate liquidity levels and also inadequate earnings leading to capital inadequacy. Interestingly also, a large
proportion of their credit portfolio was composed of loans to directors and their associates which were not performing.

Following the failure of several institutions, the Government set up a special Investment Committee in 1986 to address itself to the issue of problem-institutions. The Deposit Protection Fund Board was established to further restore the stability in the banking sector. The Banking Act was also amended in order to incorporate changes considered necessary to safeguard the industry. Despite these corrective measures, some institutions continued to perform dismally and the Government and the Deposit Protection Fund Board set up the Consolidated Bank of Kenya which took over nine troubled institutions. During the period between 1993 and 1994, CBK took measures to liquidate/manage a total of 17 institutions and as shown in Appendix VIII, out of 29 troubled institutions, only 3 were under CBK management by the end of 1994.

3.5 Complaints from the Public

The major complaints from the public brought to the attention of the Department can be summarised as follows:-

- Excessive Interest-rate Charges on Money advanced to Customers by way of Loans

This was common before the liberalisation of interest rates in July, 1991. The complaint was basically the method of calculation with some institutions charging higher effective rates through application of methods other than the reducing balance method. In most cases, customers were never informed of the effective interest rates prior to the signing of the loan agreement.

- Non-payment of Depositors’ Funds on Request

This became common beginning with the banking crisis of 1984. Several institutions could not pay depositors’ funds due to liquidity problems.

- Disposal of Securities charged to Institutions at Throw-away Prices

Management of some institutions have been accused of colluding with third parties to defraud customers of their rightful share of sale proceeds of the assets sold net of the institutions’ claims. The reserve price, if any, is set at unreasonably low level.

- Closure of Business Premises without Informing the Public

This complaint was mainly directed at building societies, many of which had to close down due to mismanagement.

- Hiking of Minimum Balances on Savings Accounts

This has been directed mainly to the big banks who apparently want to rid themselves of small depositors. Low income workers risk having to be paid their salaries in cash since it is only the big banks which have a country-wide network of branches as well as adequate space to cater for the large number of customers involved.

- Excessive Service Charges

The major areas of complaint have been charges for unpaid cheques and unpaid standing orders which are as high as shs 1,000. Charges on telex money transfers from abroad have also been mentioned as being excessive.

- Customer Services

Following several complaints by the public, the Department this year began undertaking adhoc customer service inspections for banks and non-bank financial institutions. These inspections have confirmed the following main customer complaints:

- Treatment of customers without courtesy and respect.
- Long queues and congestion at counters due to lack of prompt attention by cashiers.
- Long manual procedures in clearing and verifying cheques due to lack of online computerisation.
- Lack of effective supervision in banking halls.
- Lack of adequate counters, especially during peak periods.
- Service counters are not clearly and properly labelled to guide customers.
- Lack of complete information disclosure on charges for various services and products offered.
- Senior management staff do not seem to know what happens in banking halls.

- Lack of documented policy on customer service and education.

- Some of the big banks have recently issued circulars to the public insisting that all cheques issued be crossed. This has caused great inconvenience to the public. The Department has had to issue a circular (BSD/9/294) to the chief executives of all institutions on the issue of poor services to customers.
DEVELOPMENTS IN BANKING REGULATIONS

4.1 Overview

Over the years, the Central Bank has intensified its surveillance activities over banks and non-bank financial institutions. The regulatory tools of control have ranged from moral suasion by the monetary authorities to enhanced banking regulations and directives. In an effort to strengthen and streamline banking regulations and operations, the Central Bank of Kenya has provided the requisite monetary policy stance for the country through various speeches and directives by the Governor to banks and non-bank financial institutions. The speeches and directives dwell on the basic monetary policy instruments providing guidance on changes in money stock, changes in exchange and interest rates, and operations of the foreign exchange markets. On its part, the Bank Supervision Department, in conjunction with other departments of the Bank, has issued several circulars and directives focusing on the prudential management of the operations of institutions.

4.2 Monetary Policy

In his letter to chief executives of commercial banks dated 7th January, 1994, the Governor of the Central Bank of Kenya gave the background to the ultimate objective of monetary policy in this country: i.e. general price stability - and how the Central Bank was determined to ensure that this objective was achieved. He said that an appropriately tight monetary policy was required in Kenya to contain inflationary pressures and, to ensure that our currency remains stable and that real interest rates are substantially positive. Consistent with this policy, the Central Bank has decided to rely more and more on the cash ratio as an instrument of controlling money stock. As a complement to this policy, the Government had decided to cut its spending and consequently reduce substantially its borrowing from the Central Bank. A reduction in Government borrowing from the Central Bank, together with an increase in the cash ratio, will lead to a lowering of the volume of treasury bill sales with consequent reduction in nominal discount rates but without easing general monetary conditions.

4.3 Exchange Rates

Exchange rates in Kenya are currently freely determined by forces of supply and demand. The Kenya shilling was totally freed on 18th October 1993 when the official and inter-bank exchange markets were merged. Since that time, the Central Bank has been participating in the foreign exchange market just like any other participant, buying or selling forex to meet its obligations at the prevailing market exchange rates. Largely because of the tight monetary policy being pursued, the shilling exchange rate has been appreciating since it was freed. To encourage increased competition, orderliness, and flow of information in the foreign exchange markets, the Central Bank has been publishing on a daily basis the exchange rates for the major currencies as quoted by the major commercial banks.

4.4 Interest Rates

Interest rates were liberalised from July 1991 and are now determined by the conditions of supply and demand for funds in the money market. Savers have, therefore, been free to negotiate with their bankers the interest rate they can earn on their savings and likewise borrowers have been free to negotiate interest rates charged on loans and overdrafts. The Central Bank was encouraged by the move by some banks to pay interest on current accounts and by the increased competition in the banking industry in mobilisation and allocation of savings. As in the case of exchange rates, the Central Bank continued to publish, on a weekly basis, information on interest rates on deposits, current accounts and loans as reported by major commercial banks.

4.5 The Banking Act

In its endeavours to keep pace with the changing circumstances in the banking industry, the Central Bank proposed a number of amendments to the Banking Act. The proposals were agreed upon with the Ministry of Finance and the Attorney General’s chambers culminating in the publication of the Banking (Amendment) Bill 1994. It is hoped the Amendment bill will soon be enacted into law.

4.6 The Internal Loans Act

In 1978 when Treasury Bills and Treasury Notes were introduced into the Internal Loans Act, the Act was not appropriately amended. Apart from defining the said instruments in Section 2 and providing for the issuance of the same by the Government under Section 3, the words “treasury bills” and “treasury notes” are conspicuously absent from the rest of the Act. It has therefore been recommended that the Act be amended to incorporate the two instruments.
4.7 Exchange Controls

As part of the general liberalisation of economic activities in the country, the Central Bank issued several directives progressively relaxing the country's exchange and payments system. The directives effectively authorised banks to handle all foreign currency transactions without reference to the Central Bank and to make all remittances hitherto prohibited by the Exchange Control Act. By May, 1994, all exchange control restrictions had been removed culminating in the following:

- removal of all limits on foreign exchange remittances;
- abolition of CD3 form requirements;
- removal of restrictions on direct foreign investment abroad;
- revocation of all blocked funds; and
- removal of retention accounts.

The Exchange Control Act Cap.113 is, however, yet to be repealed.

4.8 Cash Ratio

The Central Bank relied more and more on the cash ratio as an instrument of regulating money supply. In 1993, the ratio was adjusted upwards from 8% of deposit liabilities for banks, to 10%, 12% and 14% in June, September and November, respectively. In 1994, the ratio was increased further to 16% in January and to 20% in March. In August, 1994, the ratio was, however, lowered to 18% of deposit liabilities. Banks which failed to meet the cash ratio requirements for 15 days were charged a penalty of 0.2% per day while those which failed to comply for over 30 days were to be placed under statutory management.

Effective 15th August, 1994, the computation of the cash ratio was based on total deposit liabilities held by banks excluding foreign account deposits. Banks were to ensure that the foreign currency deposits so excluded, were backed 100% by foreign assets.

4.9 Overnight Lending by CBK

With effect from 1st June, 1993, overnight lending by the Central Bank of Kenya was limited to the realizable value of the security pledged if such security was discounted at the Central Bank. Eligible securities for overnight loans from the Bank were Treasury Bills, Treasury Bonds and Government Bearer Bonds. The Bank would discount Treasury bills only if they were half-way to maturity and the securities had to have at least two clear working days to maturity for borrowing purposes.

In April, 1994, it was further directed that commercial banks could borrow from the Central Bank for a maximum period of 4 days and that overnight borrowing would not exceed ten days in any one month. The overnight lending rate was to be the highest Treasury bill yield rate. Banks lending in the inter-bank market would not qualify for borrowing from the Central Bank on the same day.

4.10 Frauds

The Bank issued various circulars during the year warning institutions to be extra vigilant in effecting funds transfers both locally and internationally. It was observed that there had been several attempted forgeries especially with regard to funds transfers to Switzerland. The institutions were advised to always get the full particulars of persons delivering letters and requesting transfer of funds and to counter-check written instructions by ringing the senior management of their clients. The institutions were also advised to be cautious when accepting U.S. dollar notes of $100 as suspects had already been arraigned in court to answer charges of printing fake U.S. $100 notes. In its circular No.3 of 1994, the Central Bank confirmed that it had a fraud squad of its own to assist institutions when necessary.

4.11 Foreign Exchange Exposure

Due to observed irregularities in the handling of UAPTA travellers cheques, the Central Bank suspended direct reimbursement of the purchased cheques to commercial banks. The Bank also required commercial banks to complete form CBK 131(0) to enable the Bank determine the current foreign currency exposure for banks. In this regard, the Bank issued a further directive requiring that all commercial banks observe a foreign exchange exposure limit of 20% of paid-up capital with effect from 1st March, 1995.

4.12 Renewal of Banking Licences

It was directed that annual renewal of banking licences be submitted to the Central Bank of Kenya at least three months before expiry for scrutiny and preparation of appropriate recommendations to Treasury. The applications for renewal of licence were to be accompanied by particulars of the institution's directors, showing among other details, their professional and academic qualifications, their banking experiences, and their loans from the institutions they manage.
4.13 Tax Accounts

The Central Bank directed all institutions to ensure that government tax accounts are treated strictly as collection accounts only and that any balances on the accounts are promptly transferred to the Government accounts at the Central Bank.

4.14 Prudential Guidelines Issued

The Central Bank's approach to supervision is based on the principle that the primary responsibility for the prudential management in any banking institution lies with the institution itself. Accordingly, the bank's supervision system continued to be directed towards satisfying that:

a) individual banking institutions are following management practices which limit risks to prudential levels;
b) reasonable prudential standards are being observed and kept under review to take account of changing circumstances.

With this in mind, several prudential guidelines were prepared by the Bank. The guidelines are aimed at providing information and enhancing the understanding of the provisions of the Banking Act and providing greater appreciation of the spirit of the law.

During the period under review, the following prudential guidelines were issued to banking institutions:

4.14.1
Code of Conduct for Directors, Officers & Employees (CBK/PG/01)

This was prepared for the purposes of safeguarding the integrity and credibility of institutions in order to maintain public confidence. At the heart of this guideline are the following six principles:

-Avoidance of conflict of interest;
-Avoidance of misuse of position;
-Prevention of misuse of information gained through the institution's operations, either for personal gain or for any purpose other than that intended by the institution;
-Ensuring completeness and accuracy of relevant records;
-Ensuring confidentiality of communication and transactions between the institution and its customers;
-Ensuring fair and equitable treatment of all customers and others who rely on, or who are associated with the banking institution.

The banking industry has in recent years undergone changes, which have created a more competitive and challenging environment for all banking institutions. As a consequence of this change, the role of the Board of Directors and indeed the Executive Management has grown in importance and complexity.

Accordingly, these guidelines provide directors and management of banking institutions with practical guidance in meeting their duties and responsibilities with clarity, assurance and effectiveness.

