Bank Supervision Annual Report

(Eighth Edition)

2001

CENTRAL BANK OF KENYA

2001

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 roles, 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.

Supervision Annual Report, prepared by the Central Bank of Kenya, is available on the Internet: **http://www.centralbank.go.ke**

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The banking system remained stable during the year 2001 and recorded remarkable increase in levels of profitability. Aggregate net profits before tax rose from Ksh 2.8 billion in 2000 to Ksh 8.9 billion in 2001. The overall audited performance of the banking sector measured in terms of capital adequacy, asset quality, liquidity and earnings remained fair, based on the Central Bank's internal rating system.

The sector however, continued to be faced with a number of challenges. These included reduced business activity arising from slow down in economic growth, and attempts made during the year aimed at re-introducing interest rate controls. The stock of non-performing loans still poses a major challenge. However, the improvement in risk management in banks and the proposed establishment of a credit reference bureau will play a vital role in arresting increase in the non-performing loans portfolio.

Efforts to combat money laundering and terrorist financing have been stepped up in the international financial arena. The banking sector, as a whole, must maintain a keen interest in the fight against this crime, since the long-term success of the banking sector depends on its ability to attract and retain legitimate funds. It is therefore of paramount importance that all players ensure that the reputation of the sector is protected, as this will promote increased genuine investments that will no doubt be a boost to our economy. It is therefore commendable to note the significant progress being made by the National Task Force appointed to formulate policy and legislation on this area.

Efforts to address the development of microfinance continued during the year. However, it became clear that there was need for a wider and more inclusive approach to this initiative. Discussions were commenced on establishment of a wider policy framework of dealing with second tier institutions including microfinance, savings and credit cooperative societies and other unregulated financial intermediaries.

In conclusion, I would like to thank the banking industry as a whole for the co-operation accorded to the Central Bank of Kenya during the year 2001. We look forward to the continuation of the same spirit for the benefit of stability and soundness of the financial system.

NAHASHON N NYAGAH
DECEMBER, 2002

Overview of the report

Preamble

A number of important supervisory developments took place in 2001, as highlighted in this eight edition of the Bank Supervision Annual Report. In this overview, brief coverage is given on the main issues of the Report.

Bank Supervision Department continued to carry out its functions of supervising the banking sector, in line with one of the principal objectives of the Central Bank of Kenya, which is ***"to ensure the liquidity, solvency and proper functioning of a stable market based banking system".***

Developments in Bank Supervision

One of the important areas of focus for Bank Supervision Department is the implementation of a risk-focused approach to bank examinations. During the year under review, some attempt to adopt this approach was made with on-site supervision allocating resources according to the risk exposures of the banks. This enabled the department achieve the target frequency of one on-site visit to each institution in the year. However, skills for risk focused examinations are still being developed.

One of the important areas of focus for Bank Supervision Department is the implementation of a risk-focused approach to bank examinations.

In the area of off-site surveillance, the Department initiated a project to electronically transmit data from banking institutions to the Central Bank. When fully operational, it will ensure improved security of data, reduced time taken in the submission of returns, minimized risk of error during keying-in of data at the Central Bank and improved efficiency in data processing and generating of reliable management reports.

Financial Performance

The banking sector remained stable during the year, with overall financial performance of the sector portraying notable improvement, when assessed in terms of capital adequacy, asset quality, earnings strength and liquidity risk. The detailed analysis presented in chapter two of the report, and the accompanying appendices, are based on the audited accounts published in the press by 31st March 2002. It is however important to note that despite the overall satisfactory performance there was significant variation in the performance of individual institutions.

The non-performing loans continue to pose a major challenge. The previous method of reporting loans and advances as well as NPLs on gross basis i.e. inclusive of suspended interest, was revised to reporting on net basis i.e. exclusive of suspended interest. This had the effect of reducing the non-performing loans from about Ksh.100 bn to Ksh. 74 bn and the ratio of NPLs to loans from 40% to 30%.

Current Supervisory Issues

The implementation of the International Accounting Standards (IAS) continued to be a major supervisory agenda during the year. The Central Bank of Kenya continued to work closely with the Institute of Certified Public Accountants of Kenya (ICPAK) to ensure that the banking sector leads the other sectors in the implementation of IAS. The Central Bank continued to study the impact of the various standards on the banking sector.

Important steps have been made towards implementation of Basel Core Principles for Effective Banking Supervision, which are the internationally recommended best supervisory practices. The ultimate objective is to ensure that all the relevant principles are implemented.

The Central Bank took up its rightful role in the fight against money laundering and financing of terrorism.

During the year, the Central Bank took up the challenge of playing its rightful role in the fight against money laundering and financing of terrorism. Concerns over consequences of these crimes have taken center stage in various international fora, particularly after the events of September 11, 2001. In Kenya, the banking sector was requested to verify that various persons/organizations perceived to engage in terrorist activities did not operate accounts in our institutions. An important step was also taken to form a National Task Force on Anti-Money Laundering. The Task Force is multi-disciplinary in nature and is headed by the Ministry of Finance. It includes, among others, the Central Bank, which plays the role of secretariat as well as heading the Finance sub-committee. Other members consist of various law enforcement agencies, legal authorities and other stakeholders. Significant progress has been made by the Task Force towards putting in place a draft policy and legislation to address money laundering and financing of terrorism in Kenya.

Development in legislation

An important change to banking legislation was the introduction of powers granted to the Central Bank and banking institutions to share information in the course of discharging their functions. The purpose of the new provision in the Banking Act is to enable the banking sector set up an effective mechanism of sharing information on bank customers as a means of assisting banks in credit assessment of their borrowing customers. This development is particularly important in the crusade to bring down the level of non-performing loans in the sector. In pursuit of this objective, the Kenya Bankers Association is currently working on modalities of implementing an appropriate mechanism, taking into account the need to ensure protection of customer rights and confidentiality.

Risk management in banks

In order to effectively compete in the global financial markets, all banks will have to seriously address themselves to appropriate risk management techniques. Banks are therefore encouraged to put up the necessary structures, which are required in their risk assessment and control processes. Bank Supervision Department will continue to take up its rightful role of ensuring that banks have the necessary systems in place to enable them identify, measure, monitor and better manage their risks.

Basel 2 Capital Accord

The New Capital Accord, which will be in force at the beginning of 2006, places increased emphasis on management of banks' risk assessment processes in relation to the levels of capital they are expected to hold. The objectives of the New Capital Accord will therefore include the continued promotion of safety and soundness in banks, with capital requirements being more closely dependent on their risk profiles. The Capital Accord will place more emphasis on banks' own internal control and management in assessing risk profile, while at the same time re-emphasizing the importance of supervisory review and market discipline.

One of the notable proposals in the new Accord is the introduction of a capital charge for operational risk. Operational risk arises from inadequate or failed internal processes, people or systems, and is present in our sector, hence the need to pay increased attention to it. Banks are expected to familiarize themselves with measurement of this risk and all risks in general, in order to prepare themselves for adoption of the new Accord. The Central Bank will on its part organize a program to sensitize the sector of developments in this area.

The New Capital Accord places increased emphasis on management of banks' risk assessment processes

The implementation of the Accord by emerging economies poses some challenges and several concerns have been raised. The Basel Committee has taken the issues seriously and it is expected that ways of dealing with them will be devised before the final draft is released in 2003.

Chapter 1

Developments in the local banking industry

1.1 Overview

The total number of banking institutions decreased by 5 during the year 2001, as a result of liquidations and mergers. The number of foreign exchange bureaus has however remained the same at 48 over the last three years due to moratorium placed on licensing of new bureaus since October 1999. There was general improvement in the provision of banking services and clearing house operations due to increased levels of computerization in the banking sector, although in some instances, it led to reduction of employees. There were also notable improvements in bank examination and supervisory practices.

There was general improvement in the provision of banking services due to increased levels of computerization

1.2 Changes in the number of banks and branch network

Total number of banking institutions and building societies decreased during the year from 60 as at end of 2000 to 55 as at end of 2001. The reduction was due to the liquidation of Trust Bank Ltd, voluntary liquidation of Glad-Ak Finance Ltd, merger of four other banking institutions to form two, and take-over of one institution by another.

Out of the 55 operational institutions as at the end of the year, 46 were commercial banks, 3 non-bank financial institutions (NBFIs), 2 mortgage finance companies (MFCs) and 4 building societies. Three locally owned banks had four operational branches and subsidiaries outside the country; one in Malawi, two in Tanzania and one in Uganda.

As shown in Table 1 below, the number of branches increased from 465 at the end of 2000 to 494 branches at the end of 2001, with the largest expansion in branch network taking place in Nairobi.

Table 1: Branch Network of the Banking Industry

Province	2001	2000	1999	1998	1997
Central	69	65	79	114	113
Coast	69	71	80	77	86
Eastern	35	31	36	60	60
Nairobi	192	179	189	199	195
N. Eastern	4	4	5	5	5
Nyanza	40	39	46	70	69
Rift Valley	67	61	75	139	139
Western	18	15	20	28	28
Total	**494**	**465**	**530**	**692**	**695**

1.3 Foreign Exchange Bureaus

Foreign exchange bureaus buy and sell foreign currency, buy travellers cheques, and bank drafts

Foreign exchange bureaus were introduced in January 1995, with the primary objective of enhancing efficiency in the foreign exchange market. Foreign exchange bureaus are authorised to buy and sell foreign currency in cash, and may also buy travellers cheques, and bank drafts, but are not allowed to sell these instruments without explicit authority from the Central Bank of Kenya.

Currently, there are forty-eight licensed foreign exchange bureaus, forty of which are located in Nairobi, four in Mombasa and one each in Eldoret, Nakuru, Kisumu and Malindi. One bureau previously located in Mombasa and closed in 2000, was reopened and relocated to Malindi. Appendix 12 provides a list of foreign exchange bureaus operating in Kenya as at 31st December 2001. Weekly average transactions by bureaus increased from Ksh 1.18 bn in 2000 to Ksh 1.35 bn in 2001. The annual foreign exchange transactions as at the end of 2001 accounted for 1.3% of the total foreign exchange transactions.

Inspection of the operations of all forex bureaus was carried out during the year 2001. The consolidated financial position as at 31st December 2001 indicated that the total assets of the bureaus amounted to over Ksh 554m, while profit before tax was Ksh 36m. Twenty-nine bureaus reported profits, while nineteen reported losses. The 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. Various sections of the Forex Bureau Guidelines were found to have been violated and corrective actions recommended. The moratorium on licensing of new bureaus imposed in October 1999 continued to be in force during the year.

1.4 Developments in Information Technology

1.4.1 Impact of Information Technology in the Banking Industry

The increasingly advanced levels of information technology embraced by banks have had a positive impact in the sector. The new and dynamic information systems adopted by most banks have enabled them to process data faster and efficiently. This, coupled with increased use of Automated Teller Machines (ATMs) and on-line banking, has freed bank staff from the mundane manual processing tasks. The industry is slowly shifting away from big 'brick and mortar' branches, to smaller outlets and progressively to virtual banking in the long run. A few institutions have introduced internet banking services.

The total number of ATMs in the industry as at 31 December 2001 was 166, operated by 5 banks. Some of the leading institutions have replaced branches or agencies with ATMs in such areas as shopping malls and some busy out-of-town shopping centres. By expanding the range of services offered through ATMs to include bill payment and making cheque and cash deposits, these banks have managed to attract a bigger share of the market. The smaller banks are also working on a project to pool their resources and develop a common network of ATMs. This will enable them downsize their branch operations, thereby cutting on costs and improving service delivery to their customers.

New information systems adopted by banks have enabled them to process data faster and efficiently.

1.4.2 Improvements in the Clearing House Operations

The move towards full automation of the Clearing House operations that begun about two years ago is making steady progress. Upon the project's completion, banks will meet in the clearing house to exchange cheques and other payment advice items to be solely used as verification tools since these will have long been delivered electronically to the clearing house. It is expected that the clearing period will in the future be reduced from the current 3 working days for local clearing cheques.

1.4.3 Data Processing Hub Centre

During the year, one bank with international presence established a regional hub centre in Nairobi, for central processing of back office operations for some of its group operations in the sub-region. However, the Central Bank's supervisory role in evaluating the centre's internal control systems is limited to the data for Kenyan operations only. Upon the request of the home regulator Central Bank of Kenya signed a Memorandum of Understanding which outlines the terms of cooperation between the home and host supervisor.

1.4.4 Electronic Transmission of Data from Commercial Banks

During the year under review, the Central Bank initiated a project to facilitate electronic transmission of data from banking institutions and building societies to the Central Bank. This mode of delivery, which will replace the approach of physical submission of prudential returns, when implemented will have the advantage of minimising delays, inaccuracies, inefficiencies and repetitive keying-in of returns at the Central Bank. It will also lead to cost saving efficiency on the part of banking institutions.

1.5 Mergers, Acquisitions and Takeovers

1.5.1 Recent developments

The banking sector witnessed three mergers/ acquisitions during the year

In recent years, a number of mergers and acquisitions have taken place in the banking sector. Some of the mergers have been triggered by the need to meet the increasing minimum core capital requirements, and also to enhance institutions' market share in the highly competitive local banking environment through the resulting synergies.

The banking sector witnessed three mergers/acquisitions during the year 2001. Southern Credit Banking Corporation Ltd and Bullion Bank Ltd merged with effect from 31st December 2001 to form Southern Credit Banking Corporation Ltd. This merger was motivated by the need to achieve a combined higher net worth in order to comply with minimum core capital requirements.

In line with its re-organisation strategy, Kenya Commercial Bank Ltd (KCB) acquired the operations of its subsidiary Kenya Commercial Finance Company Ltd (KCFC) with effect from 31st May 2001. This decision was one of a number of measures taken by the institution to consolidate the group's business activity in a bid to turn around its performance. With effect from 30th November 2001, Citibank N.A. acquired most of the assets and liabilities of ABN AMRO Bank. The move to sell off most of ABN AMRO's assets and liabilities resulted from the bank's global re-organisation of business interests. ABN AMRO Bank has however maintained a representative office in Kenya.

1.5.2 Impediments to Mergers

In spite of the efforts made by the Central Bank in the last several years to encourage mergers in Kenya's banking sector, the rate of mergers has not been as high as expected. The 23 successful mergers accomplished between 1994 and 2001 have been dominated by acquisitions of financial institutions by parent banks (see appendix 8). Although Section 9 of the Banking Act eliminated the cumbersome procedures and high costs that were considered impediments to mergers, this however did not lead to the anticipated interest by small banks to merge.

It is apparent that the single most critical impediment to mergers in Kenya is the inability of individual institutions to get to the negotiating table and integrate their diverse business philosophies and corporate cultures. This convergence is made particularly difficult by the nature of ownership of banks in Kenya, with shareholding being mainly family or community based.

1.6 Employment and Training in the Industry

Following restructuring measures in the banking sector, employment levels in the industry have been on a downward trend for the past five years. This reduction was as a result of retrenchments and lay-offs occasioned by improved systems, closures of some branches and mergers. As shown in Table 2, total staff complement decreased by 7.5% from 12,822 in December 2000 to 11,854 in December 2001. Reduction in employment in the banking industry was experienced in all categories except supervisory/section heads that increased by 0.5%. Employment in the management category decreased by 5.1%, clerical and secretarial staff dropped by 9.5% and the highest drop was in the 'other categories', by 19.4%.

Employment levels in the industry have been on a downward trend

Table 2: Employment in the Banking Industry

	2001				2000			
Category	Banks	NBFIs*	Total	(%)	Banks	NBFIs*	Total	(%)
Management	3,058	150	3,208	27.1	3,251	157	3,408	26.6
Supervisory & Sec. Heads	2,076	33	2,109	17.8	1,941	89	2,030	15.8
Clerks & Secretarial Staff	5,183	146	5,329	45.0	5,610	262	5,872	45.8
Other Categories	1,148	60	1,208	10.2	1,477	35	1,512	11.8
Total	11,465	389	11,854	100.00	12,279	543	12,822	100.00

* NBFIs do not include building societies

Source : Published Audited Accounts

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 of Kenya, has been encouraging banks, particularly the small and medium-sized, to utilise the extensive training facilities available at the School. The large 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.

1.7 Customer Care

Customer care generally entails providing quality services to customers at the right time. It means being there for the customer when needed and offering what the customer wants in the best form within the shortest time possible, hence ensuring customer satisfaction in the provision of services. Institutions are expected to continually observe customer requirements in a bid to stem complaints.

A number of banking institutions in Kenya have increasingly adopted sponsorship of community projects as an aspect of customer care. This approach creates awareness of the bank's presence and usually results in increased customer support.

Banking institutions continue to sponsor community projects

1.7.1 Major Customer Complaints

The following are the main complaints that persisted in the banking industry during the period under review:

- High lending interest rates on loans, overdrafts, mortgage facilities
- Increase in banking fees i.e. commissions, ledger fees, ATM fees
- Long queues in the banking halls
- Limited product range in branches
- Failure or delay in effecting standing orders or other payments
- Lack of courtesy by bank staff
- Slow processing of transactions e.g. bankers cheques
- Delay in posting of bank statements
- Frequent breakdown of ATM machines and computer systems
- Delay in getting loan/overdraft approval
- Selling property pledged as security in an inconsiderate and hurried manner
- Closure of branches and transfer of accounts to other branches against customers' will.

1.7.2 Improving Customer Care

The need to prioritise customer care concerns has become increasingly necessary, as a way of retaining existing customers and attracting new ones. Many banks have appreciated this as evidenced by the high level of resources being invested in improved outlook of business premises, staff appearance, and increased range of products. Some banks have gone a step further, and have posted customer care officers at the ATMs to offer assistance to customers who may not be familiar with the use of ATM facilities. The proposed sharing of ATMs to accommodate the smaller banks, which cannot afford to install their own, will be a big step forward in providing quality service to a wider spectrum of bank customers.

1.7.3 Impact of Reduction in Branch Network on Customer Care

Over the last few years, there has been a tendency by some banks to reduce the number of their branches. This has in most cases been done with the objective of cutting down costs through staff reduction and to offer quality services to customers. Whereas the intended objective may have been achieved, customers in some areas have been left without banking services in their proximity. This has led to discontent within the affected areas.

Generally, it is only a few banks that have ventured into the rural areas, thus rendering closures of rural branches particularly notable. In some cases, other banks have immediately taken over closed premises while in other cases, branches have been re-opened after re-evaluation, implying that branch rationalisation has not always been carefully planned, hence the negative impact on customer needs.

1.8 Directorships in Banking Institutions

Shareholders are encouraged to elect directors from different fields of experience

The Banking Act empowers the Central Bank to establish a criteria for assessing the professional and moral suitability of directors of institutions. The process was introduced after observations that some directors abused their positions to the detriment of other stakeholders. Prior to an institution appointing a director, the Central Bank vets the candidate against the criteria established and clears him/her only if considered “fit and proper”.

1.8.1 Number of Directors

The total number of directors in banking institutions declined marginally from 358 in December 2000 to 351 in December 2001. The decline is attributed to the reduction in the number of banking institutions, as occasioned by liquidations, mergers and take-overs. There were 249 non–executives, 92 executives and 30 members of local committees. These directors were from 14 different nationalities.

Among the 351 directors, 20 held directorships in two or more institutions. 18 of these directors were directors in two related institutions while 2 held directorships in unrelated institutions.

1.8.2 Composition of boards of directors

All banking institutions are required , under the Prudential Regulations, to have at least 5 directors so as to enhance the quality of board deliberations. The shareholders are encouraged to elect directors from different fields of experience especially from special areas such as law and finance. As at the end of the year there were only 3 institutions whose boards comprised of less than 5 persons. It is recommended that banks should have more non-executive than executive directors.

