CENTRAL BANK OF KENYA

Bank Supervision Annual Report

(Seventh Edition)

2000

2000

The role and mission of Bank Supervision Department

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

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

In the pursuit of its role, the department's approach will continue to be guided by market-driven principles that underlie all activities and decisions. It will strive to uphold professionalism and impartiality in the conduct of supervisory functions. In its relationships with other key players in the financial services industry, the department will continue to promote a consultative approach by building mutual trust and open communication with these parties.

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In the year 2000, the banking sector performed better than in year 1999 when assessed in terms of profitability. This improvement is reflected in the increase in total net profits from Ksh 0.2 billion in 1999 to Ksh 2.8 billion in 2000, mainly arising from reduced charge on bad debts. The sector was also relatively stable since no institution was placed under statutory management. Two of the five institutions placed under statutory management in 1998 were re-opened while three were placed under liquidation.

The Bank took a number of measures during the year that it considered necessary to improve the efficiency of the banking sector and to help address the problem of high interest rates in the country. Notable among the actions taken were requirements for institutions to adopt sound corporate governance principles; presentation of the inspection reports to boards of directors; encouraging merger of small institutions; and greater disclosure of financial performance to make operations of institutions more transparent. Banks also took measures to improve their efficiency including cost cutting through closing of unprofitable branches and staff rationalisation; greater computerisation and diversifying their product range.

The problem of non-performing loans remains a major challenge and an important factor contributing to the persistent high interest rates in the country. The factors that explain this problem are many, including depressed economic activity, poor credit administration by banks and impediments within the judicial system that hinder speedy delivery of judgements. The various stakeholders involved continued in their endeavour to find the best way of dealing with the problem.

The Bank also took some steps to complement government efforts to promote micro finance as an important element in its poverty alleviation strategy. A division within the Bank Supervision Department was established in the year, to co-ordinate development of policy for the micro finance sector. Good progress was made in the development of the regulatory legal framework for the sector.

The banking sector will continue to face a number of challenges particularly as the customers demand for better quality service delivery. Banks should, therefore, focus their future efforts towards modernising their operations. On our part, we will step up surveillance of the industry to ensure we identify emerging weaknesses and take timely corrective action.

NAHASHON N. NYAGAH
GOVERNOR

An overview of the report

Preamble

This is the seventh Bank Supervision Annual Report. The aim of the Report is to take stock of the developments in the banking sector during the year under review and give an insight into anticipated future developments. This section gives highlights of the Report and comments on areas which are considered critical.

One of the principal objectives of the Central Bank of Kenya is to ensure the liquidity, solvency and proper functioning of a stable market based banking system.

One of the principal objectives of the Central Bank of Kenya is to ensure the ***liquidity, solvency and proper functioning of a stable market based banking system.*** This function is largely carried out by the Bank Supervision Department.

In order to discharge the above function effectively, there are several prerequisites among them being building adequate capacity in terms of qualified and experienced staff as well as attaining adequate legal powers. Another important external factor is the existence of an efficient court process to speedily settle commercial disputes. However, above all, there must be honesty, integrity and discipline on the part of both banks and their customers in order for the financial sector to be stable and efficient.

Over the last twenty years, Kenya's banking sector has experienced several crises. After each crisis, Central Bank of Kenya has responded in particular ways but a different set of problems would emerge later, necessitating a new set of solutions. There is also a considerable lag between the onset of a problem and when the effect is felt. Therefore, the current problems affecting the banking sector are resultant of inadequate measures that were effected in the late 1980's and early 1990's, the principal lapse being licensing of institutions without critical vetting of directors and shareholders.

In view of the dynamic nature of the economy, it is not possible to completely eliminate all the emerging problems in the banking sector since banks operate in the same environment like other businesses. It is, however, possible to minimize instability and in order to achieve that objective, the Central Bank has initiated and effected many policy measures over the last few years.

Developments in Bank Supervision Department

A section of the Report covers the operations of Bank Supervision Department. The capacity of the department has been enhanced substantially since 1998 and the off-site surveillance is now able to identify financial problems quite early while on-site inspection reports are now presented to boards of directors. After weaknesses are identified, a variety of supervisory interventions are employed and it is only after an institution is unable to rectify its weaknesses that it is placed under statutory management and finally liquidation. As part of the on-going initiatives, the department is adopting risk focused supervision which will lead to better utilization of resources.

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Financial Performance

In the chapter on financial performance and accompanying appendices, details of the financial parameters of the banking sector based on the year 2000 audited accounts are presented. The current statutory requirements are for institutions to publish in the local newspapers details of their audited accounts which they did by March 2001. Some of the published figures are reproduced in the appendices in order to show the relative performance of respective institutions in the various parameters like market share, non performing loans, profitability and capitalisation.

International Accounting Standards (IAS)

Another vitally important area that is given coverage in this Report is the International Accounting Standards. The banking industry has made good progress in adoption of the IAS. The Central Bank is working closely with the external auditors in the implementation of IAS since these standards promote market discipline through the extensive disclosure requirements that they contain.

Basel Core Principles for Effective Banking Supervision

The Basel Core Principles for Effective Banking Supervision form the cornerstone on which supervisory processes across the world are evaluated. Kenya is still making progress in implementing the principles and a summary of the current status of implementation based on self-assessment is discussed in the Report. It is observed that considerable progress has been achieved but there are still several outstanding areas that still require further embracing.

Non-Performing Loans

A relatively large section in the Report is devoted to the subject of non-performing loans that have escalated substantially. The Central Bank's main concern has been to ensure that adequate provisions are made so that the overall stability of the banking sector is not threatened.

A relatively large section in the Report is devoted to the subject of non-performing loans that have escalated substantially. The Central Bank's main concern has been to ensure that adequate provisions are made so that the overall stability of the banking sector is not threatened. While the level of non-performing loans has risen, banks have made commensurate provisions to cushion themselves. Analysis of the incidence of non-performing loans shows that they are concentrated in a few institutions where commercial principles have not been strictly adhered to. To resolve the problem of non-performing loans, a variety of options are being explored.

Corporate Governance

The Report also covers issues on corporate governance. Improvement in corporate governance continues to be a major concern both locally and internationally. The Commonwealth Secretariat has therefore produced a checklist on the recommended corporate governance principles that banking institutions should adopt. The Governor of the Central Bank of Kenya is the Chairman of the Commonwealth Secretariat's Working Group on corporate governance issues related to the banking sector.

Central Bank of Kenya (Amendment) Act 2000

The other key topic discussed in the Report is the statute tabled in Parliament in July 2000 to control interest rates and subsequently enacted in December 2000. The spirit of the Act was to lower interest rates in order to make easier access to credit. This objective may, however, not be attained if the fundamental causal factors are not addressed in a concerted manner.

Chapter 1

Developments in the local banking industry

1.1 Overview

In year 2000, the banking sector was generally stable despite the depressed state of the economy. In a bid to remain competitive, many banks responded by consolidating their operations for improved efficiency through rationalisation of their branch network and staff complements. They also continued to adopt the latest technological changes to improve product and service delivery.

Central Bank played its part in strengthening the banking sector by emphasing good corporate governance in the management of banking institutions. The Banking Act and prudential guidelines were reviewed to ensure that legal and operational requirements were clearly spelt out. Frequency of inspections was stepped up, with continued emphasis on strict adherence to provisioning guidelines. Audited results for the year indicate that while the overall performance of the banking sector was rated fair just like in 1999, there was a marked inprovement in profitability.

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1.2 Institutions and Branch Network

Total number of banking institutions and building societies reduced by 10% during the year from 67 as at end of 1999 to 60 as at end of year 2000. The reduction was due to liquidation of three institutions and four mergers as shown below:

- Prudential Bank Ltd. was placed under liquidation on May 5, 2000.
- Reliance Bank Ltd. was placed under liquidation on September 12, 2000.
- Fortune Finance Ltd. was placed under liquidation on September 14, 2000.
- Guilders International Bank Ltd. was acquired by Guardian Bank Ltd.
- Universal Bank Ltd. merged with Paramount Bank to form Paramount - Universal Bank Ltd.
- Consolidated Bank Mortgage was acquired by its parent bank, Consolidated Bank of Kenya Ltd.
- Consolidated Bank Finance was acquired by its parent bank, Consolidated Bank of Kenya Ltd.

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Out of the 60 licensed institutions as at the end of the year, 49 were commercial banks, 5 non-bank financial institutions (NBFIs), 2 mortgage finance companies (MFCs) and 4 building societies. These institutions included four locally incorporated foreign-owned banks and seven branches of foreign-owned banks. The Government of Kenya had shareholding in five commercial banks and three non-bank financial institutions. Three locally owned banks had four operational branches and subsidiaries outside the country: one in Malawi; two in Tanzania; one in Uganda; and one in London.

The branch rationalization measures taken by Barclays Bank of Kenya Ltd. and Kenya Commercial Bank Ltd. resulted in the decrease of total branches from 530 in 1999 to 465 in 2000. The majority of the branches closed were in the rural areas. There were, however, some new branches opened, especially in main urban centres.

Table 1: Branch Network of the Banking Industry

	Banks		NBFIs		MFCs		Building Societies		Total	
Province	**1999**	**2000**	**1999**	**2000**	**1999**	**2000**	**1999**	**2000**	**1999**	**2000**
Central	61	47	1	1	3	3	14	14	79	65
Coast	75	65	2	2	2	3	1	1	80	71
Eastern	35	30	0	0	1	1	0	0	36	31
Nairobi	157	156	13	5	11	10	8	8	189	179
North Eastern	5	4	0	0	0	0	0	0	5	4
Nyanza	43	35	0	1	2	2	1	1	46	39
Rift Valley	69	55	1	2	4	3	1	1	75	61
Western	20	15	0	0	0	0	0	0	20	15
TOTAL	**465**	**407**	**17**	**11**	**23**	**22**	**25**	**25**	**530**	**465**

1.3 Foreign Exchange Bureaus

Currently, there are forty-seven licensed forex bureaus, thirty eight of which are located in Nairobi, six in Mombasa and one each in Eldoret, Nakuru and Kisumu.

Foreign exchange bureaus were introduced in January 1995. The primary objective of their introduction was to enhance efficiency in the foreign exchange market.

Currently, there are forty-seven licensed forex bureaus, thirty eight of which are located in Nairobi, six in Mombasa and one each in Eldoret, Nakuru and Kisumu. One forex bureau located in Mombasa was closed during the year due to lack of business.

Foreign exchange bureaus are authorised to buy and sell foreign currency in cash, and may also buy travellers cheques, personal and bank drafts but are not allowed to sell these instruments without explicit authority from the Central Bank of Kenya. Weekly average transactions by bureaus decreased from Ksh 1.42 billion in 1999 to Ksh 1.18 billion in 2000 while their foreign exchange transactions as at the end of 2000 accounted for 1.2% of the total foreign exchange transactions.

The consolidated financial position based on inspection of all bureaus as at 31 December, 2000 indicated that the total assets of the bureaus amounted to over Ksh 604.9 million while profit before tax was Ksh 49.4 million. Twenty nine (29) bureaus reported profits totalling Ksh 69.6 million while thirteen (13) reported losses totalling Ksh 20.3 million. Losses were attributed to poor location, high operational expenses and expensive sources of financing. As a result of accumulated losses, some bureaus' capital base had been eroded and fell below the minimum requirement of US$25,000 or its shilling equivalent.

There are many pending applications to licence forex bureaus due to the licensing moratorium imposed since October 1999 and which is due to exire in December 2001. Possibility of lifting the moratorium is under consideration.

1.4 Institutions Under Restructuring

Decisive supervisory actions were taken on the five institutions that experienced financial difficulties in 1998. As a result, three (Trust Bank, City Finance Bank and Bullion Bank) out of the five banks placed under statutory management in 1998 reopened after undergoing restructuring. Trust Bank reopened in August 1999, Bullion Bank in January 2000 while City Finance Bank reopened in April 2000. The restructuring model used entailed capitalising the banks by conversion of deposits to equity through schemes approved by the High Court and disqualification of former directors of the banks from holding directorships in the new setups. Managers appointed by the Central Bank were retained as advisors to oversee the smooth transition of the reopened banks into operational outfits.

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The huge portfolios of non-performing loans for the restructured institutions continued to threaten their survival in year 2000 since the recovery of loans, generally, and particularly those of former directors, proved difficult. As a result, Trust Bank had to seek amendment of its Scheme of Arrangement in order to reschedule the repayment of instalments due to creditors.

Table 2: Selected Statistics of Restructured Institutions as at December, 2000

Item	Restructured Banks (Kshs million)	Total Industry (Kshs million)	% of Industry
I Total Loans	13,942	294,141	4.7
2 NPLs	13,298	112,497	11.8
3 Provisions	9,866	67,842	14.5
4 Deposits	822	330,500	0.2
5 NPLs/Total Loans (%)	95.4	38.2	

1.5 Mergers and Acquisitions

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Mergers and acquisitions still seems the most prudent way forward for the small and medium sized banks to remain profitable and compete effectively. This course of action will enable them attain higher capital requirements prescribed in the Banking Act.

During the year under review, the Central Bank continued to encourage mergers within the sector. In conjunction with the International Finance Corporation (IFC), the Central Bank hosted a two day seminar in Nairobi in October 2000 to sensitise the banking industry on the need for mergers. The seminar was successful as gauged by the level of attendance and participation.

In year 2000, the Minister for Finance approved the merger of six institutions to form three banks. However, only one merger between Paramount Bank and Universal Bank was concluded. The proposed merger between Fidelity Commercial Bank Ltd. and Southern Banking Corporation Ltd. failed to materialise while that between Euro Bank Ltd. and Daima Bank Ltd. was still under negotiation.

The amendment of Section 9 of the Banking Act has now comprehensively covered the interests of institutions which take the merger option. It has removed the many legal hurdles in the transfer of assets and liabilities between the merging institutions and this development is expected to hasten the merger process and reduce the associated costs.

The Central Bank issued Prudential Regulation No. CBK/RG/11 on Mergers, Amalgamation and Transfer of Assets and Liabilities in September, 2000. This will act as a guiding checklist to assist the merging institutions expedite the process of mergers. Since 1994, twenty one (21) merger proposals have been approved as shown in Appendix 8 but these have mostly involved parent banks absorbing their subsidiary NBFIs.

1.6 Developments in Information Technology

During the year under review, the banking sector continued to embrace changes occurring in information technology. Apart from the general trend towards provision of services through ATMs and the use of credit, debit, charge and value cards, some banks also expanded their networks to include on-line customer service. This process enables major bank clients to be connected to the banks' system networks. In addition, a few banks started to embrace the use of internet to offer banking services through establishing web-site locations on the internet for providing information on their products and service lines.

One area where much has been achieved is the automated clearing of cheques. Through co-operation between the Central Bank and the Kenya Bankers Association, the Clearing House operations are nearing full automation. This has greatly reduced the time required to process cheques and also minimised chequebased fraudulent activities.

1.7 Employment in the Banking Industry

Employment in the banking industry has been on a downward trend for the past four years. Total staff complement decreased by 8.2% from 13,962 in December 1999 to 12,822 in December 2000. Reduction in employment in the banking industry was experienced in all categories except management. Employment in the management category increased by 1.9%, supervisory/ section heads dropped by 3.7%, clerical and secretarial staff dropped by 13% and the highest drop was in the other categories, by 14%. This reduction was as a result of retrenchments and lay-offs occasioned by improved systems, closures of some branches and mergers (Table 3).

Table 3: Employment in the Banking Industry

	2000				1999			
Category	Banks	NBFIs	Total	%	Banks	NBFIs	Total	%
Management	3,251	157	3,408	26	3,170	175	3,345	24
Supervisory Sec. Heads	1,941	89	2,030	16	2,011	97	2,108	15
Clerks & Secretarial staff	5,610	262	5,872	46	6,479	268	6,747	48
Other Categories	1,477	35	1,512	12	1,662	100	1,762	13
Total	12,279	543	12,822	100	13,322	640	13,962	100

1.8 Training and Human Resource Development

The Kenyan banking sector recognises training as an integral process of equipping its workforce with necessary knowledge and skills in order to tackle the various challenges associated with the rapidly changing global financial system.

Banking institutions continued to employ various methods to train their staff, including local and foreign-based courses. Kenya School of Monetary Studies, which operates under the auspices of the Central Bank, continued to offer relevant courses for the banking industry. The Central Bank has been encouraging banks, particularly the small and medium-sized, to utilise the extensive training facilities available at the Kenya School of Monetary Studies.

The Kenyan banking sector recognises training as an integral process of equipping its workforce with necessary knowledge and skills in order to tackle the various challenges associated with the rapidly changing global financial system.

The big banks predominantly utilise their local training schools to train their staff However, there is increasing appreciation that banks need to focus on their core business and outsource training for their staff. Based on that reasoning, the Standard Chartered Bank (Kenya) Ltd. sold its training centre in 1998.

1.9 Developments in Bank Supervision

1.9.1 **On-Site Inspections**

During the year 2000, the objective was to conduct on-site inspections for the whole banking sector, and to initiate a process where each institution is inspected at least once a year. Forty eight (48) institutions were inspected since the rest were either undergoing restructuring or preparing for mergers. The emphasis for year 2001 is to improve the quality of inspections through upgrade of inspection methods and tools. To this end, the department has intensified staff training both locally and overseas as well as in-house technical workshops.

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As part of the supervision process, the department presented its findings to the institutions' boards of directors. This concept has interaction with institutions at the highest level of the corporate ladder. The initiative has also been taken very positively by the board members, especially the non- executive directors. Tripartite meetings were also arranged between the Central Bank, external auditors and the institutions' senior management for all institutions before publication of their financial results for the year ended 31st December 2000. This all-inclusive approach has enabled the department to discuss and agree with external auditors on the audited accounts and disclosures.

The department has embarked on a process of building rapport with institutions so that the supervisory process is better understood and adds value to institutions' corporate governance.

The Central Bank has also embarked on enforcement action in line with best international practice. All institutions, where remedial action is required, sign a Memorandum of Understanding. This enables the Central Bank to obtain commitment from the directors to undertake remedial measures without resorting to invoking penalties provided for under the Banking Act.

The traditional method of on-site surveillance has been full scope examination of all areas of banking operations including extensive transaction testing. While the method has served the supervisor well in the past when internal controls and systems were virtually absent, the positive changing trends now require that supervision should be risk-based.

A risk-based approach to supervision is a supervisory or regulatory process that allows for the reliable determination of an institution's primary business risks and focuses examination activity and resources on the risks prevalent in that institution.