The purpose of these guidelines is to provide information and to outline procedures which should be followed by all licensed institutions before the commencement of their operations in compliance with Section 2 of the Central Bank of Kenya Act, Cap.489, as well as the establishment of branches under Section 8 of the Banking Act.

4.14.2
Duties & Responsibilities of Directors, Chief Executives & Management (CBK/PG/02)

4.14.3
Guidelines on Licensing of Institutions (CBK/PG/034A)

4.14.4
Guidelines on Issuance of Certificate of Specification (CBK/PG/03B)
These guidelines outline the Central Bank’s approach to the measurement of capital adequacy of institutions licensed under the Banking Act. They describe the arrangements for assessing the capital adequacy against credit risks undertaken.

The objective of these guidelines is to outline the recommended format of the financial statements to be adopted by all institutions licensed under the Banking Act with the hope that the uniformity and improved disclosure, attained in the standardisation of financial statements would ensure that end users are better informed.

Every company incorporated in Kenya is required to appoint external auditors. The Banking Act stipulates that the auditors appointed by the banking institutions be approved by the Central Bank. Accordingly, these guidelines were intended to provide additional information which will assist the auditors to discharge their functions more effectively.

The purpose of these guidelines is two fold:-

i) To ensure that provisions for bad and doubtful advances and discounts are adequate in accordance with Section 20, sub-section 2(b) of the Banking Act.

ii) To provide a comparable basis for making provisions for the purposes of preparing the Annual Accounts and other prudential returns.
CHAPTER 5

PERFORMANCE ANALYSIS OF THE BANKING SECTOR

5.1 Overview

The overall performance of the banking sector in 1994 was satisfactory. On average banks and non-bank financial institutions maintained adequate capital and reserves relative to the level of deposits. The global gearing and capital to assets ratios of 15.7% and 11.1% were above the statutory minimum requirement of 7.5%.

There was an improvement in the credit administration in 1994 compared to 1993 as the ratio of non-performing advances to total advances averaged 22.3% in 1994 against 30.5% in 1993. The easing of inflationary pressures in 1994 culminating in the lowering of interest rates apparently contributed to the ability of borrowers to meet their loan obligations. The incidence of non-performing loans at over 22% is considered very high compared with other countries.

The overall liquidity level at an average of 52% during the year was higher than the prescribed minimum of 25% for banks and 30% for non-bank financial institutions. The earning performance of both banks and non-bank financial institutions was rated strong.

5.2 Performance Rating

Bank Supervision Department ranks banks and non-bank financial institutions on the basis of their performance in the parameters of Capital Adequacy, Asset Quality, Earnings and Liquidity. Composite rating averages the effects of the individual ratings in each of the above parameters. This rating system is referred to by the acronym CAEL derived from the first letters of Capital Adequacy, Asset Quality, Earnings and Liquidity.

As at December, 1994, out of the 33 banks 14 were rated strong, 17 were rated satisfactory, 1 was rated marginal while another one was rated unsatisfactory. Out of the 52 non-bank financial institutions, 6 were rated strong, 24 were rated satisfactory, 10 were rated fair, 4 were rated marginal, 2 were rated unsatisfactory and 6 institutions were not rated since they were newly established. Table 1 below shows the performance rating for banks while Table 2 shows the performance rating for non-bank financial institutions (NBFI's) as at December 1994.

Table 1

PERFORMANCE RATING FOR BANKS: DECEMBER 1994

<table>
<thead>
<tr>
<th>Performance Category</th>
<th>Capital Adequacy No. of Banks</th>
<th>Asset Quality No. of Banks</th>
<th>Earnings No. of Banks</th>
<th>Liquidity No. of Banks</th>
<th>Overall Rating No. of Banks</th>
<th>Per(%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong</td>
<td>15</td>
<td>17</td>
<td>19</td>
<td>25</td>
<td>14</td>
<td>42%</td>
</tr>
<tr>
<td>Satisfactory</td>
<td>11</td>
<td>3</td>
<td>1</td>
<td>2</td>
<td>17</td>
<td>52%</td>
</tr>
<tr>
<td>Fair</td>
<td>0</td>
<td>2</td>
<td>7</td>
<td>1</td>
<td>0</td>
<td>0%</td>
</tr>
<tr>
<td>Marginal</td>
<td>5</td>
<td>1</td>
<td>2</td>
<td>2</td>
<td>1</td>
<td>3%</td>
</tr>
<tr>
<td>Unsatisfactory</td>
<td>2</td>
<td>10</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>3%</td>
</tr>
<tr>
<td>Total</td>
<td>33</td>
<td>33</td>
<td>33</td>
<td>33</td>
<td>33</td>
<td>100%</td>
</tr>
</tbody>
</table>
Table 2

PERFORMANCE RATING FOR NBFIs: DECEMBER 1994

<table>
<thead>
<tr>
<th>Category</th>
<th>No. of Institutions</th>
<th>No. of Institutions</th>
<th>No. of Institutions</th>
<th>No. of NBFIs</th>
<th>Per (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong</td>
<td>11</td>
<td>14</td>
<td>27</td>
<td>36</td>
<td>6</td>
</tr>
<tr>
<td>Satisfactory</td>
<td>17</td>
<td>4</td>
<td>7</td>
<td>5</td>
<td>24</td>
</tr>
<tr>
<td>Fair</td>
<td>0</td>
<td>6</td>
<td>5</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Marginal</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>2</td>
<td>4</td>
</tr>
<tr>
<td>Unsatisfactory</td>
<td>14</td>
<td>18</td>
<td>3</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Total Rated</td>
<td>46</td>
<td>46</td>
<td>46</td>
<td>46</td>
<td>46</td>
</tr>
<tr>
<td>Not rated</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Total</td>
<td>52</td>
<td>52</td>
<td>52</td>
<td>52</td>
<td>-</td>
</tr>
</tbody>
</table>

5.3 Capital Adequacy

Capital represents the shareholders’ stake or investment in any venture. It is a resource that should be readily and freely available to participate in losses without obliging the institution to cease trading.

The measurement of capital adequacy is based on a monetary minimum level, a gearing ratio and a capital to assets ratio as prescribed under sections 7, 17 and 18 respectively of the Banking Act, 1989.

An analysis of capital adequacy in Kenya’s banking industry as at 31st December 1994 is shown on the table below.

INDUSTRY ANALYSIS OF CAPITAL ADEQUACY

<table>
<thead>
<tr>
<th>Capital &amp; unimpaired Reserves</th>
<th>Deposits</th>
<th>Assets</th>
<th>Gearing Ratio</th>
<th>Capital to Assets Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shs. m</td>
<td>Shs. m</td>
<td>Shs. m</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BANKS</td>
<td>22,609</td>
<td>139,128</td>
<td>201,918</td>
<td>16.3%</td>
</tr>
<tr>
<td>NBFIs</td>
<td>8,175</td>
<td>59,605</td>
<td>76,402</td>
<td>13.7%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>30,784</td>
<td>195,733</td>
<td>278,320</td>
<td>15.7%</td>
</tr>
</tbody>
</table>

As shown in the table 3, capital and unimpaired reserves of both banks and non bank financial institutions were adequate for the industry’s level of deposits and assets.

5.4 Asset Quality

Non-performing advances as at 31st December, 1994 stood at Shs 25.4 billion from a loan portfolio of Shs 114 billion giving a ratio of 22.3%. This compared favourably with the position as at 31st December 1993 where
non-performing advances of shs. 24.1 billion made up 30.5% of the industry’s loan portfolio of shs. 78.9 billion. The ratio of non-performing advances to total advances as at 31st December 1994 was 17.3% for banks and 27.2% for non-bank financial institutions. Fifty two percent (52%) of banks were rated strong on asset quality, against 30% of non-bank financial institutions while 30% of banks were rated unsatisfactory on this count against 39% of non-bank financial institutions. In general therefore, non-bank financial institutions fared worse than banks in their credit administration. On the basis of CBK Loan classification guidelines, banks were rated marginal while non-bank financial institutions were rated unsatisfactory. The overall rating of the industry on asset quality was unsatisfactory. This weakness which was confirmed by on-site inspections, was attributable to poor credit appraisal, security documentation, and credit administration. In light of this, appropriate remedial measures were recommended for each institution inspected by the Central Bank.

5.5 Earnings

The performance of the banking sector on profitability in year 1994 was good. The entire industry recorded an average rate of return on assets of 3.8% which in CBK rating is considered strong. The rating for December 1994 is summarised herebelow:

Table 4

<table>
<thead>
<tr>
<th>Performance</th>
<th>No of Banks</th>
<th>No of NBFI</th>
<th>Total 1994</th>
<th>Total 1993</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong</td>
<td>26</td>
<td>30</td>
<td>56</td>
<td>48</td>
</tr>
<tr>
<td>Satisfactory</td>
<td>2</td>
<td>7</td>
<td>9</td>
<td>9</td>
</tr>
<tr>
<td>Fair</td>
<td>0</td>
<td>7</td>
<td>7</td>
<td>11</td>
</tr>
<tr>
<td>Marginal</td>
<td>2</td>
<td>4</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>Unsatisfactory</td>
<td>3</td>
<td>4</td>
<td>7</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>33</td>
<td>52</td>
<td>85</td>
<td>85</td>
</tr>
</tbody>
</table>

During the year, the main source of income in the banking industry as expected, was interest income on loans and advances. Other major sources of income were interest on investments in Government Securities and interest on placements with other financial institutions.

The major expense in the banking industry was interest payments on customer deposits. Salaries and wages is the major expense among overhead expenses. Other expenses include occupancy costs, depreciation, bad debt charge, fines and penalties, contributions to deposit protection fund, operating licences and business promotion costs.

5.6 Liquidity

The general level of liquidity in the banking industry during year 1994 averaged 52% which was way above the stipulated minimum liquidity ratios of 25% and 30% for banks and NBFI’s respectively. This high liquidity was invested in short term Government securities. The quarterly average liquidity ratios in 1994 are shown in the table and graphs below:

Table 5

<table>
<thead>
<tr>
<th>JAN.- MARCH</th>
<th>APRIL- JUNE</th>
<th>JULY- SEPT.</th>
<th>OCT.- DEC.</th>
</tr>
</thead>
<tbody>
<tr>
<td>BANKS</td>
<td>55</td>
<td>53</td>
<td>51</td>
</tr>
<tr>
<td>NBFI</td>
<td>54</td>
<td>52</td>
<td>51</td>
</tr>
</tbody>
</table>

![Graphs showing liquidity ratios](image-url)
5.7 Balance Sheet Structure

Total assets of the banking sector stood at Shs 278 billion as at 31st December, 1994 having grown by 19% from Shs 234 billion as at 31st December 1993. Loans and Advances amounting to Shs 114 billion accounted for 41% of the total assets of the sector as at 31st December, 1994.

Government securities accounted for 20.5% of the total assets while cash and balances with other institutions accounted for 11% and foreign assets 4%. (Appendix II).

On the liabilities side, deposits accounted for 71.4% of total liabilities and equity as at 31st December 1994. Total deposits stood at Shs 199 billion as at 31st December 1994 having risen by 28% from shs 156 billion as at 31st December 1993. Total capital and reserves of banks and financial institutions amounted to Shs 31 billion or 11% of the total liabilities and equity as at 31st December 1994. (Appendix III).