1.8.3 Turnover

During the year under review, 61 directors exited the industry while the banks appointed 54 new directors. There were 18 executive directors among the 61 that exited from the industry.

1.8.4 Local Committees

Local branches of foreign incorporated banks are required under the Prudential Regulations to appoint a local committee to oversee the local operations. During 2001, there were five foreign banks which were being run by local committees.

1.9 Developments in Bank Supervision

The bank supervision process was further strengthened during the year. The most notable improvements included a reduced inspection cycle for banks, implementation of risk focused supervision, trilateral meetings, amendments to banking legislation, off-site data processing and surveillance and inspection of all forex bureaus. It was observed that there was commendable improvement in the timeliness and accuracy of offsite data submitted to the Central Bank.

The risk focused examination process has been adopted to direct the inspection process to the more risky areas.

1.9.1 Developments in On-site Supervision

On-site inspections continued to form one of the pillars of the supervisory process. The risk focused examination process has been adopted to direct the inspection process to the more risky areas of both operations and business. Skills in risk- focused supervision are being developed gradually by exposing examiners to relevant training. By adopting this approach, the banking industry, and specifically the small banks will be sensitised of the need to have formal and documented risk management frameworks.

The following achievements have been realised in the area of on-site inspections:

- The inspection cycle has been reduced to one year while information required for inspections is being refined to be relevant to particular institutions. Standard starter letters are therefore less frequent.

- All inspection reports are now presented to board members in a special board meeting and a follow up matrix has been introduced to ensure a continuous follow up of issues raised in the inspection reports.

- In recognition of the fundamental risks posed by criminals to both the banking industry and society at large, on-site examination is laying emphasis on ensuring banks are not used for money laundering activities. While appropriate legislation is being prepared, banks are being encouraged to adopt the " know your customer concept" in the fight against the vice.

- The Central Bank has continued to equip bank examiners with skills to enable them carry out their work. In the course of the year staff attended both local and international courses and were also involved in cross border inspections with the sister East African states.

1.9.2 Developments in Off-site Supervision during the year

There were a number of developments in the off-site surveillance function during the year;

- Substantial amendments were made in the review of banking legislation. Review of the prudential regulation on classification and provisioning of loans and advances was initiated.

- There were further improvements in the off-site data management system; additional management reports were developed on bank's shareholders, directors and senior management.

- Off-site review of prudential returns, follow-up inspections and enforcement of supervisory actions were enhanced.

- There were improvements in trilateral meetings with banking institutions and their external auditors, held to review audited financial statements and disclosures. The Central Bank prepared agendas in advance to ensure that the meetings were focused.

There were further improvements in the off-site data management system

1.9.3 Future Outlook

The Bank Supervision Department will focus on the following issues in 2002:

- Implementation of quarterly disclosure of banks' performance, as a mechanism for providing financial information to the public and enhancing market discipline.

- Working more closely with the banking industry to ensure that Kenya's banking sector is prepared to adopt the New Basel Capital Accord by 2006, which aims to align regulatory capital requirements more closely with underlying risks.

- Implementation of the outstanding Core Principles for Effective Banking Supervision to enhance supervisory oversight and ensure compliance with international best practice.

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

- Working with the National Task Force on Anti-Money Laundering to develop appropriate legislation and institutional framework to combat money laundering and terrorist activities.

CBK will work closely with the banking industry to ensure its readiness for the New Basel Capital Accord

- Working with stakeholders in identifying the best approach for the development and regulation of the micro finance sector in Kenya.

- Putting in place a mechanism for electronic transmission of data by institutions to the Central Bank in order to ensure more timely and accurate submission of prudential returns.

- Liaison with the Ministry of Finance to facilitate granting of operational autonomy to the Central Bank, particularly in the areas of licensing and delicensing of banking institutions, in line with international best practice.

Chapter 2

Performance of the Banking Sector

2.1 Recent Economic Developments

2.1.1 **Growth in GDP**

The country's economic growth as measured by the real Gross Domestic Product (GDP) grew by a modest 0.8% in 2001 and reflected a modest improvement when compared with a 0.3% decline in 2000. The improved performance was mainly attributed to favourable weather conditions that boosted agricultural production. Other factors that contributed to this modest improvement were favourable tax reforms, expanded regional and international markets for Kenya's exports, increased earnings from the tourism sector, increased investment in telecommunication services and improved power supply.

The country's economic growth as measured by the real GDP grew by a modest 0.8%

The growth rate of 0.8% was, however, far below the initial forecast of 2% growth rate for 2001. Major set backs to the anticipated growth were:

- Non-resumption of external budgetary support under the IMF Poverty Reduction and Growth Facility (PRGF) leading to continued Government borrowing from the domestic market to finance the budgetary deficit;

- Poor infrastructure that has increased the cost of doing business and production thus making locally produced goods more expensive and therefore less competitive both in local and international markets;

- Low and declining savings resulting from high consumption, and constrained economic growth that subdued public and private investment.

A growth rate of 2% is targeted in year 2002. To achieve this target, various measures have been proposed in order to spur economic activity and growth. These include:-

- Restoration of physical infrastructure to lower the cost of doing business and production to make locally produced goods less expensive and therefore more competitive in the local and international markets;

- Maintaining stable macro-economic conditions that will ensure low inflation, low and stable interest and exchange rates;

- Promoting the image of Kenya as a tourist destination for the high-paying upscale tourists;

- Restoring disbursement of funds from the IMF to regain access to international capital.

2.1.2 Inflation

Inflation slowed down substantially in 2001.

Inflation slowed down substantially in 2001, particularly during the second half of the year. The overall month-on-month inflation eased from 6.0% in January 2001 to 3.9% in March 2001, to 0.2% in July 2001 and further eased to negative rates through December, 2001. The overall average annual inflation also eased throughout the period reaching 0.8% in December 2001, down from 6.0% in January 2001. The underlying month on month inflation declined to 1.4% in December 2001 from 10.1% in January 2001, while the underlying average annual inflation eased to 6.1% from 9.4% over the same period.

The easing of inflation during the year reflected the effect of the sustained implementation of an appropriate monetary policy by the Central Bank, ample supply of food following favourable weather conditions that caused increased food-crop production, sharp drop in the international prices of crude oil and relative stability in the shilling exchange rate.

2.1.3 Money Supply and Reserve Money

Broad money supply, M3X, grew less rapidly rising by 2.3% in the year to December 2001 to stand at Ksh 368.4bn as compared with the 4.1% expansion in the year to December 2000 when it stood at Ksh 357.8bn. Low growth in money supply was a reflection of the sluggish growth in credit to the private sector occasioned by the slow pace of economic recovery. Several factors, including low business confidence, impact of the persistently high lending rates and restrained lending by banks largely due to the uncertainty sparked by the Central Bank of Kenya (Amendment) Act, 2000, contributed to the sluggish growth in bank credit to the private sector.

Reserve money, comprising currency in circulation and deposits of commercial banks and NBFI's at the Central Bank, increased by 1.8% to Ksh 79.1bn in December 2001 from Ksh 77.7bn in December 2000. The increase was as a result of the rise in the net foreign assets of the Central Bank that more than offset the decline in the Bank's net domestic assets.

2.1.4 Interest Rates

The short-term interest rates were generally stable throughout the year though they showed a declining trend. The decline in the Treasury Bill rate with the consequent decline in the interbank rate apparently had no effect on the cost of borrowing as evidenced by the overdraft rate movement which did not reflect any decline.

- The 91-day Treasury Bill rate fell from 14.8% in January 2001 to 12.1% in June 2001 and even further to 11.0% in December 2001.

- The interbank rate fell from 11.8% in January 2001 to 10.4% in December 2001.

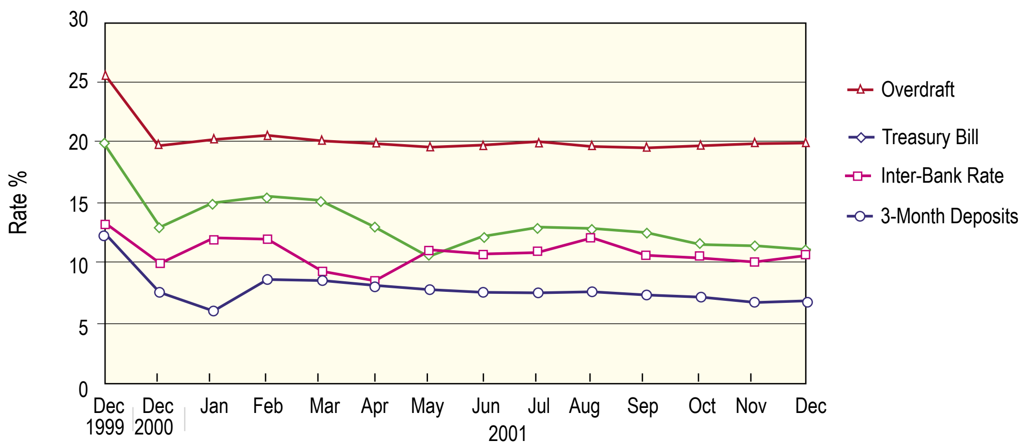
- The overdraft rate fell from 20.2% in January 2001 to 19.7% in June 2001 and rose slightly to 20% in December 2001.

- The three-months average deposit rate rose slightly from 6.0% in January 2001 to 6.9% in December 2001.

Table 3: Interest Rates (%)

	2001												2000	1999
FACILITY	**Jan**	**Feb**	**Mar**	**Apr**	**May**	**Jun**	**Jul**	**Aug**	**Sep**	**Oct**	**Nov**	**Dec**	**Dec**	**Dec**
Overdraft	20.2	20.5	20.1	19.9	19.5	19.7	20.0	19.7	19.6	19.8	19.9	20.0	19.7	25.6
Treasury Bill	14.8	15.3	15.0	12.9	10.5	12.1	12.9	12.8	12.4	11.6	11.5	11.0	12.9	20.0
Inter-bank	11.8	11.9	9.3	8.5	10.8	10.7	10.8	12.0	10.7	10.5	10.1	10.4	9.8	13.0
3-Months Dep.	6.0	8.6	8.5	8.1	7.7	7.5	7.5	7.6	7.4	7.2	6.8	6.9	7.5	12.3

Chart 1: Short Term Interest Rates – Year 2001.



2.1.5 Exchange Rates

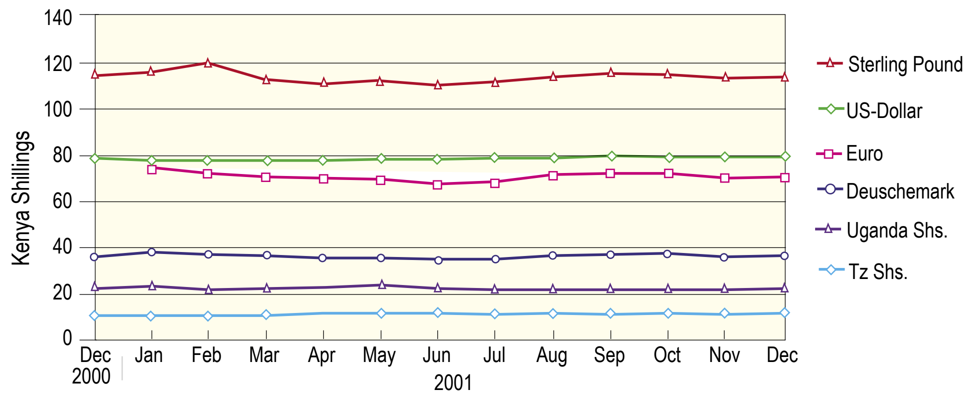
The Kenya shilling was generally stable against the dollar for most part of 2001 except during the last half of the year when it weakened slightly. Against the US dollar, the shilling weakened from a rate of Ksh 78.6bn in January, 2001 to Ksh 79bn in July 2001 and strengthened slightly to Ksh 78.7bn in December 2001. The Kenya shilling, however, strengthened against other principal currencies. For example, the shilling generally strengthened against the Japanese Yen, the Euro, and the Pound Sterling. The exchange rate stability was caused by the suppressed demand for imports occasioned by the depressed economy and a relatively steady inflow of coffee and tea export earnings.

The Kenya shilling was generally stable against the dollar for most part of 2001

Table 4: Shilling Exchange Rates – 2001

MONTH	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Dec. 2000
USD	78.6	78.3	77.8	77.5	78.5	78.6	79.0	78.9	79.9	79.0	79.0	78.7	78.7
GBP	116.3	118.8	112.4	111.2	112.0	110.3	111.6	113.4	115.5	114.7	113.5	113.2	114.9
EURO	73.8	72.2	70.8	69.2	68.8	67.2	67.8	71.0	71.9	71.6	70.1	70.2	N/A
Uganda shs.	23.2	22.1	22.5	22.9	22.8	22.2	21.9	22.2	21.9	22.1	22.0	22.0	22.5
Tanzania shs.	10.2	10.4	10.7	11.4	11.3	11.3	11.3	11.3	11.3	11.3	11.5	11.6	10.2
Deuschemark	37.7	36.9	36.2	35.4	35.2	34.3	34.6	36.3	36.7	36.6	35.86	35.91	36.0

Chart 2: Shilling Exchange Rates – 2001



2.2 Overview of the performance of the Banking Sector

Bank Balance Sheets underwent substantial change.

The sluggish growth of the economy had an impact on the banking sector in 2001 as reflected by changes in the structure of both the balance sheet and profit and loss account. The balance sheet structure underwent some substantial change as major institutions shifted towards investment in government securities at the expense of lending activities. This shift was in response to both the economic recession and legislation on interest rates the Central Bank of Kenya (Amendment) Act 2000 that was perceived by the sector to be unfavourable.

Total non-performing loans (NPLs) decreased by 18.4% from Ksh90.2bn in 2000 to Ksh73.6bn in 2001. Similarly specific provisions held against total NPLs decreased to Ksh 27.8bn in 2001 compared to Ksh 43.9bn in 2000.

Despite the economic recession, profitability in the sector improved substantially. Pre-tax profits rose to Ksh 8.9bn in 2001 from Ksh.2.8bn in 2000. Major contributory factors to the improvement to the sector's pre-tax profits were the exit of loss making Trust bank as well as the substantial reduction in the charge for bad and doubtful debts of Ksh.7.7bn during the year compared to Ksh13.7bn in 2000. Other factors included the decline in salaries and wages as major institutions began to enjoy benefits of staff and branch rationalisation, investment in IT, and other austerity measures undertaken in previous years.

The capital base of the sector decreased slightly by 1.1% from Ksh57.1bn in 2000 to Ksh56.5bn in 2001. Liquidity on the other hand remained high at 45% as compared to 43% in December 2000. The high liquidity position in the sector was due to the fact that banks continued to keep a relatively high proportion of their assets in government securities.

2.3 Structure of the Balance Sheet

2.3.1 Analysis of Assets

Level and Trend

There has been a general downward trend in the net assets of the banking sector since 1998. Total net assets of the banking system decreased by Ksh 10bn from Ksh.435 in 2000 to Ksh 425bn in 2001 largely as a result of the exit of a banking institution from the system by way of liquidation and the increased level of provisions for the non-performing assets arising from enhanced supervisory enforcement over the period.

Composition and Changes in Assets

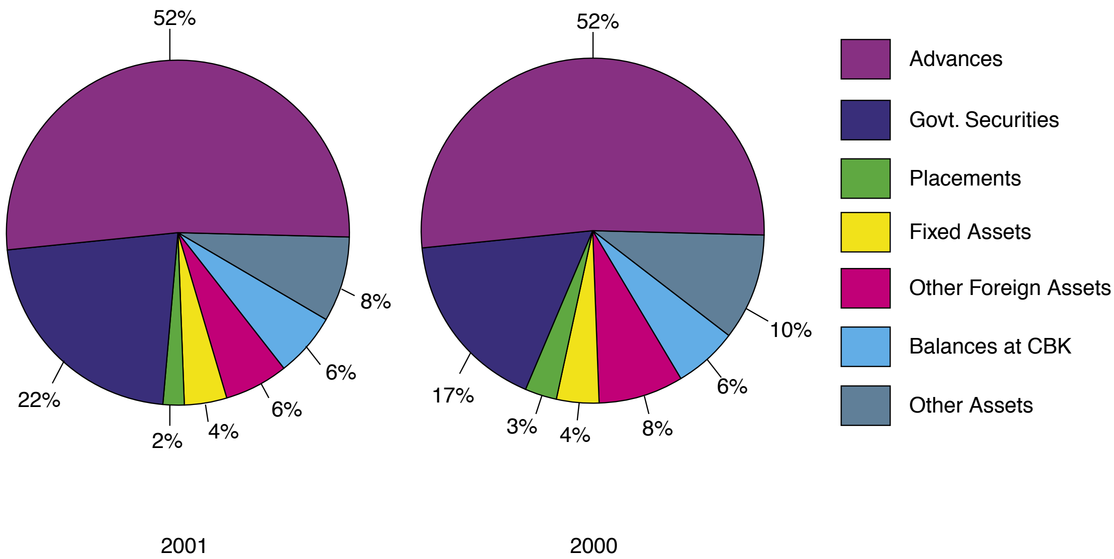
Despite the declining trend in the proportion of loans to total assets since 1998, the major asset component remained to be loans. Net loans at the level of Ksh 214.7bn as at December 31, 2001 accounted for 51% of the sector's total net assets; compared to 53% in 1998. Other significant items are government securities that accounted for 22%, balances at the Central Bank of Kenya and other foreign assets that each accounted for 6% of total net assets. The remaining fourteen percent (14%) consisted of fixed assets (4%); cash (2%), placements (2%), investments (1%) and other assets (5%).

Net loans accounted for 51% of the sector's total net assets

Table 5: Balance Sheet Movements (Assets)

	2001		2000		1999		1998	
Assets	**Amount Ksh 'm**	**%**	**Amount Ksh 'm**	**%**	**Amount Ksh 'm**	**%**	**Amount Ksh 'm**	**%**
Cash	8,943	2	9,754	2	7,208	2	5,851	1
Balances at CBK	26,511	6	26,119	6	29,359	7	30,600	7
Placements	10,016	2	14,536	3	17,765	4	22,244	5
Government securities	92,781	22	71,923	17	67,928	16	69,514	16
Investments	4,986	1	3,815	1	4,423	1	3,912	1
Local currency loans	178,435	42	192,563	44	223,760	54	224,552	51
Foreign currency loans	36,248	9	33,736	8	5,856	1	8,164	2
Other foreign assets	25,762	6	35,043	8	21,320	5	16,802	4
Fixed assets (Net)	18,608	4	18,652	4	18,655	4	24,344	6
Other assets	22,673	5	28,397	7	21,592	5	32,866	7
Total net assets	**424,963**	**100**	**434,538**	**100**	**417,866**	**100**	**438,849**	**100**

Chart 3: Global Balance Sheet – Composition of Assets



The quality of the loan book, credit risk management systems and procedures remain issues of concern.

A number of notable changes in the composition of assets since 1998 include the following:

- The percentage of total loans declined from 53% to 51% with the proportion of foreign loans increasing from 2% to 9%. Domestic loans decreased by Ksh46.1bn or 21% whereas foreign loans increased by Ksh28.1bn or 344%.
- The percentage of placements declined from 5% to 2%. Placements declined by Ksh12.2bn or 55%.
- The percentage of Government securities increased from 16% to 22%. This increase amounted to Ksh. 23.3bn or 33%.
- The percentage of other foreign assets increased from 4% to 6%. They increased by Ksh 9 bn or 53%.