The advantages to be derived from such a focus include the following:

- It is more efficient, effective and economizes on human resource allocation for the supervisor;
- It provides for early warning signs on emerging risks and their trends;
- It is flexible and proactive; and
- It is business driven, emphasizes on risk management process, focuses on audit and controls and reduces the amount of transaction testing which is the largest consumer of an examiner's time.

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1.9.2 **Off-site Surveillance**

The off-site surveillance system consists of two parts; the databank and the financial analysis section. The databank section collects and processes data on the condition of the banking system. Analysts provide the required interpretation on key areas of capital adequacy, asset quality, earnings and liquidity with a view to detecting early warning signs in the banking system. The off-site surveillance system has improved significantly, through development of a Microsoft Access based data management system.

The off-site surveillance division performs the following main functions:

- Monitors the financial condition of each institution and attempts to detect unfavourable financial trends, adverse financial developments, and failure to comply with the Banking Act, prudential regulations and other supervisory instructions;
- Ensures that all data from the banking industry is collected, processed and prepared in the appropriate format for use by decision-makers at various levels in the Central Bank;
- Assists in directing the on-site division's attention to emerging or severe problems in an institution that can be identified with off-site data;
- Assembles and interprets data for use by other divisions within the department; and

- Makes follow-up on inspection findings and recommendations to ensure implementation.

During the year under review, communication between the Central Bank and the banking industry was further enhanced through the use of e-mail and Internet facilities. A number of institutions now forward their returns to the Central Bank through that easier and speedy avenue. Plans are in progress for all banks to submit data electronically to update the Bank Supervision Department database. The long term objective of the Bank is to have online information and communication through the internet.

1.9.3 **Supervisory Experiences**

The following are the major concerns observed in the banking industry:

- Corporate governance in small and medium-sized banks is mostly inadequate as separation between management and ownership is not complete, thereby undermining the benefit of checks and balances;

- A few banks have accumulated large non-performing advances due to over-reliance on collateral security and external influence when lending, rather than sound financial appraisals including evaluation of cash flows and ability to service debts;

Institutions are initiating new products to cater for the growing sophistication of their clients. New products in the pipeline include: online banking, internet banking, shared ATMs, and various derivative products.

- Lack of reliable information has enabled some uncreditworthy customers access to credit across banks thus posing a real danger to the entire sector;

- The liquidity of banks has been rising despite the depressed state of the economy as banks find it more profitable to invest in Government securities rather than play the crucial role of intermediation;

- There is a prevalent mismatch of assets and liabilities as banks rely on short-term deposits to finance long-term businesses. However, a number of institutions have put in place programmes and systems for prudent management of liquidity risk, and

- Institutions are initiating new products to cater for the growing sophistication of their clients. New products in the pipeline include: online banking, internet banking, shared ATMs, and various derivative products. These new products carry with them risks that are not currently monitored.

1.9.4 **Future Outlook**

The future goals of the Bank Supervision Department are:

- to work with other stakeholders towards resolution of the problem of non-performing loans in the banking sector. The solution broadly lies in economic recovery measures to revamp the economy, improvement in the Judicial system to ensure speedy and expeditious dispensation of pending court cases, adoption of good corporate governance practices, writing-off uncollectible debts against provisions held and establishing an entity to take over the current stock of NPLs.

- to enhance on-going efforts towards full adoption of risk-based examinations, which have the advantage of reducing the regulatory burden, focusing more on the risk management process, building better early warning systems, and recognising emerging trends and new risks. Institutions will be required to put in place certain basic minimum requirements for risk assessment and control.

- to implement the outstanding Basel Committee Core Principles for Effective Banking Supervision, which are being implemented worldwide so that Kenya maintains international standards in banking.

- to work with the banking industry to ensure that Kenya's banking sector adopts the New Basel Capital Accord issued in January, 2001, which aims to align regulatory capital requirements more closely with underlying risks.

- to continue in its endeavours to monitor and encourage adoption of the International Accounting Standards (IAS) and ensure harmonization of accounting practices with prudential regulations. Transparency through enhanced disclosures to improve market discipline will be promoted further by implementing the proposed quarterly disclosures.

- to work with the Expert Group of the Commonwealth Association of Corporate Governance, under the Chairmanship of the Governor of Central Bank of Kenya, in overseeing the process of review and implementation of appropriate reforms that will allow establishment of structures to promote and sustain good corporate practices in the banking sector.

- to play an active role in the development of the micro-finance sector by ensuring enactment of an appropriate statute and development of a regulatory framework to govern and oversee the operations of microfinance institutions.

The solution to the problem of NPLs broadly lies in economic recovery measures, improvement in the Judicial system, adoption of good corporate governance practices, writing-off uncollectible debts and establishing an entity to take over the current stock of NPLs.

- to work with other stakeholders to devise an appropriate framework for the supervision and regulation of savings and credit cooperative societies (SACCOs), many of which are offering banking services through their Front Office Services Activity (FOSA).

- to work with the Treasury on the way forward for the supervision of the Kenya Post Office Savings Bank (Postbank) which is considering extending its functions to include lending activities.

Chapter 2:
Performance of the banking sector

2.1 Recent Economic Developments

2.1.1 **Growth in GDP**

The country's economic growth continued to slow down. Real gross domestic product, GDP, decelerated between December 1999 and December 2000 to negative 0.3% compared with 1.4% and 1.8% in 1999 and 1998 respectively. The slowdown in economic growth was mainly attributed to the severe drought that adversely affected agricultural production and industrial output as power outages became erratic since 70% of electric power is generated from hydro sources. Poor infrastructural facilities, mismanagement of farmers' institutions and general insecurity also contributed to the slowdown in economic activity. The steady economic slowdown is clearly manifested in the declining per capita income which was $284 in 1996 but declined to $283 in 1997, $282 in 1998, $279 in 1999 and $271 in year 2000.

The slowdown in economic growth was mainly attributed to the severe drought that adversely affected agricultural production and industrial output as power outages became erratic since 70% of electric power is generated from hydro sources.

2.1.2 **Inflation**

The second quarter of 2000 was characterised by relatively low and stable underlying and overall inflation. Inflationary pressure, however, emerged in the third quarter of the year. The continued pursuit of a tight monetary policy as well as improvement in the supply of basic food items following the onset of the short rains led to a decline in inflationary pressures that had earlier on been caused by the depreciation of the shilling and the high cost of fuel and power. The underlying month-on-month inflation declined to 10.7% in December 2000 from 11.6% in September whereas the overall inflation was 7.5%. The average annual underlying inflation in December 2000 was 9.2% while average annual overall inflation was 6.2%.

2.1.3 **Money Supply and Reserve Money**

Money supply growth continued to slowdown in 2000 reflecting the tight monetary stance adopted during the year. Broad money supply, M3, which was Ksh 314.7 billion as at December 2000, had increased by Ksh 2.6 billion or 0.8% during the year, compared with an increase of Ksh 8.4 billion or 2.8% in the year to December 1999.

Reserve money, comprising currency in circulation and deposits of commercial banks and NBFIs at the Central Bank, stood at Ksh 79 billion as at December 2000. This reflected a Ksh 1.3 billion decrease or 1.6% during the year, compared to an increase of Ksh 4 billion or 5.3% in 1999.

2.1.4 **Interest Rates**

The short-term interest rates declined for most part of the year but the trend reversed and the rates depicted an upward trend in the last quarter of the year

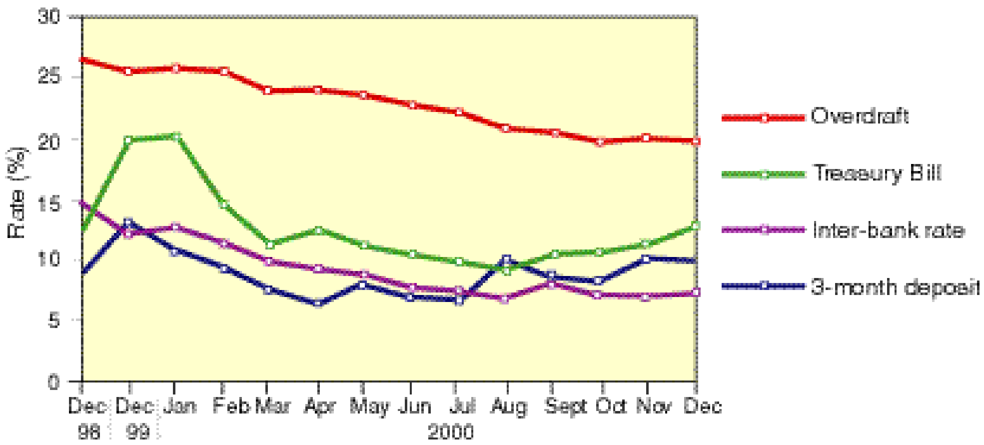
The short-term interest rates declined for most part of the year but the trend reversed and the rates depicted an upward trend in the last quarter of the year:

- The 91-day Treasury Bill rate fell from 20.0% in December 1999 to 10.5% in June 2000 and then rose gradually to 12.9% in December, 2000;
- The overdraft rate fell from 25.6% in December 1999 to 20% in November 2000. In December, the rate fell further slightly to 19.7%;
- The interbank rate dropped to 6.7% in July then rose to 9.8% in December; and
- The 3-months average deposit rate fell from 12.3% at the end of 1999 to 7.5% in December 2000 (Table 4 and Chart 1).

Table 4: Interest Rates (%)

	1998	1999	2000											
	Dec-98	**Dec-99**	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sept**	**Oct**	**Nov**	**Dec**
Overdraft	26.6	25.6	26	25.6	24.1	24	23.7	23	22	21	20.6	20	20	19.7
T/Bills	12.5	20	20	14.8	11.3	12	11.2	11	9.9	9.3	10.4	11	11	12.9
Inter-bank	9.4	13	11	9.4	7.6	6.4	8	6.7	6.7	9.9	8.5	8.3	10	9.8
3 months deposits	14.7	12.3	13	11.5	10	9.3	8.8	7.8	7.4	6.9	7.9	7.1	7.1	7.5

Chart 1 Short term interest rates – year 2000



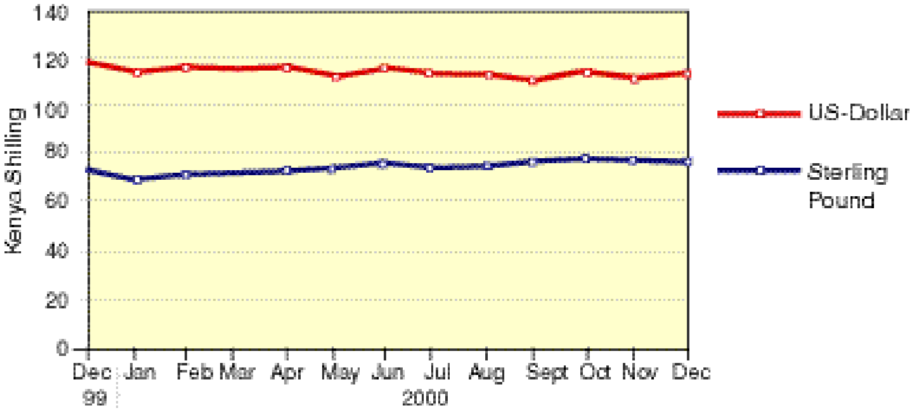
2.1.5 **Exchange Rates**

The Kenya shilling weakened against the dollar for most part of the year to October 2000 but stabilised in the last quarter of the year. Against the US dollar, the shilling weakened from a rate of Ksh 73.9 in December 1999 to Ksh 78.7m in December 2000. The Kenya shilling, however, had mixed performance against other principal currencies (Table 5 and Chart 2).

Table 5: Shilling Exchange Rates - 2000

Month	Dec-99	Jan	Feb	Mar	April	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
USD	73.9	70.7	73.2	74.4	74.4	76.0	77.5	76.4	76.4	78.2	79.3	78.9	78.7
St. Pound	119.3	116.0	117.4	117.6	117.8	114.7	117.0	115.4	113.9	112.0	115.2	112.5	114.9
D. Mark	38.1	36.7	36.9	37.4	36.1	35.2	37.7	36.8	35.4	34.8	34.7	34.5	36.0
Uganda Shs.	20.3	21.3	20.8	20.3	20.5	20.5	20.3	21.0	22.0	22.7	23.1	23.4	22.5
Tanzania Shs.	10.8	11.3	10.9	10.8	10.8	10.5	10.3	10.5	10.5	10.2	10.1	10.2	10.2

Chart 2 Shilling Exchange Rate - 2000



2.2 Performance of the Banking Sector

Despite the depressed state of the economy, the performance of the banking sector during 2000 improved slightly compared to year 1999. Total assets increased from Ksh 417.9 billion in December 1999 to Ksh 434.5 billion or by 4.0% in December, 2000. However, the proportion of non-performing loans to total loans rose from 34% to 38% during the same period. The level of provisions for the non-performing loans increased by 24% from Ksh 54.6 billion in December 1999 to Ksh 67.8 billion in December 2000. The increased level of NPLs necessitated high provisions that have continued to impact negatively on the institutions' earnings and capital. However, net profits of the banking sector increased from Ksh 0.2 billion in 1999 to Ksh 2.8 billion in December, 2000. The shareholders' funds rose by 18.2% from Ksh 47.2 billion to Ksh 55.8 billion while average liquidity remained high at 43.1%.

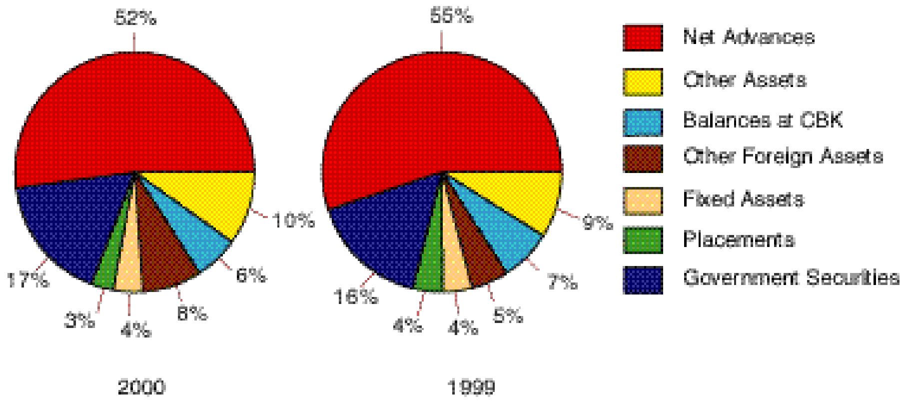
Despite the depressed state of the economy, the performance of the banking sector during 2000 improved slightly compared to year 1999.

2.3 Structure of the Balance Sheet

2.3.1 **Composition of Assets**

Total net assets of the banking sector increased by 4% from Ksh 417.9 billion in December 1999 to Ksh 434.5 billion in December 2000 (See Appendix 2). Total net loans, including foreign denominated loans at Ksh 226.3 billion constituted 52% of total assets, a decline of 3.0% from the previous year, mainly due to increased provisions. Other major assets were Government securities which stood at Ksh 71.9 billion or 17% of total assets and balances at Central Bank at Ksh 26.1 billion or 6% of total assets. Placements with other banking institutions as at end of year 2000 stood at Ksh 14.5 billion, having dropped from Ksh 17.8 billion in December 1999 (Chart 3).

Chart 3 Global Balance Sheet, Composition Analysis (Assets)



2.3.2 **Credit Distribution**

The distribution of credit to the private sector did not show much change between 1999 and 2000.

The distribution of credit to the private sector did not show much change between 1999 and 2000. The agricultural sector, which contributes 24.5% of GDP enjoyed only 8.7% of credit, just like in 1999. On the other hand the manufacturing sector, which contributes approximately 13.2% of GDP received 21.4% of credit compared to 20.6% during the previous year. The trade sector, contributing 12.5% of GDP received 18.9% of credit compared to 19.0% during the previous year. The other sectors contributing 49.8% of GDP received 51% of credit (Table 6 and Chart 4).

Chart 4: Sectoral Credit Distribution to the Private Sector

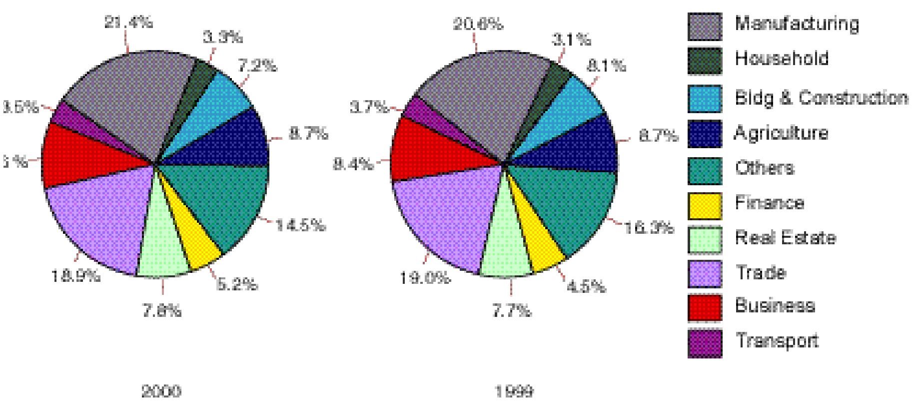


Table 6: Sectoral Distribution of Credit to the Private Sector

	2000		1999		Annual Change
Sub-sector	*Amount.	%	*Amount.	%	Amount
1 Agriculture	25.0	8.7	24.1	8.7	0.9
2 Bldg & Construction	20.8	7.2	22.5	8.1	-1.7
3 Households	9.5	3.3	8.6	3.1	0.9
4 Manufacturing	61.5	21.4	57.4	20.6	4.1
5 Transport	10.1	3.5	10.3	3.7	-0.2
6 Business	27.7	9.6	23.4	8.4	4.3
7 Trade	54.3	18.9	52.9	19.0	1.4
8 Real Estate	22.4	7.8	21.3	7.7	1.1
9 Finance	14.9	5.2	12.5	4.5	2.4
10 Others	41.8	14.5	45.3	16.3	-3.5
Total	**288.0**	**100.0**	**278.3**	**100.0**	**9.7**

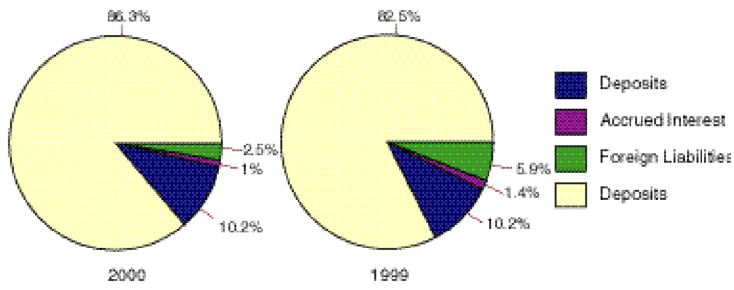
Ksh billion

2.3.3 **Liabilities**

Total liabilities (excluding shareholders' funds), stood at Ksh 378.7 billion and were 2.2% higher than the Ksh 370.7 billion recorded in 1999. Total deposits (excluding accrued interest) which stood at Ksh 326.7 billion formed the largest share of total liabilities and were 7% above the recorded level in 1999 of Ksh 305.9 billion. Total deposits constituted 86% of total liabilities compared to 83% recorded in 1999 (Chart 5). Foreign credit lines extended by international development agencies to local borrowers are categorized in other liabilities of the global balance sheet.