5.8 Market Share

The four major commercial banks controlled 67% of the market for banks share based on the level of the total assets. The distribution of control of the market based on total assets as at 31st December, 1994 was as shown in the table below:-

Non-bank financial institutions had a more equitable distribution of the market share based on total assets since no single institution controlled more than 10% of the market. The top six institutions controlled only 42.4% of the market share of Total Assets. As at 31st December 1994 the distribution of total assets was as follows:-

Table 6: Commercial Banks Market Shares

<table>
<thead>
<tr>
<th>PERCENTAGE OF TOTAL ASSETS HELD</th>
<th>NO. OF BANKS</th>
<th>MARKET SHARE</th>
</tr>
</thead>
<tbody>
<tr>
<td>10.1 to 25.0</td>
<td>4</td>
<td>67.0%</td>
</tr>
<tr>
<td>5.1 - 10.0</td>
<td>0</td>
<td>-</td>
</tr>
<tr>
<td>2.1 - 5.0</td>
<td>4</td>
<td>13.8%</td>
</tr>
<tr>
<td>1.1 - 2.0</td>
<td>8</td>
<td>11.0%</td>
</tr>
<tr>
<td>0.6 - 1.0</td>
<td>8</td>
<td>5.6%</td>
</tr>
<tr>
<td>0.1 - 0.5</td>
<td>9</td>
<td>2.6%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>33</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Table 7: NBFIs Market share

<table>
<thead>
<tr>
<th>PERCENTAGE OF TOTAL ASSETS HELD</th>
<th>NO. OF INST.</th>
<th>MARKET SHARE</th>
</tr>
</thead>
<tbody>
<tr>
<td>5.1 to 10.0</td>
<td>6</td>
<td>42.4%</td>
</tr>
<tr>
<td>2.1 - 5.0</td>
<td>10</td>
<td>32.4%</td>
</tr>
<tr>
<td>1.1 - 2.0</td>
<td>9</td>
<td>12.5%</td>
</tr>
<tr>
<td>0.6 - 1.0</td>
<td>11</td>
<td>10.0%</td>
</tr>
<tr>
<td>0.1 - 0.5</td>
<td>12</td>
<td>2.7%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>48</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
Highlights of Bank Supervision Department

The Department was started in April 1969 as a small office under the then Controller's Department, following the enactment of the Banking Act, 1968. It had only 2 members of staff compared with its current strength of 83 members.

***

In 1990, the design and documentation for comprehensive inspection programmes and other returns for use, both in on-site inspection as well as in collecting data required for off-site surveillance, was completed.

***

The Bank was with effect from 1988, given the mandate to also inspect Building Societies which fall under the general supervision of the Registrar of Building Societies.

***
APPENDICES

I Global Balance Sheet Structure

II Banks and NBFIs 1994 Assets

III Banks and NBFIs 1994 Liabilities and Equities

IV Commercial Banks operating in Kenya as at 30th June, 1994

V Financial Institutions Operating in Kenya as at 30th June, 1994

VI Building Societies Operating in Kenya as at 30th June, 1994


VIII Institutions under CBK Management

IX Summary of responses to Basle Committee Questionnaire
## APPENDIX I

### GLOBAL BALANCE SHEET STRUCTURE

#### YEAR: 1994

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>BANKS</th>
<th>NBFI</th>
<th>TOTAL</th>
<th>BANKS</th>
<th>NBFI</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Cash and Balances with FI (including CBK)</td>
<td>23,126</td>
<td>7,563</td>
<td>30,689</td>
<td>8.3%</td>
<td>2.7%</td>
<td>11.0%</td>
</tr>
<tr>
<td>2. Treasury Bills and Bonds</td>
<td>36,658</td>
<td>20,365</td>
<td>57,023</td>
<td>13.2%</td>
<td>7.3%</td>
<td>20.5%</td>
</tr>
<tr>
<td>3. Loans and Advances (including BDS)</td>
<td>78,272</td>
<td>35,402</td>
<td>113,674</td>
<td>28.1%</td>
<td>12.7%</td>
<td>40.8%</td>
</tr>
<tr>
<td>4. Net Foreign Assets</td>
<td>11,051</td>
<td>38</td>
<td>11,089</td>
<td>4.0%</td>
<td>0.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>5. Other Assets</td>
<td>52,811</td>
<td>13,034</td>
<td>65,845</td>
<td>19.0%</td>
<td>4.7%</td>
<td>23.7%</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>201,918</td>
<td>76,402</td>
<td>278,320</td>
<td>72.5%</td>
<td>27.5%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

#### LIABILITIES AND EQUITY

<table>
<thead>
<tr>
<th>Liabilities and Equity</th>
<th>BANKS</th>
<th>NBFI</th>
<th>TOTAL</th>
<th>BANKS</th>
<th>NBFI</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>7. Deposit Liabilities</td>
<td>139,128</td>
<td>59,605</td>
<td>198,733</td>
<td>50.0%</td>
<td>21.4%</td>
<td>71.4%</td>
</tr>
<tr>
<td>8. Foreign Liabilities</td>
<td>40,181</td>
<td>8,622</td>
<td>48,803</td>
<td>14.4%</td>
<td>3.1%</td>
<td>17.5%</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>179,309</td>
<td>68,227</td>
<td>247,536</td>
<td>64.4%</td>
<td>24.5%</td>
<td>88.9%</td>
</tr>
<tr>
<td>10. Paid-Up/Assigned Capital &amp; Reserves</td>
<td>22,609</td>
<td>8,175</td>
<td>30,784</td>
<td>8.1%</td>
<td>2.9%</td>
<td>11.1%</td>
</tr>
<tr>
<td><strong>Total Liabilities and Equity</strong></td>
<td>201,918</td>
<td>76,402</td>
<td>278,320</td>
<td>72.5%</td>
<td>27.5%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>
APPENDIX II
GLOBAL BALANCE SHEET STRUCTURE
BANKS & NBFIS 1994
ASSETS

- Cash & Balances with FI [including CBK] (30689) 11%
- Treasury Bills & Bonds (57023) 26.5%
- Loans & Advances [Including BDS] (113674) 40.80%
- Net Foreign Assets (11089) 4%
- Other Assets (65845) 23.7%

APPENDIX III
GLOBAL BALANCE SHEET STRUCTURE
BANKS & NBFIS 1994
LIABILITIES & EQUITY

- Deposit Liabilities (198733) 71.4%
- Other Liabilities (48804) 17.5%
- Paid-up/Ass. Capital & Reserves (30784) 11.1%


## APPENDIX IV

### COMMERCIAL BANKS OPERATING IN KENYA AS AT 30TH JUNE, 1994

<table>
<thead>
<tr>
<th>NAME OF BANK</th>
<th>P.O. BOX</th>
<th>FAX NO.</th>
<th>TELEX NO.</th>
<th>TEL. NO.</th>
<th>PHYSICAL ADDRESS OF HEAD OFFICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. ABN-AMRO BANK N.V</td>
<td>30262</td>
<td></td>
<td>22262</td>
<td>710455/6</td>
<td>ABN-Amro Building</td>
</tr>
<tr>
<td></td>
<td>NAIROBI</td>
<td>FAX 254-2</td>
<td></td>
<td></td>
<td>Nyerere Road</td>
</tr>
<tr>
<td>2. AFRICAN MERCANTILE BANKING CO. LTD</td>
<td>30090</td>
<td></td>
<td>25535</td>
<td>333969</td>
<td>19th Floor</td>
</tr>
<tr>
<td></td>
<td>NAIROBI</td>
<td>FAX 333823</td>
<td></td>
<td></td>
<td>Ambank House</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>University Way</td>
</tr>
<tr>
<td>3. BANK OF BARODA (K) LTD.</td>
<td>30033</td>
<td></td>
<td>22250</td>
<td>227869</td>
<td>Tom Mboya</td>
</tr>
<tr>
<td></td>
<td>NAIROBI</td>
<td>FAX 337611-2</td>
<td></td>
<td></td>
<td>Street</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2254-2</td>
<td>229634</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>333809</td>
<td>337913</td>
<td></td>
</tr>
<tr>
<td>4. BANK OF INDIA</td>
<td>30245</td>
<td></td>
<td>22725</td>
<td>221414-7</td>
<td>Kenyatta Avenue</td>
</tr>
<tr>
<td></td>
<td>NAIROBI</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. BANQUE INDOSUEZ</td>
<td>69562</td>
<td></td>
<td>23091</td>
<td>211175</td>
<td>Re-Insurance</td>
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<tr>
<td></td>
<td>NAIROBI</td>
<td>FAX 214196</td>
<td></td>
<td></td>
<td>Plaza Taifa</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Road</td>
</tr>
<tr>
<td>6. BARCLAYS BANK OF KENYA LTD.</td>
<td>30120</td>
<td></td>
<td>22210</td>
<td>332230</td>
<td>Bank House</td>
</tr>
<tr>
<td></td>
<td>NAIROBI</td>
<td></td>
<td></td>
<td></td>
<td>Moi Avenue</td>
</tr>
<tr>
<td>7. BIAHARA BANK OF KENYA LTD.</td>
<td>30831</td>
<td></td>
<td>25161</td>
<td>221064</td>
<td>Kenprop</td>
</tr>
<tr>
<td></td>
<td>NAIROBI</td>
<td>FAX 223168</td>
<td></td>
<td></td>
<td>House Muindi</td>
</tr>
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<td></td>
<td></td>
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<td>254-2</td>
<td>334300</td>
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<td></td>
<td></td>
<td></td>
<td>221679</td>
<td>220632</td>
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<td>8. BULLION BANK LTD.</td>
<td>11666</td>
<td></td>
<td>22441</td>
<td>220939</td>
<td>Nginda</td>
</tr>
<tr>
<td></td>
<td>NAIROBI</td>
<td></td>
<td></td>
<td>220948</td>
<td>Lane Nairob</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. CITIBANK N.A.</td>
<td>30711</td>
<td></td>
<td>22051</td>
<td>333524</td>
<td>Fedha Towers</td>
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<tr>
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<td>22161</td>
<td>334286</td>
<td>Muindi Mbuingu</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>FAX 337340</td>
<td></td>
<td>Street</td>
</tr>
<tr>
<td>NAME OF BANK</td>
<td>P.O. BOX</td>
<td>TELEX NO</td>
<td>TEL NO.</td>
<td>PHYSICAL ADDRESS OF HEAD OFFICE</td>
<td></td>
</tr>
<tr>
<td>--------------------------------------------------</td>
<td>----------</td>
<td>----------</td>
<td>---------</td>
<td>--------------------------------------</td>
<td></td>
</tr>
<tr>
<td>10. COMMERCIAL BANK OF AFRICA LTD.</td>
<td>30437</td>
<td>23205</td>
<td>228881</td>
<td>Wabera Street</td>
<td></td>
</tr>
<tr>
<td></td>
<td>NAIROBI</td>
<td>FAX</td>
<td>340200</td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>335827</td>
<td></td>
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</tr>
<tr>
<td>11. CONSOLIDATED BANK OF KENYA LTD.</td>
<td>51133</td>
<td>22482</td>
<td>220175</td>
<td>Consolidated Bank Hse.</td>
<td></td>
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<tr>
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<td>FAX</td>
<td>340830</td>
<td>Koinange Street</td>
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<td></td>
<td></td>
<td></td>
<td>340920</td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. CO–OPERATIVE BANK OF KENYA LTD.</td>
<td>48231</td>
<td>22938</td>
<td>228974–5</td>
<td>Co–operative House</td>
<td></td>
</tr>
<tr>
<td></td>
<td>NAIROBI</td>
<td>FAX</td>
<td>228454–6</td>
<td>Haile Selassie Avenue</td>
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<td></td>
<td></td>
<td></td>
<td>227747</td>
<td></td>
<td></td>
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<tr>
<td>13. CREDIT BANKING CORPORATION</td>
<td>75501</td>
<td>22814</td>
<td>336446</td>
<td>Corner House</td>
<td></td>
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<td>336453</td>
<td>Kimathi st.</td>
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<tr>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>336437</td>
<td></td>
<td></td>
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<tr>
<td>14. DAIMA BANK LTD.</td>
<td>54319</td>
<td>23275</td>
<td>330620</td>
<td>Utalii House</td>
<td></td>
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<td></td>
<td>NAIROBI</td>
<td>FAX</td>
<td>336189</td>
<td>Off Uhuru Highway</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>330615</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>330617</td>
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<tr>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>15. DELPHIS BANK LTD.</td>
<td>44080</td>
<td>22493</td>
<td>228461/2</td>
<td>Finance Hse.</td>
<td></td>
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<tr>
<td></td>
<td>NAIROBI</td>
<td>FAX</td>
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<td>Koinange St.</td>
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<td></td>
<td></td>
<td></td>
<td>219499</td>
<td></td>
<td></td>
</tr>
<tr>
<td>16. EURO BANK LIMITED.</td>
<td>43071</td>
<td>25010</td>
<td>339265/7</td>
<td>Hamilton Hse</td>
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<td>NAIROBI</td>
<td>FAX – 254</td>
<td>218876/83</td>
<td>Wabera st.</td>
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<td></td>
<td>– 221781</td>
<td>221387</td>
<td></td>
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<td>17. EXPORT BANK OF AFRICA LTD.</td>
<td>45760</td>
<td>713922</td>
<td>713922–6</td>
<td>Chancery Building</td>
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</tr>
<tr>
<td>Under CBK Management</td>
<td>NAIROBI</td>
<td>FAX</td>
<td></td>
<td>Valley Rd.</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>716167</td>
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<tr>
<td>18. FIRST AMERICAN BANK OF KENYA LTD.</td>
<td>30691</td>
<td>22398</td>
<td>333960–2</td>
<td>I.C.E.A Building</td>
<td></td>
</tr>
<tr>
<td></td>
<td>NAIROBI</td>
<td>TELEX</td>
<td>215936/7</td>
<td>Kenyatta Avenue</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19. GIRO BANK LIMITED</td>
<td>40253</td>
<td>22013</td>
<td>230902</td>
<td>Hughes Building</td>
<td></td>
</tr>
<tr>
<td></td>
<td>NAIROBI</td>
<td>FAX</td>
<td>230902</td>
<td>Banda Street</td>
<td></td>
</tr>
<tr>
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<td>Harambee Plaza Haile Selassie Avenue Uhuru Highway</td>
<td></td>
</tr>
<tr>
<td></td>
<td>NAIROBI</td>
<td>214751</td>
<td>338817</td>
<td></td>
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</tr>
<tr>
<td>43. SAVINGS AND LOAN (K) LTD.</td>
<td>45129</td>
<td>FAX</td>
<td>338777 – 8</td>
<td>Salama House Mama Ngina Street</td>
<td></td>
</tr>
<tr>
<td></td>
<td>NAIROBI</td>
<td>334384</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>44. STANBIC FINANCE KENYA LTD.</td>
<td>30550</td>
<td>22397</td>
<td>335888</td>
<td>Kenyatta Avenue</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Nairobi</td>
<td>25207</td>
<td></td>
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<td></td>
<td></td>
<td>330 – 227</td>
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<td></td>
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<tr>
<td>45. SOUTHERN CREDIT FINANCE LTD.</td>
<td>34875</td>
<td>FAX</td>
<td>322512</td>
<td>Jubilee Insurance House Waberi Street</td>
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</tr>
<tr>
<td></td>
<td>NAIROBI</td>
<td>219006</td>
<td>323502</td>
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<td></td>
<td></td>
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<td>323581</td>
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<tr>
<td>46. STANDARD CHARTERED FINANCIAL</td>
<td>40310</td>
<td>TELEX</td>
<td>336533 – 4</td>
<td>International Life House Mama Ngina. Street</td>
<td></td>
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<tr>
<td>SERVICES LTD.</td>
<td>NAIROBI</td>
<td>22209</td>
<td>336450 – 1</td>
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<tr>
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<td></td>
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<tr>
<td>47. THABITI FINANCE CO. LTD.</td>
<td>52882</td>
<td>NONE</td>
<td>330114</td>
<td>City House Standard Street</td>
<td></td>
</tr>
<tr>
<td></td>
<td>NAIROBI</td>
<td></td>
<td>330147</td>
<td></td>
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<tr>
<td></td>
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<td>330228</td>
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<td>330255</td>
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<tr>
<td>48. THE FINANCE INSTITUTION OF AFRICA LTD.</td>
<td>20613</td>
<td>FAX</td>
<td>337002</td>
<td>Nanak House Kimathi Street</td>
<td></td>
</tr>
<tr>
<td></td>
<td>NAIROBI</td>
<td>254 – 2</td>
<td>337070</td>
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<td></td>
<td></td>
<td>337089</td>
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<tr>
<td>49. TRANS – NATIONAL FINANCE CO. LTD.</td>
<td>75840</td>
<td>TELEX</td>
<td>224234 – 7</td>
<td>Transnational Plaza Mama Ngina Street</td>
<td></td>
</tr>
<tr>
<td></td>
<td>NAIROBI</td>
<td>225224</td>
<td>339201 – 4</td>
<td></td>
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<td></td>
<td></td>
<td>339223</td>
<td>339225</td>
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<td>339227</td>
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<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>217877</td>
<td>216793</td>
<td>Clyde Hse. Kimathi Street</td>
<td></td>
</tr>
<tr>
<td>50. TRUST FINANCE LTD.</td>
<td>49342</td>
<td>FAX</td>
<td>212229</td>
<td>Chester Hse. Koinange Street</td>
<td></td>
</tr>
<tr>
<td></td>
<td>NAIROBI</td>
<td>211246</td>
<td>212568</td>
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<tr>
<td></td>
<td></td>
<td></td>
<td>219824</td>
<td></td>
<td></td>
</tr>
<tr>
<td>51. UNIVERSAL FINANCE CO. LTD.</td>
<td>44563</td>
<td>FAX</td>
<td>225797</td>
<td>2nd Floor Victor Hse. Kimathi st.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>NAIROBI</td>
<td>334033</td>
<td>225767</td>
<td></td>
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<td>228732</td>
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<td></td>
<td></td>
<td></td>
<td>228650</td>
<td></td>
<td></td>
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<tr>
<td>52. VICTORIA FINANCE CO. LTD.</td>
<td>41114</td>
<td>FAX</td>
<td>212229</td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>NAIROBI</td>
<td>220048</td>
<td>212568</td>
<td></td>
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<td></td>
<td></td>
<td>219824</td>
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</tbody>
</table>
APPENDIX VI