In view of the significance of the loans and advances contribution to institutions' balance sheets, the quality of the loan book and related credit risk management systems and procedures remained issues of great concern to the Central Bank as they impact on the profitability and stability of the sector.

Causes and Effects of Changes in Assets Composition

The following are some of the causes and effects of changes in asset composition:

- Harsh economic conditions that have led to closure of a number of businesses and low effective demand for bank credit at both personal and corporate levels.

- Uncertainty surrounding future trends in interest rates and profitability following the legislation intended to reintroduce controls in interest rates have adversely affected credit supply by banking institutions. The decline in the proportion of loans in the sector implies reduced exposure of banking institutions to credit risks. However, reduced credit supply has hampered availability of funds required for new investments and provision of working capital for businesses.

Credit Distribution to the Private Sector

Credit to most sectors declined in 2001 compared to 2000. The highest decline of Ksh11.6bn was in the manufacturing sector. This is explained by the prevailing economic recession that has led to closure or scaling down of operations by manufacturing firms.

Credit to most sectors declined

Table 6: Sectoral Distribution of Credit to the private sector and sectoral GDP Contribution.

	2001				2000				Annual Change	
SECTOR	Credit		Contrib. to GDP		Credit		Contrib. to GDP		Credit	GDP
	Amt. (bn)	% Total	Amt. (bn)	% Total	Amt. (bn)	% Total	Amt. (bn)	% Total	Amt. (bn)	Amt. (bn)
Agriculture	22.9	8.4	25.2	28.7	25.0	8.7	24.9	28.8	-2.1	0.3
Manufacturing	49.9	18.3	13.6	15.5	61.5	21.4	13.5	15.6	-11.6	0.1
Trade & Hotels	46.8	17.2	13.2	15.0	54.3	18.9	13.1	15.1	-7.5	0.1
Finance, Insurance, Real Estate & Bus. Serv.	63.5	23.3	11.1	12.6	65.0	22.6	10.9	12.6	-1.5	0.2
Transport & Comm.	9.9	3.6	6.5	7.4	10.1	3.5	6.3	7.3	-0.2	0.2
Building & Construction	20.1	7.4	2.5	2.8	20.8	7.2	2.5	2.9	-0.7	0
Private households	10.2	3.8	3.1	3.5	9.5	3.3	3	3.5	0.7	0.1
Other Services	48.7	17.9	12.6	14.4	41.8	14.5	12.4	14.3	6.9	0.2
Total	272.0	100.0	87.8	100.0	288.0	100.0	86.6	100.0	-16.0	1.2

Source: Economic Survey 2002

Finance and business service sectors remain the highest consumers of private sector credit .

Chart 4.1: Sectoral Distribution of Credit to the Private Sector

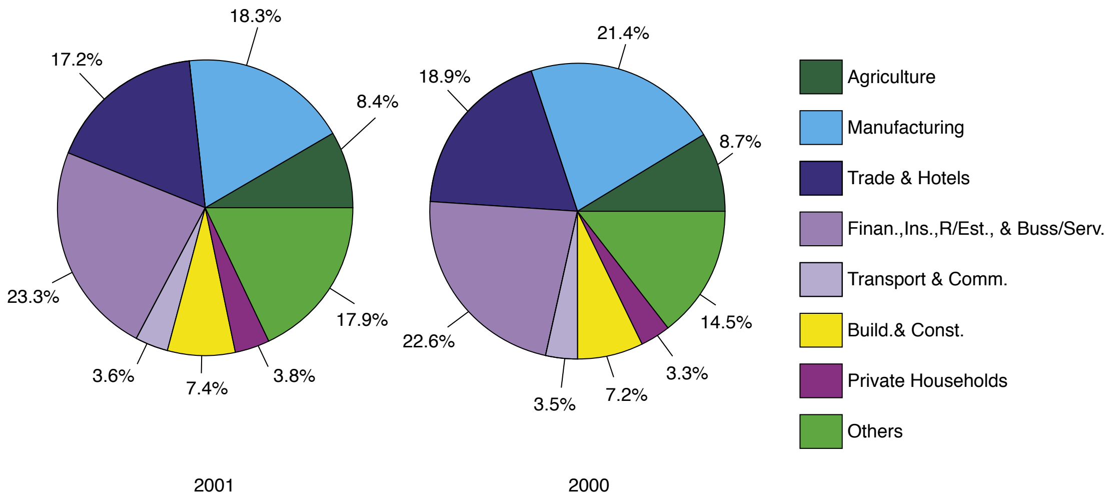
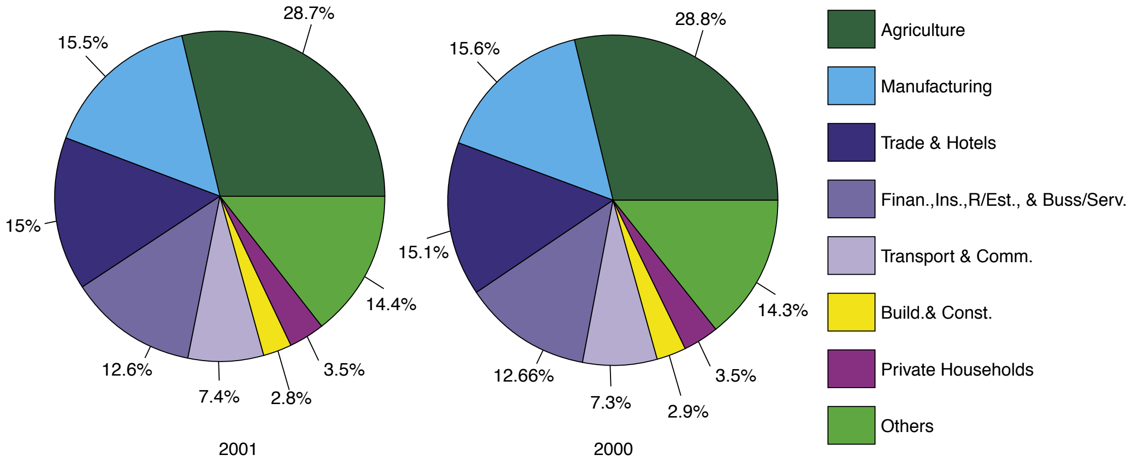


Chart 4.2: Sectoral Contribution to GDP



The highest consumer of private sector credit has remained the finance and business services sector of the economy. Total credit to this sector accounted for 23% of total credit to the private sector, followed by the manufacturing sector that accounted for 18% of total credit.

In terms of contribution to Gross Domestic Product (GDP), Finance and the business service sector contributes only 13% and is ranked 5th after agriculture, manufacturing, trade and other service sectors of the economy. The agricultural sector, which is the mainstay of the economy and contributes 29% to GDP received only 8% of total credit.

Lending to the agricultural sector is perceived by banking institutions and investors to be risky in view of the sector's vulnerability to the weather and market conditions that are highly unpredictable. In an effort to manage and control credit risks in their loan book, banking institutions have limited their lending to this sector, while demand for loans in the sector has remained low.

2.3.2 Analysis of Liabilities

Level and Trend

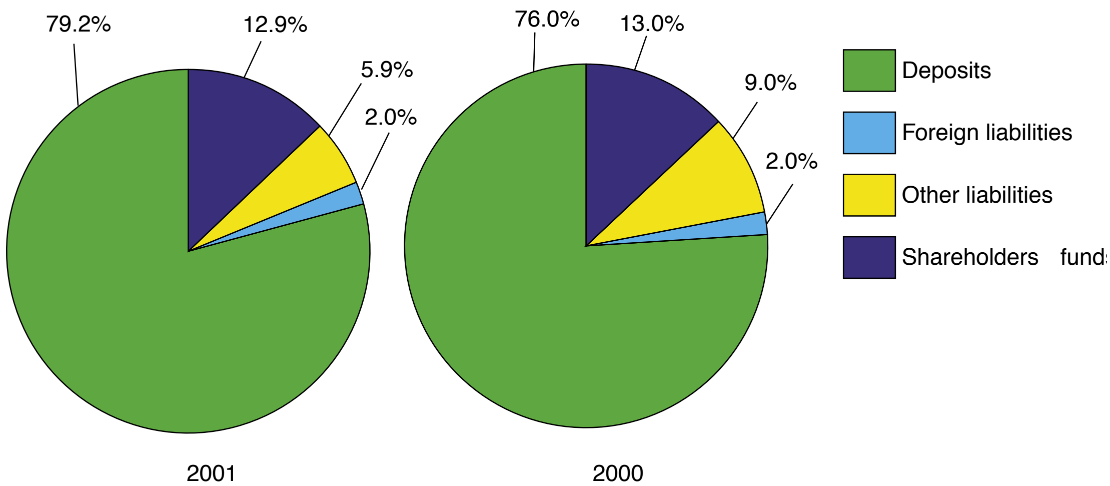
Total liabilities, excluding shareholders' funds, stood at Ksh 368.4 bn, down by 4.9% from Ksh 387.5 bn as at December 31, 1998. The decline was caused by a significant drop in foreign liabilities and other liabilities.

Table 7: Balance Sheet Movements - Liabilities

Amounts in Kshs 'm'

	2001		2000		1999		1998	
	Amount	%	Amount	%	Amount	%	Amount	%
Liabilities								
Local Currency Deposits	283,591	67	326,703	75	305,862	73	299,078	68
Foreign Currency deposits	48,977	12	N/A	-	N/A	-	N/A	-
Accrued Interest	3,035	1	3,797	1	5,206	1	7,542	2
Foreign Liabilities	7,730	2	9,386	2	21,925	5	19,839	5
Other Liabilities	25,097	6	37,580	9	37,721	9	61,061	14
Total Liabilities	368,430	87	377,466	87	370,714	89	387,520	88
Net Assets / Liabilities	56,533	13	57,072	13	47,152	11	51,328	12
Capital & Reserves								
Paid-up Assigned Capital	30,569	7	42,344	10	27,361	7	24,732	6
Reserves	20,389	5	10,742	2	19,791	5	22,781	5
P & L Account	5,575	1	3,986	1	-	-	3,814	1
Total Shareholders Funds	56,533	13	57,072	13	47,152	11	51,327	12

Chart 5: Global Balance Sheet – Composition of Liabilities



Deposits continued to be the main source of funding in the banking sector

The safety of depositors' funds calls for effective funds management systems

Deposits that accounted for 80% of total liabilities, continued to be the main source of funding in the banking sector; having increased from 70% in 1998. Foreign and other liabilities accounted for 2% and 6% of total liabilities respectively. As at December 31, 1998 foreign and other liabilities accounted for 5% and 14% respectively. Foreign liabilities declined by Ksh12.1bn from Ksh19.8bn in 1998 to Ksh7.7bn in year 2001, while other liabilities declined by Ksh36bn from Ksh61.1bn to Ksh25.1bn over the same period. The share of both items as sources of funding continued to decline, despite an increase in the level of foreign assets.

The high proportion of deposit liabilities renders banking institutions very vulnerable to changes affecting the level, maturity and cost structure of deposits. The safety of depositors' funds in the banking system calls for effective funds management policies and procedures and remains the principal focus of Bank Supervision Department, as their safety is a cornerstone of public confidence and financial sector stability.

Analysis of Deposits by Source

The analysis of deposits by source was as shown in table 8.

Table 8: Deposits by Source and Type

		2001						2000					
	Source / Type	Demand	Call	Time	Savings	Total	%	Demand	Call	Time	Savings	Total	%
1	Government	3,920	80	1,180	45	5,225	2	3,994	154	4,627	69	8,844	3
2	Parastatals	10,171	2,388	11,829	78	24,466	8	7,211	1,392	14,444	37	23,084	7
3	Banking Institutions	1,891	424	3,559	127	6,001	2	2,850	1,130	4,430	99	8,509	3
4	Co-operative Soc./ Insu.Co.'s	4,300	993	5,639	1,771	12,703	4	3,368	1,297	6,050	1,911	12,626	4
5	Private Enterprise	36,317	9,087	21,492	7,568	74,464	23	33,184	7,467	25,178	9,615	75,444	24
6	Non-profit Institutions & Indivi.	51,620	12,772	68,809	67,653	200,854	62	45,251	9,850	72,866	64,157	192,124	60
	TOTALS	**108,219**	**25,744**	**112,508**	**77,242**	**323,713**	**100**	**95,858**	**21,290**	**127,595**	**75,888**	**320,631**	**100**
	Percentage of Total	33	8	35	24	100		30	7	40	24	100	

NB: * Deposits exclude accrued interest on deposits, inter - bank balances and balances on foregn currency accounts for non- residents

Non-profit institutions and individuals are the highest depositors. Deposits from this source stood at Ksh 200.9bn as at December 2001 and accounted for 62% of deposits in the sector.

Private enterprises that contributed Ksh74.5bn accounted for 23% of total deposits and were ranked second. Deposits from the Government and parastatals amounted to Ksh 29.7bn and accounted for 10% of total deposits. The share of government and parastatal deposits remained constant at 10% between 2000 and 2001; whereas that of non-profit institutions and individuals increased from 60% to 62% over the same period. The share of deposits from co-operative societies remained at 4%.

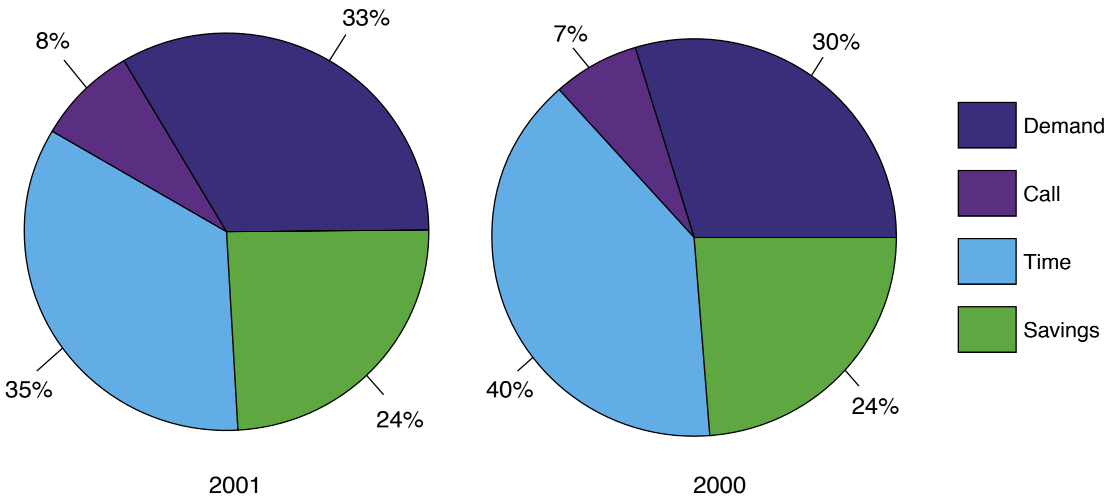
Analysis of Deposits by Type

Time deposits were the highest amounting to Ksh 112.5bn and accounting for 35% of total deposits as at December 2001 (see chart 6). In 2000, time deposits, accounting for 40% of total deposits were still the highest. However, in terms of trend, time deposits declined by Ksh.15.1bn or 12% whereas demand and call deposits increased by Ksh.16.8bn or 14% over the same period. These structural changes could be attributed to CBK (Amendment) Act 2000 that sought to control interest rates. A number of banking institutions were not keen on taking time deposits due to the fear of cost implications of the CBK (Amendment) Act 2000. As a result, demand and call deposit balances went up.

This change in the structure of deposits has had the following effects:

- Reduced the cost of deposits from 6.4% in 2000 to 5.7% in 2001, demand deposits being cheaper than time deposits;
- Increased deposit volatility as demand deposits are more volatile than time and savings deposits;
- Widened the maturity mismatch between assets and liabilities due to an increase in demand deposits that have shorter maturities thus increasing the liquidity risk in the sector in relative terms.

Chart 6: Deposits by Type



Banks were generally not keen on taking time deposits due to perceived implications of the CBK (Amendment) Act 2000

2.3.3 Capital and Reserves

Capital and reserves for the sector stood at Ksh 56.5 bn, having declined by Ksh.0.6bn from Ksh57.1bn as at December 2000. This decline is attributed to a reduction in paid-up capital from Ksh 42.3 bn to Ksh 30.6 bn occasioned by the liquidation of Trust Bank. On the other hand, total reserves, including the profit and loss balance increased by 134% from Ksh7.6bn in 2000 to Ksh17.8bn in year 2001. The increase was also largely due to the exit of Trust Bank from the banking system. The bank had accumulated negative reserves made up of Ksh 7.9 bn worth of losses that arose from the issue of shares at a discount under the scheme of arrangement, and previous years' accumulated losses of Ksh2.5bn.

2.4 Structure of the Profit and Loss Account

2.4.1 Overview

Performance of the banking industry in terms of profitability has continued to show remarkable improvement

The performance of the banking industry in terms of profitability has continued to show remarkable improvement over the years after hitting an all time low of Ksh 157m. in 1999. A trend analysis on the total pre-tax profits since 1998 exhibits the following trend; Ksh 4,351m in 1998, Ksh157m in 1999, Ksh 2,798m in 2000 and Ksh 8,857m in 2001. The improvement in profitability of the banking sector during the year is attributed to the following factors: -

- The exit of Trust Bank Limited from the banking system after liquidation means that the system is now leaner as the huge losses it was making were weighing down the system.

- Bad debts charge dropped from Ksh 13.7bn in December 2000 to Ksh 7.7bn in December 2001.

- Banking institutions adopted several restructuring measures that were aimed at reducing costs. It is in this connection that staff costs, which consumed 22% of total income, dropped from Ksh 15.3 bn in December 2000 to Ksh 13.5 bn in December 2001. Institutions continued with branch rationalization that resulted in reduction in branch network. As a result of the above measures, occupancy expenses dropped from Ksh 2.4bn in December 2000 to Ksh 2.2 bn in December 2001.

Out of 51 banks and non-bank financial institutions that were in operation 40 reported profits before tax of Ksh11.5 bn while the remaining 11 made losses of Ksh 2.6 bn. The earnings performance of the entire sector is given in Appendix 6.

2.4.2 Income

Total income of the banking industry decreased by 9.3% from Ksh 67.7 bn. in 2000 to Ksh 61.4 bn. in 2001, as shown in Appendix 3. Interest income remains the major source of income in the industry as banking institutions maintain their core and traditional role of intermediation through which the surplus funds of savers are made available to borrowers in order to finance productive activities. Total interest income decreased from Ksh 49 bn in December 2000 to Ksh 43 bn in December 2001 while its contribution to total income decreased from 72% to 70% over the same period as shown in Table 9. The decrease in interest income is mainly explained by the exit of Trust Bank from the sector, and the effect of CBK (Amendment) Act 2000.

'Other income' in the industry remained constant at Ksh 18.7 bn although its contribution to total income increased from 29% in December 2000 to 32% in December 2001. The increase in proportion to total income is due to a deliberate move by banks to move away from dependence on interest income to other fee based non-funded sources. This move has also been prompted by the uncertainties surrounding the implementation of the CBK (Amendment) Act 2000, as banks seek alternative avenues of sustaining profitability.

2.4.3 Expenses

Interest expense still remains the main expense incurred by banking institutions. Although total interest expenses declined from Ksh 21.4 bn in 2000 to Ksh 16.7 bn in 2001 their contribution to total expenses still remains at 32%. As is expected, interest on deposits forms the major component of interest expense as they account for 30% of total expenses. The reduction in interest expense was as a result of drop in total deposits in the banking system coupled with lower interest rate offered to depositors. The cost of deposits dropped over the period from 6.4% to 5.7%.