Total liabilities (excluding shareholders' funds), stood at Ksh 378.7 billion and were 2.2% higher than the Ksh 370.7 billion recorded in 1999

Chart 5: Global Balance Sheet, Composition Analysis (Liabilities)



2.3.4 **Deposit Distribution**

It can be observed that the banking sector has experienced a steady but marginal growth in deposits and the composition has remained fairly static.

Deposits from private enterprises amounted to Ksh 73 billion down from Ksh 76 billion, a decrease of about 4%. A large proportion of deposits came from non-profit institutions and individuals which stood at Ksh 134 billion or 40% of total deposits and accrued interest of Ksh 331 billion. It can be observed that the banking sector has experienced a steady but marginal growth in deposits and the composition has remained fairly static.

Bearer Certificates of Deposit (BCDs) were phased out. Any unclaimed BCDs are currently reported as unredeemed certificates of deposit.

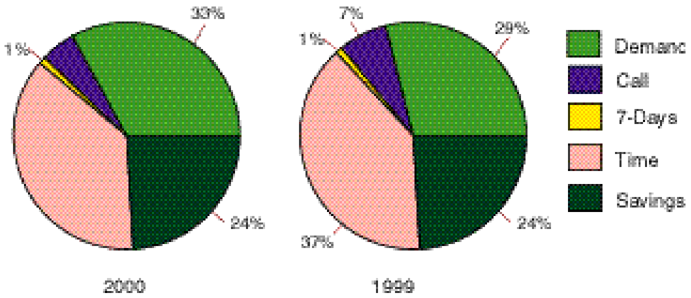
Time deposits at Ksh 113 billion continued to account for a large proportion of the deposit base and represented 37% of the total deposits. The second largest were demand deposits which stood at Ksh 102 billion and was 33% of the total deposit base. The others, namely savings, all and 7-days formed 24%, 5% and 1% of the deposit base respectively. There was a notable change in the composition of deposits; demand deposits increased from a market share of 29% to 33% in year 2000 with a corresponding decrease of time deposits from 39% to 37% (Table 7 and Chart 6).

Table 7: Deposit Composition and Distribution

	Year 2000		Year 1999	
Type of Deposit	**Ksh Million**	**% of Total**	**Ksh Million**	**% of Total**
Demand	102,268	33	84,267	29
Call	15,948	5	20,641	7
7 – Days	3,331	1	2,283	1
Time	113,114	37	115,364	39
Savings	72,491	24	69,522	24
Total	307,152*	100	292,077*	100

**** The figures exclude inter-bank balances and foreign currency deposits by non-residents***

Chart 6: Commercial Banks: Analysis of Deposits



2.3.5 **Capital and Reserves**

The total capital base (shareholders funds) of the banking industry, at Ksh 55.8 billion as at the end of 2000, was 18% above the level of Ksh 47.2 billion recorded in 1999. Capital and reserves of the individual institutions is presented in Appendix 4. Paid-up/assigned capital, at Ksh 42.3 billion as at the end of December 2000, was 54% higher than the 1999 level of Ksh 27.4 billion while reserves at Ksh 9.5 billion were 52% lower than the reported level of Ksh 19.8 billion as at December, 1999. The rise in capital base is partly attributed to:

- capitalised profits of profitable institutions;
- conversion of shareholders' deposits in National Bank of Kenya Ltd. into shareholders' loans; and
- reconstruction of City Finance Ltd. and Bullion Bank Ltd. through conversion of deposits into capital.

2.4 Structure of the Profit and Loss Account

2.4.1 **Profitability**

Aggregate net profits in the banking sector rose in the year to December 2000. Net profit before tax stood at Ksh 2.8 billion compared to Ksh 0.2 billion recorded in December 1999. This increase in profitability was partly due to:

- the closure of three troubled institutions (Reliance Bank, Prudential Bank and Fortune Finance), which were weighing down the sector;
- lower losses reported by some major banks and restructured institutions compared to the previous year; and
- reduced loan loss charge for the year.

Aggregate net profits in the banking sector rose in the year to December 2000. Net profit before tax stood at Ksh 2.8 billion compared to Ksh 0.2 billion recorded in December 1999.

Altogether, 40 institutions made a profit of Ksh 10.3 billion while 16 institutions made a loss of Ksh 7.4 billion. A large part of the losses were accounted for by only a few institutions (see Appendix 6). The charge for bad and doubtful debts, a significant expense item in the sector, during the year was Ksh 13.7 billion, a decrease of 16% from the 1999 level of Ksh 16.3 billion.

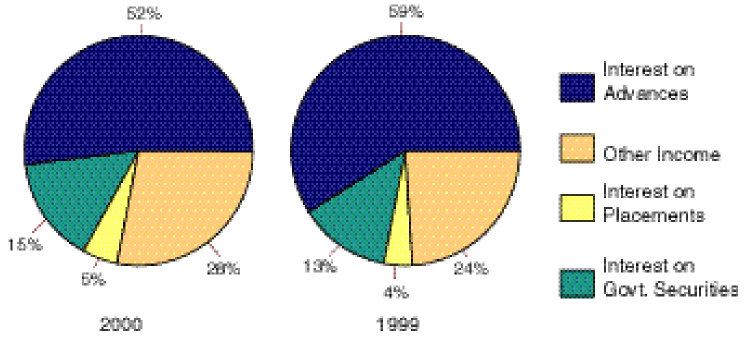
2.4.2 **Income**

Total income of the banking sector amounted to Ksh 67.7 billion for year 2000 compared to Ksh 69.7m for year 1999 as presented in Appendix 3. The composition of income continued to be dominated by income on advances. Interest earnings on advances at Ksh 35.5 billion in the year was 14% below the level recorded in 1999. The decline in the interest earnings on loans was attributed to the lower interest charged on loans during the year.

The decline in the interest earnings on loans was attributed to the lower interest charged on loans during the year.

The second major source of income for banks was interest on Government securities which at Ksh 10.1 billion in year 2000 was 12% above the Ksh 9.1 billion recorded in 1999. It is, therefore, evident that banks are becoming more risk averse and tending to increase their investments in the less risky government securities. Foreign exchange income decreased to Ksh 3.4 billion in year 2000 from Ksh 4.5 billion in 1999 (Chart 7).

Chart 7: Global Profit & Loss, Composition Analysis (Income)



2.4.3 **Expenses**

Total expenses in the sector decreased by 7% from Ksh 69.6 billion in 1999 to Ksh 64.9 billion in 2000. Interest on deposits which formed 30% of total expenses stood at Ksh 19.7 billion in year 2000 down from Ksh 20.8 billion in 1999. The reduction in interest expense was a reflection of lower interest rates offered to depositors and hence lower cost of deposits for banks which dropped from 7.0% to 6.4% in year 2000.

The cost of funding earning assets declined to 5.6% in year 2000 from 6.0% during 1999. Salaries and wages at Ksh 15.3 billion in year 2000 constituted 24% of total expenses while bad debts charge at Ksh 13.7 billion accounted for 21% of total expenses (Appendix 3).

Interest on deposits has been the major expense consuming the highest proportion of total income over the years. However, it decreased from 47% in 1998 to 29% in 2000. Provisions for bad debts as a percentage of total income decreased from 23% in 1999 to 20% in year 2000. Salaries and wages in year 2000 consumed 23% of total income up from 21% in 1999 (Table 8).

Table 8: Expenditure Items as a Percentage of Total Income

	2000	1999	1998	1997	1996
	%	%	%	%	%
Interest on Deposits	29.2	29.9	47.2	45.8	45.3
Salaries and Wages	22.6	21.3	15.1	13.5	13.6
Other Expenses	17.1	18.8	13.0	11.4	10.8
Bad Debts Charge	20.3	23.4	15.1	5.5	3.1
Occupancy Costs	3.6	3.0	2.2	2.1	2.4
Other Interest Expenses	2.6	2.9	2.2	2.1	1.9
Director's Emoluments	0.6	0.5	0.5	0.4	0.2
Profit Before Tax	4.0	0.2	4.7	19.2	22.7
Total	100.0	100.0	100.0	100.0	100.0

2.5 Market Share

A few banks continued to dominate banking business in year 2000 with eight of the banks controlling 69% of the market share in terms of total net assets and 70% of total deposits. Distribution among the non-bank financial institutions was more skewed with one institution controlling more than 50% of the market in terms of both total net assets and deposits. Tables 9 and 10 show the summary in terms of peer groups while Appendix 4 shows market share of each institution as reported in the year 2000 audited accounts in terms of net assets as well as capital and reserves. It is the institutions with negligible market share that Central Bank of Kenya has been encouraging to merge.

A few banks continued to dominate banking business in year 2000 with eight of the banks controlling 69% of the market share in terms of total net assets and 70% of total deposits.

Table 9: Banks' Ranking by Assets and Deposits

Peer Group Range Ksh bn	Number of Institutions	Net Assets Ksh bn	Market Share %	Deposits Ksh bn	Market Share %
Over 10	8	282	69	216	70
5 - 10	8	50	12	34	11
3 - 5	11	40	10	30	10
1 - 3	16	33	8	25	8
0 - 1	6	5	1	2	0
Total	**49**	**409**	**100**	**307**	**100**

Table 10: NBFIs Ranking by Assets and Deposits

Peer Group Range (Ksh bn)	Number of Institutions	Net Assets Ksh bn	Market Share %	Deposits Ksh bn	Market Share %
Over 10	1	13	50	11	56
5 - 10	1	6	21	3	16
3 - 5	1	4	16	3	17
1 - 3	1	2	9	2	9
0 - 1	3	1	4	1	2
Total	7	26	100	20	100

2.6 Year End Performance Rating

The performance of the banking sector is assessed using several ratios based on CAEL i.e. capital adequacy, asset quality, earnings and liquidity.

The performance of the banking sector is assessed using several ratios based on CAEL i.e. capital adequacy, asset quality, earnings and liquidity. Out of the several CAEL ratios, only 4 are used to rate the performance of the sector;

1. **Capital Adequacy** = $\frac{\text{Total Capital}}{\text{Total Risk Weighted Assets}}$

2. **Asset Quality** = $\frac{\text{Non-performing Loans less Provisions}}{\text{Total Loans}}$

3. **Earnings** = $\frac{\text{Profit Before Taxes}}{\text{Gross Assets + Contingencies}}$

4. **Liquidity** = $\frac{\text{Net Liquid Assets}}{\text{Net Deposit Liabilities}}$

A five-tier system is then used as shown below:

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

The overall performance rating of the banking sector during the year based on the above system remained fair as was during the previous year. Forty-three (43) institutions controlling 67% of net assets in the sector were rated fair, satisfactory and strong while 13 institutions controlling 33% of the market share were rated marginal and unsatisfactory (Table 11).

The performance of banks was rated fair as presented in Table 12 while that of NBFIs was also rated fair as presented in Table 13.

Forty-three (43) institutions controlling 67% of net assets in the sector were rated fair, satisfactory and strong while 13 institutions controlling 33% of the market share were rated marginal and unsatisfactory

Table 11: Year End Overall Performance Ratings - Banks and NBFIs

	2000			1999		
Performance Category	No. of Institutions	Net Assets Ksh bn	%	No. of Institutions	Net Assets Ksh bn	%
Strong	6	17	4	12	125	30
Satisfactory	21	223	51	18	96	23
Fair	16	51	12	16	137	33
Marginal	6	106	24	9	33	8
Unsatisfactory	7	37	9	8	27	6
Total	56	435	100	63	418	100
Overall Rating	**Fair**			**Fair**		

Table 12: Year End Overall Performance Ratings - Banks

	2000			**1999**		
Performance Category	**No. of Institutions**	**Net Assets Ksh bn**	**%**	**No. of Institutions**	**Net Assets Ksh bn**	**%**
Strong	6	17	4	10	121	31
Satisfactory	18	217	53	16	93	24
Fair	14	45	11	14	130	33
Marginal	5	93	23	7	20	5
Unsatisfactory	6	37	9	6	27	7
Total	49	409	100	53	391	100
Overall Rating	**Fair**			**Fair**		

Table 13: Year End Overall Performance Ratings - NBFIs

	2000			**1999**		
Performance	**No. of Institutions**	**Net Assets Ksh bn**	**%**	**No. of Institutions**	**Net Assets Ksh bn**	**%**
Strong	0	0	0	2	5	19
Satisfactory	3	6	25	2	2	7
Fair	2	6	24	2	7	26
Marginal	1	13	50	2	13	48
Unsatisfactory	1	0	1	2	0	10
Total	7	26	100	10	27	100
Overall Rating	**Fair**			**Fair**		

2.6.1 **Capital Adequacy**

Capital, which remains the most critical indicator of the relative strength of an institution, is evaluated in terms of:

- Minimum core capital: this is the absolute amount of capital that institutions are required to maintain at all times, for banks and mortgage finance companies the requirement as at end of year 2000 was Ksh 250 million while for NBFIs it was Ksh 187.5 million;
- Minimum ratio of the core capital to deposits ratio of 8% and;
- The minimum requirement for core capital to risk weighted assets ratio is 8%; and
- Institutions are also required to maintain minimum total capital (core and supplementary) to risk weighted assets ratio of 12%.

It should be observed that adequacy is currently being assessed using the ratio of Total Capital to Risk Weighted Assets. This shift is in line with recommendations of the Basel Committee on Banking Supervision designed to secure international convergence of supervisory regulations governing the capital adequacy of banks.

Institutions were expected to comply with all the four requirements, which majority of them did. It should be observed that adequacy is currently being assessed using the ratio of Total Capital to Risk Weighted Assets. This is a shift from the previous practice of using the ratio of Capital to Total Deposits (Gearing Ratio). This shift is in line with recommendations of the Basel Committee on Banking Supervision designed to secure international convergence of supervisory regulations governing the capital adequacy of banks.

Capital adequacy for the sector based on the capital to risk weighted assets was satisfactory. Forty-five (45) institutions with 91% of total market share had their capital rated fair, satisfactory and strong while 11 institutions were rated unsatisfactory (Table 14).

Table 14: Year End Overall Capital Adequacy Ratings - Banks and NBFIs

	2000			1999		
Performance Category	No. of Institutions	Net Assets Ksh bn	%	No. of Institutions	Net Assets Ksh bn	%
Strong	32	109	25	39	195	46
Satisfactory	6	104	24	13	183	44
Fair	7	181	42	0	0	0
Marginal	0	0	0	0	0	0
Unsatisfactory	11	40	9	11	40	10
Total	56	435	100	63	418	100
Overall Rating	Satisfactory			Strong		

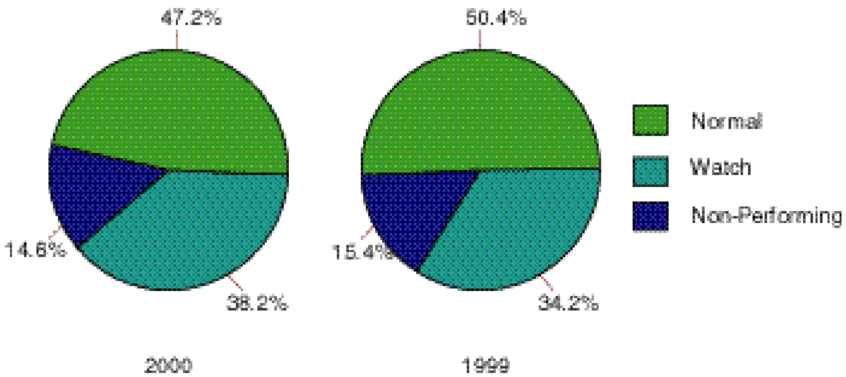
The apparent deterioration in the overall capital adequacy rating for the sector, from strong to satisfactory, is largely explained by the shift in the approach to capital adequacy measurement.

2.6.2 **Asset Quality**

Loans and advances continued to form the largest proportion of total assets in the banking sector. The level of non-performing loans remained high and stood at Ksh 112.5 billion as at December, 2000 compared to Ksh 97.3 billion in 1999. The ratio of non-performing loans to total loans increased to 38% in December 2000 from 34% during 1999 (Chart 8).

Loans and advances continued to form the largest proportion of total assets in the banking sector. The level of non-performing loans remained high and stood at Ksh 112.5 billion as at December, 2000 compared to Ksh 97.3 billion in 1999.

Chart 8: Risk Classification of Loans and Advances



Prudent banking practice requires that provisions be set aside to cater for potential risk of loss associated with loans and advances to avoid declaring profits and paying out dividends on income whose recovery is doubtful. The trends in non-performing loans, provisions and profits over the last three years are presented in Table 15.

Table 15: Trends in Non-Performing Loans, Provisions and Profits (1998 - 2000)

Year	Non-performing Loans	Balance Sheet provisions held	Total loans	Profits before tax & provision	Provisions charge for the year	Profits before tax	NPL/ Total loans % Loans (%)	Provisions/ NPL (%)
2000	112,497	67,842	294,141	16,517	13,721	2,796	38	60
1999	97,299	54,622	284,238	16,503	16,346	157	34	56
1998	83,485	41,187	268,580	18,137	13,786	4,351	31	49

Amounts in Ksh million

Rating of asset quality continued to be on the basis of the proportion of non-performing loans, net of provisions to total loans. This method gives credit to institutions which make provisions for their non-performing loans. The rating of asset quality for year 2000 did not change from the fair rating recorded the previous year. Thirteen (13) institutions controlling 32% of net assets had strong asset quality, seven (7) institutions with 18% of net assets had satisfactory asset quality while thirty six (36) institutions controlling 50% of assets had their asset quality rated fair and below (Table 16).

Table 16: Year End Asset Quality - Banks and NBFIs

	2000			**1999**		
Performance Category	**No. of Institutions**	**Net Assets Ksh bn**	**%**	**No. of Institutions**	**Net Assets Ksh bn**	**%**
Strong	13	138	32	17	88	21
Satisfactory	7	76	18	9	136	32
Fair	8	27	6	10	37	9
Marginal	10	75	17	5	79	19
Unsatisfactory	18	119	27	22	78	19
Total	56	435	100	63	418	100
Overall Rating	**Fair**			**Fair**		

2.6.3 **Earnings**

The most profitable institution recorded a pretax profit of Ksh 3.1 billion. Forty (40) institutions made profits of Ksh 10.3 billion while sixteen (16) institutions made losses of Kshs 7.5 billion.