BUILDING SOCIETIES OPERATING IN KENYA AS AT 30TH JUNE, 1994

<table>
<thead>
<tr>
<th>NAME OF BUILDING SOCIETY</th>
<th>P.O. BOX</th>
<th>TEL. No.</th>
<th>PHYSICAL ADDRESS OF HEAD OFFICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. EAST AFRICAN BUILDING SOCIETY</td>
<td>47499</td>
<td>224204</td>
<td>Fedha Towers Muindi Mbingu Street</td>
</tr>
<tr>
<td></td>
<td>NAIROBI</td>
<td>210304</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>214550</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>214176</td>
<td></td>
</tr>
<tr>
<td>2. EQUITY BUILDING SOCIETY</td>
<td>75104</td>
<td>330433-4</td>
<td>Fourways Towers Muindi Mbingu Street</td>
</tr>
<tr>
<td></td>
<td>NAIROBI</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. FAMILY FINANCE BUILDING SOCIETY</td>
<td>74145</td>
<td>332483</td>
<td>Fourways Towers Muindi Mbingu Street</td>
</tr>
<tr>
<td></td>
<td>NAIROBI</td>
<td>335003</td>
<td></td>
</tr>
<tr>
<td>4. PAN AFRICAN BUILDING SOCIETY</td>
<td>34172</td>
<td>222313</td>
<td>Postbank House Market Street</td>
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<tr>
<td>Under Liquidation</td>
<td>NAIROBI</td>
<td>222355</td>
<td></td>
</tr>
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<td></td>
<td></td>
<td>225302</td>
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<td>226279</td>
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<td></td>
<td></td>
<td>227708</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>227721</td>
<td></td>
</tr>
<tr>
<td>5. PRUDENTIAL BUILDING SOCIETY</td>
<td>28759</td>
<td>227233</td>
<td>Protection House Haile Selassie Avenue</td>
</tr>
<tr>
<td></td>
<td>NAIROBI</td>
<td>227282</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>340261</td>
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</tr>
</tbody>
</table>

REPRESENTATIVE OFFICES OF FOREIGN BANKS OPERATING IN KENYA AS AT 30.06.94

<table>
<thead>
<tr>
<th>NAME OF REPRESENTATIVE OFFICE AND CHIEF OFFICERS</th>
<th>P.O. BOX</th>
<th>TEL. No.</th>
<th>PHYSICAL ADDRESS IN KENYA</th>
<th>DATE ESTAB. IN KENYA</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. BANK OF TOKYO</td>
<td>30441</td>
<td>NAIROBI</td>
<td>International Life Hse Ltd. (3rd Floor) Mama Ngina Street</td>
<td>1963</td>
</tr>
<tr>
<td>Representative Officer</td>
<td>NAIROBI</td>
<td>220951</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mr. S. Matsuda</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
## APPENDIX VII

### COLLAPSED BANKING INSTITUTIONS IN KENYA FROM 1984 TO 1994

<table>
<thead>
<tr>
<th>NAME OF INSTITUTION</th>
<th>DATE LICENSED</th>
<th>DATE CLOSED</th>
<th>REASON(S) FOR FAILURE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Rural Urban Credit &amp; Finance</td>
<td>April, 1982</td>
<td>December, 1984</td>
<td>Interference by Directors in day to day operations.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>High incidence of non-performing loans.</td>
</tr>
<tr>
<td>2. Continental Bank and</td>
<td>May, 1982</td>
<td>August, 1986</td>
<td>Poor lending practices leading to unsatisfactory asset quality.</td>
</tr>
<tr>
<td>3. Continental Credit Finance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Adverse dominant influence on the Board.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Poor Asset quality</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Poor Asset quality</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Under-capitalisation</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Insider loans (unsecured)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Ineffective Board of Directors</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>High incidence of non-performing loans</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Under-capitalisation</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Unsatisfactory asset quality</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Poor credit policies</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Credit concentration</td>
</tr>
<tr>
<td>11. Kenya Savings and Mortgages</td>
<td>1983</td>
<td>Consolidated under Consolidated Bank in Dec., 1989</td>
<td>Mismatch of resources which involved borrowing ‘short’ and lending ‘long’</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Liquidity problem</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Insolvency</td>
</tr>
<tr>
<td>12. Nairobi Finance</td>
<td>May, 1987</td>
<td>April, 1993</td>
<td>Disagreement among the shareholders</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Under-capitalisation</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Poor Asset quality</td>
</tr>
<tr>
<td>13. Middle Africa</td>
<td>April, 1982</td>
<td>August, 1993</td>
<td>Credit concentration (unsecured)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Non-performing placements</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Under-capitalisation</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Overreliance on high cost funds</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Credit concentration to group companies (unsecured and non-performing)</td>
</tr>
<tr>
<td>No.</td>
<td>Institution</td>
<td>Year</td>
<td>Date</td>
</tr>
<tr>
<td>-----</td>
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<td>------------</td>
</tr>
</tbody>
</table>
| 15  | Trade Finance         | 1985   | August, 1993 | - Under-capitalisation  
- Overreliance on high cost funds  
- Credit concentration to group companies (unsecured and non-performing) |
| 16  | Diners Finance        | March, 1988 | August, 1993 | - Domino effect triggered by collapse of Trade Bank  
- Under-capitalisation |
| 17  | Central Finance       | 1984   | April, 1993 | - Lending of unsecured loans  
- Under-capitalisation  
- Heavy reliance on parastatal deposits |
| 18  | Allied Credit         | Feb., 1985 | August, 1993 | - Under-capitalisation  
- Lending of unsecured loans mainly to shareholders and directors |
| 19  | United Trustee        | May, 1985 | April, 1993 | - Insider loans (unsecured)  
- Under-capitalisation  
- Serious mismanagement |
| 20  | Inter African Credit  | March, 1985 | June, 1993 | - Unsecured advances especially to directors and shareholders  
- High incidence of unsecured insider loans  
- Heavy reliance on parastatal deposits |
| 21  | Exchange Bank         | 1991   | September, 1993 | - Persistent violation of Banking Act and CBK Act, hence revocation of banking licence |
| 22  | International Finance | June, 1984 | April, 1993 | - Unsecured credit concentration mainly to insiders  
- Heavy reliance on parastatal deposits |
| 23  | PanAfrican Finance    | July, 1981 | October, 1993 | - Persistent violations of the Banking Act and CBK Act, hence licence revoked by the Minister |
| 24  | PanAfrican Bank       | 1982   | October, 1993 | - Persistent violations of the Banking Act and CBK Act, hence licence revoked by the Minister |
| 25  | Post Bank Credit      | March, 1990 | May, 1993 | - Malpractices in the clearing house  
- Credit concentration |
| 26  | Thabiti Finance       | February, 1982 | 1994 (under CBK management) | - Under-capitalisation  
- Unsecured advances especially to directors and shareholders  
- Overreliance on parastatal deposits |
## INSTITUTIONS UNDER CENTRAL BANK OF KENYA MANAGEMENT