Salaries and wages, which accounted for 26% of total expenses, dropped from Ksh 15.3m in December 2000 to Ksh 13.4m in December 2001. Occupancy costs, which accounted for 4% of total expenses, dropped from Ksh 2.4 bn to Ksh 2.2 bn over the same period. The drop in salaries and wages and occupancy costs is because of the ongoing restructuring in the banking sector that has resulted in staff rationalization and closure of branches.

Bad debts charge as a percentage of income declined

As a percentage of total income, interest expense fell marginally from 29% in 1999 to 27% in 2001. Provisions for bad and doubtful debts as a percentage of total income decreased from 23% in 1999 to 12% in 2001, as shown in Table 9.

Table 9: Expenditure items as a percentage of income

	2001 *%	2000 *%	1999 *%	1998 *%
Income				
Interest on advances	49.2	52.5	59.4	64.6
Interest on government securities	17.2	14.9	13.0	14.1
Interest on placements	3.1	4.9	3.9	4.3
Other income	30.5	27.7	23.7	17.0
Total Income	100.0	100.0	100.0	100.0
Expenses				
Interest expenses	27.3	29.1	29.9	47.2
Bad debts charge	12.6	20.2	23.4	15.1
Salaries and wages	21.9	22.6	21.3	15.0
Other expenses	23.8	23.9	25.2	17.9
Total expenses	85.6	95.8	99.8	95.2
Profit before tax	14.4	4.2	0.2	4.8

* Income and expenditure items as a percentage of total income.

Chart 7.1: Income as a Percentage of Total Income

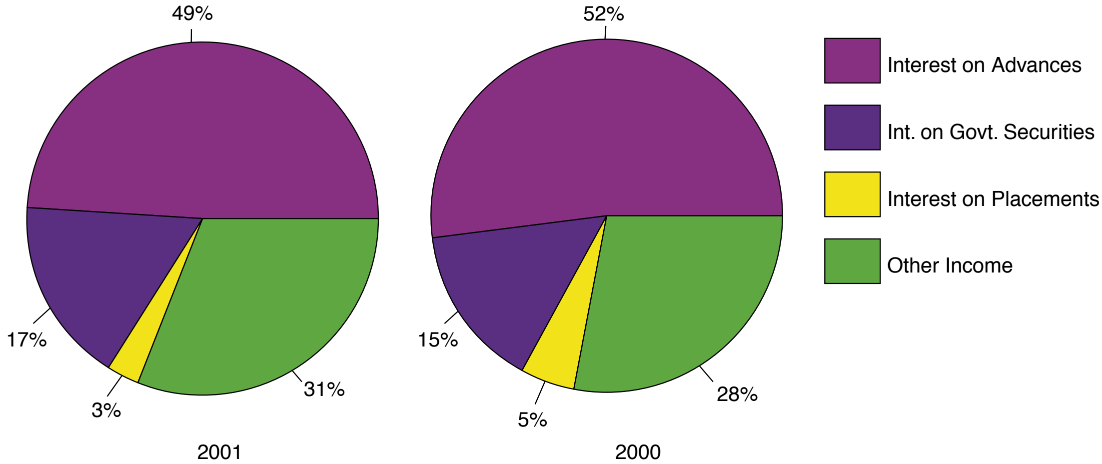
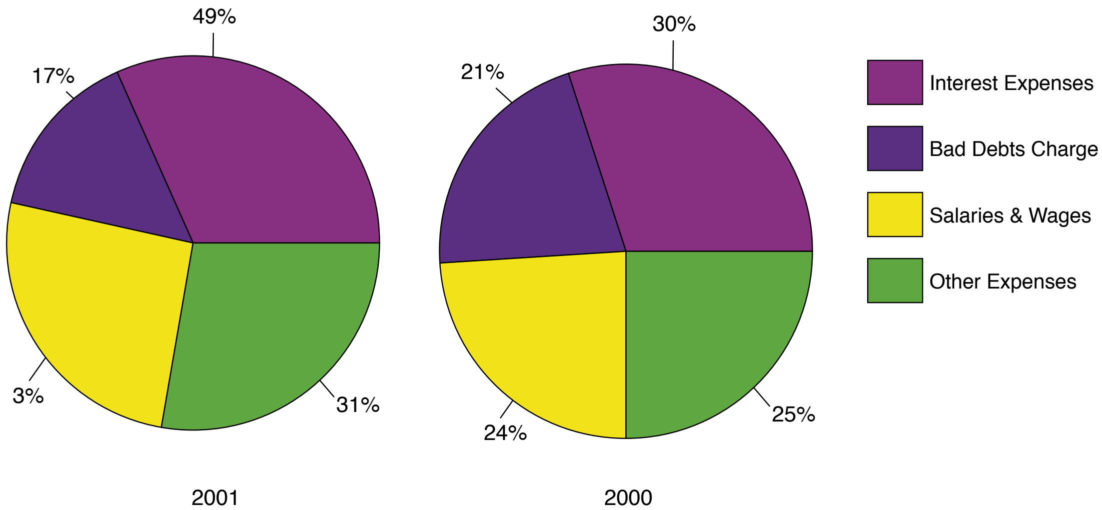


Chart 7.2: Expenses as a Percentage of Total Income



2.4.4 Performance Indicators

Return on assets improved from 0.5% to 1.7%

Despite the dismal performance of the economy, the performance of the banking industry was impressive. While the yield on earning assets decreased from 15.7% in 2000 to 12.9% in 2001 the cost of funding earning assets decreased less proportionately from 6.3% to 4.7% over the period. As a result of these movements, the interest margin on earning assets dropped from 9.4% in 2000 to 8.3% in 2001. Despite the reduction in interest margin, return on assets improved from 0.5% to 1.6% while return on shareholders funds increased from 5% to 16% over the period.

2.5 Market Share

The banking system continued to be dominated by a few banks. Eight banks controlled 71% of the market in terms of net assets and 72% in terms of deposits. In 2001, three banks controlled 47% of net assets, 46% of net advances and 43% of capital and reserves. Distribution among non-bank financial institutions was more skewed, with one institution controlling 64% of net assets, 71% of net loans and 68% of total deposits.

Profits contribution by banks to the total profit in the industry was even more skewed. Two banks alone with a net asset share of 32% accounted for 83% of the total profit before tax in the industry. The remaining forty-nine institutions with a net asset share of 68% accounted for only 16% of the total pre-tax profit in the sector. Ten loss making banks with a net asset share of 8% posted losses amounting to Ksh2.4bn.

Tables 10 and 11 show summary of market share in terms of net assets and total deposits as reported in the year 2001 audited accounts. Appendix 4 on the other hand shows in more detail the market share in terms of assets, advances, deposits, capital and profit before tax.

Eight banks controlled 71% of the market in terms of net assets.

Table 10: Banks' Ranking by Assets and Deposits

Peer Group Range	Number of Institutions Shs' billion	Net Assets	Market Share Shs' billion	Deposits Shs' billion %	Market Share %
Over 10	8	287.2	70.6	227.4	71.6
5-10	9	52.7	13.0	41.7	13.1
3-5	15	46.7	11.5	35.9	11.3
1-3	13	19.3	4.7	12.2	3.8
0-1	2	0.8	0.2	0.5	0.2
Grand Total	47	406.7	100.0	317.7	100.0

Source: Published Audited Accounts

Table 11: NBFIs Ranking by Assets and Deposits

Peer Group Range	Number of Institutions Shs' billion	Net Assets	Market Share Shs' billion	Deposits Shs' billion %	Market Share %
Over 10	1	11.6	63.6	10.2	68.2
5-10	0	0.0	0.0	-	0.0
3-5	1	3.6	19.7	2.5	17.0
1-3	1	2.1	11.8	1.7	11.2
0-1	2	0.9	4.9	0.5	3.6
Grand Total	5	18.2	100.0	14.9	100.0

Source: Published Audited Accounts

2.6 Year-end Performance rating

The performance of the banking sector is assessed using several ratios based on the acronym CAEL i.e. Capital Adequacy, Asset Quality, Earnings and Liquidity. The relative performance is classified in five categories as follows:

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 of the banking sector improved

The overall performance of the banking sector was rated fair in 2001, as was the case in 2000, (See Table 12). Eight institutions were rated strong compared to six institutions in 2000 while four institutions were rated unsatisfactory compared to seven institutions in that category in 2000.

Table 12: Year End Overall Performance Ratings – Banks and NBFIs – 2001 (audited)

	2001			2000		
Category	Number of Institutions	Net Assets Shs. Billion	%	Number of Institutions	Net Assets Shs. Billion	%
Strong	8	19.7	4.6	6	16.9	3.9
Satisfactory	21	242.5	57.1	21	223.3	51.4
Fair	14	54.4	12.8	16	50.9	11.7
Marginal	4	78.1	18.4	6	106.0	24.4
Unsatisfactory	4	30.3	7.1	7	37.4	8.6
Totals	51	425.0	100.0	56	434.5	100.0
Overall		Fair			Fair	

Source: Published Audited Accounts

2.6.1 Capital Adequacy

Capital provides the cushion to protect depositors and creditors in case of loss. Capital is measured in terms of total capital to total risk weighted assets ratio which shows the amount of capital an institution holds relative to the risk profile of its assets. Institutions are required to maintain a minimum ratio of 12%. In addition to this, institutions are expected to satisfy the following capital requirements;

- Minimum core capital, which as at the end of 2001 was Ksh 300 m for banks and Ksh 225 m for NBFIs. Core capital is the capital after adjustments for losses and excludes revaluation reserves and goodwill.

- Minimum ratio of the core capital to deposits of 8%; and

- Minimum ratio of core capital to total risk weighted assets ratio of 8%.

Capital adequacy for the sector based on the total capital to total risk weighted assets ratio was rated fair the same like for 2000. Forty-two (42) institutions with 90% of total market share had their capital rated strong, satisfactory and fair while ten (10) institutions were rated marginal and unsatisfactory.

Table 13: Year End Capital Adequacy Rating: Banks and NBFIs – 2001 (audited)

	2001			2000		
Performance Category	Number of Institutions	Net Assets Shs' Billion	(%)	Number of Institutions	Net Assets Shs' Billion	(%)
Strong	33	123.4	29.0	32	109.4	25.2
Satisfactory	5	131.2	30.9	6	103.6	23.8
Fair	4	126.3	29.7	7	181.2	41.7
Marginal	1	11.6	2.7	0	0.0	0.0
Unsatisfactory	8	32.5	7.6	11	40.3	9.3
Totals	51	425.0	100.0	56	434.5	100.0
Overall Rating	Satisfactory			Satisfactory		

Source: Published Audited Accounts

Forty-two institutions with 90% of total market share had their capital rated strong, satisfactory and fair

2.6.2 Asset Quality

Loans and advances continue to form the largest proportion of the balance sheet of the banking sector. In terms of quality, loans and advances are categorized into five categories depending on the time past due. These are:- normal risk; watch; substandard; doubtful and loss. The non performing advances are those in the substandard, doubtful and loss categories.

Risk Classification of Loans (Kshs. m)

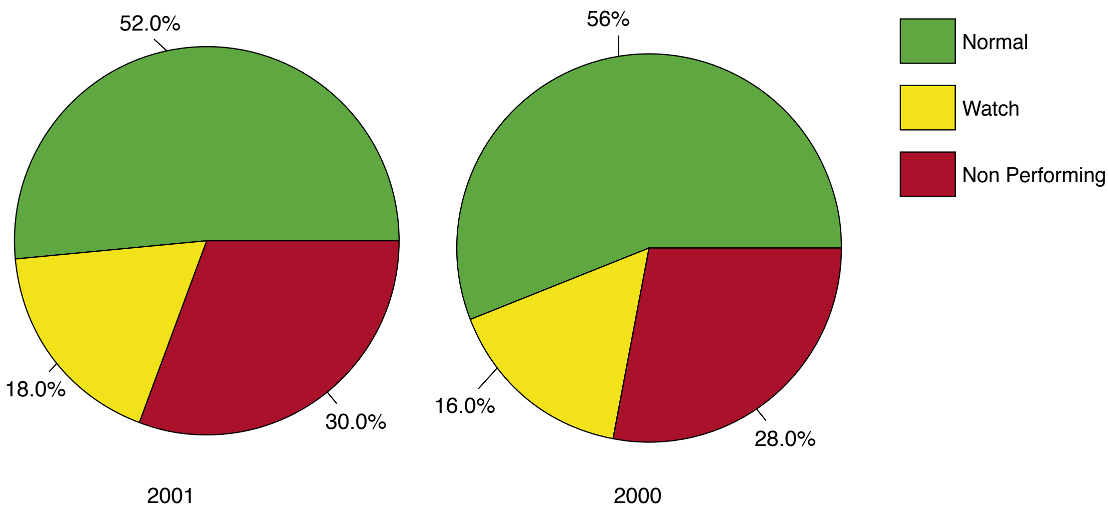
After an advance is classified as substandard, interest is suspended i.e. it is not taken into income. In the past, the reporting for both the outstanding loans and non performing loans (NPLs) was on gross terms i.e. it was inclusive of interest in suspense. The reporting has been revised in line with accounting standards and practices in other jurisdictions to be on net basis by excluding interest in suspense. The quality of loans is shown in Table 14 and chart 8

NPLs' reporting has been revised to exclude interest in suspense.

Table 14: Risk Classification of Loans

No	Category	December 2001		December 2000	
		Amount	Percentage (%)	Amount	Percentage (%)
1	Normal	128,227	52%	151,895	56%
2	Watch	43,634	18%	42,320	16%
3	Substandard	15,376	7%	15,103	5%
4	Doubtful	33,680	14%	38,336	14%
5	Loss	24,059	10%	25,236	9%
6	Total Loans	244,976	100%	272,890	100%

Chart 8: Risk Classification of Loans



Level and Trend of Non-performing loans

The various parameters relating to non-performing loans are shown in Table 15.

The level of non-performing loans (NPLs) as at December 31,2001 was estimated at Ksh 73.6 billion or 30% of total loans, compared to Ksh 90.2 billion or 33% of total loans as at December 31, 2000. The declining ratio reflects a decrease in the level of non-performing loans, both in absolute terms and in relation to total loans in the sector. The decline is attributed mainly to the exit of Trust Bank and partially to recoveries, write-off and write-down of some debts in a number of institutions. Recoveries were made either through repayment or foreclosure of collaterals pledged to secure debts.

Specific provisions declined by 36% from Ksh 43.9 billion in 2000 to Ksh 27.8 billion in 2001 partially due to the decline in non-performing loans, total loans and NPLs written off against provisions held. Total provisions to total loans ratio declined from 17% to 12% over the same period.

Table 15: Non-performing Loans and Provisions (shs.m)

No	Item	Audited Dec.2001	Audited Dec.2000	Growth (%)
1	Total Loans	244,976	272,890	-10%
2	Specific Provisions	27,754	43,872	-37%
3	General Provisions	2,539	2,719	-7%
4	Total Provisions (2+3)	30,293	46,591	-35%
5	Net Loans (1-4)	214,683	226,299	-5%
6	Total Non-Performing Loans	73,617	90,240	-18%
7	Net Non-Performing Loans (6-2)	45,863	46,368	-1%
8	Value of Securities (estimated)	36,187	37,599	-4%
9	Net Exposure (7-8)	9,676	8,769	10%
10	Total NPLs/ Total Loans (6/1)	30.1%	33.1%	
11	Net NPLs /Net Loans (7/5)	21.4%	20.5%	
12	Total Provisions/Total Loans (4/1)	12.4%	17.1%	
13	Net Exposure/Total Loans (9/1)	3.9%	3.2%	

The exposure of the banking sector to NPLs that are neither provided for nor secured stood at Ksh 9.7 billion. Provisions for this portfolio are likely to eat into the level of profits and revenue reserves for the sector in future if recovery of the same is not made. However, capital and reserves for the sector that stood at Ksh 17.8 billion as at December 31, 2001 are adequate to cushion this exposure. However, this exposure poses a recovery challenge to the management team of institutions concerned.

Concentration of Non-performing advances

NPLs are concentrated in public sector institutions

Non-performing loans were mainly concentrated in ten institutions mostly in the public sector, whose ratio of non-performing loans to total loans was 51% compared with only 14% for the rest of the sector (Table 16) The problem of non-performing loans is not as acute as it appears on the global basis for most of the banking institutions. The NPLs in the ten institutions are historical in nature and arose due to poor lending practices and external influence on the board and management of the institutions affected. There is no easy solution to the problem but the idea of an asset management company has been floated. The incidence of non-performing loans in specific institutions is shown in Appendix 5

Table 16: Non-Performing Loans Concentration in the Banking Sector

	December 2000			December 2001		
Institutions	Total NPLs	Total Loans	Concent-ration	Total NPLs	Total Loans	Concent-ration
Top 10 Insts.	53,211	103,901	51%	46,781	101,834	46%
Rest of Insts.	20,406	141,075	14%	43,459	171,056	25%
Total Sector	73,617	244,976	30%	90,240	272,890	33%

Total Loans and Non-performing Loans are stated net of interest held in suspense.

2.6.3 Asset Quality Rating

Asset quality is rated on the basis of the proportion of non-performing loans, net of provisions to gross loans. The method takes into account provisions made for the non-performing loans. However, the method is being reviewed in line with the change in reporting that has been effected. In the meantime, asset quality rating was fair, a similar rating as the one recorded in the previous year. Twenty-three (23) institutions controlling 56% of net assets had asset quality rated strong and satisfactory, while nineteen (19) institutions controlling 44% of net assets had their asset quality rated fair and below.

56% of the sector's net assets are held by institutions whose asset quality is rated strong and satisfactory

Table 17: Year End Asset Quality Ratings: Banks and NBFIs – 2001 (audited)

	2001			2000		
Performance Category	Number of Institutions	Net Assets Shs' Billion	(%)	Number of Institutions	Net Assets Shs' Billion	(%)
Strong	14	64.7	15.2	13	137.8	31.7
Satisfactory	9	171.6	40.4	7	76.2	17.5
Fair	10	55.0	12.9	8	26.7	6.1
Marginal	7	38.0	8.9	10	75.2	17.3
Unsatisfactory	11	95.7	22.5	18	118.6	27.3
Totals	51	425.0	100.0	56	434.5	100.0
Overall Rating	Unsatisfactory			Unsatisfactory		

Source: Published Audited Accounts

2.6.4 Earnings

The profitability of the banking system improved significantly from the Ksh 2.8 bn in 2000 to Ksh 8.9 bn in 2001.The most profitable institution recorded a pre-tax profit of Ksh 4.2 bn. Forty (40) institutions made profits amounting to Ksh 11.5 bn while eleven (11) institutions made losses of Ksh 2.6 bn.

The rating of earnings as measured on the basis of return on assets (ROA) remained marginal, although ROA improved from 0.5% in year 2000 to 1.53% in 2001. The wide range in the profitability of institutions is shown in Appendix 6. Twenty-eight (28) institutions had their earnings performance rated strong, satisfactory and fair, while twenty-four (24) were rated marginal and unsatisfactory.