As noted earlier, there was a significant improvement in the profitability of the banking system from Ksh 0.2 billion in 1999 to Ksh 2.8 billion in year 2000. The most profitable institution recorded a pretax profit of Ksh 3.1 billion. Forty (40) institutions made profits of Ksh 10.3 billion while sixteen (16) institutions made losses of Kshs 7.5 billion (see Appendix 6).

The rating of earnings continued to be on the basis of return on assets. The rating of the sector remained marginal although the return on assets (ROA) improved from 0.03% in 1999 to 0.5% in year 2000 (Table 17). Twenty-seven institutions had their earnings rated strong, satisfactory and fair while twenty-nine had their earnings rated marginal and unsatisfactory.

Table 17: Year End Earnings Ratings - Banks and NBFIs

	2000			1999		
Performance Category	No. of Institutions	Net Assets Ksh bn	%	No. of Institutions	Net Assets Ksh bn	%
Strong	5	61	14	14	169	40
Satisfactory	11	145	33	8	39	9
Fair	11	43	10	11	25	6
Marginal	11	36	8	13	47	11
Unsatisfactory	18	149	34	17	138	33
Total	56	435	100	63	418	100
Overall Rating	**Marginal**			**Marginal**		

2.6.4 **Liquidity**

Liquidity of the banking system, as measured by the ratio of net liquid assets to total deposits, for year 2000 was 43.1% up from 40% in 1999, which was above the statutory minimum of 20%. The overall liquidity rating for the industry was strong. The high liquidity position in the sector was due to the fact that banks have continued to keep a relatively high proportion of their assets in Government securities.

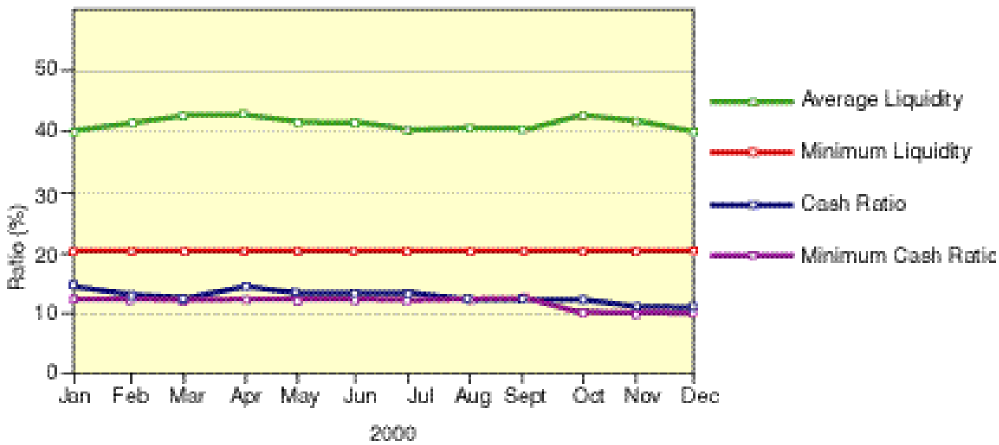
The maturity analysis of assets and liabilities indicates a mismatch in items maturing within three months. This is because most deposit liabilities mature within 90 days whereas most loan assets have maturities exceeding 90 days. However, institutions are able to roll over the deposits to take care of the mismatch. Liquidity of 43 institutions was rated strong and satisfactory while liquidity for 13 institutions was rated fair and below (Table 18 and Chart 9).

Liquidity of the banking system, as measured by the ratio of net liquid assets to total deposits, for year 2000 was 43.1% up from 40% in 1999, which was above the statutory minimum of 20%.

Table 18: Year End Liquidity Ratings - Banks and NBFIs

	2000			1999		
Performance Category	**No. of Institutions**	**Net Assets Ksh bn**	**%**	**No. of Institutions**	**Net Assets Ksh bn**	**%**
Strong	32	249	57	38	236	56
Satisfactory	11	120	28	10	107	26
Fair	7	18	4	4	32	8
Marginal	1	4	1	5	18	4
Unsatisfactory	5	44	10	6	25	6
Total	56	435	100	63	418	100
Overall Rating	**Strong**			**Strong**		

Chart 9: Liquidity and Cash Ratios – 2000



Chapter 3
Recent changes in banking laws and regulations

3.1 General

Review of the Banking Act and the Building Societies Act continued in year 2000 in line with efforts to consolidate the regulatory function of building societies with other deposit-taking banking institutions.

Review of the Banking Act and the Building Societies Act continued in year 2000 in line with efforts to consolidate the regulatory function of building societies with other deposit-taking banking institutions. The amendments were also aimed at increased implementation of the Core Principles for Effective Banking Supervision.

3.2 Amendments to the Banking Act

The specific amendments carried out in Year 2000 were:

- Section 9 of the Banking Act was amended to facilitate amalgamation and transfer of assets and liabilities in the process of mergers and acquisitions;
- Section 11 of the Banking Act was amended to define 'fraudulent and reckless' lending;
- The transfer of more than five per cent shares to one individual in any bank was made subject to Central Bank of Kenya written approval under section 13 of the Banking Act; and
- The Central Bank was granted powers to share information with other monetary and financial regulatory authorities under section 31 of the Banking Act.

3.3 Amendments to the Building Societies Act

The following amendments were made during the year:

- Section 6 - Minimum capital was raised from Ksh 5 million to Ksh50 million by 31st December, 2000, Ksh 100 million by 31st December, 2001 and Ksh 150 million by 31st December, 2002;

- Section 12 - Criteria for assessing professional or moral suitability of persons proposed to manage building societies;

- Section 22 - Requirement to maintain a ratio of not less than 8% between core capital and total deposit liabilities;

- Section 24 - Limiting insider lending to not more than 25% of core capital;

- Section 29(A) - Maintaining such mininum holding of liquid assets as may be determined by the Central Bank from time to time;

- Section 63 - Giving the Central Bank powers of inspection, prudential regulation and collection of information; and

- Section 77 - Subjecting building societies to penalties and direction from the Central Bank in the event of breach of any regulation.

3.4 Prudential Regulations

During the year under review, the Central Bank of Kenya issued the following five new prudential regulations:

During the year under review, the Central Bank of Kenya issued five new prudential regulations

- Forex Exposure Regulations, which are intended to ensure that the potential risk of loss arising from foreign exchange rate changes to a bank's capital base is within prudential limits;

- Regulation on Enforcement of Banking Laws, to provide information and guidance to the banking industry on the approach the Central Bank will take in issuing supervisory directives and corrective orders to institutions;

- Regulation on Prohibited Business, which outlines prohibited business practices specified in Part III of the Banking Act and as restricted in various other sections of the Act.

- Regulation on Mergers, prepared pursuant to section 9 of the Banking Act, to assist institutions intending to merge or amalgamate and/or transfer assets and liabilities; and

- Regulation on Money Laundering, whose purpose is to provide guidance regarding the prevention, detection and control of possible money laundering activities.

Existing guidelines were reviewed and amended to be in line with the current banking legislation and the international standards recommended by the Basel Committee on Banking Supervision. Unlike the earlier guidelines, the regulations have the force of law and failure to comply may lead to the institution and its officers being penalised.

3.5 Proposed Changes in Legislation

The review of legislation will continue until all the core principles are implemented and other regulatory concerns are addressed. The following changes to legislations have been proposed for inclusion in the Finance Act 2001.

3.5.1 **Banking Act**

- Section 15 - To allow Mortgage Finance Companies to engage in other types of lending while retaining their core business. This will enable them to compete effectively with other institutions;

- Section 31 - To allow sharing of information among banking institutions and between Central Bank and banking institutions; and

- Section 42(A) - To make it mandatory for Building Societies to be members of the Deposit Protection Fund Board in order to protect small depositors in the event of liquidation .

3.5.2 **Building Societies Act**

- Section 35B - To allow effective supervision, powers to regulate, control and intervene in the management of Building Societies; and

- Section 24 - To allow Building Societies to grant other types of loans other than residential mortgages secured by land.

3.5.3 **Criminalising Bouncing of Cheques**

During the year under review, a bill aimed at criminalising the bouncing of cheques was presented to Parliament for debate but it was rejected. It was strongly felt that in order to instill discipline and restore confidence in the usage of cheques as a payment instrument, the bill should be re-drafted and re-presented to Parliament for review. The justification for the proposed bill to amend the penal code to criminalise bouncing of cheques is that:

- Bouncing of cheques has discouraged the acceptance of cheques as a medium of settlement;

During the year under review, a bill aimed at criminalising the bouncing of cheques was presented to Parliament for debate but it was rejected. It was strongly felt that in order to instill discipline and restore confidence in the usage of cheques as a payment instrument, the bill should be re-drafted and re-presented to Parliament for review.

- Cheques have often-times been abused to fraudulently obtain credit;
- Increased use of cash transactions has increased insecurity and inherently undermined the cheque system;
- The available remedies for recovery of amounts payable on dishonoured cheques is through civil suits in courts, a process which involves inordinate delays and further costs; and
- The legislation will deter cheque kiting which has the capacity to bring down businesses.

The misplaced fear that innocent persons would be victimised if the proposed legislation became law does not hold because a proof of an offence would occur only if the cheque is dishonored by the bank due to the following reasons:

The misplaced fear that innocent persons would be victimised if the proposed legislation became law does not hold...

- Lack of funds or adequate overdraft facilities on the drawer's account;
- The drawer having instructed the bankers not to honour the cheque;
- The drawer having made a deliberate error when endorsing the cheque; or
- The account having been closed prior to the drawer issuing the cheque.

Chapter 4
Current supervisory issues

4.1 International Accounting Standards (IAS)

4.1.1 **Adoption of the IAS in the Banking Sector**

The Central Bank of Kenya has continued to support the adoption of International Accounting Standards in the banking sector as these standards promote disclosure and market discipline. This disclosure, to a large extent, contributes to good corporate governance and banking sector stability.

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The adoption of IAS has the following benefits:

- Increased transparency in the institutions' financial performance, leading to enhanced corporate governance, the absence of which has been a major cause of bank failures in the country;
- Increased asset and operational risk disclosure, leading to market discipline and competition and ultimately, improved customer service; and
- Facilitating uniformity in the compilation, consolidation, analysis and comparison of data across the banking sector.

4.1.2 **Compliance with the IAS by Banking Institutions in Kenya**

The following were instances where full or partial compliance with the IAS were noted. This was observed from a review of the 1999 accounts and trilateral meetings held with banking institutions for year 2000 accounts:

- A few institutions did not disclose the analysis of assets and liabilities in relevant maturity groupings;
- A number of institutions had not disclosed contingent items and related party transactions;
- Some institutions did not recognize deferred tax assets and liabilities;
- Some institutions did not recognize accumulated leave days by staff members as a liability; and

- Some institutions did not fund their pension schemes by charging their profit and loss accounts nor recognize post-employment benefits in their balance sheets.

4.1.3 **Impact of IAS Adoption**

The adoption of the IAS by institutions in Kenya had the following notable effects:

- There was major improvement in the extent of disclosures in the annual reports and accounts;

- There were more detailed notes to the accounts; and

- Increased public interest in the operations and financial condition of institutions with regard to their solvency, liquidity and degree of risk associated with their assets.

4.1.4 **Initiatives by Central Bank of Kenya**

International Accounting Standards and prudential regulations play complimentary roles. In view of this relationship, the Central Bank has:

- Continued to revise its prudential regulations and issue new guidelines that, to the extent possible, conform to the IAS requirements;

- Insisted on full adoption of the IAS through circulars and joint regular meetings with the Institute of Certified Public Accountants Kenya (ICPAK) Banking Committee; and

- Emphasized full adoption of the IAS during the trilateral meetings.

4.2 Implementation of Basel Core Principles for Effective Banking Supervision

Implementation of the core principles of effective banking supervision continued to gain prominence because of their importance as a global standard for prudential regulation and supervision. Kenya is making efforts to gradually implement the principles.

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As shown in appendix 9, full compliance has been achieved in 12 of the 25 core principles, partial compliance in 12 core principles and one principle was not fully applicable in our environment. However, this analysis is based on self assessment and the scenario may change when assessment by independent external parties is undertaken.

During the year under review, the following regulatory changes were effected thus leading to compliance with core principles previously not complied with:

Authority to share information with other monetary and financial regulatory authorities was granted to the Central Bank through an amendment of the Banking Act in conformity with Core Principle 1 on confidential information sharing between supervisors.

- Authority to share information with other monetary and financial regulatory authorities was granted to the Central Bank through an amendment of the Banking Act in conformity with Core Principle 1 on confidential information sharing between supervisors;
- Authority to approve transfer of more than five percent shares to one individual in any bank was granted to the Central Bank through an amendment of the Banking Act thus complying with Core Principle 4;
- A prudential guideline on the prevention of money laundering activities was issued as a first step towards enforcing “know-your-customer” rules specified in Core Principle 15; and
- A prudential guideline on Supervisory Enforcement Action was issued in line with Core Principle 22 on enforcement powers.

Implementation of the following core principles remained outstanding:

- **Core Principle 1(2):** Bank Supervisor should possess operational independence and adequate resources. This has not been fully achieved as some powers under the Banking Act are still vested in the Minister for Finance;
- **Core Principle 5:** Criteria for reviewing a bank’s major acquisitions or investments. Although the Banking Act limits new acquisitions and investments in relation to core capital, it does not require Central Bank’s prior approval;
- **Core Principle 8:** The current provisioning, guideline is being revised to achieve comparability with international practices;
- **Core Principle 11:** Existence of adequate policies and procedures in banks for identifying, monitoring and controlling country risk and maintaining reserves against such risks;
- **Core Principle 12:** Accurate measurement, monitoring and controlling market risk and for maintaining reserves against such risks (not fully applicable);
- **Core Principle 13:** Comprehensive risk management process in banks to identify, measure, monitor and control all other material risks and, where appropriate to hold capital against these risks;

- **Core Principle 15:** Legislation on money laundering. The existing laws are not comprehensive;

- **Core Principle 18:** The means of off-site analysis of prudential reports and statistical returns from banks on a consolidated basis is not developed;

- **Core Principle 20:** Supervision of banking groups on consolidated basis has not been implemented partly due to the absence of complex banking groups;

- **Core Principle 22:** The laws provide for timely remedial measures against institutions for non-compliance. Enforcement has not always been timely due to a variety of other important factors;

- **Core Principle 23:** Global consolidated supervision has not been fully implemented because there are only a few banks with foreign presence whose operations have not been considered significant; and

- **Core Principle 24:** Establishment of contact and information exchange with various other involved supervisors, primarily host country supervisory authorities.

4.3 Corporate Governance

The importance of corporate governance is widely recognised both for national development and as part of the International Financial Architecture. Many international organisations are involved in the promotion of corporate governance among them being International Corporate Governance Forum, Bank for International Settlements (BIS), Organisation for Economic Cooperation and Development (OECD) and Commonwealth Association for Corporate Governance (CACG).

The importance of corporate governance is widely recognised both for national development and as part of the International Financial Architecture.

The CACG was established in April, 1998 in response to Edinburgh Declaration of the Commonwealth Heads of Government meeting in 1997. The main objectives of the Commonwealth Programme on corporate governance are:

- To highlight corporate governance as a priority issue for the policy agenda of both private and public sectors; and

- To establish self-sustaining institutional capacities that promote and safeguard practice of the highest standards of business direction in both private and public sectors.

In recognition of the important role that corporate governance plays in promoting sound and efficient financial systems and reducing systematic risks, a working group was formed in year 2000 to promote corporate governance in the financial sector within commonwealth member countries.

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The main focus of this report was the checklist to assist regulatory agencies in member countries to review their governance policies and Implement appropriate reforms. The policies and structures in the checklist recommended for adoption include:

- Well designed and enforced law, which specifies the duties and obligations of directors, the rights of shareholders and other stakeholders, disclosure and external audit requirements, mechanisms for the enforcement of the law, and penalties for noncompliance;

- Codes of principles developed by professional or industry associations, setting out desired attributes of corporate governance, and associated educational and consciousness-raising initiatives;

- Effective structures that encourage banks to have well-developed and enforced risk management systems that promote identification, monitoring and management of all material business risks;

- High quality disclosure requirements for banks and other companies, based on robust accounting and auditing standards;

- Strengthen market disciplines on banking institutions as an important ingredient in promoting sound corporate governance and risk management so that prudently managed institutions are rewarded by the market and mismanaged ones face market penalties;

- Effective banking supervision arrangement, with particular emphasis on supervisory policies that encourage sound governance and risk management practices;

- Well developed capital markets and commercial law, enabling parties to contract reliably and efficiently with one another and enabling securities to be bought and sold in a reliable and efficient manner;

- Leadership by example, including the adoption of robust governance, accountability and transparency practices by central government, government agencies and regulatory bodies including central banks;

- Measures taken by regulatory bodies and private sector entities to increase corporate governance awareness and strengthen competence of those responsible for corporate governance and risk management;

- Avoid rapid financial sector liberalisation unsupported by measures to encourage prudent risk management in the financial sector (including failure to bad risk management);

- Ensure strict enforcement of prudential regulations by the supervisory agency; and strong market disciplines in the banking and corporate sectors; and

- Ensure banks have adequate representation of non-executive qualified and experienced directors with no conflicts of interest.

Within the CACG, a Working Group referred to as “Expert Group on Corporate Governance in the Banking Sector” was formed, to focus on the banking sector. It comprises:

- Mr. Nahashon N. Nyagah, Governor of the Central Bank of Kenya as the Chairman of the Group;

- Mr. Geoffrey Bowes, MNZM, Chief Executive of CACG, New Zealand;

- Professor Bob Garrat, Chairman of Organisation Development Ltd, London;

- Mr. Michael Gillibrand, Director and Special Advisor (Commercialisation), Commonwealth Secretariat;

- Dr. Ranee jayarnaha, Special Adviser (Economic), Commonwealth Secretariat.;

- Mr. Herbert Zammit Laferla, Deputy General Manager, Banking Supervision and Audit, Central Bank of Malta;

- Mr. Geof Mortlock, Senior Adviser, Economics Department, Reserve Bank of New Zealand; and

- Dr. Y R. K. Reddy, Consultant, Yaga Consulting Pvt Ltd., India.

In July 2000 a group from the Commonwealth Secretariat carried out a survey on the Corporate Governance Practices in Kenya’s banking sector. The conclusion was that while there were gaps to be addressed, the situation was quite commendable.