<table>
<thead>
<tr>
<th>Name of Institution</th>
<th>Date Licensed</th>
<th>Date Closed</th>
<th>Reason(s) for Failure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
<td>. Persistent violations of Banking Act and</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>CBK Act hence revocation of banking licence.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>. Malpractices in the Clearing House</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>. Unsecured advances especially to directors</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>and shareholders.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>. Over — reliance on perastatal deposits.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>. Failure to observe minimum cash and liquidity ratio</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>requirements.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>. Over — investment in fixed assets.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>. Ineffective Board of Directors and poor management</td>
</tr>
</tbody>
</table>
APPENDIX IX

ESAF SUMMARY OF RESPONSES TO QUESTIONNAIRE FROM THE BASLE COMMITTEE

AUTHORIZATION PROCESS

i) Describe briefly the requirements which banks/banking groups have to fulfil in order to become authorized in your country. Are the requirements only of an objective character or are there elements of a more discretionary nature which play a role in authorization decision?

BOTSWANA
Minimum initial capital required for foreign banks and joint ventures with 40% share-holding by foreign banks is P5 million and P1 million for local banks. (P=US 40.40). The applicant should be able to provide effective competition. Licensing requirements are largely objective with clearly stipulated criteria.

KENYA
Central Bank has to be satisfied about the financial condition and history of the applicant and of the adequacy of capital structure and earning prospects. No person is allowed to hold directly or indirectly or otherwise have a beneficial interest in more than 25% of the share capital.

NAMIBIA
Banking institution must be a registered public company with a minimum capital of N$2 million. Other requirements are of objective nature.

SOUTH AFRICA
The registrar shall not grant an application for authorization unless he is satisfied that the application meets the requirement under Section 13(2) of the Banking Act.

SWAZILAND
Central Bank conducts an examination of the validity of the documents submitted, the financial status and history of the applicant. The applicant would pay the investigation fee specified in the order and annual fee for the first year which is paid back if the licence is not granted. For banks which are supervised locally, prior consent of the Central Bank has to be obtained in order to own more than 20% of share capital.

LESOTHO
If financial institution is local, it has to be incorporated as a public company under the Company’s Act. Memorandum and copies of articles of association have to be submitted. The requirements are of objective nature.

MALAWI
Reserve Bank looks into the financial condition and history of the applicant. A banking institution must have paid-up capital of at least k2 million and nonbank financial institution at least k250,000. Names of shareholders and their proposed capital commitments have to be produced.

MOZAMBIQUE
Minimum initial capital requirement for banks is M18,000,000,000 (US$1=Mt6,500); Previous and unavailable deposit in Central Bank equivalent to 5% of minimum initial capital required; Names of shareholders and their proposed capital; Memorandum and copies of articles of association have to be submitted; Central Bank has to be satisfied about the financial condition and history of the applicant.

SEYCHELLES
Current practice
Central Bank screens applicant and conducts investigation as to whether applicant is fit and proper person as provided under Section 5(1) of the Financial Institutions Act 1984. Criteria applied are objective in nature and laid down in the F.I. Act.

ZIMBABWE
Minimum initial capital required is Z$15 million. Central Bank looks into the financial strength of the shareholders. The adequacy of the objectives and policies of the bank.

ZAMBIA
The following conditions must be met:
- Capital adequacy;
o Name of proposed auditors
o Details of anticipated shareholding.

For foreign banks, there must be information of the parent company in addition to the above.

ii) If your authorization requirements include a “fit and proper” test, what does the test assess? What objective criteria and what type of background checks are used? To whom does the test apply? Does it extend to senior management of an overseas branch? Does it apply at authorization appointment only or on a continuous basis?

BOTSWANA
For first-tier foreign bank applicants, consideration is given to overall reputation of the global institution. With other foreign banks, analysis of management takes into account:

- financial condition and managerial capability of the parent organization; and
- its reputation in its areas of operation;

For local applicants, they will have to enter into a management contract with a foreign bank given shortage of local bank management skills.

Act reviewed to include “fit and proper” test and bilateral communication between home and host supervisor.

KENYA
Persons who have been declared bankrupt, convicted of criminal offence or removed by the Central Bank from previous management positions are disqualified to be officers or directors.

Working experience is taken into consideration.

The Bank is currently formulating a comprehensive “fit and proper” test which will be enforced by law.

NAMIBIA
Criteria used includes academic qualification, historical, personal and professional background and experience:

The test applicable to Directors, Executive officers and major shareholders on appointment.

SOUTH AFRICA
The following qualities are looked into:

- general probity;
- competence;
- diligence with which the person concerned is likely to fulfil those responsibilities.

SWAZILAND
With first-tier foreign banks, it is assumed that the reputation of management is good.

For other foreign banks, analysis of management takes into account the financial condition and depth of management capabilities.

For local applicants, the focus will either be on the quality and reputation of the bank with whom a management contract is entered into.

LESOTHO
The fit and proper test ascertains the character and experience of management. The test is applied on continuous basis.

MALAWI
Not applicable.

MOZAMBIQUE
The test assesses the capability of the proposed management of the bank. Criteria used include academic qualification, personal and professional background and experience. The test is applicable to Directors, Executive Officers and major shareholders. The test is applied at authorization of appointment and on a continuous basis.
SEYCHELLES
Test applied include the financial status and history of the applicant; the character and experience of management; the adequacy of its capital structure; and the earnings prospects. For first-tier foreign bank applicants, consideration is given to overall reputation of the institution. For other foreign banks, consideration is given to international reputation, financial condition and managerial capability of the parent bank. Tests apply at point of authorisation only.

ZIMBABWE
Fit and proper test assesses the capability of the proposed management to run the bank.

ZAMBIA
This requirement is subject to circumstances applicable to individual applications.

iii) In the case of banks/banking groups for which you are the home supervisor: - do you have control over ownership i.e. is your prior approval required for the acquisition of shares above a certain threshold? Do you have the capability to prevent corporate affiliations or structures that either undermine efforts to maintain consolidated supervision or otherwise hinder effective supervision?

Is specific authorization from you required in order to set up an establishment abroad? If so, are there any special requirements that must be satisfied?

Is it conceivable that you would allow a bank/banking group to set up an establishment in one country but not in another?

BOTSWANA
The statute restricts ownership of a bank by a single person without the approval of Central Bank to 20%.

Banks cannot enter into a merger or consolidation without the prior approval of the Central Bank.

No consolidated supervision

No majority locally owned banks

KENYA
The Act empowers the Central Bank to control ownership.

A provision is to be incorporated to the effect that change of ownership affecting 5% and above of the shareholding must have prior approval of the Central Bank.

The Central Bank controls corporate affiliations or structures that may undermine efforts to maintain supervision.

NAMIBIA
Yes, 10% i.r.o. share-holders. There are different limits regarding foreign shareholders depending on the type of business the institution is involved in.

Banks cannot enter into a merger or consolidation without prior approval by the Central Bank.

Limitations on ownership of other entities.

Yes a banking institution must confirm that it will supply the Central Bank with any information requested.

Authorisation is required in order to set up an establishment abroad.

We may allow a bank to set up an establishment in one country and not in another.

SOUTH AFRICA
Prior approval has to be sought for acquisition of shares in excess of 15% and 24%, respectively, by banks and controlling companies, and for increases above 49% and 74%.

With regard to the consolidated supervision of banking groups and their cross-boarder establishment, the Central Bank endorses the four minimum standards set by the Basle Committee on Banking Supervision.
SWAZILAND
Approval of the Central Bank has to be sought for acquisition of shares exceeding 20% of the voting shares.
Banks cannot enter into a merger or consolidation without prior approval by the Central Bank.

LESOTHO
Approval of the Central Bank has to be sought for an acquisition of shares exceeding 20% of the voting shares.
Banks cannot enter into a merger or consolidation without prior approval by the Central Bank.

MALAWI
The Reserve Bank assesses the shareholders but does not control the levels of shareholding. However a Bank is not allowed to:

a) Purchase shares in its own business or make loans against such shares as collateral
b) reduce its capital base by repayment of capital base or distribution of reserves
c) participate in any other company to an extent in excess of 10% of the paid up capital
d) The approval of the reserve Bank has to be sought for a merger or consolidation

Specific authorization is required from the Reserve Bank for any bank to set up an establishment abroad.
There are no specific requirements to be fulfilled.

MOZAMBIQUE
Prior approval of the Central Bank has to be sought for changes in ownership of banks.
Cross boarder investments by banks have to be approved by Central Bank.

No consolidated supervision. There are no requirements to be satisfied in order to set up an establishment abroad.

SEYCHELLES
The F1 Act does not empower the Central Bank to control ownership.
Banks cannot enter into amalgamation with, or transfer assets and liabilities to, any other financial institution
without prior Central Bank approval.
Banks also cannot hold investments exceeding 25% of their capital funds. Apart from above, no additional capability to prevent structures that hinder effective supervision.
Existing legislation does not provide for consolidated supervision.
Specific authorization is required for a bank to establish presence abroad.
We are not likely to allow a bank to set up establishment abroad unless dictated by national policy and interests.

ZIMBABWE
Approval of the Central Bank required for purchase of shares in excess of 10% of banks capital
Prior approval of the Central Bank has to be sought for changes in ownership of banks.
Cross boarder investments by banks have to be approved by the Central Bank.

ZAMBIA
There is no legislation which is applicable to this, but it is a practice for banks to seek the approval of the Central Bank in order to sell a substantial part of their shares. In the proposed new Banking Act, approval would be sought for acquisition of shares exceeding 25% of voting shares.

It is possible to allow a bank/banking group to set up an establishment in one country but not in another.

This may arise in extreme cases.

iv). SUPERVISORY METHODS

iv) What financial and prudential information do you collect from banks/banking groups in your jurisdiction?
By what means do you confirm the reliability of such information? To what extent do you rely on the work of external auditors?

BOTSWANA
Balance sheets - Monthly
Income statements - quarterly.
Reliability of information checked by reconciliation of and consistency check of bank’s annual financial statements and verification of information submitted in statutory returns during on-site examination.
Auditors’ reports used for calculation of capital adequacy ratios.
KENYA
Liquidity statements - Every 10 days
Profit & loss Account - Quarterly.
Parastatal deposits - semi annually (June and December).
Maturity analysis of assets and liabilities - Quarterly.
Management letters - annually.
Risk classification for bad and doubtful advances and bill discounts - annually.
Facilities exceeding statutory limits-annually.
Facilities to shareholders, directors and associates - annually.
Twenty largest lendings - annually.
Capital assets ratio - annually.
Confirmation of the information is done during on-site inspection.
Work of external auditors is considered complimentary.

NAMIBIA
Minimum reserves and liquid assets - monthly
Currency risk - monthly
Balance sheet - Quarterly
Income Statement - quarterly
Overdue, non-accrual and provisions - quarterly
Large exposure - quarterly
Analysis of investment and interest held - half yearly
Shareholding in a banking institution/controlling company - annually
For checking purposes, a comparison is made with previous returns and consultation with banking institutions
in principle.
The Central Bank relies on external auditors to a large extent and in principle, on on-site inspections.