Table 18: Year end earnings ratings: Banks and NBFIs – 2001 (audited)

	2001			2000		
Performance Category	Number Of Institutions	Net Assets Shs' Billion	(%)	Number Of Institutions	Net Assets Shs' Billion	(%)
Strong	7	140.0	32.9	5	61.4	14.1
Satisfactory	11	51.0	12.0	11	144.6	33.3
Fair	10	52.9	12.4	11	43.5	10.0
Marginal	13	103.2	24.3	11	35.7	8.2
Unsatisfactory	10	77.9	18.3	18	149.5	34.4
Totals	51	425.0	100.0	56	434.5	100.0
Overall Rating	Fair			Marginal		

Source: Published Audited Accounts

2.6.5 Liquidity

The liquidity of the banking system as measured by the ratio of net liquid assets to total deposits for year 2001 averaged 43.8% up from 43.1% recorded in year 2000. The overall liquidity rating was strong. The high liquidity position in the sector was due to the fact that banks continued to keep a relatively high proportion of their assets in government securities. The liquidity of 42 institutions was rated strong and satisfactory while liquidity for 8 institutions was rated fair and below.

42 institutions were rated strong and satisfactory in terms of liquidity

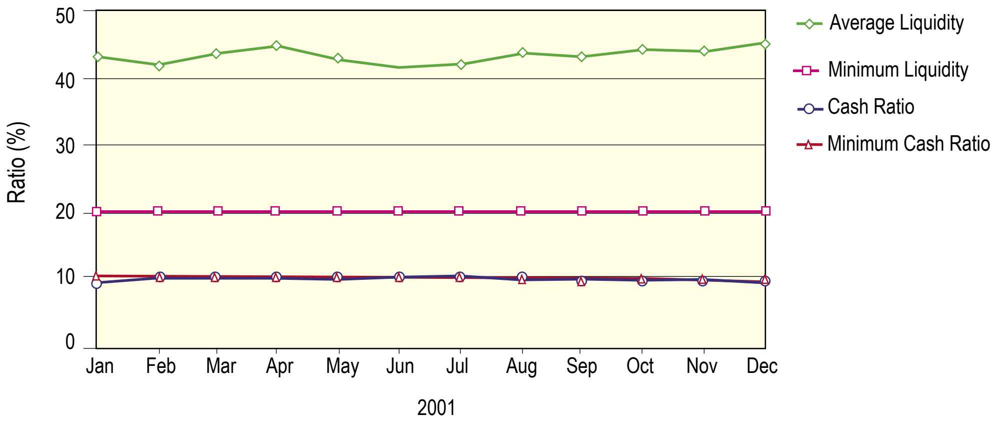
The maturity analysis of assets and liabilities indicates a negative mismatch in items for the "matured" band. This is because most of the deposits are in demand deposits category. However, the banks can comfortably roll them over to cover the longer- term assets to even out the mismatch.

Table 19: Year End Liquidity Ratings: Banks and NBFIs – 2001 (audited)

	2001			2000		
Performance Category	Number of Institutions	Net Assets Shs' Billion	(%)	Number of Institutions	Net Assets Shs' Billion	(%)
Strong	33	267.5	62.9	32	248.7	57.1
Satisfactory	8	83.6	19.7	11	120.5	27.7
Fair	3	27.5	6.5	7	18.2	4.2
Marginal	3	5.2	1.2	1	4.2	1.0
Unsatisfactory	4	41.2	9.7	5	43.8	10.1
Totals	51	425.0	100.0	56	435.3	100.0
Overall Rating	Strong			Strong		

Source: Published Audited Accounts

Chart 9: Liquidity and Cash Ratios –Year 2001



Chapter 3

Developments related to banking legislation

3.1 Overview

In order to ensure effective supervision and regulation of the banking sector, an appropriate legal framework is a prerequisite. The Bank Supervision Department regularly reviews and facilitates amendment of the pertinent laws and regulations, in order to ensure that the applicable legislation and regulations remain in line with the latest international developments and standards.

3.2 Recent amendments to legislation on banking institutions and building societies

Effective supervision requires an appropriate legal framework.

The Banking (Amendment) Act 2001, which was enacted on 31st December 2001, contained the following amendments to the Banking Act (Cap 488) and Building Societies Act (Cap 489):

- **Sharing of information within the banking sector**
  Section 31(3)(b) of the Banking Act was introduced to empower Central Bank and institutions licensed under the Banking Act to share information in a manner and to such extent as may be prescribed by the Minister of Finance, as is reasonably required for proper discharge of their functions.

- **Lending activities by mortgage finance companies**
  Following amendments to Section 15 of the Banking Act, mortgage finance companies have more flexibility as regards the nature of the facilities they can now offer. In addition, the requirement limiting mortgage finance companies to take land as the only security for the facilities they grant was removed. The investment options that these institutions can undertake were also widened.

- **Amendments relating to the Deposit Protection Fund Board (DPFB)**
  Section 36 of the Banking Act was amended to further elaborate the powers of the Board as a body corporate and introduced some provisions regarding the procedures of the Board. Section 36A was introduced to re-define the objects and functions of the Board, while a new Section 36B provides for the remuneration of the Board members.

The introduction of a new Section 36C provided for protection from personal liability for members, employees and agents of the Board for things done in the course of their duties.

In order to accord the Board first priority in the payment of its subrogated claims, an amendment to Section 39 was passed, while a new Section 39A now imposes a time limit on the period within which claims by depositors may be made to the Board. Exceptions to this limitation clause have also been outlined.

- **Amendments relating to building societies**

Section 24 of the Building Societies Act was amended to remove restrictions on the operations of building societies by empowering them to extend credit facilities on securities other that land. Following the introduction of Section 63J in the Building Societies Act, the Central Bank is now empowered to intervene in the management and to order liquidation of building societies. In addition, building societies are now legally obligated to contribute to the Deposit Protection Fund Board, as per Section 63K, in order to offer protection of deposits placed with them.

The general concern that nominal lending rates are too high and that the spreads are wide led to enactment of the CBK (Amendment) Act 2000.

3.3 Central Bank of Kenya (Amendment) Act 2000

The general concern that nominal lending rates in Kenya are too high and that the spreads between lending and deposit rates are wide led to enactment of the Central Bank of Kenya (Amendment) Act 2000. The legislation, which was gazetted as an Act of Parliament on 7th August 2001, sought to re-introduce controls on interest rates by pegging them to Treasury Bill rates.

The Kenya Bankers Association and the Central Bank held the view that there were operational constraints within the Act, in particular regarding the commencement date of 1st January, 2001 and the interpretation of 'renewed contracts'. The Central Bank further articulated its stance that re-introduction of interest rate controls stood contrary to the liberalisation policies being pursued. Following a legal suit over the new legislation, the High Court delivered its ruling on 24th January, 2002. The ruling was the subject of diverse interpretations, while the subsequent decree led to further controversy and the matter is still pending in court.

The Central Bank of Kenya (Amendment) Bill, 2001 was tabled in Parliament for the purpose of altering the commencement date of the Central Bank of Kenya (Amendment) Act 2000 from the 1st of January 2001 to such a date as the Minister may appoint. It also proposes to repeal section 39 of the Act, in order to eliminate the concept of controls in interest rates. The Bill further seeks to strengthen the membership and expand the functions of the Monetary Policy Advisory Committee. It has yet to be debated in Parliament.

3.4 Criminalising bouncing of cheques

A proposal was made for the amendment of the Penal Code to criminalise bouncing of cheques in certain specific circumstances, but was not enacted as many Members of Parliament felt that a proposal to amend the Penal Code should not be debated under the Finance Bill.

3.5 Proposed changes to legislation

3.5.1 Proposed amendment to the Building Societies Act

The current law does not provide for building societies registered under the Building Societies Act to convert to, or merge with banking institutions registered under the Companies Act. To address this anomaly, it was proposed that the Building Societies Act be amended to enable building societies transfer their business to limited liability companies, after necessary approvals. This proposal was contained in the Statute Law (Miscellaneous Amendments) Bill 2001, which was enacted into law in 2002.

It was proposed that the Building Societies Act be amended to enable building societies transfer their business to limited liability companies.

5.5.2 **Proposed amendment to the Banking Act**

The move to ensure that central banks are granted autonomy in supervision of the financial sector is a feature that has gained prominence as an internationally recommended best practice. In Kenya, powers to license and de-license banking institutions as well as a number of other operational decisions have hitherto been vested in the Minister for Finance. In order to further enhance the supervisory effectiveness of the Central Bank, proposals were made to amend the Banking Act to enable the Minister cede the relevant powers to the Central Bank. This move will enable Central Bank of Kenya comply with the Basel Core Principles for Effective Banking Supervision, and will further improve harmonisation of our banking laws within the East African Community.

Chapter 4

Current supervisory issues

4.1 International Accounting Standards (IAS)

4.1.1 Overview

International Accounting Standards (IAS) have been widely adopted globally, due to the recognised need to harmonize financial reporting internationally. In Kenya, the Standards were adopted in 1998 for financial statements for the period ending 31st December 1999. From a supervisory point of view, adoption of the Standards by banking institutions is important because they provide a basis for relevant and reliable measurement of assets, liabilities, equity and income as well as capital adequacy. In addition, the increased transparency in financial reporting resulting from adoption of IAS enhances market discipline. The IAS also facilitate accurate and transparent published financial statements that are consistent and comparable, which is crucial due to the growing interdependence of international financial markets.

The banking sector has made tremendous progress in complying with IAS

The Kenyan banking sector has made tremendous progress in complying with IAS though instances of non-compliance are still being noted on some of the 'finer details' of some of the standards.

4.1.2 Recent Changes in International Accounting Standards relating to the Banking Sector

The Standard that deals with banks' disclosure requirements is IAS 30. In 2001, two additional standards were issued which had an impact on reporting by banking institutions. These are IAS 39 on financial instruments and IAS 40 on investment property.

4.1.3. Highlights on IAS 30: Disclosures in the financial statements of banks and similar financial institutions.

IAS 30 is so far the only standard produced specifically for the banking industry by the International Accounting Standards Committee (IASC), in recognition of the unique characteristics of banks' business. The Standard is important in light of the significance of international trade and dependence on banks to underwrite and support cross border commerce. It is aimed at disclosure of consistent and reliable information about the general financial health of banks, in particular their solvency and liquidity and the relative degree of risk that attaches to their different lines of business. The major disclosure requirements are:

- An income statement that groups income and expenses by nature and discloses the amount of the principal types of income and expense.

- A balance sheet that groups assets and liabilities by nature, and lists them in order of their relative liquidity.

- Separate disclosure of the market value of dealing securities and marketable investment securities; an analysis of assets and liabilities into relevant maturity groupings; significant concentrations of assets, liabilities and off-balance sheet items by geographical area, customer or industry groups or other concentrations of risk; and information concerning losses on loans and advances.

IAS 30 is so far the only standard produced specifically for the banking industry in recognition of the unique characteristics of banks' business.

Banking institutions have made major strides in implementing the Standard.

4.4.4 Highlights on IAS 39: Financial Instruments; Recognition and Measurement

IAS 39 outlines the circumstances under which financial instruments are recognized/ derecognised on or from the balance sheet. It also covers the methods used in measuring these instruments, and explains how gains or losses are recognized on disposal.

The major requirements for disclosure by an enterprise include its financial risk management policy, its objectives, hedging strategy and assumptions applied for the measurement of fair value. The enterprise should describe in detail its hedged items and hedging instruments, the choice made in accounting for gains and losses arising from changes in fair value, and separate reporting of realized and unrealized gains or losses.

Banking institutions and their auditors gave different interpretations when implementing the Standard in the 2001 audited accounts, and as a result, there was no uniform implementation across the sector. It is anticipated that the different interpretation issues will be sorted out during year 2002.

As the Kenyan banking sector evolves to adopt more sophisticated products, IAS 39 will increasingly become relevant.

4.4.5 Highlights on IAS 40: Accounting for Investment Property

The Standard prescribes the accounting treatment for investment property and related disclosure requirements. It became effective for annual financial statements covering period beginning on or after 1st January, 2001.

The Standard replaced the previous requirements of IAS 25; Accounting for Investments. Under IAS 25, an enterprise was allowed to choose from among a variety of accounting treatments for investment property. Investment property is defined as property (land or a building or both) held to earn rentals or for capital appreciation or both. Investment property does not include property held for use in the production administration purposes or for sale in the ordinary course of business.

The effect of the Standard is to separate property held for investment purposes from the general classification of property, plant and equipment and resultant effect on financial and regulatory ratios. Institutions will need to ensure compliance with provisions of section 12(c) of the Banking Act which limits the extent of investments held by institutions. In addition, the prudential limit of restricting revaluation reserves included in core capital to 25% after approval from the Central Bank will continue to apply, as per Prudential Regulation No. CBK/PR/01.

4.2 Implementation of Basel Core Principles for Effective Banking Supervision

The 25 Basel Core Principles for Effective Banking Supervision were developed in 1997 by the Basel Committee on Bank Supervision to provide the basic framework required to supervise the banking sector. The Basel Committee for Banking Supervision possesses no formal supervisory authority and its recommendations were never intended to have legal force. However it formulates broad supervisory standards and guidelines and recommends statements of best practices in the hope that supervisory authorities will take steps to implement them through detailed arrangements suitable to each individual country.

The 25 Basel Core Principles for Effective Banking Supervision provide the basic framework for supervision of the banking sector.

4.2.1 Progress on implementation of Core Principles

Kenya continues to make efforts to gradually implement the principles over a reasonable and practicable time frame. Following a self-assessment conducted to establish the extent of implementation, a status report was drawn up as shown in Appendix 9.

During the year under review, implementation of the following core principles remained not fully complied with or only partially complied with:

- **Core Principle 1(2)** expects the bank supervisor to possess operational independence and adequate resources. This was not achieved during the year as some powers under the Banking Act continued to be vested in the Minister for Finance.

- **Core Principle 5** requires that criteria for reviewing a bank's major acquisitions or investments be in place. In Kenya, the Banking Act limits new acquisitions and investments in relation to core capital, but the Central Bank prior approval for acquisition is not a requirement.

- **Core Principle 8** requires that banks establish and adhere to adequate policies for evaluating the quality of assets and adequacy of loan loss provisions. In order to minimize the likelihood of under-provisioning in the industry, the current provisioning guideline is being revised.

- **Core Principle 11** calls for the existence of adequate policies and procedures in banks for identifying, monitoring and controlling country risk and maintaining reserves against such risks. Many institutions are not active in international lending and investment activities. Currently, there is no requirement for maintaining reserves against country risks.

- **Core Principle 12** requires accurate measurement, monitoring and controlling market risk and maintaining reserves against such risks. This is not fully applicable to Kenyan situation as many banks presently do not engage in trading activities.

- **Core Principle 13** requires existence of comprehensive risk management processes in banks to identify, measure, monitor and control all other material risks and, where appropriate, to hold capital against these risks. In our market other risks besides credit, liquidity, and foreign exchange exposure are not yet significant.

Core Principle 22 requires that the laws provide for timely remedial measures against institutions for non-compliance.

- **Core Principle 15** relates to adoption of policies by banks to prevent money laundering. The existing systems are not comprehensive but, as indicated elsewhere in the report, efforts have been initiated to put in place comprehensive legislation.

- **Core Principle 18** that off-site analysis of prudential reports and submission of statistical returns from banks be done on a consolidated basis. Many of our institutions do not have subsidiaries in non -banking fields , hence consolidated supervision and analysis have not been adopted.

- **Core Principle 20** relates to supervision of banking groups on consolidated basis. Only a few complex banking groups exist in Kenya, hence the need for consolidated supervision is not compelling at the moment.

- **Core Principle 22** requires that the laws provide for timely remedial measures against institutions for non-compliance. Though there are adequate legal powers in place, taking the necessary corrective action is impaired by a variety of factors beyond the supervisor’s control.

- **Core Principle 23** requires that supervisors should practise global consolidated supervision over internationally active banking organisations. 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;

- **Core Principle 24** calls for the establishment of contact and information exchange with various other involved supervisors, primarily host country supervisory authorities. Few banks have significant foreign presence hence information is only obtained on a case by case basis.

4.3 Corporate Governance in Kenya's Banking Sector

4.3.1 **Overview**

Corporate Governance in the banking sector largely relates to the responsibility conferred to and discharged by the various entities and persons responsible for and concerned with the prudent management of the financial sector. The corporate governance stakeholders in the banking sector include the board of directors, the management, the shareholders, Central Bank of Kenya, external auditors and other regulatory authorities like Capital Markets Authority. The interaction with the media, the customers and the general public also plays a critical role in fostering corporate governance in the financial sector. Corporate governance is a global issue that is being handled at many regional and international forums including the Basel Committee on Banking Supervision and the Commonwealth Secretariat. It is important to sensitize the stakeholders in the financial sector on the importance of good corporate governance practices and efforts being made by stakeholders to enhance it in our financial system.

Corporate Governance in the banking sector relates to the responsibility by entities and persons responsible for prudent management of the sector.

4.3.2 **Kenya's Experience in Corporate Governance in the Banking Sector**

In the period prior to the banking crisis of the late 1980s and early 1990s, corporate governance issues were largely low priority areas in Kenya's banking sector. Directors were never vetted, shareholders could start banks almost at will, the role of the external auditors was not well defined, the prudential regulations were scanty and at some stage bank supervision was not playing a major role in ensuring prudence in the financial sector. These deficiencies resulted in laxity by some boards, and management of institutions. The effect was imprudent lending practices, excessive investment in fixed assets, inadequate systems to measure, identify and control risks.

The Central Bank subsequently undertook several measures to enhance corporate governance in the banking sector. An effective legal and regulatory framework is now in place, prudential regulations have been developed and there is increased interaction with other regulatory authorities, directors of banking institutions and external auditors. Among other factors, the following amendments to the Banking Act have contributed to enhancement of corporate governance in the banking sector:

- Section 24 (5) that gives Central Bank Powers to arrange trilateral meetings with an institution and its auditor.

- Section 31(3), which allow sharing of information between institutions.

- Section 11 which requires that facilities to a director to be approved by the full board of directors and further empowers Central bank of Kenya to remove directors from office if their loans are non performing.

- The Banking (penalties) regulations that empowers the Minister for Finance and the Central bank to levy penalties for non-compliance with corporate governance principles and other violations of the Banking Act.

- All the prudential regulations were also reviewed in the year 2000 to ensure enhanced corporate governance in the Banking Sector.

4.3.3 Guidelines on Corporate Governance Practices by Public Companies in Kenya

In response to the growing importance of corporate governance, the Capital Markets Authority issued a Gazette Notice in January 2002. Adherence to the guidelines is mandatory for public listed banks, but, in the interest of the sector, all banking institutions should endeavour to apply them. Many of the requirements are already taken care of either in the Banking Act or in prudential regulations. However, there are some other issues contained in the guidelines that the banking sector is yet to adopt, including:-

Capital Markets Authority issued a Gazette Notice in January 2002, in response to the growing importance of corporate governance.

- Disclosure of the ten major shareholders of the company;

- Requirement that no person should hold more than five directorships in any public listed companies at any one time;

- Executive directors to have affixed service contract not exceeding five years with a provision for renewal;

- No person shall hold more than two chairmanships in any public listed company at any one time; and

- Inclusion of a statement on corporate governance in the annual accounts.

The Central Bank supports the Capital Markets Authority's efforts of fostering corporate governance. In line with this stand, all banks, including those that are not public quoted were requested by Central Bank to include a statement on corporate governance in their annual accounts for the year 2001. Central Bank will continue encouraging all financial institutions and especially the private ones to adopt the Capital Markets Authority guidelines and commonwealth principles on corporate governance.