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4.4 International and Regional Co-operation

Pursuant to its policy of cooperation with affiliated organisations as well as other regulatory bodies, Central Bank of Kenya actively played its role during the year under review

The Basel Committee on Banking Supervision under the auspices of Bank for International Settlement (BIS) continued to be the major partner in supervisory issues by providing leadership on new and topical issues. The Bank benefited through publications, workshops and seminars organized by the Basel Committee on Banking Supervision.

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Harmonisation of supervision systems was the main focus of East and Southern Africa Banking Supervisors Group (ESAF) comprising of 16 countries in this region. There are many on-gomig initiatives in which the member countries are working on including:

- Implementation of common standards including capital adequacy, accounting standards, prudential reports /information systems, inspection procedures, loan classification, provisioning and write-offs, consolidated supervision and antimoney laundering practices;
- Enhancement of existing training programs and developing the proposed training opportunities. The range of programs includes courses/workshops for junior as well as senior Bank Supervision personnel;
- An ESAF website was launched on 31st March, 2000 to facilitate exchange of ESAF-related information and documentation. thereby enhancing communication in the region;
- Conducting of research on topics in the area of banking supervision. The Bank Supervision Department of the South African Reserve Bank completed a research project on microfmance, and the report is now available on the ESAF website; and
- Developing self/mutual evaluations on the agreed minimum standards on Core Principles of Effective Bank Supervision, Capital Accord and anti-money laundering recommendations.

The Central Bank of Kenya also participated in the Monetary Affairs Committee of the Commission for East African Co-operation. The Committee's membership composes of the three Central Banks of Uganda, Tanzania and Kenya. Harmonization of Banking Laws in East Africa was the dominant supervisory issue discussed during the committee's meeting held in April, 2000. It was observed that the banking laws of the member countries differed in various areas, hence the need for harmonisation.

The Central Bank of Kenya will continue to play its role in support of international efforts aimed at strengthening financial systems in the region.

4.5 Non-Performing Loans (NPLs)

The banking sector continues to reel under the high levels of non-performing loans and this is an issue of major supervisory concern. The level of non-performing loans has been increasing steadily from Ksh 69 billion in 1997, to Ksh 83 billion in 1998, Ksh 97 billion in 1999 and Ksh 112 billion in year 2000 as shown in Table 19.

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Table 19: Trends in Loans, NPLs and Provisions

	2000	1999	1998	1997
Total Loans	294,141	284,238	268,580	227,271
Non-performing Loans (NPL's)	112,497	97,299	83,485	69,001
Provisions for NPLs	67,842	54,622	41,187	23,265
NPLs/Total Loans	38%	34%	31%	30%
Provisions/NPLs	60%	56%	49%	34%

Figures in Ksh million

As observed from the above table, banks have cushioned themselves against the risk and 60% of the non-performing loans are fully provided for, and pose no serious risk to the sector. Appendix 5 shows non-performing loans (NPLs) as published by banking institutions in the year 2000 audited accounts. It is observed that the incidence of non-performing loans is concentrated in a few institutions with majority having manageable NPLs. Since the attendant provisioning has affected the capital levels of such institutions, the shareholders and management of the affected institutions are expected to inject funds to re-capitalise their institutions.

4.5.1 **Causes of Non-Performing Loans:**

There is a multiplicity of causes for the high non-performing loans in Kenya. Although no empirical study has been carried out, the relative contribution of the causes are estimated as follows:

- **Depressed State of the Economy (30%)**

  The peformance of the Kenyan economy has been dismal over the last ten years. Some loans which were appraised and sanctioned on the assumption of vibrant growth have been adversely affected while marginal lendings have become worse. It is expected that as the economy picks up, the rate of increase of NPLs will reduce.

- **Delays Through the Judicial System (30%)**

The fact that lending in our banking sector is largely security-based makes the need for speedy resolution of commercial disputes in courts vitally important.

The fact that lending in our banking sector is largely security-based makes the need for speedy resolution of commercial disputes in courts vitally important. Unfortunately, the litigation system in Kenya allows debtors to turn to the courts to obtain injunctions that restrain banks from selling securities. While there were securities worth Kshs.40 billion to cover non-performing loans as at December 2000, it takes not less than five years to realise securities even when they are properly charged.

In accordance with the best banking and accounting principles, institutions continue to reflect and report non-performing loans in their books so long as security has not been realised. International Accounting Standard No. 39 (IAS 39) requires that NPLs be written-off the books only after exhausting all efforts of debt recovery. Hence, banks continue to hold non-performing loans in their books because of ineffectiveness of the court process. Although the establishment of commercial courts has slightly alleviated the problem, there is still a huge back-log of pending cases which need to be resolved.

- **Poor Credit Risk Assessment and Management (25%)**

Prudent risk assessment and management is not followed in some institutions. Sanctioning of credit is largely security-based. Thus, even when cashflow projections and feasibility studies show that a project may not be viable, existence of collateral forms the basis of granting the loan in total disregard of the viability of the project. Inevitably, such lending goes into arrears and institutions are left holding onto securities which are difficult to realise.

While the Central Bank encourages institutions to have in place sound credit risk assessment and management policies and procedures, the ultimate responsibility is on the board of directors to formulate, document and ensure Implementation of appropriate policies and procedures that minimize credit risk.

- **External Pressure of Dominant Shareholders (15%)**

Poor corporate governance has led to lack or no separation of the roles of shareholders and management. Due to this influence, loan proposals are not always subjected to the normal critical credit assessment. As a result, most loans given under this influence have become deliquent and their follow-up and recovery has been hampered. Since 1984, thirty nine (39) banking institutions have collapsed mainly due to problems caused by non-performing insider loans and external Influence on management.

4.5.2 **Resolution of Non-performing Loans:**

There has been considerable debate on how to resolve the non-performing loans problem in Kenya. Common ideas brought forward include:

- **Creation of a Non-performing Loans Agency**

  The concept of forming such an agency is based on experiences of countries like Ghana, Uganda and Tanzania where such agencies were formed to hive off non-performing loans from government-owned banks in preparation for their privatization.

  The process involves the government issuing bonds to replace NPLs in the balance sheets of the institutions and establishment of a tribunal to expedite recovery of loans which are normally not well secured and documented. This model may only be applicable to government-owned banks as government funding would not be appropriate for privately owned institutions.

- **Formation of a Loan Buying Company**

  This is a ptivate-sector driven and funded company which would purchase loans from the banking sector at a discount. This model works best where the loans are well documented and secured. The structure of NPLs in Kenya is such that a considerable portion of non-performing loans is not backed by tangible, valuable and realisable securities. This NPLs structure greatly hampers the formation and success of this model in the country.

- **Remodel Deposit Protection Fund Board (DPFB) to take over NPLs**

  Under this initiative, the DPFB would buy the NPLs at a discount and then be left to recover the loans through courts or realization of securities. Under this initiative, the DPFB would only buy the portfolio that is well secured.

- **Other Feasible Solutions**

  While ways are being explored to deal with the existing stock of nonperforming loans, it is important to institute measures to arrest the increase of NPLs. These include:

  - Instituting economic recovery measures that would enable borrowers engage in viable business ventures that generate sufficient income to service the acquired loans.

  - Enhancing corporate governance within the financial sector to toot out insider dealings and poor credit risk assessment and management.

While ways are being explored to deal with the existing stock of nonperforming loans, it is important to institute measures to arrest the increase of NPLs.

- Promoting the formation of Credit Reference Bureaus to enable lending institutions to share or exchange information on borrowers.

4.6 Lending Interest Rates and the Central Bank of Kenya (Amendment) Act 2000

Kenya's relatively high lending interest rates which averaged 24% were a topical issue during the year.

Kenya's relatively high lending interest rates which averaged 24% were a topical issue during the year. As a measure aimed at bringing down interest rates in the country, the Central Bank of Kenya (Amendment) Act 2000, was passed by Parliament in December, 2000. The Act requires nominal interest rates to be pegged to the 91-days Treasury Bill rates by maintaining a constant margin between the lending rates and the deposit rates. Depositors would be paid at 70% of the 91-days Treasury Bill rate, while lending would be at 4% above the 91-days Treasury Bill rate.

The merits and demerits as well as the implications of the law have been extensively debated. Analysis has shown that the ultimate objective of the Act to make credit easily accessible will not be achieved. The best way of addressing the high lending rates would be to address the following fundamental causes:

- **Government Domestic Borrowing**

  There has been heavy government borrowing from the domestic market to finance the budget deficits thus crowding out lending to the private sector. Heavy government borrowing had the effect of increasing interest rates on government securities, which in turn had an adverse effect on the cost of deposits for banking institutions. Banking institutions responded by raising lending interest rates to maintain their profit margins.

- **Cost Structures**

  The existing high cost structure of commercial banks cannot be reduced immediately. This consists of relatively high salaries and other overheads.

- **Non-Performing Loans**

  High stock of non-perforrning loans translate to higher interest charges. In order to compensate for the income lost through NPLs, banks are forced to charge higher interest rates.

- **Deteriorating Macroeconomic Conditions:**

  Perceived market and credit risks by banking institutions have increased as a result of worsening economic conditions characterised by the collapse of a number of business ventures. Institutions have responded to increased risks by keeping their lending rates high to match perceived high credit risks.

- **Oligopolistic Financial Structure:**

  The existing structure of the banking sector is such that only eight (8) out of forty-nine (49) banks control 69% and 70% of the market share in terms of net assets and deposits respectively. Small and medium-sized banks that are the majority only in terms of number are not able to compete favourably with the few big banks in terms of offering a full range of products and services. This lack of an effective competitive environment has led to inefficiencies that translate to high interest rates.

- **Cash Reserve Requirements**

  Central Banks' role in maintaining a suitable monetary policy demands that banking institutions maintain a specified minimum proportion of deposit liabilities with the Central Bank. The level of the cash ratio requirement depends on the monetary policy being pursued and may lead to increase in the cost structure of banks.

4.7 Developments in the Micro-Finance Sector

Micro-finance has been recognized as one of the most important avenue of poverty alleviation in Kenya. About 60% of the population or 15 minion are defined as poor and mostly out of the scope of modern banking services. According to the National Baseline Survey of 1999, there are close to 1.3 million Micro and Small Enterprises (MSEs) employing nearly 2.3 million persons or 29% of the country's total employment and contributing 18% of overall GDP and 25% of non-agricultural GDP.

Despite this important contribution, only 10.4% of the MSE sector received credit and other financial services from the formal banking system. Lack of adequate extension of financial services is mainly because the formal banking sector in Kenya has over the years perceived the informal sector as risky and not commercially viable. The Non-Governmental Organizations (NGOs), have attempted to meet this gap though micro-finance arrangements that apply new technologies to deliver financial services to the poor.

Over 100 organisations including fifty NGOs practice some form of microfinancing in Kenya. About twenty NGOs practice pure micro- financing, while the rest practice micro-financing alongside other social welfare activities. Some of the major players in the NGO sector are as per Appendix 12.

Over 100 organisations including fifty NGOs practice some form of microfinancing in Kenya. About twenty NGOs practice pure micro- financing, while the rest practice micro-financing alongside other social welfare activities.

Many micro-finance NGOs in Kenya have, however, successfully replicated the Grammeen Bank method of delivering financial services to the poor. The key features of the Grammeen Bank method are:

- Use of informal community-based delivery systems to administer credit and savings;
- Micro Finance Institutions (MFIs) organize clients into groups for purposes of attaining economies of scale from the small sized transactions and instituting group guarantee mechanisms;
- Credit appraisal is based primarily on character assessment and viability of projects to be financed rather than collateral; and
- Interest rates charged reflect the risk factors and are mostly in excess of 20% per annum.

The major impediment to the development of micro-finance business in Kenya is the lack of specific legislation and set of laws to regulate the operation of the MFI sector.

The major impediment to the development of micro-finance business in Kenya is the lack of specific legislation and set of laws to regulate the operation of the MFI sector. This has had a bearing on a number of other constraints faced by the industry namely: diversity in institutional form; inadequate governance and management capacity; limited outreach; unhealthy competition; limited access to funds; unfavourable image; and lack of performance standards.

Micro-finance institutions in Kenya, and Africa at large, have very limited outreach. Based on a survey carried out in Year 2000, the major nuicro-finance institutions providing credit to Micro and Small Enterprises have 102,304 active clients with a loan portfolio of Ksh 1.6 billion. There are a total of 103,856 active savers (voluntary and forced) with the total value of Ksh 812 million at end of Year 2000. The MFIs in Kenya therefore serve a limited number of people and yet one of the principles of micro-finance is serving a large number of clients. Serving a large number of people is necessary for both financial viability and developmental impact.

Another important constraint is the shrinkage of donor funding, which today is the only source of funding for MFIs. The law prohibits institutions from taking deposits unless they are appropriately licensed under the Banking Act. A further constraint of access to funds is the impediment of developing new products, particularly savings products. As mentioned earlier, savings products are not only important as a source of funds to MFIs but more so as a service in greater demand than credit.

In Kenya, like in many other countries, approaches to regulating MFIs are complicated by the fact that many institutions are involved in providing microfinance services under different legal structures. This presents a challenge in identifying an appropriate regulatory approach, which is conducive to the development of the sector while providing adequate flexibility to micro-finance activities. The Central Bank, in conjunction with the Association of Micro finance Institutions (AMFI) are working out modalities for supervision and regulation of deposit taking MFIs. A division was formed at the Central Bank within Bank Supervision Department to focus on micro-finance activities. A draft Micro-finance Policy has been prepared on which micro finance law would be based after an exhaustive consultation with the stakeholders.

4.8 Other Supervisory Issues

Apart from the Microfinance Sector, there is considerable pressure for the Central Bank of Kenya to play some direct or indirect role in regulation of other financial sector players. One of this is the co-operative societies sector which is playing a significant role in mobilisation of savings but is lacking in the area of sound corporate governance. While the Central Bank will not be involved directly in the regulation of the sector, it will work with the other stakeholders to devise a regulatory framework.

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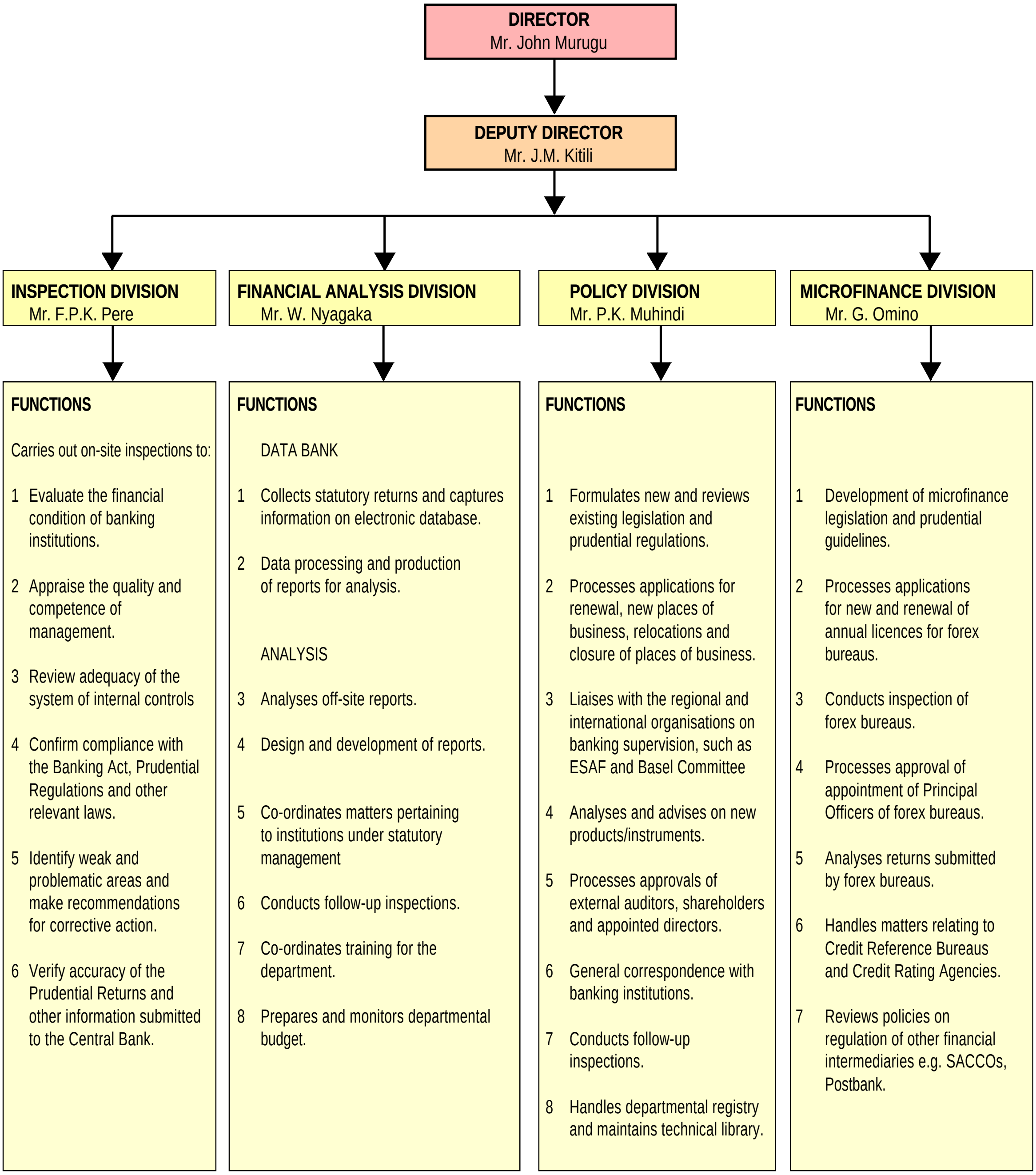
The other challenge is the Kenya Post Office Savings Bank (Postbank) whose major focus has been mobilisation of savings from the small savers but has indicated that it would like to be engaged in lending. However, in order for it to engage in such risky business, it must be supervised and the Central Bank of Kenya is being called upon to advise on the way forward.

Involvement of the Central Bank in these other roles will have wide implications on the staff establishment and technical capacity of Bank Supervision Department. The current organisational structure and functions of the department are detailed in Appendix 1.