SOUTH AFRICA
Balance sheet - monthly
Off-balance sheet activities - monthly
Income statements - monthly
Assets backed securitisation - annually
Investment and interests held - annually
Shareholders of bank or controlling company - monthly
Analysis of net trading income and reserve transfers - six months
Liquidity risk, maturity ladder and asset liability cash flows - monthly
Minimum reserve balance and liquid assets - monthly
Capital adequacy - quarterly
Interest rate risk - monthly
Market risks - monthly.
Trading risk - monthly
Credit risks - quarterly.
Large exposures about 25% - when entering into such a transaction
Large exposure above 10% - quarterly
Assets bought in - annually
Currency risk - monthly
Restriction on investments, loans and advances - annually
On-site inspections are not undertaken.

SWAZILAND
Balance sheet - monthly
Analysis of outstanding loans and advances by borrower - monthly
Classification of outstanding loans and advances - monthly
Income statement - quarterly
Analysis of deposits by type - quarterly
Statement on local assets to be maintained - quarterly
Computation of capital adequacy based on risk weighting - quarterly
Analysis of outstanding loans and advances by interest rate - quarterly
Reliability of information is confirmed by a thorough check of the returns.
The Central Bank relies on the work of External Auditors.

LESOTHO
Balance sheet - monthly
Loan portfolio of large exposure - quarterly
Reliability of information confirmed during on-site inspections.

MALAWI
Reliability of information confirmed during on-site inspections and audited accounts.
The Reserve Bank relies on the work of external auditors.

MOZAMBIQUE
Balance Sheet - monthly
Liquidity risk - monthly
Net open position for all foreign currencies - weekly
Large credit exposure above 15% of bank’s capital - quarterly
Provision for credit risk - quarterly
Fixed assets limit - quarterly
Computation of capital adequacy based on risk weighted assets - every six months
Income Statements - every six months
There is no formal relationship between supervisors and external auditors.
Reliability of information is checked through on-site inspections.

**SEYCHELLES**
Monthly Asset and Liability returns - yearly
Profit and Loss statements - weekly
Statutory reserve ratio, capital adequacy ratio and local assets ratio - weekly
Monthly and quarterly returns on certain loans and advances
Reliability of information checked mainly by off-site reconciliation exercises and on-site verification of information submitted on statutory returns.
Central Bank relies on work of external auditors as a complementary element in its supervision activities.
Appointments of external auditors by banks have to be to the satisfaction of the Central Bank.

**ZIMBABWE**
Balance sheet - quarterly
Income Statement - quarterly
Maturity structure of assets and liabilities - quarterly
Currency exposure - daily
Management accounts - quarterly
Provisions - quarterly
Large exposure - quarterly
Maturity analysis of assets and liabilities in foreign currency - weekly
Currently, no means to verify accuracy of information supplied due to legal constraints. However, for foreign currency exposures and maturity analysis, we conduct on-site examinations.
No formal relationship between supervisors and external auditors. However, we do request them to conduct inspections on specific supervisory issues.

**ZAMBIA**
Balance Sheet - bi-monthly
Income statements - quarterly
Liquidity Returns - weekly
Guidelines on:
- Capital - quarterly
- Non-performing loans - quarterly
- Large credit exposures - quarterly.

v) Do you undertake or commission on-site inspection of banks or banking groups in your jurisdiction? If so, please indicate who carries them out, their scope and their usual frequency?

BOTSWANA
On-site inspections are carried out by an Examinations Team. The examinations are usually carried out every 18 to 24 months and cover CAMEL components, internal controls and any issues of prudential concern.

KENYA
On-site inspections are carried out by Examiners from Bank Supervision Department and cover institution's capital, assets, management, earnings and liquidity. On-site inspections are carried out once a year for every institution.

NAMIBIA
Currently there are no on-site activities but will commence soon. May appoint external examiner/inspector.

SOUTH AFRICA
On-site inspections are not undertaken.

SWAZILAND
Bank Supervision Department carries out on-site examinations. Full scope examinations are done for problematic banks, and limited scope for all other banks. This is carried out annually.

LESOTHO
On-site inspections are carried out and cover practically all the major aspects of the bank's operation. The inspections are carried out once every two years.

MALAWI
On-site inspections are undertaken at least once a year or at the discretion of the Bank.

MOZAMBIQUE
On-site inspections are undertaken and cover practically all the major aspects of the bank's operations. There is no fixed frequency of on-site inspections.

SEYCHELLES
On-site examinations are carried out periodically. Main areas of focus include compliance with legal and administrative guidelines, and review of loans and advances for adequacy of provisioning for bad and doubtful debts. Usual frequency, once in three years.

ZIMBABWE
Full scale inspections are still constrained by lack of legislation. However, since January, 1994, Banking Supervision has carried out fortnightly inspections on foreign exchange operations based on the Exchange Control Act.

ZAMBIA
On-site inspections are undertaken by banking supervisors in the Central Bank. Frequency of inspections is on average 18 months, but may be reduced to 12 months for weak institutions.

(vi) In the case of banks/banking groups for which you are the home supervisor, do you receive financial information on global consolidated basis (i.e., reflecting the activities of separately incorporated banking establishment abroad as well as branches of the parent bank/banking group?) if so, do you take account of all banking activities within a banking group even if some are held through an intermediate non-bank holding company? Do you also receive financial and prudential information on any non-banking activities undertaking by banking groups.

BOTSWANA
All the Banks in Botswana are locally incorporated subsidiaries of foreign banking groups and do not have separate banking or non-banking establishments abroad.

No call for consolidated information.
KENYA
Currently, there is no legal provision for establishment of locally incorporated banks abroad.

NAMIBIA
Not applicable.

SOUTH AFRICA
All banking groups are required to submit copies of their consolidated financial statements (including non-banking business) on an annual basis.

SWAZILAND
No information is received on a global consolidated basis.

LESOTHO
None of the banks have branches abroad.
Barclays Bank is the only branch of foreign group operating in Lesotho.

MALAWI
The Reserve Bank receives financial and prudential information on a consolidated basis. None of the banks have banking establishments abroad.

MOZAMBIQUE
No information is received on a global consolidated basis.

SEYCHELLES
Not applicable at the current time.

ZIMBABWE
Banking groups will soon be required to submit information on a consolidated basis taking into account all their subsidiaries, banking or non-banking.

ZAMBIA
There is only one bank with a branch and subsidiary outside Zambia. The information received does not include the establishment outside the country. No information is received on non-banking subsidiaries except where the non-banking activities are with the bank e.g. leasing.

(vii) If you do not receive information on a global consolidated basis, what measures do you take to supervise overseas operations on the banks/banking groups for which you are the home supervisor?

BOTSWANA
Not applicable. However, performance of other banks is assessed as part of international operations through IBCA ratings for purposes of guarantees to borrowers.

KENYA
Not applicable. However, information on non-banking activities is received

NAMIBIA
Not applicable

SOUTH AFRICA
Not applicable

SWAZILAND
Not applicable

LESOTHO
Not applicable

MALAWI
Not applicable.

MOZAMBIQUE
Not applicable

SEYCHELLES
Not applicable.
ZIMBABWE
The intention is to set limit of 25% of capital base once legislation has gone through.

ZAMBIA
Limited information on overseas operations is requested for during on-site inspections

(viii) What limits, if any, do you apply with regard to the extent to which a bank or a banking group can lend to:-
(a) any one customer including any arrangements for treating groups of borrowers as one risk;
(b) companies or persons connected with the banking group itself; and
(c) particular sectors (e.g. real estate).

BOTSWANA
Maximum is 50% of banks capital.
(a) As a policy banks lend up to 25% unsecured to parastals, and secured facilities are limited to 50% of core capital.
(b) Unsecured facilities of Directors limited to P50,000.
Unsecured facilities of officers and employees are limited to an amount up to 1 year's emoluments of such officer or employee.
(c) No limit to particular sectors.

KENYA
Currently, the limit is 100% of bank's capital and unimpaired reserves. The limit is, however, under review with the objective of reducing the level to 25% of capital and unimpaired reserves.

NAMIBIA
(a) None
(b) 5% of total liabilities to the public.
(c) None

SOUTH AFRICA
(a) None.
(b) Banks' investment in, and loans to, subsidiary companies or associates whose main business is the holding, acquisition or development of immovable property is limited to the bank's capital and reserve plus the revaluation amount of fixed property.
Investments in loans and advances to subsidiary companies not mentioned above are limited to 10% of the bank's liabilities excluding capital and reserves
(c) There are no restrictions on loans to particular sector.

SWAZILAND
(a) Lending more than 10% of bank's capital to companies whose shareholding is directly or indirectly more than 25% foreign-owned has to be authorised by the Central Bank.
(b) Facilities extended to Directors exceeding SZL50,000.00 have to be approved by the Central Bank.
(c) No restrictions are applicable.

LESOTHO
(a) 10% of capital.
(b) No limit.
(c) No limit.

MALAWI
(a) Restricted to maximum of 25% of the bank's capital base.
(b) Silent.
(c) No limit to particular sector.

MOZAMBIQUE
(a) 25% of bank's capital.
(b) Banks investments into subsidiary companies is limited to 15% of bank’s capital or 25% of company’s capital.

(c) No limit.

SEYCHELLES
(a) Credit limit to single customer fixed at 10% of sum of total deposit liabilities and capital funds of a bank.

(b) No limits other than that specified above. Loans to directors and director interested concerns are subjected to other controls such as requirement to declare interest, approval by two thirds of the full board and need for adequate security.

(c) No limits in force.

ZIMBABWE
(a) No limits have been enforced due to legal constraints.

(b) No limits

(c) No limits

ZAMBIA
(a) 22% of bank’s capital.

(b) 25% of the bank’s capital.

(c) No limit to particular sectors. It is left to the management’s discretion.

(ix) How do you monitor (a) SOLVENCY - do you lay down particular capital requirements or ratios (if not, is it your intention to introduce such requirements in the near future)? How do your requirements (or your intended requirements) compare with the BASLE ACCORD?

BOTSWANA
The minimum capital to be maintained by commercial banks should not be less than P1,000,000 or 6% of their total assets in terms of the most recent balance sheet, whichever is greater and P100,000 or 8% of the total assets for credit institutions. As a policy, banks have to hold capital in accordance with Basle Accord, i.e. 4% core capital to risk weighted assets and 8% total capital to risk weighted assets.

KENYA
The bank has adopted a capital to weighted assets ratio to measure solvency. The weighting is more or less along the lines of the BASLE ACCORD.

NAMIBIA
Minimum capital requirements is N$ 2 million. However, in the Banking bill, it is proposed to be in line with the BASLE ACCORD.

SOUTH AFRICA
Capital Ratio to be maintained is 7% and will be 8% from January 1995.

SWAZILAND
Banks required to maintain minimum risk weighted capital of not less than 8% and minimum capital of not less than 5% of total liabilities to the public.

LESOTHO
Capital requirement based on the ratio of liabilities to the public. Moving towards the BASLE ACCORD.

MALAWI
Minimum Core Capital to be maintained by licensed banks should be equal to K2.0 million.

The banks are to maintain core capital of 4% or more of capital requirements and total capital of 8% or more of capital requirements.

The Reserve Bank has set a desired level of core capital and total capital at 6% and 8%, respectively.

MOZAMBIQUE
The amount of capital to be maintained by banks should not be less than the minimum initial capital required. Capital adequacy ratio will be 4% from December 1994, 6% from December 1995 and 8% from December 1996. Definitions and weightings are along the lines of the Basle Accord.
SEYCHELLES
Minimum capital required is SR2.0m for local banks and SR4.0m for foreign banks. In addition, banks are required to maintain capital funds at least 5% of total deposit liabilities. Comparison with Basle Accord not possible due to absence of statistics but existing standard considered conservative since about 50% of bank assets constitute claims on Government.