4.3.4 Action Plan for Corporate Governance by Commonwealth Secretariat

The Commonwealth corporate governance-working group was formed in 2000 to promote effective corporate governance in the financial sector. At a corporate governance conference held in Nairobi in October/November 2000, the group set out a checklist of the policy issues that are relevant to assessing the effectiveness of corporate governance in the financial sector. The Central Bank of Kenya has made good progress in implementing the principles as set out in the checklist. So far, about 70% of the checklist has been implemented. Some of the remaining issues that shall be considered for implementation in the future include:

- Legal obligation that directors confirm the solvency of their institutions before distribution of dividends;
- Disclosures of financial and risk related information by banks in respect of not only the bank but also consolidated group;
- Disclosure of the bank's credit rating;
- Linking of deposit insurance to stringent requirements with respect to financial disclosure, corporate governance and risk management; and
- Banks to conduct periodic external assessment of banks' corporate governance arrangements.
- Bank directors to undertake professional training and courses on corporate governance before appointment as directors.
- Requirement that banks periodically change their auditors in order to enhance independence of auditors.

Prudential regulations are currently being reviewed to reflect current trends in corporate governance.

In order to further foster corporate governance in the financial sector, the Central Bank is currently reviewing the prudential regulations to ensure that they reflect current trends in corporate governance. Seminars and workshops with stakeholders in the banking sector shall continue to be held and Central Bank will continue to be an active member of the Commonwealth Secretariat for promoting corporate governance.

4.4 International and Regional Co-operation

4.4.1 World Bank/IMF

As part of technical co-operation between Kenya and the IMF, two advisory missions from the Monetary and Exchange Affairs Department (MAE) of the International Monetary Fund (IMF) visited Nairobi during the periods February/March 2001 and October, 2001. The main purpose of the visits was to update the assessment of the current state of Kenya's banking system. These missions provided useful analysis of issues in the sector and recommended actions for improvement in the weak areas. Implementation and review of the Missions' proposals is an on-going exercise.

In the course of the year, Kenya was enlisted in the Global Banking Law Database, an electronic database set up jointly by the World Bank and IMF that contains banking laws and regulations applicable in a wide range of countries. The database is organised according to the framework of the Basel Core Principles for Effective Banking Supervision and is useful for comparison of regulatory policies internationally.

4.4.2 **East and Southern Africa Banking Supervisors Group (ESAF)**

ESAF is a regional grouping of bank supervisors that was started in 1995 following encouragement by the Basel Committee on Banking Supervision. It has a current membership of 16 countries, with the main objective of harmonising banking legislation and supervisory practices and share information on matters regarding banking supervision.

The grouping held its 9th Annual General Meeting (AGM) and 7th Heads of Supervision Workshop in Maputo, Mozambique between 25th and 30th June, 2001. At the AGM, a new Executive Committee was elected for the subsequent two years. The meeting also reviewed various projects and initiatives concerning training, adoption of uniform accounting standards, disclosures, licensing of banks and harmonised IT solution for both offsite and onsite supervision.

ESAF is a regional grouping of bank supervisors that was started in 1995

During the Workshop, which was organised by ESAF in collaboration with IMF and World Bank, the following observations were made:

- The experience of the various countries demonstrated that the extent of central bank participation in the area of micro finance differed substantially. Due to lack of expertise in the area, central banks would exercise caution when playing the role of regulating the sector.

- The member countries would work towards implementation of the new Capital Accord.

- Bank supervisors need to keep abreast of the changes in the area of e-banking and develop techniques of addressing emerging risks.

- In view of the many harmful effects of money laundering on the financial system across the world, ESAF member countries, being members of Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), noted the importance of ensuring that money-laundering legislation is developed in all the member countries.

4.4.3 **Monetary Affairs Committee (MAC)**

The Governors from the Central Bank of Kenya, Uganda and Tanzania who constitute the Monetary Affairs Committee (MAC), meet once every year with the objective of pursuing harmonisation of monetary and financial policies in the member states. The fourth meeting of officials of the MAC was convened by the East African Community Secretariat in April, 2001 and passed various resolutions. Some of the major resolutions relating to banking supervision included:

- Kenya to consider granting the Central Bank of Kenya autonomy in the area of licensing of banks, to be in line with the status in Uganda and Tanzania.

- Kenya and Uganda to adopt quarterly publication of accounts, as is the case in Tanzania.

- Kenya to review the issue of collateral value recognition in provisioning.

- The three Central Banks to continue sharing experiences and information on how to resolve the problems of non-performing assets.

- The Central Banks to pursue harmonisation of anti-money laundering legislations and regulations.

4.4.4 Common Market for East and Southern Africa (COMESA)

The Central Bank of Kenya participated in the first meeting convened for Bank Supervisors under the auspices of the COMESA Secretariat, in April/May 2001. The idea of bringing together bank supervisors in the COMESA region for regular forums was mooted at the fourth Summit of the COMESA Authority of Heads of State in May 1999. The objective of the meetings is to review and exchange experiences in Bank Supervision and to make necessary recommendations, taking into account the commitment of member states under the general agreement on trade in services as well as the experience of East Asian financial crisis.

A meeting of the Governors from the Central Banks of COMESA member countries was held in early 2002.

The April/May 2001 meeting held in Lusaka, Zambia set in motion a program of action for harmonising banking supervision in the COMESA region. Issues on deposit insurance were also discussed in a session conducted by the Financial Stability Forum on Deposit Insurance and Canada Deposit Insurance Corporation.

A sub-committee of bank supervisors from the region was set up to work on the approved action plan. Kenya is a member of this sub-committee. As a first step towards harmonisation of bank supervisory standards, a questionnaire was completed by member countries, to determine the current status of standards on disclosure, accounting and provisioning among others. It is anticipated that analysis of the questionnaire will enable the harmonisation exercise be instituted.

A meeting of the Governors from the Central Banks of COMESA member countries was held in early 2002 where among other issues the report on banking supervision was discussed.

4.5 Combating Money Laundering and Financing of Terrorism

Money laundering is the processing of criminal proceeds to disguise their illegal origin. The process involves conversion or transfer of funds knowingly or through negligence with the intent of concealing its illicit origin. Terrorism on the other hand has been defined by the United Nations under resolution No 51/210 as criminal acts intended or calculated to provoke a state of terror in the general public, a group of persons or particular persons for political or other purposes and are in any circumstance unjustifiable, whatever consideration of a political, philosophical, ideological, racial, ethnic, religious or other nature that may be invoked to justify them.

The main goal of a money launderer is to profit from lucrative criminal activities such as trafficking of illicit drugs, arm trafficking, corruption, tax evasion, computer frauds and kidnapping. The aim of a terrorist on other hand may be difficult to understand but always rotates around religious intolerance, racial hatred, and human despair among others.

4.5.1 **Impact on Economy**

The consequences of unchecked money laundering are serious. Successful money laundering ventures will encourage serious organised crimes which will then infiltrate financial system as well as other large sectors of the economy through investments or offer of bribes to public officials and governments.

Unchecked money lundering ventures can infiltrate the financial system and impact negatively on the economy.

The economic and political influence of criminal organisations can weaken the social fabric, collective ethical standards and ultimately the democratic institutions. No economy can thrive under environment of social disorder, low ethical standards and dictatorial regimes.

4.5.2 **Global Effort in Anti- Money Laundering and Combating of Financing of Terrorism**

The international community's concern on money laundering started in the 1980's on the onset of financial liberalization occasioning free flow of capital movement. In response to mounting concern over money laundering, three important events or actions took place in the later part of that decade. These were:

- The United Nations Convention Against Illicit Trafficking of Drugs and Psychotropic Substances held in Vienna in 1988

  The purpose of the Vienna Convention was to promote co-operation among the members of United Nations so that they could address more effectively the various aspects of illicit trafficking in narcotic drugs and psychotropic substances, including money laundering.

- The Basel Committee on Banking Supervision's statement of principles on money laundering in 1988

- The statement aimed at sensitizing the banking fraternity on the pitfalls of money laundering and also recommended the best practices to minimize incidents of money laundering in the banking systems. In October 2001, the committee issued a final document on Customer Due Diligence as a guide to banks.

- **Financial Action Task Force (FATF) established by G-7 in 1988**
  FATF is an inter-governmental, multi-disciplinary body whose task is to develop and promote policies, both at national and international levels, to combat money laundering. FATF has issued forty recommendations on anti-money laundering.

  Following the terrorist attack on United States of America on September 11, 2001, FATF has expanded its mission beyond money laundering to include combating of financing of terrorism. In this regard, FATF has issued eight special recommendations, which are aimed at denying terrorists and their supporters access to the international financial system. The eight recommendations commit members to:

  - Take immediate steps to ratify and implement the relevant United Nations instruments.
  - Criminalize the financing of terrorism, terrorist acts and terrorist organizations.
  - Freeze and confiscate terrorist assets.
  - Report suspicious transactions linked to terrorism.
  - Provide the widest possible range of assistance to other countries' law enforcement and regulatory authorities for terrorist financing investigations.
  - Impose anti-money laundering requirements on alternative remittance systems.
  - Strengthen customer identification measures on international and domestic wire transfers.
  - Ensure that entities, in particular non-profit organizations, cannot be misused to finance terrorism.

  To achieve the objective of combating financing of terrorism, FATF will intensely co-operate with its regional affiliates like Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) to which Kenya is a member, amongst other organizations. The World Bank and International Monetary Fund have also joined in the war against money laundering and combating financing of terrorism. In April 2001, the two institutions incorporated assessment of adequacy of anti money laundering programmes in their country assessments including Financial Sector Assessment Programme (FSAP).

The FATF expanded its mission to include combating of financing of terrorism after the terrorist attack on the U.S.A.

4.5.3 **USA Patriot Act 2001**

Following the September 11 terrorist attack on USA, President George W Bush issued an executive order urging the world community to combat terrorism. The first list of persons and organisations perceived to be terrorists accompanied the order. Later in the year, the

USA legislature enacted the Uniting and Strengthening America by Promoting Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act 2001. The aim of the Act is to Protect Americans from terrorist activities.

Existence of shell companies in other jurisdictions with ability to transfer funds to USA has been identified as one of the many loopholes used by terrorists to finance their activities. The Act therefore requires that banks dealing with American banks should be identified through physical places of business and principle shareholders. The Kenyan banks dealing with USA banks were requested to complete a questionnaire with a view to establishing their identities in the above respects.

The Act also empowers the US Treasury to circulate the list of suspected terrorists with a view to blocking their finances. Several lists have since been circulated to Kenyan banks through the Central Bank of Kenya.

4.5.4 **Diplacement Factors**

Money laundering and terrorism financing can occur anywhere in the world. However, criminals tend to seek out jurisdictions, where the risk of detection is low. Each country has it own unique weaknesses and strength that assist or inhibit the criminals from operating within its borders. The following are weaknesses within our jurisdiction.

Absence of legislation encourages money laundering activities

- **Cash based economy:** Kenya, like most of the developing countries, does not have elaborate financial system. Most of the transactions are conducted in cash and may never pass through financial intermediaries. Consequently, monitoring such transactions is difficult.

- **Parallel Banking Activities/Alternative Remittance Practice:** Existence of parallel banking activities encourages money laundering and financing of terrorist activities. Parallel banking units are able to "wire" funds to and from other jurisdictions without going through the formal banking system.

- **Lack of comprehensive legislation:** Most of the criminal activities that encourage money laundering and financing of terrorism are specified as criminal activities under various legislations. However, money laundering is not considered as criminal activity except for proceeds from narcotic drugs and psychotropic substances. Absence of legislation to cut off the profits of money laundering may encourage criminals to participate in the practice.

- **Lack of capacity among judicial officers:** Money laundering and financing of terrorism are so intricate that few prosecutors and magistrates really understand them. As a result, few cases if any are successfully prosecuted. Lack of successful prosecution will undoubtedly encourage these criminal activities.

- **Corruption among public officers:** Money laundering involves huge sums of money, which is often used to bribe public officers either to look the other way or to assist the criminals to achieve their goals.

4.5.5 Local developments in the fight against financing of Terrorism and Money Laundering

Kenya has recognised the negative effects of money laundering and financing of terrorism, having severely suffered the consequences of August 7, 1998 "bomb blast." The following are actions and initiatives by various stakeholders to combat the twin problems of money laundering and financing of terrorism.

- **Central Bank Circulars:** Central Bank of Kenya had as early as 1989 issued a circular to all banking institutions urging them to be vigilant when entering business relationships. In 1995, two circulars were issued; one specifying suspicious transactions and the other on the minimum details for operating of new accounts. The banks were advised to strengthen their procedures to ensure that they comply with the requirements of the circulars.

- **Phasing out of Bearer Certificates of Deposits:** Prior December 1999, Bearer Certificates of Deposits (BCD's) were valid deposit instruments. The instruments encouraged anonymity of the holders of value deposits and thus encouraged money laundering in the system. Central Bank outlawed these instruments with effect from December 31, 1999.

CBK issued a prudential regulation on money laundering.

- **Establishment of Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG):** Countries in the East and Southern Africa region established the Task Force in 1999 and Kenya joined the group during its formation. The group is designed along the principle of FATF and is aimed at achieving the same objectives.

- **Anti-Money Laundering Prudential Regulation:** Central Bank of Kenya issued a prudential regulation on money laundering with effect from October 1, 2000. The guideline is tailored to comply with Know Your Customer (KYC) principles as expounded by the Basel Committee on Banking Supervision.

- **Formation of the National Task Force on Anti-Money Laundering:** Money Laundering and financing of terrorism activities do not only cut across boundaries but also across disciplines. Upon this realization, a national multi-disciplinary Task Force was set up on February 26, 2002. The membership of the Task Force headed by Ministry of Finance and Planning, comprises of senior officers from law enforcement agencies, legal authorities as well as the financial establishments. The initial role of the task force is the development of appropriate legislation and institutional framework to fight the two menaces.

- **Establishment of Anti-terrorism units:** The law enforcement agencies within the relevant Acts of Parliament to monitor terrorist activities and take appropriate actions to thwart their plans. Anti-terrorism legislation has not been drafted but terrorism and its activities are outlawed by the country's penal code.

4.6 Developments in the Micro Finance Sector

4.6.1 Overview

Kenya has many established programs for micro enterprises through NGOs, Savings and Credit Co-operatives (SACCOs) and other formal financial institutions, such as commercial banks and building societies. Most of the programs have focused on group lending methodologies, while a smaller number have introduced individual loan products. Many of the group lending programs are well established and account for most of the lending in the micro and small sector. These programs are continuing to grow, as the demand for participation in group lending is still much greater than the supply.

Kenya has many established programs for micro enterprises

Many of the NGOs have focused on maximizing the number of clients that they are able to assist. Thus, their objective is often to make smaller loans rather than few large loans. Also, some of the formal institutions have kept the loan amounts low to minimize the risk per borrower, as the loans are often unsecured. Many of the NGOs have a minimal amount of capital, so they must grow their lending portfolios slowly. As they cannot mobilize deposits and they typically cannot afford to borrow at normal commercial bank rates, they are often forced to rely upon donor funding.

Some of the financial institutions moving into this market are the Co-operative Bank of Kenya, Equity Building Society and K- REP with individual lending products. The Co-operative Bank has an individual lending product especially designed for borrowers needing loans between Ksh.15,000 and Ksh.300,000. Equity Building Society has also been aggressively moving into this market in Kenya and making micro finance loans. The average size loan disbursed is around Ksh.45,000. K-REP, long a significant lender under the group lending methodology has begun lending to individual customers. Many of the NGOs are also evaluating ways to move into this market.

4.6.2 **Supervision and Regulation of Micro Finance Institutions**

In Kenya like in many other countries, approaches to regulation of MFIs are complicated by the fact that many institutions are involved in providing micro finance 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 ongoing discussion on the appropriate framework to regulate the micro finance sector takes cognisance of the diversity of institutions in the sector and has recommended a tiered approach as under:

- **First tier – Informally Constituted MFIs**
  Informally constituted MFIs like rotating savings and credit associations (ROSCAs), club pools, financial services associations **should not be regulated by an external agency**. Donors, commercial banks and government agencies from which they obtain funds or that support them should carry out due diligence and make informed decisions about them.

- **Second tier –Formally Constituted Credit-Only MFIs**
  Formally constituted micro finance organizations that do not accept deposits from the general public but accept cash collateral tied to loan contracts could be regulated and supervised by a **self-regulatory** (umbrella) body like Association of Micro finance Institutions (AMFI). The proposed legislation could empower it (AMFI) to enforce compliance with its laid down regulations.

- **Third tier –Formally Constituted Deposit-taking MFIs**
  The **Micro Finance Act** could empower the Central Bank of Kenya to license, regulate and supervise formally constituted micro finance institutions intending to **take deposits** from the general public.

The proposed Micro Finance Act seeks to empower CBK to license and supervise Tier III MFIs

4.6.3 **Coordinated Policy Framework for Supervision of Second tier Organisations**

Apart from the discussions going on on development of a regulatory framework for microfinance institutions, effective supervision of other financial intermediaries including the savings and credit cooperative societies (SACCOs) as well as the Kenya Post Office Savings Bank (POSTBANK) is being considered. A Task Force to evaluate and advise on the appropriate framework for the supervision of these organisations has been formed.

Chapter 5

Risk Management in banks

5.1 Overview

The ever changing business environment characterised by globalisation and deregulation has presented the banking sector with great challenges, which call for sound management systems capable of early identification, measuring, monitoring and controlling the various banking risks. These risks include credit, currency, liquidity, interest rate and operational risks. A bank dealing in any one product or line of business is likely to be faced with interrelated risks. For instance, a bank dealing in foreign currency will primarily be faced with currency risk and additionally with liquidity and interest rate risks if it carries an open position. An integrated approach is therefore called for in management of banking risks.

The changes in the business environment presented challenges to the banking sector that call for sound risk management systems.

5.1.1 Institutions' role in risk management process

In order to effectively manage their risks, banks require risk management processes that cover the four critical aspects of management oversight, policies and procedures, measurement and internal controls, as described below.

- **Management oversight**
  Shareholders have the cardinal role of ensuring that persons of integrity and competence are appointed to the Board. The Board and management are primarily responsible for setting up the required risk management systems. Together with the executive management, the Board is further responsible for setting up appropriate policies and procedures. The institution's management sets up the necessary risks management and control systems capable of accurately identifying, measuring, monitoring and managing various risks.

  The role of internal auditors is critical, as they provide the Board and Management an independent evaluation of the adequacy of internal controls in place, and the level of compliance with the policies and procedures set out. By reporting through the Board audit committee, independence of the Audit function is ensured.

  External auditors, who are appointees of the shareholders, provide a further independent evaluation of the risk management system, compliance with the policies and procedures, regulations as well as the relevant standards.

- **Policies and procedures**
  For policies and procedures to be effective, they need to be documented, be comprehensive and cover all the business risks, be effectively communicated in the organisation and be periodically reviewed for compliance and relevance. Appropriate exposure limits should also be set.

- **Risk Measurement, Monitoring and Management information systems**
  The risk management information system should be capable of accurately measuring, monitoring and reporting on a timely basis the risks in the various business lines. The system must be adequately documented, address all material risks and be capable of independent validation. Reports should be comprehensive and be made accessible to relevant users.

The risk management information system should be capable of accurately measuring and reporting risks

- **Internal controls**
  For the internal controls to be effective, there must be an appropriate organisational structure which provides for segregation of duties between the risk control and the risk management functions. Setting up appropriate controls as well as compliance procedures is also required.