Organisational Structure of Bank Supervision Department



Source: Central Bank of Kenya

Banking Sector Global Balance Sheet Analysis as at December, 1999 and December, 2000

Figures in Ksh million

	AUDITED						AUDITED		GROWTH
	Normal Banks	Restruct. Banks	BANKS 31.12.00	NBFIs 31.12.00	TOTAL 31.12.00	%	31.12.99	%	%
A. ASSETS									
1. Cash	9,679	19	9,698	56	9,754	2.2%	7,208	1.7%	35.3%
2. Balances at CBK	25,535	90	25,625	494	26,119	6.0%	29,359	7.0%	-11.0%
3. Placements	10,359	251	10,610	3,926	14,536	3.3%	17,765	4.3%	-18.2%
4. Government Securities	68,982	233	69,215	2,708	71,923	16.6%	67,928	16.3%	5.9%
5. Investments	3,697	-	3,697	118	3,815	0.9%	4,423	1.1%	-13.7%
6. (a) Local Currency Advances(net)	172,277	3,716	175,993	16,570	192,563	44.3%	223,760	53.5%	-13.9%
6. (b) Foreign Currency Advances	33,376	360	33,736	0	33,736	7.8%	5,856	1.4%	476.1%
7. Other foreign Assets	34,892	98	34,990	53	35,043	8.1%	21,320	5.1%	64.4%
8. Fixed Assets	17,378	510	17,888	764	18,652	4.3%	18,655	4.5%	0.0%
9. Other Assets	27,087	406	27,493	904	28,397	6.5%	21,592	5.2%	31.5%
10.Total Assets	403,262	5,683	408,945	25,593	434,538	100.0%	417,866	100.0%	4.0%
B. LIABILITIES									
11.Deposits *	306,359	698	307,057	19,646	326,703	86.3%	305,862	82.5%	6.8%
12.Accrued Interest	3,417	124	3,541	256	3,797	1.0%	5,206	1.4%	-27.1%
13.Foreign Liabilities	8,874	471	9,345	41	9,386	2.5%	21,925	5.9%	-57.2%
14.Other Liabilities	31,881	5,036	36,917	1,914	38,831	10.3%	37,721	10.2%	2.9%
15.Total Liabilities	350,531	6,329	356,860	21,857	378,717	100.0%	370,714	100.0%	2.2%
16.Net Assets/(Liabilities)	52,731	-646	52,085	3,736	55,821		47,152		18.4%
C. CAPITAL & RESERVES									
17.Paid up/Assigned Capital	27,268	13,008	40,276	2,068	42,344	9.7%	27,361	6.5%	54.8%
18.Reserves	19,571	-11456	8,115	1,376	9,491	2.2%	19,791	4.7%	-52.0%
19.P & L Account	5,892	-2198	3,694	292	3,986				
20.Total Shareholders' Funds	52,731	-646	52,085	3,736	55,821	12.8%	47,152	11.3%	18.4%
21.Contingent Liabilities	57,899	325	58,224	168	58,392		56,970		
22.Non-performing Advances	88,875	13,298	102,173	10,324	112,497		97,299		
23.Loan Loss Provisions	53,691	9,866	63,557	4,285	67,842		54,622		
24.Core Capital	42,640	-735	42,639	3,718	46,357		N/A		
25.Total Capital	54,947	-549	53,453	4,037	57,490		N/A		
26.Total Risk Weighted Assets	308,086	-955.9	308,085	18,888	326,973		N/A		
D. PERFORMANCE INDICATORS									
27.Capital/Deposits Ratio	17.02%	-78.59%	16.77%	18.77%	16.89%		15.16%		
28.Capital/Assets Ratio (Unweighted)	11.43%	-10.75%	11.15%	14.50%	11.32%		9.93%		
29.Core Capital/TRWA	13.84%	76.89%	13.84%	19.68%	14.18%		N/A		
30.Total Capital/TRWA	17.83%	57.43%	17.35%	21.37%	17.58%		N/A		
31.Core Capital/Total Deposits	13.92%	-105.30%	13.89%	18.92%	14.19%		N/A		
32.Liquidity Ratio	41.90%	24.90%	41.80%	28.50%	43.13%		40.00%		
33.Loan Loss Prov/Non-perf Adv Ratio	60.41%	74.19%	62.21%	41.51%	60.31%		56.14%		
34.Non-perf.Adv/Total Adv Ratio	34.27%	95.38%	37.39%	49.50%	38.25%		34.23%		
35.(NPLs-Prov.)/Total Advances	13.57%	24.62%	14.13%	28.96%	15.18%		15.01%		
36.Advances/Deposits Ratio	83.72%	1696.11%	87.99%	104.79%	89.00%		91.37%		
37.NPA's/Total Assets	19.45%	85.52%	21.62%	34.55%	22.39%		20.59%		

** Includes Inter-bank Balances*
Source: Published Audited Accounts

Banking Sector Global Profit and Loss Analysis as at December, 1999 and December, 2000

Figures in Ksh million

	AUDITED						AUDITED		GROWTH
	Normal Banks	Restr. Banks	Banks 31.12.00	NBFIs 31.12.00	TOTAL 31.12.00	% 31.12.00	TOTAL 31.12.99	% 31.12.99	%
A. INCOME									
1. Interest on Advances	31,987	405	32,392	3,134	35,526	52.5%	41,421	59.4%	-14.2%
2. Interest on Placements	2,912	39	2,951	369	3,320	4.9%	2,781	4.0%	19.4%
3. Interest on Govt. Securities	9,779	66	9,845	288	10,132	15.0%	9,071	13.0%	11.7%
4. Foreign Exc. Gain/(Loss)	3,382	2	3,384	7	3,391	5.0%	4,488	6.4%	-24.4%
5. Other Interest Income	848	19	867	5	872	1.3%	753	1.1%	15.8%
6. Other Income	13,800	405	14,205	243	14,448	21.3%	11,210	16.1%	28.9%
7. Total	62,708	935	63,643	4,046	67,689	100.0%	69,724	100.0%	-2.9%
B. EXPENSES									
8. Interest on Deposits	17,617	31	17,648	2,027	19,675	30.3%	20,835	29.9%	-5.6%
9. Other Interest Expenses	1,289	301	1,590	181	1,772	2.7%	1,991	2.9%	-11.0%
10.Occupancy Costs	2,263	40	2,303	126	2,430	3.7%	2,103	3.0%	15.5%
11.Director's Emoluments	424	7	431	6	438	0.7%	383	0.6%	14.3%
12.Bad Debts Charge	10,991	2,059	13,050	672	13,721	21.1%	16,346	23.5%	-16.1%
13.Salaries & Wages	14,541	131	14,672	607	15,278	23.5%	14,822	21.3%	3.1%
14.Other Expenses	10,834	318	11,152	427	11,579	17.8%	13,087	18.8%	-11.5%
15.Total	57,959	2,888	60,847	4,046	64,893	100.0%	69,567	100.0%	-6.7%
16.Profit Before Tax	4,748	(1,952)	2,796	(0)	2,796		157		1680.9%
17. No. of Employees	12,130	149	12,279	543	12,822				
C. PERFORMANCE INDICATORS									
18.Yield on Earning Assets	14.28%	3.68%	13.86%	13.78%	13.85%		15.42%		
19.Cost of Funding Earning Assets	5.52%	2.30%	5.39%	8.00%	5.58%		6.02%		
20.Interest Margin on Earning Assets	8.76%	1.37%	8.46%	5.78%	8.27%		9.41%		
21.Yield on Advances	12.33%	2.90%	11.85%	15.03%	12.08%		14.39%		
22.Cost of Deposits	6.00%	28.43%	6.08%	11.22%	6.38%		6.96%		
23.Return on Assets(Incl. Contingents)	0.92%	-12.30%	0.53%	0.00%	0.50%		0.03%		
24.Return on Shareholders Funds	9.01%	302.21%	5.37%	0.00%	5.01%		0.30%		
25.Overhead to Earnings	62.28%	273.18%	65.38%	45.42%	64.18%		67.04%		

Source: Published Audited Accounts

Market Share (Net Assets and Capital), December 2000

No	Banks	Ksh million Net Assets	Market Share %	Ksh million Capital & Reserves	Market Share %
1	Barclays Bank of Kenya Ltd.	70,893	17.3	10,339	19.85
2	Kenya Commercial Bank Ltd.	65,116	15.9	6,470	12.42
3	Standard Chartered Bank (K) Ltd.	49,361	12.1	4,554	8.74
4	National Bank of Kenya Ltd.	23,806	5.8	2,156	4.14
5	Citibank, N.A.	22,255	5.4	2,295	4.41
6	Co-operative Bank of Kenya Ltd.	21,863	5.4	1,489	2.86
7	ABN-AMRO Bank	15,790	3.9	2,261	4.34
8	Commercial Bank of Africa Ltd.	12,711	3.1	1,551	2.98
9	CFC Bank Ltd.	7,974	2.0	1,439	2.76
10	National Industrial Credit Bank Ltd.	7,442	1.8	2,210	4.24
11	Stanbic Bank Kenya Ltd.	7,219	1.8	1,017	1.95
12	Investment & Mortgages Bank Ltd.	6,491	1.6	1,076	2.07
13	Credit Agricole Indosuez	5,732	1.4	645	1.24
14	First American Bank Ltd.	5,686	1.4	1,027	1.97
15	Diamond Trust Bank Kenya Ltd.	5,075	1.2	1,055	2.03
16	Fina Bank Ltd.	4,702	1.2	475	0.91
17	Guardian Bank Ltd.	4,245	1.0	606	1.16
18	Trust Bank Ltd.	4,178	1.0	-1,160	-2.23
19	Middle East Bank of Kenya Ltd.	4,143	1.0	661	1.27
20	Giro Commercial Bank Ltd.	4,069	1.0	357	0.69
21	Development Bank of Kenya Ltd.	3,776	0.9	1,206	2.32
22	Delphis Bank Ltd.	3,646	0.9	86	0.17
23	Co-operative Merchant Bank Ltd.	3,335	0.8	185	0.36
24	Bank of Baroda	3,313	0.8	370	0.71
25	Habib AG Zurich	3,108	0.8	288	0.55
26	Victoria Commercial Bank Ltd.	3,021	0.7	455	0.87
27	Imperial Bank Ltd.	3,019	0.7	458	0.88
28	African Banking Corporation Ltd.	2,988	0.7	324	0.62
29	Prime Bank Ltd.	2,763	0.7	416	0.80
30	Habib Bank Ltd.	2,705	0.7	261	0.50
31	Akiba Bank Ltd.	2,636	0.6	589	1.13
32	Bank of India	2,543	0.6	319	0.61
33	Consolidated Bank of Kenya Ltd.	2,385	0.6	982	1.89
34	Equatorial Commercial Bank Ltd.	2,224	0.5	367	0.70
35	Biashara Bank of Kenya Ltd.	2,102	0.5	354	0.68
36	Industrial Development Bank Ltd.	1,724	0.4	1,293	2.48
37	Credit Bank Ltd.	1,711	0.4	322	0.62
38	Southern Credit Banking Corp. Ltd.	1,585	0.4	311	0.60
39	Euro Bank Ltd.	1,467	0.4	108	0.21
40	Paramount-Universal Bank Ltd.	1,465	0.4	260	0.50
41	Transnational Bank Ltd.	1,362	0.3	439	0.84
42	Fidelity Commercial Bank Ltd.	1,332	0.3	218	0.42
43	Charterhouse Bank Ltd.	1,326	0.3	265	0.51
44	K-Rep Bank Ltd..	963	0.2	507	0.97
45	Chase Bank Ltd.	821	0.2	319	0.61
46	Daima Bank Ltd.	797	0.2	89	0.17
47	Bullion Bank Ltd.	785	0.2	211	0.41
48	City Finance Bank Ltd.	718	0.2	304	0.58
49	Dubai Bank Ltd.	576	0.1	258	0.50
SUB-TOTAL		**408,947**	**100.0**	**52,087**	**100.0**

Market Share (Net Assets and Capital) December, 2000

No	NBFI's	Ksh million Net Assets	Market Share %	Ksh million Capital & Reserves	Market Share %
1	Housing Fin. Co. of Kenya Ltd.	12,846	50.2	1,228	32.9
2	Kenya Comm. Fin. Company Ltd.	5,478	21.4	967	25.9
3	Savings and Loan (K) Ltd.	4,128	16.1	766	20.5
4	Prime Capital & Credit Ltd.	2,214	8.7	362	9.7
5	Bank of India Finance Ltd.	691	2.7	194	5.2
6	Glad-Ak Fin. Ltd.	152	0.6	152	4.1
7	Devna Finance Ltd.	83	0.3	68	1.8
	SUB-TOTAL	**25,592**	**100.0**	**3,737**	**100.0**
	GRAND TOTAL	**434,539**		**55,824**	

Source : Published Audited Accounts

Non Performing Loans and Provisions – December 2000

Figures in Ksh million

NO.	BANKS	1 NON PERF. LOANS (NPLS)	2 PROVI-SIONS	3 TOTAL LOANS	4 NPLS/ TOTAL LOANS (1/3) %	5 PROVI-SIONS/ NPLS (2/1) %
1	National Bank of Kenya Ltd.	26,079	18,791	37,181	70.1	72.1
2	Kenya Commercial Bank Ltd.	19,750	10,688	43,829	45.1	54.1
3	Trust Bank Ltd.	11,708	8,802	12,196	96.0	75.2
4	Co-operative Bank of Kenya Ltd.	7,764	5,214	16,803	46.2	67.2
5	Barclays Bank of Kenya Ltd.	4,115	2,277	44,520	9.2	55.3
6	Standard Chartered Bank (K) Ltd.	2,694	1,221	18,103	14.9	45.3
7	Guardian Bank Ltd.	2,284	844	3,839	59.5	37.0
8	Delphis Bank Ltd.	2,196	1,028	3,119	70.4	46.8
9	Co-operative Merchant Bank Ltd.	2,137	1,009	2,764	77.3	47.2
10	Stanbic Bank Kenya Ltd.	1,814	1,059	4,355	41.7	58.4
11	First American Bank Ltd.	1,550	948	3,954	39.2	61.2
12	Development Bank of Kenya Ltd.	1,357	688	2,922	46.4	50.7
13	National Industrial Credit Bank Ltd.	1,219	851	4,781	25.5	69.8
14	Industrial Development Bank Ltd.	1,145	725	1,827	62.7	63.3
15	Bullion Bank Ltd.	1,060	906	1,114	95.2	85.5
16	Commercial Bank of Africa Ltd.	936	525	5,017	18.7	56.1
17	Euro Bank Ltd.	889	420	1,703	52.2	47.2
18	ABN-AMRO Bank	868	756	8,818	9.8	87.1
19	Giro Commercial Bank Ltd.	864	131	2,714	31.8	15.2
20	Fina Bank Ltd.	796	408	2,760	28.8	51.3
21	Investment & Mortgages Bank Ltd.	787	343	4,028	19.5	43.6
22	Consolidated Bank of Kenya Ltd.	775	714	1,304	59.4	92.1
23	Daima Bank Ltd.	761	409	945	80.5	53.7
24	Diamond Trust Bank Kenya Ltd.	743	391	1,892	39.3	52.6
25	Transnational Bank Ltd.	717	279	1,088	65.9	38.9
26	Victoria Commercial Bank Ltd.	662	339	2,001	33.1	51.2
27	Southern Credit Banking Corp. Ltd.	606	358	1,218	49.8	59.1
28	Akiba Bank Ltd.	532	176	1,506	35.3	33.1
29	City Finance Bank Ltd.	531	157	630	84.3	29.6
30	Middle East Bank of Kenya Ltd.	510	302	1,631	31.3	59.2
31	Equatorial Commercial Bank Ltd.	505	299	1,344	37.6	59.2
32	Bank of Baroda Ltd.	467	223	1,328	35.2	47.8
33	Fidelity Commercial Bank Ltd.	372	187	957	38.9	50.3
34	African Banking Corporation Ltd.	369	159	1,640	22.5	43.1
35	Paramount-Universal Bank Ltd.	358	148	958	37.4	41.3
36	Imperial Bank Ltd.	307	248	2,140	14.3	80.8
37	Credit Bank Ltd.	306	144	964	31.7	47.1
38	Credit Agricole Indosuez	304	277	3,132	9.7	91.1
39	Prime Bank Ltd.	304	140	1,586	19.2	46.1
40	Habib Bank Ltd.	199	209	931	21.4	105.0
41	Citi Bank, N.A.	198	246	10,042	2.0	124.2
42	CFC Bank Ltd.	180	185	5,447	3.3	102.8
43	Charterhouse Bank Ltd.	97	50	777	12.5	51.5
44	Habib AG Zurich	92	78	743	12.4	84.8
45	Dubai Bank Ltd.	91	73	311	29.3	80.2
46	Bank of India Ltd.	86	47	716	12.0	54.7
47	Biashara Bank of Kenya Ltd.	85	72	879	9.7	84.7

Non Performing Loans and Provisions – December, 2000

NO.	BANKS	1 NON PERF. LOANS (NPLS)	2 PROVI-SIONS	3 TOTAL LOANS	4 NPLS/ TOTAL LOANS (1/3) %	5 PROVI-SIONS/ NPLS (2/1) %
48	K-Rep Bank Ltd.	5	9	438	1.1	180.0
49	Chase Bank Ltd.	3	6	390	0.8	200.0
	SUB-TOTAL	**102,178**	**63,561**	**273,288**	**37.4**	**62.2**
NBFI'S						
1	Housing Fin. Co. of Kenya Ltd.	6,021	2,133	11,585	52.0	35.4
2	Kenya Comm. Fin. Company Ltd.	2,840	1,234	4,961	57.2	43.5
3	Savings and Loan (K) Ltd.	831	492	2,539	32.7	59.2
4	Prime Capital & Credit Ltd.	400	265	1,385	28.9	66.3
5	Glad-Ak Fin. Ltd.	213	158	262	81.3	74.2
6	Bank of India Finance Ltd.	19	4	112	17.0	21.1
7	Devna Finance Ltd.	0	1	12	0.0	0.0
	SUB-TOTAL	**10,324**	**4,287**	**20,856**	**49.5**	**41.5**
	GRAND TOTAL	**112,502**	**67,848**	**294,144**	**38**	**60**
	Adjust: Rounding Error	**-4**	**-4**	**0**	**0**	**0**
	GRAND TOTAL	**112,498**	**67,844**	**294,144**	**38**	**60**