ZIMBABWE
The Central Bank intends to monitor solvency through capital requirements and ratios based on the Basle Accord.

ZAMBIA
Capital adequacy ratios are stipulated for banks to abide by.

Requirements are equivalent to the Basle Accord, i.e. 8% converted to 5.5%.

How do you monitor (b) ASSET QUALITY -
do you make an assessment on provisioning policy? If so, what is the basis for determining the adequacy of provisions? What action do you take if provisioning policy appears to be inadequate?

BOTSWANA
The level of provisions to be maintained is left to the discretion of bank management but the Central Bank has to be satisfied with the adequacy.

General provisions are maintained at no less than 1% of total advances.

KENYA
Guidelines on loan classification have been formulated by the Central Bank. Banks are required to make a general provision equivalent to 1% of their total advances and Bill discounts net of the specific provisions.

NAMIBIA
The banks report their provisions made on overdue loans and advances.

Adequacy of provisions would be determined during on-site inspections once this has started.

SOUTH AFRICA
Adequacy of bank’s provisions assessed on a quarterly basis.

SWAZILAND
Banks are required to submit a list of accounts for which provisions have been made at each financial year-end.

Adequacy determined during on-site examinations.

LESOTHO
An assessment of the provisioning policy is made and adequacy of provision is based on the quality of the portfolio.

MALAWI
A directive has been issued by the Reserve Bank on asset quality in which banks are required to differentiate between performing and non-performing loans. Non-performing loans are provided as:-

i) 20% of outstanding balance for substandard assets.
ii) 50% for doubtful assets.
iii) 100% for assets in loss category.

MOZAMBIQUE
Guidelines on provisions policy have been formulated by the Central Bank. The basis for determining the adequacy of provisions are:

**Provision for Non-performing Loans**

<table>
<thead>
<tr>
<th>Month</th>
<th>3- 6</th>
<th>6-12</th>
<th>12-48</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>5%* / 20%**</td>
<td>20%* / 45%**</td>
<td>45%* / 75%**</td>
</tr>
</tbody>
</table>
> 48 = 100%*/100%**

*with collateral
**without collateral

Provisions for general credit risk - 2%

Provisions for foreign currencies risk - 100%.

SEYCHELLES
Assessment of provisioning policy is carried out in an informal manner. Currently, the level of provisioning is left to the discretion of the banks and the Central Bank reviews it during on-site examinations.

Banks are persuaded to make the additional provision required as assessed by the Central Bank.

ZIMBABWE
In the new legal framework, Banking Supervision will have power to require banks to maintain certain levels of provisions reflecting the quality of assets. We intend to use the level of criticised loans during on-site inspection to determine the adequacy of provisions.

ZAMBIA
The Central Bank takes into account the chances of recovery of loans in determining the adequacy of provisions. The value of security is also considered.

How do you monitor (c) COUNTRY RISK EXPOSURE - please describe any provision, ratios or other rules you apply.

BOTSWANA
Not applicable

KENYA
Not applicable

NAMIBIA
Not applicable

SOUTH AFRICA
Not applicable

SWAZILAND
Not applicable

LESOTHO
Not applicable so far

MALAWI
Not applicable

MOZAMBIQUE
Not applicable

SEYCHELLES
No country risk exposure policy in practice.

ZIMBABWE
Not applicable

ZAMBIA
Not applicable.
How do you monitor (d) LIQUIDITY CONTROL SYSTEM - please give details of any requirements or ratios that banks/banking groups are expected to observe (in respect of your own currency and or foreign currencies). Are you aware of possible liquidity requests from overseas branches or separately incorporated foreign establishment on the banks/banking groups which you are home supervisors?

As host supervisors, how much do you rely on the control system used by parent banks to oversee liquidity on a global basis?

**BOTSWANA**
Banks are required to maintain liquid assets up to 20% of deposits and credit institutions 6%.

There is reliance on the control system used by parent banks but we see to it that local subsidiaries’ own management of liquidity is adequate.

**KENYA**
Statutory liquidity ratio is 20% for a bank and 24% for a non-bank institution regulated under the Banking Act.

No reliance on the bank’s parent banks for overseeing liquidity on a global basis.

**NAMIBIA**
Liquid assets requirement determined as a percentage of their short, medium and long-term liabilities. Not much applied.

There is no reliance on the control system used by parent banks. See to it that total subsidiaries own management of liquidity is adequate.

**SOUTH AFRICA**
Liquidity assessed through the assessment of the maturity ladder and the expected cash-flows proceeded by the bank’s assets and liability model. Banks should hold a buffer stock of high quality liquid assets amounting to 5% of the bank’s liabilities (excluding capital and reserves).

Little reliance is placed on the control system used by parent banks.

**SWAZILAND**
Banks are required to maintain liquid assets of not less than 17.5% of domestic deposits.

**LESOTHO**
Banks are required to maintain liquid assets amounting to not less than the aggregate of:

- 30% short-term liabilities to the public;
- 20% medium-term liabilities to the public;
- 5% long-term liabilities;
- 10% liabilities under acceptance.

**MALAWI**
Silent.

**MOZAMBIQUE**
According to the maturity, banks have to adequate the relationship between their assets and liabilities in order to control the liquidity. In addition, banks must hold a certain percentage of their deposits in the Central Bank.

Not applicable to parent banks on a global basis.

**SEYCHELLES**
No formal liquid assets ratio at present. Currently, banks are required to maintain 20% of deposit liabilities as statutory reserve with Central Bank, half of which (10%) is interest-bearing. In addition, banks are required to hold at least 50% of their total deposit liabilities in form of government securities, such as treasury bills and bonds which may be discounted at the Central Bank window if need for liquidity arises.

No overseas branches or foreign establishments at the present time.

No reliance placed on control systems used by parent banks to oversee liquidity on a global basis.

**ZIMBABWE**
Liquidity is assessed through the maturity of assets and liabilities.
Statutory liquidity ratio is currently 10%.

**ZAMBIA**

Banks are to maintain a minimum ratio of liquid assets to liabilities to the public, currently 37.5%.

Banks are also required to maintain cash not less than 30% of deposits of which 6.5% is interest-bearing and 23.5% is non-interest bearing.

**How do you monitor (e) Foreign Exchange Position?**

**BOTSWANA**

Limits are set per bank.

**KENYA**

Each bank has been allocated foreign exchange operating limits.

**NAMIBIA**

Through submission of monthly returns.

**SOUTH AFRICA**

A bank’s net open position in all foreign currencies may not exceed an amount equivalent to 10% of capital and reserves.

**SWAZILAND**

Banks are required to render a monthly summary of foreign exchange transactions.

**LESOTHO**

No regulation or provision for this but the Bank is interested in foreign exchange exposure risks.

**MALAWI**

No directive for foreign exchange.

**MOZAMBIQUE**

A bank’s net open position for all foreign currencies may not exceed an amount of 20% of capital and reserves. For each foreign currency 10%.

**SEYCHELLES**

No directive on limits for foreign exchange positions.

**ZIMBABWE**

Guidelines on individual foreign currency net open positions is 10% of capital base and total foreign currency net open position limit is 20% of capital base.

**ZAMBIA**

Not applicable.

**How do you monitor Off-balance Sheet Activity (e.g. Forwards, swaps, options)**

**BOTSWANA**

Monitored through quarterly returns and assessed during on-site examinations.

**NAMIBIA**

Banks do not report on off-balance sheet activities.

**SOUTH AFRICA**

Monitored by assessing the information submitted in reports of all applicable risks.

**SWAZILAND**

A return on forward exchange contracts submitted monthly.

Exchange control permission is to be obtained for transactions in Swaps, Options and other derivatives.

**LESOTHO**

Interested in contingent liabilities. No forward swaps or options.
MALAWI
No directive on off-balance sheet.

MOZAMBIQUE
Off-balance sheet activities are reported and monitored at the same time with balance sheet.

SEYCHELLES
No effective monitoring at the moment.

ZIMBABWE
Forwards are reported in the daily foreign exchange positions mentioned above.
Other off-balance sheet items are reported quarterly. No swaps and options.

ZAMBIA
Not applicable.

(x) Are you responsible for ensuring that banks/banking groups in your jurisdiction maintain adequate accounting and other records and adequate systems of control? If so, how do you do this?

BOTSWANA
Yes. The assessment of adequacy of records is done during on-site examinations. It involves physical check and verification of controls and records.

KENYA
Yes. Assessed during on-site inspections. The Central Bank may issue directions to an institution requiring the institution to maintain records in addition to any already maintained.

NAMIBIA
Relies on external auditors’ approval of the accounting system. Will be major object of on-site supervision.

SOUTH AFRICA
The responsibility lies with the external auditors of the institutions concerned.

SWAZILAND
Yes, monitored by reliance on the work of internal and external auditors.

LESOTHO
Yes. Assessed during on-site inspections

MALAWI
Yes. Monitored by reliance on the work of external auditors

MOZAMBIQUE
The assessment of adequacy of records is done during on-site examinations.

SEYCHELLES
Yes. Mainly done through on-site examinations.

ZIMBABWE
It will be a requirement under the proposed Act. Internal controls and accounting systems will be checked during on-site inspections.

ZAMBIA
Yes. Monitored by reliance on the work of internal and external auditors

(x) Please describe any other significant techniques you use in the supervision of banks/banking groups in your jurisdiction.

BOTSWANA
Banks are supervised by holding bilateral meetings with management to discuss pertinent issues raised by either party (Central Bank or bank).
NAMIBIA
None

SOUTH AFRICA
(a) Series of graphs covering spectrum of banking risks are presented to the boards of directors of banks on an annual basis.
(b) The Central Bank holds trilateral meetings with management of concerned bank and external auditors annually to discuss selected areas of risks.

SWAZILAND
None

LESOTHO
Surprise checks are made on banks eg. on accuracy of statutory returns.

MALAWI
Other techniques used include off-site surveillance which makes use of periodic reports submitted to the Reserve Bank, and on-site inspection.

MOZAMBIQUE
None

SEYCHELLES
Monthly meetings held between senior bankers and management of Central Bank which include discussion of supervision matters if necessary.

ZIMBABWE
Meetings are held with bank management when need arises to discuss policies and performances with a view to correcting any deficiencies noted.

ZAMBIA
Interviewing of bank management when certain problems arise.

(xii) Please describe briefly the range of measures and actions you might consider taking if the banks/banking groups in your jurisdiction fail to comply with prudential requirements (e.g. in respect of capital or liquidity standards) or if other factors (e.g. management & organizational) are a cause for concern.

BOTSWANA
(a) The Central bank may:
   i) impose some penalties.
   ii) make recommendations to the bank to adjust its position within a specific period.
   iii) require major shareholders to inject additional funds.
   iv) cause a re-audit if not satisfied with the quality of the bank's external auditors.
   v) manage the bank temporarily (60 days).
(b) Management of banks may be removed if the Central Bank feels it is incompetent.

KENYA
(a) (i) The annual operating licence is not granted or granted conditionally.
   (ii) Penalty interest charges made for non-compliance with asset quality requirements.
(b) Where management does not comply with requirements, the Central Bank may make recommendations to the bank or appoint a person to advise and assist the bank.

NAMIBIA
The Central Bank may:
a) impose penalties;

b) appoint a person who will take over management of the bank concerned if management performs its duties in an unsound manner; or

c) de-register such institution.

SOUTH AFRICA
a) Fines may be imposed on a bank that fails to comply with requirements.

b) Where management and organisation are a cause of concern, the Central bank holds meeting with Chief Executive Officers and if necessary Board of Directors. If there is a position regarding directors the Chairman of the board would be approached and if appropriate the shareholders.

SWAZILAND
a) The Central Bank may appoint a person with proper training and experience to advise a bank that might be conducting the business in an unlawful or unsound manner.

b) The Central bank may after obtaining approval of the Minister of Finance apply to a judge of the High Court for an order authorising it to take over any financial institution that conducts its business in an unsound manner.