5.1.2 Supervisory role in risk management process

In the risk management process, the supervisor's role is to ensure that banks operate in a safe and sound manner, that they manage the risks associated with their operations adequately, and that they hold sufficient capital and reserves to support these risks. The supervisor is therefore expected to focus on.

- Gathering detailed information on the bank with a view to understanding its key business lines, functions, structures and operations.

- Assessment of the inherent risks in the various business activities, adequacy of the existing management systems to measure and monitor the business risk, the impact of external factors and the composite inherent risk and risk control ratings for each functional business line.

- Developing a supervisory plan based on the risk assessment and direction of the organisation.

- Defining examination areas taking into account work done by internal and external auditors and modifying the examination scope.

5.1.3 Challenges to sound risk management in Kenya

In many banks, the capacity to appropriately measure, monitor, assess and control risks is inadequate, as manifested by

- Lack of appropriate systems that can accurately monitor compliance with internal control policies and limits on a timely basis.

- Risk control functions and business operations are not well segregated, leading to conflict of interest in risk management.

- The presence of Board members who do not posses sufficient skills and knowledge to understand banking risks, renders the Board less effective in risk management.

- There are limited sources of good information especially on credit. External credit rating agencies are yet to be fully functional while many banks are yet to develop internal models for risk assessment.

- Customers who at times give dishonest/inaccurate financial information.

5.2 Management of specific risks and challenges for Kenyan banking institutions

5.2.1 **Credit Risk**

Importance of credit risk management

Credit risk is the risk to earnings or capital arising from an obligor's failure to meet the terms of any contract with the bank or failure to perform as agreed. It features in all activities where success depends on counter party, issuer or borrower's performance. In Kenya, poor credit risk management, exhibited in inadequacies in credit analysis and administration, has been the main cause of the large number of bank failures witnessed in the last two decades.

Poor credit risk management has been the main cause of the large number of bank failures witnessed in the last two decades.

Principles of prudent credit risk management

For effective credit risk management, both the Board and the management are required to set up policies and procedures, which at a minimum, should address the following:

- Parameters for composition and spread of the credit portfolio, to avoid concentration to any one product type, economic sector, industry, customer, group of customers or geographical region;

- Credit approval limits for various management levels and committees;

- Collateral standards, taking into consideration collateral type, quality, margins and marketability;

- Underwriting standards, specifying credit administration, credit risk analysis and credit granting criteria procedures;

- Exposure limits to un-funded commitments (commercial and standby letters of credit and lines of credit);

- Limits on non-performing loans, resolution strategies and adequacy of provisions for bad and doubtful debts;

- Type and frequency of management information.

- Staff with the necessary skills.

Operational risk is most critical in the business lines with high volumes, high turnovers, and high degree of structural change and/or complex support systems, and in the business lines with low margins.

5.2.2 **Operational Risk**

Importance of operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. Focus on this risk has gained momentum in the recent past as a result of new developments such as the use of sophisticated technologies, the growth of e-commerce, large scale mergers and acquisitions, the shift by banks to large-scale volume service providers, use of financial techniques that reduce credit and market risk but which increase operational risk.

Operational risk is associated with all business lines and the magnitude may vary across business. Most international banks have identified operational risk as most critical in the business lines with high volumes, high turnovers, and high degree of structural change and/or complex support systems, and is most prevalent in business lines with low margins.

Many banks globally have taken up the challenge to measure operational risk for the following reasons:

- It is a prerequisite for risk management on more consolidated basis and in determination of capital adequacy.

- It is a useful tool for risk focused management reflecting inherent risk on business lines and allocating resources on priority business lines where inherent risks are relatively high and risk management levels are relatively weak.

- It provides business line managers with incentives for enhancing operational risk management as opposed to merely optimising profit.

Monitoring operational risk will involve monitoring of operational performance measures such as volume, turnover, settlement failure, delays or errors. It may also involve measuring operational losses directly with analysis of each occurrence and a description of the nature and causes of the loss provided to senior managers or the board of directors.

Measurement of Operational Risk by banks in Kenya

The concept of operational risk is not totally new in Kenyan banks. Many banks, are aware of this risk, as evidenced by the measures they have taken to mitigate against losses that arise from it. The internal controls set up by banks, establishment of internal audit functions, robust staff recruitment and training policies are but a few measures designed by management to address operational risks. What is new in our banking system is the idea of quantifying operational risk for the purpose of allocating capital.

5.2.3 Liquidity Risk Management

Liquidity is the ability to honour obligations or fund commitments as they fall due. Prudent liquidity management therefore aims at meeting maturing obligations on a timely and cost effective manner.

Internal controls, internal audit functions, robust staff recruitment and training policies are but a few measures designed by management to address operational risks.

Banks maintain their liquidity through accessing new funds or unwinding specific exposures. The provisions of both section 19 of the Banking Act and Prudential Regulation on Liquidity Management are used to determine the liquidity of institutions.

Liquidity Management Policies

Institutions' ability to access markets for new funding or unwind specific exposures is a function of their liquidity strategies, market conditions as well as their financial conditions. The liquidity strategy for banks must outline specific policies on key areas of liquidity management, such as: -

- **Composition of assets and liabilities**
  The composition of key components of the balance sheets such as loans and deposits have direct and immediate impact on liquidity. It is therefore imperative to establish limits for parameters that enable monitoring of loans and deposits. Such parameters include loans to deposits and loans to assets ratios. The upper limits on these ratios should be set by management based on their investment portfolio strategy, past experiences and prevailing market conditions.

- **Management of liquidity in different currencies**
  Banks that are active in foreign exchange market require to set limits on the extent to which foreign currency may be used to fund domestic assets or local deposits may fund foreign assets.

- **Reliance on certain financial instruments**
  Diversification of funding sources and assets is mandatory for prudent management of liquidity. In this case, limits on key financial instruments are crucial.

- **Liquidity and marketability of assets**
  The banks' management have the responsibility of setting limits on levels of various categories of assets, depending on the extent of banks' ability to convert them to cash in order to meet maturing obligations.

5.2.4 **Interest Rate Risk**

Interest rate risk can be defined as the change in earnings that result from changes in interest rates **(earnings at risk)** or as a change in the theoretical market value of the institutions **(economic value at risk).**

Re-pricing risk is also referred to as mismatch risk, gap risk or duration risk. It arises from timing differences in the maturity (for fixed rate) and re-pricing (for floating rate) of bank assets and liabilities.

Causes of Interest Rate Risk

There are primary and secondary causes of interest rate risk. Primary risks directly impact on the profits of an organisation. Secondary risks are the risks that errors in interest rate measurement process results in less than optimal decisions. Primary causes include re-pricing risk, yield curve risk, basis risk and option risk while secondary causes are measurement risk, reporting risk and decision process risk

Re-pricing risk is also referred to as mismatch risk, gap risk or duration risk. It arises from timing differences in the maturity (for fixed rate) and re-pricing (for floating rate) of bank assets and liabilities. Re-pricing risk can put banking institutions out of business as happened in the United States in the 1970's.

Yield curve risk is the risk to earnings and economic value resulting from unexpected changes in the spread between two or more rates for different maturities from the same type of instruments. Usually banks have longer maturities for their loans and investment assets than they do for the shares and other liabilities. While this introduces re-pricing risk, it also represents yield curve risk.

Basis risk is the risk to earnings and economic value resulting from unexpected changes in the spread between two or more different rates. If a bank has most of its assets (loans) priced on a certain basis say London Interbank Borrowing Rate (Libor), it has more basis risk than other risks.

Option risk on the other hand arises from the option embedded in many bank assets, liabilities and off-balance sheet items. An option provides the holder the right, but not the obligation to buy, sell or in some manner alter the cash flow of an instrument or financial contract. Types of options include deposit and prepayment products.

Effects of Interest Rate Risk

Changes in interest rates can have adverse effects both on a bank's earnings and its economic value. From the earnings perspective, the focus of analysis is the impact of changes in interest rates on accrual or reported earnings. This is the traditional approach. Reduction in earnings or outright losses can threaten financial stability of an institution by undermining its capital adequacy, shaking market confidence and weakening liquidity.

From the economic value perspective, an instrument represents an assessment of the present value of its expected net cash flow, discounted to reflect market rates. The economic value of a bank can be viewed as the present value of a bank's expected net cash flows on assets, liabilities plus net cash flows on off-balance sheet positions. The above means that the economic value perspective reflects one view of the sensitivity of the net worth of the bank to fluctuations in interest rates.

Banks should clearly define the individuals and/or committees responsible for managing interest rate risk .

Management of Interest Rate Risk

The Board of Directors should approve strategies and policies with respect to interest rate risk management and ensure that senior management takes the steps necessary to monitor and control these risks. The board of directors should be informed regularly of the interest rate risk exposure of the bank in order to assess the monitoring and controlling of such risk.

Banks should also clearly define the individuals and/or committees responsible for managing interest rate risk and should ensure that there is adequate separation of duties in key elements of the risk management process to a avoid potential conflicts of interest.

There is need for banks to have risk measurement, monitoring and control functions with clearly defined duties that are sufficiently independent from position-taking functions of the bank and which report risk exposures directly to senior management and the board of directors. Larger or more complex banks should have a designated independent unit responsible or the design and administration of the bank's interest rate risk measurement, monitoring and control functions.

It is also important that banks identify the risks inherent in new products and activities and ensure these are subject to adequate procedures and controls before being introduced or undertaken. The board or its appropriate delegated committee should approve major hedging or risk management initiatives in advance. Banks should measure their vulnerability to loss under stressful market conditions including the breakdown of key assumptions-and consider those results when establishing and reviewing their policies and limits for interest rate risk.

Information for supervisory authorities

Supervisory authorities should obtain from banks sufficient and timely information with which to evaluate their level of interest rate risk. This information should take appropriate account of the range of maturities and currencies in each bank's portfolio, including off-balance sheet items, as well as other relevant factors, such as the distinction between trading and non-trading activities.

5.2.5 Currency Risk Management

Currency risk is defined as the risk that a bank may suffer losses as a result of adverse exchange rate movements during the period in which it has an open position, either spot or forward, or a combination of the two in an individual foreign currency. Banks engage in foreign exchange business for purposes of spreading risks to other currencies, speculation international trade mainly for their customers.

Supervisory authorities try to regulate the banks' foreign exchange trade in order to ensure that their solvency and liquidity is not threatened.

Foreign exchange risk can cause a bank to incur large losses within a very short time. It is for this reason that supervisory authorities try to regulate the banks' foreign exchange trade in order to ensure that their solvency and liquidity is not threatened. The risk is compounded by the expansion of international trade and capital flows. While the only risk peculiar to foreign exchange business is the exchange rate risk, there are other risks such as the interest rate risk, which arises from the maturity mismatching of foreign currency positions.

Volatility of foreign exchange rates therefore means sudden and significant changes in the amount of risk to a bank's capital. Advanced communications technology and the availability of highly level-edge financial instruments e.g. swaps, options make it possible to accumulate and move huge currency positions globally in a matter of seconds.

Banks using credit risk derivatives should disclose a breakdown of the type of instrument used, notional and fair values and the amounts of credit risk bought and sold including the potential future exposure and the replacement cost of non-performing derivatives.

Chapter 6

The New Basel Capital Accord

6.1 Background

The capital of a bank provides the permanent cushion for the banking business risk being taken by an institution. It absorbs the losses when they occur and its adequacy is therefore an important factor in assessing the safety and soundness of any institution as well as its growth potential.

6.2 The 1988 Capital Accord

The focus of the 1988 Capital Accord is assessment of capital in relation to credit risk. In assessing the overall credit risk, the Accord recognises that there exist different risk levels within the asset portfolio, hence the necessity of allocating risk weights appropriately when assessing capital. The default risk weights range from 0% to 100% on both on and off-balance sheet items. On balance sheet assets that attract a zero risk weight are cash, balances with Central Banks, Investments in Treasury Bills, Treasury bonds and other government promissory notes. A 20% risk weight is allocated to deposits due from Commercial Banks, Financial Institutions, Mortgage Finance Companies and Building Societies. Loans and advances guaranteed by the Government and interest receivable on placements with other institutions are also allocated a credit risk of 20%. A 50% risk weight is allocated to loans secured by residential mortgage and 100% risk weight for all other claims on the public and private sector facilities not covered in the above-mentioned categories.

The capital of a bank provides the permanent cushion for the banking business risk being taken by an institution.

For off-balance sheet exposures, the Accord allocates capital on a scale of 0% risk weight for assets such as short term commitments fully secured by cash, 20% risk weight for short-term self-liquidating trade related contingencies arising from movement of goods, 50% on certain transactions related to contingent items and other commitments with original maturity exceeding one year (e.g. performance bonds), and a risk weight of 100% for direct credit substitutes such as guarantees, acceptances and forward exchange contracts.

The Accord concludes that 50% of the bank capital base should consist of core capital (i.e. shareholders' funds and reserves) and 50% supplementary capital (general provisions, revaluation reserves and loan capital). The ratio of core capital to risk weighted assets was set at 8%.

The requirements of the 1988 Accord have been provided for in Section 18 of the Banking Act and have so far served as a good measure of capital adequacy. However, the Accord has several weaknesses, including the fact that:

- It focuses only on credit risk, thus ignoring risk areas of major concern in the industry today, such as operational and market risks.
- The broad classification of risk weights from 0-100% leads to excessive capital allocation with regard to some customers because the credit risk profiles are not analysed with a view to obtaining the accurate risk level for each category of exposure.
- The Accord did not provide incentives for credit risk mitigating factors, such as collateral recognition, in order to accurately evaluate the level of risk exposure.

In order to address these limitations, the Basel Committee is drawing up the proposed New Capital Accord.

6.3 Proposed New Capital Accord

The proposed framework aims at promoting stability and soundness of financial system by being more risk sensitive.

The proposed framework aims at promoting stability and soundness of financial system by being more risk sensitive. It intends to align regulatory capital requirements to the underlying risks and provide banks and supervisors with several options of assessing capital adequacy. Emphasis is placed on the bank's own internal control and management in assessing its risk profile. The Accord has a framework of three mutually reinforcing pillars, namely Minimum Capital Requirements, Supervisory Review Process, and Market Discipline.

6.3.1 Pillar I:- Minimum Capital Requirements

This Pillar sets out the regulatory minimum capital in terms of amounts and proportions of core and supplementary capital an institution must have and maintain in order to be in banking business. It also sets out the minimum target ratios that a bank must maintain given the total capital on one hand and the weighted credit, operational and market risks it is exposed to.

Credit Risk

The three approaches of measuring the credit risk for purposes of accurate allocation of capital are:

- The Standard Approach that largely follows the 1988 Accord but widens the risk weight bands from the current 0%-100% to 0%-150%.
- The Foundation Internal Rating Based Approach where the bank uses its internal risk management in allocating risk to its assets profile based on acceptable credit rating models.

- The Advanced Internal Rating based approach in assessing credit risk.

On the whole, credit risk mitigation factors are taken into account when assessing the institutions' total risk exposure and allocation of capital.

Operational Risk

Operational risk is the probable loss due to inadequate or failed internal processes, people or systems. It is measured for purposes of capital allocation using either:

- the Basic Indicator Approach;
- the Standard Approach; or
- the Advanced Measurement Approaches.

Market Risk

Market risk is risk of loss for on and off-balance sheet positions arising from movements in market prices. It covers interest rate risk and currency risk and is measured for purposes of capital allocation using either:

- the Internal Models approach or
- Standard method

6.3.2 Pillar II: Supervisory Review Process

In the supervisory review process, supervisors require that each bank puts in place sound internal risk management processes to assess the adequacy of its capital based on a thorough evaluation of its risks profile and control environment. This internal process will be subject to a continuous supervisory review, requiring banks to hold capital in excess of the absolute minimum prescribed and bring out:

- Individual institutions' issues not covered by Pillar 1;

- Capital risks such as interest rate, strategic and reputational risks facing the institution;

- Factors external to the institution that may impact on capital e.g. business cycles; and

- Level of compliance with the various operational and disclosure standards associated with the use of advanced approaches for credit and operational risk measurement or the use of particular credit risk mitigation techniques.

Supervisors will be expected to intervene early in case an institution's capital level does not provide sufficient buffer against risks.

In Pillar II, supervisors require that each bank puts in place sound internal risk management processes.

6.3.3 Pillar III: - Market Discipline

The market discipline pillar is proposed for purposes of enhancing transparency and best practice in handling the affairs of banks. It is achieved through enhanced disclosure by banks to include the way they calculate capital adequacy and risk assessment methods. The market discipline pillar is supposed to act as a lever to strengthening the safety and soundness of institutions by:

Pillar III requires enhanced disclosure by banks for market discipline.

- Complementing requirements of Pillar I and II.
- Providing banks with incentives to maintain strong capital base.
- Releasing reliable and timely information to allow for founded counter party risk assessment.

The four major areas of disclosure are:

- The extent of application of the quantitative and qualitative information within the Basel framework;
- The nature and component of capital;
- The nature of the institution's risk profile and the adequacy of their capital position; and
- Capital adequacy, both in terms of regulatory and economic capital needs.

The above requirements are not meant to overburden banks with incremental costs of making the disclosures, in many cases banks are already in possession of this information. An appropriate balance between meaningful disclosure and prevention of confidential information will be observed.

6.3.4 Anticipated challenges arising from the New Capital Accord

The main challenges to the banking sector arising from the provisions of the New Capital Accord include:

- Due to its complexity, the Accord is not easy to implement, particularly with respect to the Internal Rating Based approaches. It is felt that even the standardized Approach needs to be further simplified.
- The requirement for the bank to gather data and quantify their loss experiences arising from credit risk for a period of between 2 to 5 years presents an enormous challenge to both the banking sector and the regulators.

- Capital calculation will be dependent on the quality of the data which must be subject to external verification, regulatory scrutiny and transparency requirement. There will therefore be need for systems and organisational changes necessary to achieve the required standards.

- The development of models which are capable of providing outputs that are comparable and consistent across borrowers and time horizons is a major challenge which the banks need to address through either training staff on the necessary skills or outsourcing where such skills cannot be internally developed.

- The new accord presupposes existence of external rating agencies. These agencies will have to be developed in Kenya, if the standardised approach is to be implemented.

The new accord presupposes existence of external rating agencies.

The board in conjunction with the senior management will require to review their strategies so as achieve an optimum and economical utilisation of the capital employed through sound risk management.

Glossary

1. **Substandard accounts**: These are credit facilities that involve some degree of risk of loss due to late payments with a possibility of future loss. As at 31 December 2001, these facilities amounted to Ksh 18.4 bn, which constituted 17% of Gross NPLs. Interest accrued on these accounts is suspended as it is not usually collected and no specific provisions are made.

2. **Doubtful accounts**: These are facilities with major weaknesses which indicate that recovery of the outstanding balance in full is doubtful. They amounted to Ksh 53.3 bn, and constituted 49% of Gross NPLs. Interest accrued on such accounts is suspended and the shortfall between the outstanding balance net of interest suspended and the realizable value of securities held is provided for.

3. **Loss accounts**: These are facilities whose outstanding balances are considered uncollectable because security held are either worthless or have been sold and proceeds of which did not cover the outstanding balance with the balance remaining being unlikely to be recovered. The total figure as at 31 December 2001 was Ksh 37.7 bn, or 34% of Gross NPLs. The entire balance, net of interest suspended is provided for in full.

4. **Gross NPLs:** Sum of outstanding balances for substandard, doubtful and loss accounts gross of interest suspended and specific provisions.

5. **Total NPLs:** Gross NPLs net of interest suspended.

6. **Net NPLs:** Total NPLs net of specific provisions held. (general provisions are not netted off).