Source : Published Audited Accounts

Profitability of the Banking Institutions for year 2000

Figures in Ksh million

NO	BANKS	1 PROFIT BEFORE TAX	2 TOTAL ASSETS AND CONTINGENCIES	3 RETURN ON ASSETS (1/2) %
1	Standard Chartered Bank (K) Ltd	3,119	59,846	5.21
2	Barclays Bank of Kenya Ltd	2,983	84,118	3.55
3	Citibank, N.A.	619	22,500	2.75
4	ABN-AMRO Bank	489	16,546	2.96
5	National Industrial Credit Bank Ltd.	451	8,738	5.16
6	Commercial Bank of Africa Ltd.	370	14,482	2.55
7	CFC Bank Ltd.	243	9,773	2.49
8	Diamond Trust Bank Kenya Ltd.	175	5,494	3.19
9	Investment & Mortgages Bank Ltd.	138	8,658	1.59
10	First American Bank Ltd.	121	7,480	1.62
11	Imperial Bank Ltd.	113	3,613	3.13
12	Middle East Bank of Kenya Ltd.	111	5,062	2.19
13	Habib AG Zurich	106	3,473	3.05
14	Bank of India	94	3,019	3.11
15	Development Bank of Kenya Ltd.	84	4,513	1.86
16	Habib Bank Ltd.	79	3,247	2.43
17	Charterhouse Bank Ltd.	77	1,524	5.05
18	Credit Agricole Indosuez	68	8,122	0.84
19	Biashara Bank of Kenya Ltd	60	2,410	2.49
20	Guardian Bank Ltd.	56	5,258	1.07
21	Fina Bank Ltd.	51	5,514	0.92
22	Prime Bank Ltd.	47	3,181	1.48
23	Bank of Baroda	47	3,806	1.23
24	African Banking Corporation Ltd.	34	3,612	0.94
25	Equatorial Commercial Bank Ltd.	30	2,523	1.19
26	Chase Bank Ltd.	26	908	2.86
27	Credit Bank Ltd.	26	2,011	1.29
28	Akiba Bank Ltd	26	3,309	0.79
29	Transnational Bank Ltd.	22	2,578	0.85
30	Victoria Commercial Bank Ltd	21	3,652	0.58
31	Giro Commercial Bank Ltd.	20	4,704	0.43
32	Paramount-Universal Bank Ltd.	17	1,716	0.99
33	Euro Bank Ltd.	15	1,960	0.77
34	K-Rep Bank Ltd.	14	972	1.44
35	Fidelity Commercial Bank Ltd.	2	1,558	0.13
36	Dubai Bank Ltd.	-1	686	-0.15
37	Consolidated Bank of Kenya ltd.	-14	3,253	-0.43
38	Southern Credit Banking Corp. Ltd.	-14	1,997	-0.70
39	Daima Bank Ltd.	-46	1,292	-3.56
40	Industrial Development Bank Ltd.	-65	2,449	-2.65
41	City Finance Bank Ltd.	-122	875	-13.94
42	Co-operative Merchant Bank Ltd.	-156	4,362	-3.58
43	Bullion Bank Ltd.	-249	1,697	-14.67
44	Stanbic Bank Kenya Ltd.	-439	9,078	-4.84
45	Kenya Commercial Bank Ltd	-693	93,518	-0.74
46	Delphis Bank Ltd.	-731	5,553	-13.16
47	Co-operative Bank of Kenya Ltd.	-1,414	27,852	-5.08
48	Trust Bank Ltd.	-1,582	13,300	-11.89
49	National Bank of Kenya Ltd	-1,631	44,934	-3.63
SUB-TOTAL		**2,799**	**530,728**	**0.53**

Profitability of the Banking Institutions for year 2000

Figures in Ksh million

NO	NBFI's	1 PROFIT BEFORE TAX	2 TOTAL ASSETS AND CONTINGENCIES	3 RETURN ON ASSETS (1/2) %
1	Housing Fin. Co. of Kenya Ltd.	217	14,979	1.45
2	Bank of India Finance Ltd.	29	695	4.17
3	Prime Capital & Credit Ltd.	29	2,563	1.13
4	Savings and Loan (K) Ltd.	21	4,704	0.45
5	Devna Finance Ltd.	2	84	2.38
6	Glad-Ak Fin. Ltd	-26	310	-8.39
7	Kenya Comm. Fin. Company Ltd.	-272	6,711	-4.05
	SUB-TOTAL	**0**	**30,046**	**0.00**
	GRAND TOTAL	**2,799.00**	**560,774.00**	**0.50**

Source: Published Audited Accounts

Prudential Supervision Circulars issued in year 2000

No.	Circular No.	Date of Issue	Title	Remarks
1	1	07.01.2000	Publication of Audited Accounts and Disclosures in National newspapers under section 22 of the Banking Act.	Revised formats for disclosures of the 1999 audited accounts which were to be published by 31.03.2000.
2	2	02.03.2000	Position of Executive Chairman in Banking institutions	Requirement that Boards of Directors of all banking institutions and building societies eliminate remaining positions of executive chairmen by 31.12.2000.
3	4	10.03.2000	Banking industry workshop on 27th April, 2000.	Workshop for all Chief Executives of commercial banks to discuss progress and plans in telecommunications, the Euro, exchange rates and interest rates in Kenya.
4	6	30.03.2000	Presentation of inspection reports to Boards of Directors	Institutions advised to be preparing for a special board meeting to specifically discuss the inspection findings.
5	10	08.06.2000	Capital adequacy regulation.	Capital adequacy to be assessed in terms of risk weighted assets.
6	13	25.07.2000	Regulation on foreign exchange exposure limits	Foreign exchange exposure limit to include off-balance sheet items.
7	14	25.07.2000	Guideline on Enforcement on Banking Laws and Regulations.	Guideline on enforcement action.
8	16	31.08.2000	Minimum capital requirements	Minimum core capital was raised effective 31.12.2000.
9	18	23.10.2000	Prudential regulations for banking institutions	A consolidated publication of all prudential regulations incorporating the amendments to the Banking Act.

Mergers of institutions since 1994

A) APPROVED MERGERS

No.	Institution	Merged with	Current/proposed name	Date approved
1	Indosuez Merchant Finance	Banque Indosuez	Credit Agricole Indosuez	10.11.1994
2	Transnational Finance Ltd.	Transnational Bank	Transnational Bank Ltd.	28.11.1994
3	Ken Baroda Finance Ltd.	Bank of Baroda (K) Ltd.	Bank of Baroda (K) Ltd.	02.12.1994
4	First American Finance Ltd.	First American Bank Ltd.	First American Bank (K) Ltd.	05.09.1995
5	Bank of India**	Bank of India Finance	Bank of India (Africa) Ltd.	15.11.1995
6	Stanbic Bank (K) Ltd.	Stanbic Finance (K) Ltd.	Stanbic Bank Kenya Ltd.	05.01.1996
7	Mercantile Finance Ltd.	Ambank Ltd.	Ambank Ltd.	15.01.1996
8	Delphis Finance Ltd.	Delphis Bank Ltd.	Delphis Bank Ltd.	17.01.1996
9	CBA Financial Services	Commercial Bank of Africa Ltd.	Commercial Bank of Africa Ltd.	26.01.1996
10	Trust Finance Ltd.	Trust Bank (K) Ltd.	Trust Bank (K) Ltd.	07.01.1997
11	National Industrial Credit Bank Ltd.	African Mercantile Ban. Corp.	NIC Bank	14.06.1997
12	Giro Bank Ltd.	Commerce Bank Ltd.	Giro Commercial Bank	24.11.1998
13	Guardian Bank Ltd.	First National Finance Bank Ltd.	Guardian Bank Ltd.	24.11.1998
14	Diamond Trust Bank (K) Ltd.	Premier Savings & Finance Ltd.	Diamond Trust Bank (K) Ltd.	12.02.1999
15	National Bank of Kenya Ltd.	Kenya National Capital Corp.	National Bank of Kenya Ltd.	24.05.1999
16	Standard Chartered Bank (K) Ltd.	Standard Chartered Financial	Standard Chartered Bank (K) Ltd.	17.11.1999
17	Barclays Bank of Kenya Ltd.	Barclays Merchant Finance Ltd.	Barclays Bank of Kenya Ltd.	22.11.1999
18	Habib A.G. Zurich	Habib Africa Bank Ltd.	Habib Bank A.G. Zurich	30.11.1999
19	Guilders Inter. Bank Ltd.	Guardian Bank Ltd.	Guardian Bank Ltd.	03.12.1999
20	Universal Bank Ltd.	Paramount Bank Ltd.	Paramount Universal Bank	11.01.2000
21	Fidelity Commercial Bank*	Southern Credit Banking Corp. Ltd.	Southern Fidelity Bank Ltd.	11.01.2000
22	Euro Bank Ltd.**	Daima Bank Ltd.	Euro Daima Bank Ltd.	11.01.2000
23	Kenya Commercial Bank	Kenya Commercial Finance Co.	KCB	21.03.2001

B). PROPOSED MERGERS

No.	Institution	Merged with		
1.	KCB	Savings & Loan (K) Ltd.		
2.	Bullion Bank Ltd.	Southern Credit Bank Ltd.		

**Merger process discontinued.*
*** Merger process not yet completed.*

Source: Central Bank of Kenya

Conversions of institutions since 1994

B). FINANCIAL INSTITUTIONS WHICH CONVERTED INTO BANKS SINCE 1994

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

Source: Central Bank of Kenya

Level of Compliance with Basel Core Principles for Effective Banking Supervision

ASSESSMENT RATINGS	
1	**Compliant**
2a	**Largely compliant and efforts to achieve compliance are underway**
2b	**Largely compliant and efforts to achieve compliance are not underway**
3a	**Materially non-compliant and efforts to achieve compliance are underway**
3b	**Materially non-compliant and efforts to achieve compliance are not underway**
4a	**Non-compliant and efforts to achieve compliance are underway**
4b	**Non-compliant and efforts to achieve compliance are not underway**

	Summarised Description of Core Principles	**Assessment**				
1	Framework for supervisory authority:	1	2	3	4	n/a
1(1)	Clear rules and objectives for the supervisory agency should be spelt out in relevant laws and supporting legislation.	1				
1(2)	Supervisor should posses operational independence and adequate resources to eliminate external operational interference and ensure financing that does not undermine autonomy.		2a			
1(3)	Existence of a suitable legal framework that identifies the authority responsible for granting/withdrawing licences, and setting prudential rules	1				
1(4)	Enforcement powers should be in place to address compliance with laws as well as safety and soundness concerns. The supervisor should have unfettered access to bank's files and be legally empowered to take prompt remedial action.	1				
1(5)	Legal protection for supervisors should be in place, to safeguard the supervisory agency and it's staff against lawsuits for actions taken while discharging their duties in good faith.	1				
1(6)	Arrangements should be in place for confidential sharing of information between supervisory agencies, both domestic and foreign.	1				
2	The use of the word "bank" and any of its derivatives should be limited to licensed and supervised institutions to ensure the public is not misled.	1				
3	Licensing authority should have the right to set criteria and reject applications for banking establishments that do not meet the standards set on such aspects as ownership structure, directorship, management, financial condition etc.	1				
4	Authority to review and reject proposals to transfer significant ownership or controlling interests in existing banks to other parties should be in place. Laws or regulations should contain clear definition of significant ownership.	1				
5	Authority should be in place, to establish criteria for reviewing major acquisitions or investments by a bank and ensuring that corporate structures do not expose the bank to undue risks or hinder effective supervision.		2a			
6	Supervisor should have authority to set minimum adequacy requirements for banks that reflect the risks that the bank undertakes and which define the components of capital, bearing in mind its ability to absorb losses (Basel Capital Accord).	1				
7	A supervisory system should be in place, that independently evaluates a bank's policies, practices and procedures related to the granting of loans and making of investments and the ongoing management of the loan and investment portfolios.	1				
8	Supervisor must be satisfied that banks establish and adhere to adequate policies, practices and procedures for evaluating the quality of assets and the adequacy of loan loss provisions and reserves.		2a			
9	Supervisor must be satisfied that management information systems and limits exist in banks to restrict large exposures to single or related borrowers.	1				
10	Requirements should be in place to ensure that banks lend to related companies and individuals on an arm's length basis. These extensions of credit should be effectively monitored and their risks controlled or mitigated.	1				
11	Supervisor to be satisfied as to adequacy of policies and procedures in banks for identifying, monitoring and controlling country risk and transfer risk in the international lending, and for maintaining appropriate reserves.		2a			

Level of Compliance with Basel Core Principles for Effective Banking Supervision

	Summarised Description of Core Principles	Assessment				
	Framework for supervisory authority:	**1**	**2**	**3**	**4**	**n/a**
12	Supervisor to be satisfied as to existence of systems in banks to accurately measure, monitor and adequately control market risks. Supervisory powers to impose limits or capital charge should be in place.					5
13	Supervisor should be satisfied that banks have comprehensive risk management process to identify, measure, monitor and control all other material risks.		2a			
14	Supervisor should determine that banks have adequate internal controls that include clear delegation, separation of functions, including independent internal and external audit and compliance functions.	1				
15	Supervisor should determine that banks have adequate policies that promote high ethical and professional standards in the financial sector, to prevent money laundering.		2a			
16	Effective banking supervisory system should consist of some form of both on-site and off-site supervision.	1				
17	Supervisor to have regular contact with bank management and a thorough understanding of the institution's operations.	1				
18	Supervisor should have a means of off-site analysis of prudential reports and statistical returns from banks on a solo and consolidated basis.		2a			
19	Supervisor should have a means of independent validation of supervisory information through on-site examination or use of external auditors.	1				
20	Supervisory process should have the ability to supervise the banking group on a consolidated supervision basis.		2a			
21	Supervisor should be satisfied that each bank maintains adequate records drawn up in accordance with accounting policies and practices and published regularly.	1				
22	Supervisor should have the ability to bring about timely remedial measures when banks fail to meet prudential or regulatory requirements, or where depositors are threatened in any other way - including ability to revoke the banking licence.		2a			
23	Supervisor should practise global consolidated supervision over internationally active banking organisations.		2a			
24	Supervisory process should establish contact and information exchange with other supervisory authorities to ensure effective host country supervision		2a			
25	Supervision of foreign establishments must require the same high standards as are required of domestic institutions and must have powers to share information needed by the home country supervisors.	1				

Source: Central Bank of Kenya

Banking Institutions as at 31 December 2000

A).COMMERCIAL BANKS

Name of Institution and Chief Executive	Tel. No.	Physical Address of Head Office
1. **ABN-AMRO BANK N.V** Country Manager Mr. Adriaan Van der Pol	710455/6 710514/5 710829/30 710972/3	ABN-Amro Building, Nyerere Road
2. **AFRICAN BANKING CORP. LTD** Managing Director Mr. Ashraf Savani	223922 251540/1 226712 248978	ABC Bank Mezzanine Floor Koinange Street
3. **AKIBA BANK LTD.** Chief Executive Mr. L.J. Pandit	331709 218360/1 249633/4 249670/1/2	Fedha Towers Muindi Mbingu st. Nairobi
4. **BANK OF BARODA (K) LTD.** Managing Director Mr. M. K. Parekh	227869 228405	Tom Mboya Street
5. **BANK OF INDIA** Chief Executive Mr. P.A. Kalyanasunder	221414-7 218063 218871	Kenyatta Avenue
6. **BARCLAYS BANK OF KENYA LTD.** Managing Director Isaac Takawira	332230	Barclays Plaza Loita Street
7. **BIASHARA BANK OF KENYA LTD.** Chief Executive Mr. N.D.Chudasama	221064 223168 338384 220632	Investment House Biashara st.
8. **BULLION BANK LTD.** Chief Executive Mr. Aliraza Yousuf	220939 220948 218622	Off Muranga Road
9. **CFC BANK LIMITED** Managing Director Mr. Robert Barry	340091 741861	CFC Centre Chiromo road Westland
0. **CHASE BANK (KENYA) LTD.** (changed name from United Bank Ltd w.e.f 15.11.95) Managing Director Mr. Zafrullah Khan	244035 245611 330222	Prudential Ass. Building 6th Floor Wabera Street
11. **CHARTERHOUSE BANK LTD.** (changed name from Middle East Bank (K) Finance w.e.f, 11.11.96 and became a bank w.e.f. 01.10.98) Managing Director Mr. Sanjay Shah	224842 224920 242246/53	Longonot Place 6th. Floor Kijabe Street
12. **CITIBANK N.A.** General Manager Mr Terry Davidson	711221 717016	Citibank House Upper Hill Road

Banking Institutions as at 31 December 2000

A).COMMERCIAL BANKS

Name of Institution and Chief Executive	Tel. No.	Physical Address of Head Office
13. CITY FINANCE BANK LTD. Managing Director S.V. Ramani	224238-9 332487 332532 210338/9	Unity House Koinange St.
14. COMMERCIAL BANK OF AFRICA LTD. Managing Director Mr. Isaac Awuondo	228881 340200	Wabera Street
15. CONSOLIDATED BANK OF KENYA LTD. Managing Director Mr. E.K.Mathiu	340551 340830 340920	Consolidated Bank Hse. Koinange Street
16. CO-OPERATIVE BANK OF KENYA LTD. Managing Director Mr. Gideon M. Muriuki	225579 228453/7 251290/9	New Location-(H.Q) Kenya-Re Plaza Taifa Road Union Towers
17. CO-OPERATIVE MERCHANT BANK Managing Director Mr. Gideon M. Muriuki	228711/2/3	Moi Avenue New Location-(H.Q) International Life House Mama Ngina Street
18 CREDIT AGRICOLE INDOSUEZ Regional Manager Mr. Benoite Destoppeleire	211175 210546	Re-Insurance Plaza Taifa Road
19. CREDIT BANK LIMITED Managing Director Mr Narendra Kumar Agarwal	222300 222317 220789 332015	Ground Floor Mercantile Hse Koinange st.
20. DAIMA BANK LTD. Chief Executive Mr. S.K.Muumbi	330620 330612 330615 330617 215368	Utalii House Off Uhuru Highway
21. DEVELOPMENT BANK OF KENYA LTD. General Manager Mr. J.V. Bosse	340426 340416 340478	Finance House Loita Street
22. DIAMOND TRUST BANK KENYA LTD. (merged with Premier Finance on 01.04.99) Managing Director N.M. Devji (with effect from 07.03.2001)	210988/008 (20 lines)	Nation Centre Kimathi Street
23. DUBAI BANK KENYA LIMITED (changed name from Mashreq Bank from Apr. 2000) General Manager Mr. Njage Makanga	330562-6	I.C.E.A Building Kenyatta avenue
24. EQUATORIAL COMMERCIAL BANK LTD Managing Director Mr. T.N. Khwaja	331122/338398 330611/221114 338908	Sasini House Loita street