LESOTHO
a) The Central Bank takes action where the Act provides for imposition of penalties otherwise the bank uses moral suasion.

b) The commissioner has powers to revoke a licence or take over a financial institution whose business is conducted in an unlawful or imprudent manner.

MALAWI
The Central Bank may:

i) require such a bank to institute measures to rectify the situation.

ii) add conditions to the license;

iii) remove any bank's executive officers;

iv) appoint an experienced person to advise the bank on measures to be taken.

v) prohibit banks from declaring and paying dividends.

vi) suspend access to credit facilities of Reserve Bank.

MOZAMBIQUE
i) Make recommendations to the bank to adjust its position within a specific period

ii) Hold meetings with chief executive director;

iii) Recommend bank to invite external auditors;

iv) Impose some penalties.

v) Management of banks may be removed if the Central Bank feels it is incompetent.

SEYCHELLES
Penalties may be imposed on a bank that fails to comply with requirements. Banks may be given a grace period over which necessary adjustments will have to be made to ensure compliance. Where management or organizational problems emerge, the Central Bank may enter into a consultative process with the chief executive officer or the board of directors where appropriate.

ZIMBABWE
If the situation warrants, the Central Bank is empowered, with the concurrence of the Minister of Finance, to take over the bank and to re-organize/manage it in the best interests of its depositors.
The Central Bank hopes to employ the following measures:

i) request the institution to rectify the problem;

ii) impose a fine on a member of the management or institution itself;
iii) appoint a temporary administrator;
iv) revoke a banking licence.

ZAMBIA
(a) Positive interest charges are made.
(b) There are no legal powers that deal with directors or managers of banks who are involved in an unsafe and unsound practices.

ACCESS TO INFORMATION

(Xiii) If you receive information in confidence from supervisors in other companies, what is the nature of the protection that such information received can:-

a) the courts:

b) government officials; or

c) parliamentarians obtain access to it?

BOTSWANA
Information received from other supervisors is kept confidential and restricted to staff who need to process such information.

a) Courts

The Central Bank may evaluate whether there is a need to disclose particular information.

b) Government officials.

There is possibility that information may be disclosed to officials in the Ministry of Finance depending on the assessed extent of confidentiality.

c) Parliamentarians

Official disclosure of information to members of parliament would be by the Minister of Finance on the advise of the Central Bank.

NAMIBIA

There is a secrecy clause regarding this issue.

Information may be disclosed to the court and to the Minister of Finance whenever need arises.

SOUTH AFRICA

a) Courts: Information may be disclosed to the court.

b) Government official information may be disclosed to the Minister of Finance or Director General.

c) Parliamentarians have no access to information.

SWAZILAND

The courts, government officials or parliamentarians do not have access to information.

LESOTHO

The information is kept confidential.

a) Courts

Courts can have access to information when necessary.

MALAWI
Not applicable

**MOZAMBIQUE**
Courts can have access to information when necessary: Information may be disclosed to the Ministry of Finance; Parliamentarians have no access to information.

**SEYCHELLES**
Courts may have access to information if they have issued a court order to that effect.
Government officials do not have access, with the possible exception of the Minister of Finance who would be informed by the Central Bank if there is a need.
Under existing legislation, parliamentarians do not have access.

**ZIMBABWE**
The proposed legislation provides that information may be passed on to:

a) the courts if it appears that a criminal offence has been committed.

b) the Minister of Finance if in the opinion of the Bank, it is in the public interest to do so.

c) Parliamentarians have no direct access to the information.

**ZAMBIA**
Information to be disclosed to courts, government officials and parliamentarians.

(xiv) Please describe briefly any legislation which prevents a bank or banking group for which you are the host supervisor from passing information to: (a) its parent bank or head office; or (b) its home supervisor

**BOTSWANA**
None

**KENYA**
None

**NAMIBIA**
None

**SOUTH AFRICA**
None

**SWAZILAND**
None

**LESOTHO**
None

**MALAWI**
Not applicable

**MOZAMBIQUE**
Not applicable

**SEYCHELLES**
Apart from specific circumstances provided in the FI Act, the banking secrecy provision restricts banks from making disclosure of confidential depositor information to any other person.

**ZIMBABWE**
None

**ZAMBIA**
None
(xv) Are internal auditors from parent bank or head office entitled to inspect the books of banks for which you are the supervisor, are they permitted to learn the names of individual depositors and borrowers?

BOTSWANA
   Yes
KENYA
   Yes
NAMIBIA
   Yes
SOUTH AFRICA
   Yes
SWAZILAND
   Yes
LESOTHO
   Yes
MALAWI
   Not applicable
MOZAMBIQUE
   Yes
SEYCHELLES
   Yes
ZIMBABWE
   Yes
ZAMBIA
   Yes

(xvi) Are the home supervisory authorities of banks/banking groups for which you are host supervisor entitled to conduct on-site inspections in your country? If so, are there any restrictions on access to information? Are they entitled to see any reports you may have made about the bank or instructions you have given to it.

BOTSWANA
   There is no policy as to whether home supervisory authorities are or are not entitled to conduct on-site inspections in Botswana. In terms of current law, reports on banks are confidential. There might be change with promulgation of banking bill.
KENYA
   They are allowed to carry out on-site inspections and have access to information relating to the concerned banks.
NAMIBIA
   The home supervisory authority are allowed to conduct on-site inspections and they have access to reports of the banks concerned.
SOUTH AFRICA
   No legislation is applicable.
SWAZILAND
   They are entitled to conduct on-site inspections and have access to information.
LESOTHO
   Yes. They are entitled to conduct on-site inspections and have access to information.
MALAWI
   Not applicable
MOZAMBIQUE
   No legislation is applicable.
SEYCHELLES

No provision in the FI Act covering this area.

Yes. They are entitled to conduct on-site inspections and have access to information

ZAMBIA

They are entitled to conduct on-site inspections but with the approval of the Central Bank.

(xvii) GENERAL

Please provide a list (a) the international banks and (b) the international banking groups for which you are the home supervisor (domestically-oriented banks, which are not represented outside your country, should be excluded). Some of the banks may form part of a banking group for which another supervisory authority is the home supervisor. In these cases, please indicate both the banking group and its home supervisor.

BOTSWANA

Banks
1. Barclays Bank of Botswana Ltd
2. Standard Chartered Bank Botswana
3. Zimbabwe Bank Botswana Ltd
4. First National Bank of Botswana
5. Stanbic Bank Botswana Ltd

Banking Group
Barclays Bank Plc
Standard Chartered Bank Plc
Zimbabwe Banking Corporation
First National Bank, South Africa
Standard Bank of South Africa

KENYA

Banks
1. ABN-AMRO Bank
2. Bank of Baroda (K) Ltd
3. Bank of India
4. Banque Indomex
5. Barclays Bank of Kenya
6. Citibank N.A
7. Habib Bank A.G. Zurich
8. Habib Bank Ltd
9. Meridien BIAO Bank Ltd
10. Stanbic Bank (K) Ltd
11. Standard Chartered Bank (K) Ltd

Banking Group
ABN-AMRO Bank
Bank of Baroda
Bank of India
Compagnie Financiere De Suez
Barclays Bank Intern.(UK)
Citicorp of New York
Habib Bank A.G. Zurich
Habib Bank Ltd
Meridien International Bank, Bahamas
Standard Bank Investments
Corp. Ltd of S. Africa
Standard Chartered Bank Africa Plc(UK)

Groups' Home Supervisor
Bank of England
Bank of England
Reserve Bank of Zimbabwe
Reserve Bank of South Africa
Reserve Bank of South Africa

Group's Home Supervisor
De Nederlandsche Bank N.V.
Reserve Bank of India
Reserve Bank of India
Commission Bancaire France
Bank of England
Federal Reserve System (USA)
Commission Federale des Banques
State Bank of Pakistan
Not Known
Reserve Bank of South Africa
Bank of England

NAMIBIA

Banks
1. Standard Bank Namibia Ltd
2. First National Bank of Namibia Ltd
3. Commercial Bank of Namibia

Banking Group
Standard Investment Corporation
First National Bank, South Africa
1) SFOM
2) NEDCOR Bank Ltd

Group's Home Supervisor
Reserve Bank of South Africa
Reserve Bank of South Africa
1) Not known *
2) Reserve Bank of South Africa
**SOUTH AFRICA**

**Banks**
1. ABSA Bank Ltd
2. First National Bank of Southern Africa
3. Investec Bank Ltd
4. Nedcor Bank Ltd
5. The Standard Bank of South Africa

**ZAMBIA**

**Banks**
1. Stanbic
2. Standard Chartered
3. Barclays Bank
4. Citibank
5. Zambia National Commercial Bank
6. Meridien Bank

**ZIMBABWE**

**Banks**
1. Barclays Bank Zimbabwe Ltd
2. Stanbic Bank
3. Standard Chartered Bank of Zimbabwe Ltd
4. Zimbabwe Banking Corporation

**MOZAMBIQUE**

**Bank**
Banco de Fomento e Exterior, SA
Banco Portugues do Atlantico, SA-
Banco Standard Totta de Mocambique, SARL-

**Banking Group**
Amalgamated Banks of South Africa
First National Holdings Ltd
Investec Holdings Ltd
Nedcor Ltd
Standard Bank Investment Corp. Ltd

**Banking Group**
Stanbic of South Africa
Standard Chartered
Barclays Plc
Citicorp
Zambia National Commercial Bank
Meridien International

**Banking Group**
Barclays Bank Plc
Standard Bank
Investment Corp Ltd
Standard Chartered Bank Plc
Finance Holdings Ltd

**Group's Home Supervisor**
*Registered as a company with Tribunal de Commerce*

**Group's Home Supervisory**
Reserve Bank of South Africa
Bank of England
Bank of England
Office of Controller of the Currency (USA)
Bank of Zambia
Central Bank of Bahamas

**Group's Home Supervisor**
Bank of England
Reserve Bank of South Africa
Bank of England

(xviii) Do you have a deposit protection scheme in your country? If so, please describe the main features of the scheme. Does it cover all banking establishment in your country or is it restricted in some way (e.g. To those which are locally incorporated)? Are deposits lodged with overseas operations of banks/banking groups for which you are the home supervisor, covered by the scheme? Is there any differentiation between depositors who are resident in your country and those who are non-resident? Is protection restricted to your domestic currency or are other currencies also covered?

**BOTSWANA**

Not applicable

**KENYA**

Yes. Its purpose is to provide insurance on deposits against losses in case of bank failures. The fund is established by government. Its protection is limited to domestic accounts and currency. Every institution operating under the Banking Act has to contribute an amount not exceeding 0.4% of the preceding year's average monthly deposit liabilities. An individual's protected deposits amount to the aggregate credit balance of any accounts he maintains in a bank less his liability to the bank.
NAMIBIA
Not applicable

SOUTH AFRICA
Not applicable

SWAZILAND
Not applicable

LESOTHO
Not applicable

MALAWI
Information not given

MOZAMBOQUE
Not applicable

SEYCHELLES
Not applicable

ZIMBABWE
Not applicable

ZAMBIA
Not applicable
Future Outlook

With some financial institutions poised to convert into commercial banks, the Department will be charged with overseeing the conversion process and keeping abreast of the developments in the market as the banking environment becomes more competitive. The competition will mean that banking institutions will have to manage their customers. Successful bankers will have to be knowledgeable about and responsive to their customer's needs to an unprecedented degree and the Department will therefore focus part of its examination on determining how banking institutions relate to their customers.

***

The Department also hopes to further develop its supervisory skills as banks move into widely differing fields and offer widely varying services, such that the term "Universal banking" will become applicable.

***

One of the most powerful influences on the evolution on the banking sector will be the Banking (Amendment) Bill 1994 which will provide for stronger capital base for commercial banks and financial institutions. The Bill will also seek to give the Central Bank additional powers to annually vet directors and management of banking institutions for "fit and proper" standards.

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It is the intention of the Department to conduct seminars for directors and management of banking institutions on their role and responsibilities as these institutions move towards enhancing corporate governance.

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