Banking Institutions as at 31 December 2000

A). COMMERCIAL BANKS

Name of Institution and Chief Executive	Tel. No.	Physical Address of Head Office
25. EURO BANK LIMITED Ag. Managing Director Mr. Zachary Kamondo	218879/63 221367	Hamilton Hse. Wabera st.
26. FIDELITY COMMERCIAL BANK LTD. Managing Director Mr. Sultan Khimji	242348 244187	I.P.S Bldng. 7th Floor Kimathi St.
27. FINA BANK LIMITED. Managing Director V.M. Ghanbhag (with effect 07.03.2001)	240798 337070 222580	Fina House Kimathi Street
28. FIRST AMERICAN BANK OF KENYA LTD. Managing Director Mr. M. Blasetti 226518	333960-2 215936/7 228389 216020	I.C.E.A Building Kenyatta Avenue
29. GUARDIAN BANK LIMITED. (Merger with First National Fin. Bank app. on 24-11-98) (Merger with Guilder Int. Bank app. on 31.12.1999) Managing Director Mr. G.H. Bhatt	214070 333877 228087 214460	View Park Towers 6th Floor Monrovia Street
30. GIRO COMMERCIAL BANK LIMITED (Merger with Commerce Bank effective 11-12-98) Managing Director Mr. R.B. Singh	330129 339519 216005 330135/7/9 334984-5	Giro House Kimathi Street
31. HABIB BANK A.G. ZURICH (Merger with Habib Africa Ltd app. on 31.12.1999) Country Manager Mr. I.A Allawala		National House Koinange Street
32. HABIB BANK LTD. General Manager (Africa Region) Mr. Hamid M. Baig	246613 246641	Exchange Building Koinange Street
33. IMPERIAL BANK LTD. Managing Director Mr.A.Janmohamed	225060 252175/8 25284/5	IPS Building Kimathi Street
34. INDUSTRIAL DEVELOPMENT BANK LTD. (Converted to a Commercial Bank on 10.09.98) Managing Director Mr. Lawrence Masaviru	337079	National Bank Building Harambee Avenue
35. INVESTMENTS & MORTGAGES BANK LTD. General Manager Mr. A.V. Chavda	711994-8	I & M Bank House 2nd Ngong Avenue
36. KENYA COMMERCIAL BANK LTD. Managing Director Mr. Gareth A George	339441/3 339450/2 339446/9	Kencom House Moi Avenue

Banking Institutions as at 31 December 2000

A). Commercial Banks

Name of Institution and Chief Executive	Tel. No.	Physical Address of Head Office
37. K-REP BANK LIMITED Managing Director Kimanthi Mutua	571511 573141/8 573169 573236/45/67	Naivasha Road Riruta
38. MIDDLE EAST BANK KENYA LTD. Managing Director Mr. S.S Dinamani	335168-72	Exchange Building Kenyatta Avenue
39. NATIONAL BANK OF KENYA LTD (merger with KENYAC effected on 25.05.99) Managing Director R.M. Marambii	226471-8 339690	National Bank Building Harambee Avenue
40. NATIONAL INDUSTRIAL CREDIT BANK LTD. Managing Director Mr. M. N. Davidson	718200	N.I.C. House Masaba Road
41. PARAMOUNT - UNIVERSAL BANK LTD. Merger of Paramount with Universal Bank Managing Director Mr. Ayaz Merali	449266-8	Sound Plaza Building Westlands
42. PRIME BANK LTD. Chief Executive Mr. Vasant K. Shetty	211979 214869/70 334312	Kenindia Hse. Loita Street
43. SOUTHERN CREDIT BANKING CORP. LTD. Managing Director Mr. D.A. Shah	240647 447077 448145	Reliance Bank Centre Westlands
44. STANBIC BANK KENYA LIMITED. (changed name from Grindlays Bank w.e.f 1.7.93) General Manager Mr. P.R. Southey (with effect from March 2001)	335888	Stanbic Bank Building Kenyatta Avenue
45. STANDARD CHARTERED BANK (K) LTD. Managing Director Allan C. M. Low (with effect from 7.03.2001)	330200 331210	Stanbank House Moi Avenue
46. THE DELPHIS BANK LTD. (Under CBK management w.e.f. 21.06.01) Managing Director N. R. Panicker	228461/2 221875 222076	Finance House Koinange Street
47. TRANS - NATIONAL BANK LTD. Managing Director Mr. Patrick Noble	224234-6 339201-4 339225 339223	Transnational Plaza Mama Ngina Street

Banking Institutions as at 31 December 2000

A). COMMERCIAL BANKS

Name of Institution and Chief Executive	Tel. No.	Physical Address of Head Office
48. TRUST BANK LTD. (Currently in liquidation w.e.f. 16.08.2001) Chief Executive Mahendra Patel	226413-5 216264/7	Trust Forte House Moi Avenue
49. VICTORIA COMMERCIAL BANK LTD. Managing Director Mr. Yogesh K.Pattni	225767 228732 228950	Victor House 2nd Floor, Kimathi st.

B). Financial Institutions

1. BANK OF INDIA FINANCE (K) LTD Chief Executive Mr. P.A. Kalyanasundar	221414-6 334359	Kenyatta Avenue
2. DEVNA FINANCE LTD. Managing Director Mr. J.D. Nanji	(037)40973 43495 212370/1 NAKURU	Devna House Nakuru
3. GLAD-AK FINANCE (In voluntary liquidation w.e.f. 30.01.2001)		Twiga Towers 1st Floor, Muranga Road
4. KENYA COMMERCIAL FINANCE CO. LTD. To merge with KCB Managing Director Mr. A. Ondiegi	339074 339400 339016 339033	Kencom House Moi Avenue
5. PRIME CAPITAL AND CREDIT LTD. Executive Director Mr. R.C. Kantaria	223644 227910 218670 223139	Kenindia House Loita Street 4th Floor

C). Mortgage Finance Companies

1. HOUSING FINANCE CO. (K) LTD. Managing Director Mr. Peter Lewis Jones (with effect from March 2001)	221101/333910 333920	Rehani House Kenyatta Avenue
2. SAVINGS AND LOAN (K) LTD. Managing Director Mr Stanley Towett	338777-8	Salama House Mama Ngina Street

Banking Institutions as at 31 December 2000

D). Building Societies

Name of Building Society and Chief Executive	Tel. No.	Physical Address of Head Office
1. **EAST AFRICAN BUILDING SOCIETY** Chief Executive Mr. L.J. Pandit	214357/214176 224204/210304 215327/214639 214176	Fedha Towers Muindi Mbingu Street
2. **EQUITY BUILDING SOCIETY** Managing Director Mr. J.K. Mwangi	330433-4 334265 33926 337670	Fourways Towers Muindi Mbingu Street
3. **FAMILY FINANCE BUILDING SOCIETY** Executive Chairman Mr. T.K. Muya	211365 214271 335003	Fourways Towers Muindi Mbingu Street
4. **PRUDENTIAL BUILDING SOCIETY** (under investigation) Chairman Mr. W.K. Kipkoti	227233 227282	Protection House Haile Selassie Avenue Parliament Road

E). Regional Offices/Representative Offices of foreign banks operating in Kenya

Name of Representative Office and Chief Officers	Tel. No.	Physical Address
1. **THE BANK OF TOKYO-MITSUBISHI LTD.** Chief Representative Officer Mr. Ryuichi Kinase	NAIROBI 220951	IN KENYA International life House Ltd. (4rd Floor) Mama Ngina Street
2. **P.T.A. BANK** President / Chairman Mr. M. Gondwe	254-(2) 712250	NSSF Building 22nd & 23rd Floors Bishops Road

F). Overseas Affiliations

Name of Local Institution	Telex No. Address Tel. No.	Fax No.
1. **PRIME CAPITAL AND CREDIT LIMITED**	Private Bag 122 Blantyre, MALAWI	Telex 43170 Fax - 000-265-622737 Tel - 000-265-622787
2. **DIAMOND TRUST BANK LIMITED**	P.O BOX 7155 Kampala UGANDA	Tel. 259331/3 Fax (256-41) 242286
	P.O BOX 115 Dar-es-Salaam TANZANIA	Tel. 051-20492/22862 Fax 051 44272
3. **KENYA COMMERCIAL BANK LIMITED**	P.O BOX 804 Dar-es-Salaam TANZANIA	Tel. 051-155386/ 87-90 Fax 051-116391
	1. Hayhill Barclay Square London W1X7LK, UK	0171-4934842 London

Source: Central Bank of Kenya

Foreign Exchange Bureaus as at 31 December 2000

Name of Forex Bureau	Phone No.	Fax No.	Physical Address	Paid Up Capital Shs.000	Total Assets Shs.000
1 **ACESAFE FOREX BUREAU LTD****** P.O. Box 42457 Nairobi	243495/6469	244346	IPS Building Standard Street		
2 **AL BARAKAT FOREX BUREAU LTD** P.O. Box 12161 Nairobi	763013 761212 223374 224513		Barwaka House Eastleigh Section II 1st Avenue	2,300	2,678
3 **ARISTOCRATS FOREX BUREAU LTD** P.O. Box 10884 Nairobi	606053/4	215063	Wilson Airport	1,500	1,251
4 **BAY FOREX BUREAU LTD** P.O. Box 79736 Nairobi	245233 245234	246421	Jamia Plaza Kigali Street	2,000	21,227
5 **BLUE NILE FOREX BUREAU LTD** P.O. Box 69466 Nairobi	253435	249323	Bazaar Plaza	3,000	7,856
6 **BLUE SEAS FOREX BUREAU LTD** P.O. Box 60012 NAIROBI	339,000,333 336,680,338	334577	Clyde House Kimathi Street	4,500	25,168
7 **CAPITAL FOREX BUREAU LTD** P.O. Box 54210 Nairobi	251704/08	241307	Jubilee Insurance House	2,000	21,981
8 **CENTRAL FOREX BUREAU LTD** P.O. Box 43966 Nairobi	226777 331343	337743	Posta Sacco Plaza	12,000	44,337
9 **CHASE BUREAU DE CHANGE LTD** P.O. Box 45746 Nairobi	244497	244651	Gilfillan House	4,000	47,785
10 **CONTINENTAL FOREX BUREAU LTD** P.O. Box 49850 Nairobi	222140 330883	216163	Old Mutual Building Kimathi Street	2,000	9,861
11 **CRATER FOREX BUREAU LTD** P.O. Box 7357 Nakuru	037 214183	245403	Menengai Motors George Morara Avenue	1,500	4,747
12 **CROWN BUREAU DE CHANGE (K) LTD** P.O. Box 22515 Nairobi	250720/1/2	252365	Corner House	7,880	24,650
13 **DIANI FOREX BUREAU LTD** P.O. Box 83927 Mombasa	0127-2205 011 226047	011 222978	Paradise Cottages Diani	2,000	1,736
14 **DOWNTOWN CAMBIO LTD** P.O. Box 42444 Nairobi	608659 602963	608354	Wilson Airport	2,000	6,752
15 **FINERATE FOREX BUREAU LTD** P.O. Box 39252 Nairobi	250406	250407	Bruce House	1,900	9,420
16 **FOREX BUREAU AFRO LTD** P.O. Box 14353 Nairobi	250676 247041	251071	Jamia Plaza Kigali Street	2,000	17,698
17 **FORT JESUS FOREX BUREAU LTD** P.O. Box 89991 Mombasa	011 316717	011 315924	Old Town Mombasa	6,000	35,878

Foreign Exchange Bureaus as at 31 December 2000

Name of Forex Bureau	Phone No.	Fax No.	Physical Address	Paid Up Capital Shs.000	Total Assets Shs.000
18 **GIANT FOREX BUR. DE CHANGE LTD** P.O. Box 56947 Nairobi	823327	825327	Jomo Kenyatta International Airport	2,000	9,341
19 **GLORY FOREX BUREAU LTD*** P.O. Box 42909 Nairobi	244333 241164 243115	245614	Norwich Union House, Kimathi Street	4,000	10,623
20 **GOLDFIELD FOREX BUREAU LTD**** P.O. Box 46371 Nairobi	332565 223761 244554 248713/4	223761	Fedha Towers Nairobi	2,000	6,748
21 **GREENLAND FOREX BUR. (K) LTD** P.O. Box 72985 Nairobi	246644 246145	246550	Uganda House, Kenyatta Avenue	2,015	18,536
22 **JODECI BUREAU DE CHANGE LTD** P.O. Box21819 Nairobi	822845/50 824536 824544 246094 245863	245741	Unit 1, Jomo Kenyatta International Airport	4,500	20,105
23 **KAREN BUREAU DE CHANGE LTD** P.O. Box 24672 Nairobi	226431/4/5 447204/5/6	443859	Karen Provision Stores Corner Langata Rd/Ngong Road	2,000	21,625
24 **LEO FOREX BUREAU LTD** P.O. Box 82304 Mombasa	011 230396/7/8	011-230399	T.S.S. Towers Nkrumah Road Mombasa	5,863	25,346
25 **MAXFAIR FOREX BUREAU LTD** P.O. Box 10334 Nairobi	226212 228842	521865	Standard Building Wabera Street	4,000	17,617
26 **METROPOLITAN BUREAU DE CHANGE LTD** P.O. Box 7080 Nairobi	820203	820203	JKIA	1,500	14,575
27 **MIDDLETOWN FOREX BUREAU LTD** P.O. Box 41830 Nairobi	211798 211227	332534	Westminister House (Kaunda Street)	2,000	5,489
28 **MUTHAIGA FOREX BUREAU LTD** P.O. Box 63533 Nairobi	748883 750331	746512	Muthaiga Shopping Centre Nairobi	2,500	12,938
29 **NAIROBI BUREAU DE CHANGE LTD** P.O. Box 54210 Nairobi	820777 251704/8 072-510213	241307 822884	J. K. I. A. UNIT 2	2,000	5,801
30 **NAIROBI FOREX BUREAU LTD** P.O. Box 73194 Nairobi	244767	251312	Gujarat House, Muindi Mbingu St.	1,708	4,611
31 **ORION FOREX BUREAU LTD** P.O. Box 31958 Nairobi	337189 213910 711773	214316	Mercantile House Loita Street	5,000	9,031
32 **OVERSEAS FOREX BUREAU LTD** P.O. Box 66864 Nairobi	216250 249657	213027	View Park Towers Monrovia/Utalii St.	6,000	26,410
33 **PEARL FOREX BUREAU LTD** P.O. Box 58059 Nairobi	218335	330793	City Market Muindi Mbingu Street	2,000	4,885

Foreign Exchange Bureaus as at 31 December 2000

Name of Forex Bureau	Phone No.	Fax No.	Physical Address	Paid Up Capital Shs.000	Total Assets Shs.000
34 **PEL FOREX BUREAU LTD** Kisumu	035 40972	035 22495	Allmran Plaza, Oginga Odinga Road, Kisumu	2,000	7,908
35 **PINNACLE FOREX BUREAU LTD** P.O. Box 10020 Nairobi	219240 249283/4/5	214832	Corner House, Kimathi Street	10,000	27,909
36 **PWANI FOREX BUREAU LTD** P.O. Box 87200 Mombasa	011 22172 011 221734	011 221570	Mombasa Block 404 XVII/MI Abdel Nasseiz	3,000	9,839
37 **SECAS FOREX BUREAU LTD** P.O. Box 28301 Nairobi	432366	492887	Moi International Airport Mombasa	2,000	1,466
38 **SOLID EXCHANGE BUREAU LTD** P.O. Box 19257 Nairobi	247684	822923	Terminal II JKIA	2,000	4,338
39 **SPEEDY FOREX BUREAU LTD** P.O. Box 45888 Nairobi	225941	221761	Jubilee Insurance Exchange Kaunda Street	2,500	5,185
40 **STERLING FOREX BUREAU LTD** P.O. Box 43673 Nairobi	228923 245315 Nairobi	330894	Laxmi Plaza Biashara Street	2,000	4,453
41 **TAIPAN FOREX BUREAU LTD*** P. O. Box 42909 Nairobi	244186 244188	229665	Stanley Hotel Building	2,000	8,394
42 **TRADE BUREAU DE CHANGE LTD** P.O. Box 7080 Nairobi	241107 241256	218127	Cotts House City Hall Way Transnational Bank Nairobi	3,811	6,004
43 **TRAVELLERS FOREX BUREAU LTD** P.O. Box 13580 Nairobi	44720/5/6	443859	The Mall Westlands	1,500	28,022
44 **UNION FOREX BUREAU LTD** P.O. Box 43847 Nairobi	448327 444345	441855 447618	Sarit Centre, Westlands	2,000	7,675
45 **VILLAGE MARKET FOREX BUREAU LTD** P.O. Box 625 Village Market Nairobi	522473 520946	520946	Village Market Complex Limuru Road	2,000	10,306
46 **WALLSTREET FOREX BUREAU LTD **** P.O. Box 6841 Eldoret	0321 63299	0321 62907	Bargetuny Plaza Uganda Road	2,000	4,482
47 **YAYA CENTRE EXCH. BUREAU LTD** P.O. Box 76302 Nairobi	569097	569097	Yaya Centre	2,800	12,472

* - Figures as at September 2000
** - Figures as at December 1999
***- Bureau not operational in year 2000

Source: Central Bank of Kenya

Major Micro Finance Institutions 2000

Name	Addresss	Tel/Fax/Email	Location	Total Assets KSh 'm'
1 Business Initiatives and Management Assistance Services	P.0. BOX 229 Embu	0161-20645	Embu	101**
2 Faulu Kenya	60240 Nairobi	577290 572183-4 567504 Fax	Muthangari Gardens Off Gitanga Road	475
3 Jitegemee Trust Ltd	21768 Nairobi	561120 566386 561120 Fax	Ngong Lane – Last Gate Off Ngong Road Adams Arcade	350*
4 Kenya Ecumenical Church Loan Fund (ECLOF)	34889 Nairobi	745055	Maua Close, Off Parklands Road Opposite Unga House	107
5 Kenya Small Traders & Entrepreneurs Society	12454 Nairobi	331103 245984 331103 Fax	New Kireita Building 1st Floor Kirinyaga Road	***
6 Kenya Women Finance Trust	55919 Nairobi	712903 712823 723883 Fax	Muchai Drive Off Ngong Road	308*
7 K-Rep Bank Ltd****	39312 Nairobi	573141 & 573148 573174 573236/45/67 573178 Fax	Naivasha Road Opposite Precious Blood Girls Secondary School Kawangware	963
8 K-Rep Group Ltd	39312 Nairobi	572422 & 572365 572375 711645 Fax	Ring Road Kilimani	439
9 Pride Ltd	63486 Nairobi	447500 448784/5/6 448757 Fax	Waiyaki Way Opposite Nairobi School Near Waruku Petrol Station	***
10 Small and Micro Enterprise Programme (SMEP)	64063 Nairobi	561929 560961 561927 Fax	Kirichwa Road Off Argwings Kodhek Road	242
11 Vintage Management Ltd	44760 Nairobi	445810 442436 Fax	New Waumini House, 2nd floor Westlands Shopping Centre Waiyaki Way	363*
12 Wedco Enterprises Limited	6711 Kisumu	035-21211 44724/85 035-21680 Fax	Sifa House Mission Road Off Kakamega Road Next to Kibuye Cathedral	304

* March 2000 figures
** September 2000
*** Figures not available
**** Licenced as a bank

Source: Central Bank of Kenya

Notes