7. **Net NPLs Exposure**: Net NPLs less realizable value of securities held against such NPLs.

8. **Gross loans:** Sum of all outstanding loan balances gross of interest in suspense, specific and general provisions.

9. **Total loans:** Gross loans less interest in suspense.

10.	**Net loans:**	Total loans less specific and general provisions.
11.	**Gross provisions:**	Sum of interest in suspense, specific and general provisions.
12.	**Total provisions:**	Sum of specific and general provisions.
13.	**Capital Adequacy**:	$\dfrac{\text{Total capital}}{\text{Total Risk Weighted Assets + Contingencies}}$
14.	**Asset Quality:**	$\dfrac{\text{Net Non-performing Loans}}{\text{Gross Loans}}$
15.	**Earnings:**	$\dfrac{\text{Profit before Tax}}{\text{Gross Assets + Contingencies}}$
16.	**Liquidity:**	$\dfrac{\text{Net Liquid Assets}}{\text{Net Deposit Liabilities}}$

Exchange Rates (December 2001)

US$	=	Kshs 78.6865
Euro	=	Kshs. 70.2376

Organisational Structure of Bank Supervision Department

DIRECTOR
Mr. John Murugu

DEPUTY DIRECTOR
Mr. J.M. Kitili

INSPECTION DIVISION
Mr. F.P.K. Pere

FUNCTIONS

Carries out on-site inspections to:

1. Evaluate the financial condition of banking institutions.
2. Appraise the quality and competence of management
3. Review adequacy of the system of internal controls.
4. Confirm compliance with the Banking Act, Prudential Regulations and other relevant laws.
5. Identify weak and problem-matic areas and make recommendations for corrective action.
6. Verify the accuracy of the prudential returns and other information submitted to the Central Bank.

FINANCIAL ANALYSIS DIVISION
Mr. W. Nyagaka

FUNCTIONS

DATA BANK

1. Collects statutory returns and captures information on electronic database
2. Data processing and production or reports for analysis.

ANALYSIS

3. Analyses off-site reports.
4. Design and development of reports.
5. Co-ordinates matters pertaining to institutions under statutory management.
6. Conducts follow-up on inspections
7. Co-ordinates training for the department.
8. Prepares and monitors departmental budget

POLICY DIVISION
Mr. P.K. Muhindi

FUNCTIONS

1. Formulates new and reviews existing legislation and prudential regulations.
2. Processes applications for renewal of annual licences, new places of business, relocations and closure of places of business.
3. Liaises with the regional and international organisations on banking supervision, such as ESAF and Basel Committee.
4. Liaises with domestic financial intermediaries and regulators e.g. RBA, KRA, Insurance Agencies, etc.
5. Carries out technical studies on current supervisory issues.
6. Analyses and advises on new products/instruments
7. Processes approvals of external auditors, shareholders and appointed directors.
8. Handles general correspondence with banking institutions, building societies and other external parties.
9. Conducts follow-up on inspections
10. Handles departmental registry and maintains technical library.

MICROFINANCE DIVISION
Mr. G.O. Omino

FUNCTIONS

1. Development of micro finance legislation and prudential guidelines
2. Processes applications for new and renewal of annual licences for forex bureaus.
3. Conducts inspection of forex bureaus
4. Processes approval of appointment of Principal Officers of forex bureaus.
5. Analyses returns submitted by forex bureaus.
6. Handles matters relating to CMA, Reference Bureaus, Credit Rating Agencies and SACCOs.
7. Analyses returns submitted by forex bureaus/micro finance institutions.

Banking Sector Global Balance Sheet Analysis As At December 2001 & December 2000.

Figures in Kshs. million

	AUDITED DECEMBER 2001				AUDITED DECEMBER 2000				
	BANKS	NBFIs	TOTAL	%	GROWTH	BANKS	NBFIs	TOTAL	%
A. ASSETS									
1. Cash	8,833	110	8,943	2%	-8%	9,698	56	9,754	2%
2. Balances at CBK	26,355	156	26,511	6%	2%	25,625	494	26,119	6%
3. Placements	7,925	2,091	10,016	2%	-31%	10,610	3,926	14,536	3%
4. Government Securities	90,057	2,724	92,781	22%	29%	69,215	2,708	71,923	17%
5. Investments	4,880	106	4,986	1%	31%	3,697	118	3,815	1%
6. Advances(net)	166,677	11,758	178,435	42%	-7%	175,993	16,570	192,563	44%
7. Foreign Loans	36,248	0	36,248	9%	7%	33,736	0	33,736	8%
7.(b) Other foreign Assets	25,751	11	25,762	6%	-26%	34,990	53	35,043	8%
8. Fixed Assets	17,939	669	18,608	4%	0%	17,888	764	18,652	4%
9. Other Assets	22,064	609	22,673	5%	-20%	27,493	904	28,397	7%
10. Total Assets	406,729	18,234	424,963	100%	-2%	408,945	25,593	434,538	100%
B. LIABILITIES									
11. Local Currency Deposits	268,712	14,879	283,591	67%	-13%	307,057	19,646	326,703	75%
12. Foreign Currency Deposits	48,977	0	48,977	12%		-	0	0	0%
13. Accrued Interest	2,880	155	3,035	1%	-20%	3,541	256	3,797	1%
14. Foreign Liabilities	7,697	33	7,730	2%	-18%	9,345	41	9,386	2%
15. Other Liabilities	24,427	670	25,097	6%	-33%	35,666	1,914	37,580	9%
16. Total Liabilities	352,693	15,737	368,430	87%	-2%	355,609	21,857	377,466	87%
17. Net Assets/(Liabilities)	54,036	2,497	56,533	13%	-1%	53,336	3,736	57,072	13%
C. CAPITAL & RESERVES									
18. Paid up/Assigned Capital	28,894	1,675	30,569	7%	-28%	40,276	2,068	42,344	10%
19. Shareholders Loans/Grants	8,204	0	8,204	2%	15%	7,133	0	7,133	2%
20. Reserves	11,584	601	12,185	3%	238%	2,233	1,376	3,609	1%
21. P & L Account	5,354	221	5,575	1%	40%	3,694	292	3,986	1%
22. Total Shareholders' Funds	54,036	2,497	56,533	13%	-1%	53,336	3,736	57,072	13%
23. Contingent Liabilities	75,160	60	75,220		29%	58,224	168	58,392	
24. Gross Loans	264,331	16,386	280,717		-5%	274,233	20,856	295,089	
25. Total Loans	231,655	13,321	244,976		-10%	254,102	18,788	272,890	
26. Gross Non-Performing Loans	100,225	9,133	109,358		-3%	102,173	10,266	112,439	
27. Total Non-performing loans	67,549	6,068	73,617		-18%	82,042	8,198	90,240	
28. Interest in suspense	32,676	3,065	35,741		61%	20,131	2,068	22,199	
29. Specific Provisions	26,263	1,491	27,754		-37%	41,764	2,108	43,872	
30. General Provisions	2,467	72	2,539		-7%	2,609	110	2,719	
31. Total Provisions"	28,730	1,563	30,293		-35%	44,373	2,218	46,591	
32. Gross Provisions"	61,406	4,628	66,034		-4%	64,504	4,286	68,790	
33. Accum. Depreciation	12,104	1397	13,501		19%	10,977	389	11,366	
34. Core Capital	42,647	2,235	44,882		-5%	43,880	3,470	47,350	
35. Total Capital	51,217	2,410	53,627		-6%	53,455	3,812	57,267	
36. Total Risk Weighted Assets	295,545	13,585	309,131		-5%	308,086	18,888	326,974	
D. PERFORMANCE INDICATORS									
37. Capital/Deposits Ratio	16.9%	16.6%	16.8%			17.2%	18.8%	17.3%	
38. Capital/Assets Ratio (Unweighted)	11.2%	13.6%	11.3%			11.4%	14.5%	11.6%	
39. Core Capital/TRWA	14.4%	16.5%	14.5%			14.2%	18.4%	14.5%	
40. Total Capital/TRWA	17.3%	17.7%	17.3%			17.4%	20.2%	17.5%	
41. Core Capital/Total Depoists	13.4%	15.0%	13.5%			14.3%	17.7%	14.5%	
42. Liquidity Ratio	45.5%	30.3%	45.1%			41.8%	28.5%	42.5%	
43. Gross Prov/Gross Non-perf Loans	61.3%	50.7%	60.4%			63.1%	41.7%	61.2%	
44. Gross Non-perf.Adv/Gross Loans"	37.9%	55.7%	39.0%			37.3%	49.2%	38.1%	
45. Total NPLs/Total Loans (27/25)	29.2%	45.6%	30.1%			32.3%	43.6%	33.1%	
46. (Total NPLs-S/Prov.)/Net Loans	20.3%	38.9%	21.4%			19.2%	36.8%	20.5%	
47. Gross Loans/Deposits Ratio	82.5%	109.0%	83.6%			88.3%	104.8%	89.3%	
48. Gross Provisions/Gross Loans	23.2%	28.2%	23.5%			23.5%	20.6%	23.3%	
49. Total Provisions/Total Loans	12.4%	11.7%	12.4%			17.5%	11.8%	17.1%	
50. Total NPL's/Total Assets	16.6%	33.3%	17.3%			20.1%	32.0%	20.8%	

Banking Sector Global Profit and Loss Analysis As At December 2001 & December 2000.

Figures in Kshs. million

	AUDITED DECEMBER 2001					AUDITED DECEMBER 2000			
	BANKS	NBFIs	TOTAL	%	GROWTH	BANKS	NBFIs	TOTAL	%
A. INCOME									
1. Interest on Advances	28,370	1,851	30,221	49%	-15%	32,392	3,134	35,526	52%
2. Interest on Placement	1,668	239	1,907	3%	-43%	2,951	369	3,320	5%
3. Interest on Govt. Securities	10,266	317	10,583	17%	4%	9,845	288	10,133	15%
4. Foreign Exc. Gain/(Loss)	2,909	(1)	2,908	5%	-14%	3,384	7	3,391	5%
5. Other Interest Income	735	0	735	1%	-16%	867	5	872	1%
6. Other Income	14,853	220	15,073	25%	4%	14,205	243	14,448	21%
7. Total	58,801	2,626	61,427	100%	-9%	63,644	4,046	67,690	100%
B. EXPENSES									
8. Interest on Deposits	14,347	1,305	15,652	30%	-20%	17,648	2,027	19,675	30%
9. Other Interest Expenses	1,083	10	1,093	2%	-38%	1,590	181	1,771	3%
10. Occupancy Costs	2,131	72	2,203	4%	-9%	2,303	126	2,429	4%
11. Director's Emoluments	383	5	388	1%	-11%	431	6	437	1%
12. Bad Debts Charge	7,501	245	7,746	15%	-44%	13,050	672	13,722	21%
13. Salaries & Wages	12,950	508	13,458	26%	-12%	14,672	607	15,279	24%
14. Other Expenses	11,467	563	12,030	23%	4%	11,152	427	11,579	18%
15. Total	49,862	2,708	52,570	100%	-19%	60,846	4,046	64,892	100%
16. Profit Before Tax	8,939	(82)	8,857		217%	2,798	0	2,798	
17. No. of Employees	11,465	389	11,854			12,279	543	12,822	
C. PERFORMANCE INDICATORS									
18. Yield on Earning Assets	13.0%	12.2%	12.9%			15.8%	15.0%	15.7%	
19. Cost of Funding Earning Assets	4.6%	6.7%	4.7%			6.1%	8.7%	6.3%	
20. Interest Margin on Earning Assets	8.4%	5.5%	8.3%			9.6%	6.3%	9.4%	
21. Yield on Advances	12.0%	12.5%	12.1%			14.1%	16.8%	14.3%	
22. Cost of Deposits	5.6%	8.8%	5.7%			6.1%	11.2%	6.4%	
23. Return on Assets(Including Contingencies)	1.7%	-0.4%	1.6%			0.6%	0.0%	0.5%	
24. Return on Shareholders Funds	16.5%	-3.3%	15.7%			5.2%	0.0%	4.9%	
25. Overhead to Earnings	58.6%	53.0%	58.3%			65.4%	45.4%	64.2%	
D. RATINGS									
Capital Adequacy	2.00	2.00	2.00			2.00	1.00	2.00	
Asset Quality	5.00	5.00	5.00			4.00	5.00	5.00	
Earnings	3.00	5.00	3.00			4.00	4.00	4.00	
Liquidity	1.00	2.00	1.00			1.00	2.00	1.00	
Composite Score	2.75	3.50	2.75			2.75	3.00	3.00	
Performance Category	Fair	Marginal	Satisfactory			Fair	Fair	Fair	

Market Share: (Net Assets, Net Advances, Deposits, Capital & Profits) December,2001

No	NAME OF INSTITUTION	TOTAL NET ASSETS	MARKET SHARE	NET ADVANCES	MARKET SHARE	TOTAL DEPOSITS	MARKET SHARE	CAPITAL & RESERVES	MARKET SHARE	PROFIT PRE-TAX	MARKET SHARE
1	Barclays Bank of Kenya Ltd	74,178	18.24	45,654	22.50	57,185	18.00	11,401	21.10	4,215	47.15
2	Kenya Commercial Bank Ltd	61,115	15.03	32,554	16.04	48,531	15.28	6,406	11.86	169	1.90
3	Standard Chartered Bank Ltd	54,410	13.38	14,735	7.26	45,409	14.29	4,672	8.65	3,205	35.85
4	Citibank, N.A.	27,710	6.81	12,104	5.96	22,177	6.98	4,015	7.43	699	7.82
5	National Bank of Kenya Ltd	23,956	5.89	18,337	9.04	17,783	5.60	2,457	4.55	(323)	-3.61
6	Co-operative Bank of Kenya	21,338	5.25	13,054	6.43	16,668	5.25	1,992	3.69	(439)	-4.91
7	Commercial Bank of Africa	16,156	3.97	4,346	2.14	13,954	4.39	1,703	3.15	477	5.34
8	National Industrial Credit Bank	8,408	2.07	4,106	2.02	5,571	1.75	2,326	4.30	377	4.22
9	CFC Bank Limited	8,300	2.04	5,283	2.60	5,700	1.79	1,459	2.70	145	1.62
10	Investment & Mortgages Bank	7,100	1.75	3,576	1.76	5,815	1.83	1,078	2.00	101	1.13
11	Stanbic Bank Kenya Limited	6,653	1.64	3,071	1.51	5,620	1.77	754	1.40	(290)	-3.25
12	First American Bank Limited	6,458	1.59	2,926	1.44	5,171	1.63	1,145	2.12	227	2.54
13	Credit Agricole Indosuez	5,794	1.42	2,303	1.13	4,671	1.47	723	1.34	63	0.70
14	Diamond Trust Bank Kenya	5,417	1.33	1,805	0.89	3,969	1.25	1,043	1.93	38	0.43
15	Fina Bank Limited	4,689	1.15	2,714	1.34	4,037	1.27	508	0.94	52	0.58
16	Giro Commercial Bank	4,131	1.02	2,795	1.38	3,614	1.14	375	0.69	30	0.33
17	Middle East Bank of Kenya	4,075	1.00	1,466	0.72	3,206	1.01	677	1.25	80	0.90
18	Bank of Baroda	3,829	0.94	1,208	0.60	3,332	1.05	383	0.71	52	0.58
19	Imperial Bank Limited	3,645	0.90	2,347	1.16	2,958	0.93	525	0.97	148	1.65
20	Development Bank of Kenya	3,630	0.89	1,823	0.90	751	0.24	1,014	1.88	107	1.19
21	Guardian Bank	3,625	0.89	2,589	1.28	2,888	0.91	635	1.18	56	0.62
22	Habib AG Zurich	3,514	0.86	691	0.34	2,951	0.93	354	0.66	113	1.26
23	Akiba Bank Ltd	3,268	0.80	2,236	1.10	2,565	0.81	605	1.12	22	0.25
24	Consolidated Bank of Kenya	3,176	0.78	768	0.38	1,752	0.55	802	1.48	(13)	-0.15
25	Prime Bank Limited	3,163	0.78	1,548	0.76	2,499	0.79	476	0.88	55	0.62
26	Bank of India	3,131	0.77	809	0.40	2,620	0.82	383	0.71	116	1.29
27	African Banking Corporation	2,961	0.73	1,258	0.62	2,450	0.77	352	0.65	41	0.46
28	Habib Bank Limited	2,911	0.72	699	0.34	2,394	0.75	316	0.58	98	1.10
29	Southern Credit Banking Corp.	2,905	0.71	1,202	0.59	1,626	0.51	1,108	2.05	(64)	-0.72
30	Victoria Commercial Bank Ltd	2,760	0.68	1,491	0.73	2,232	0.70	465	0.86	20	0.22
31	Biashara Bank of Kenya Ltd	2,402	0.59	917	0.45	1,923	0.61	376	0.70	71	0.79
32	Co-operative Merchant Bank	2,372	0.58	1,704	0.84	2,519	0.79	-181	-0.33	(366)	-4.09
33	Equatorial Commercial Bank	2,284	0.56	867	0.43	1,832	0.58	372	0.69	27	0.31
34	Charterhouse Bank Limited	1,907	0.47	665	0.33	1,529	0.48	328	0.61	92	1.03
35	Industrial Development Bank	1,862	0.46	1,137	0.56	147	0.05	524	0.97	(221)	-2.48
36	Delphis Bank Limited	1,826	0.45	1,360	0.67	2,374	0.75	-667	-1.23	(518)	-5.79
37	Credit Bank Limited	1,566	0.39	654	0.32	1,153	0.36	348	0.64	38	0.42
38	Transnational Bank Limited	1,550	0.38	885	0.44	770	0.24	640	1.18	221	2.47
39	Euro Bank Limited	1,435	0.35	1,296	0.64	1,148	0.36	31	0.06	(77)	-0.86
40	Paramount-Universal Bank	1,354	0.33	683	0.34	1,032	0.32	268	0.50	12	0.14
41	Fidelity Commercial Bank	1,252	0.31	715	0.35	961	0.30	237	0.44	26	0.29
42	K-REP BANK	1,173	0.29	729	0.36	409	0.13	549	1.02	57	0.64
43	Chase Bank Limited	972	0.24	471	0.23	582	0.18	334	0.62	30	0.34
44	Dubai Bank Limited	820	0.20	294	0.14	489	0.15	296	0.55	10	0.11
45	City Finance Bank	800	0.20	498	0.25	32	0.01	390	0.72	2	0.02
46	Daima Bank Limited	750	0.18	552	0.27	692	0.22	38	0.07	(39)	-0.43
	TOTAL	406,731	100.00	202,925	100.00	317,691	100.00	54,035	100.00	8,941	100.00
	NBFI's / MFC's										
1	Housing Finance Co. of Kenya	11,598	63.61	8,345	70.97	10,153	68.24	968	38.75	-257	318.32
2	Savings & Loan	3,593	19.70	2,285	19.43	2,534	17.03	791	31.67	98	-121.44
3	Prime Capital & Credit	2,148	11.78	1,011	8.60	1,660	11.16	424	16.97	57	-70.64
4	Bank of India Finance	810	4.44	91	0.77	519	3.49	246	9.85	20	-25.19
5	Devna Finance	85	0.47	26	0.22	13	0.09	69	2.76	1	-1.05
	TOTAL	18,234	100.00	11,758	100.00	14,879	100.00	2,498	100.00	-81	100.00
GRAND TOTAL		424,965		214,683		332,570		56,533		8,860	

Source: Published Audited Accounts

Non Performing Loans and Provisions – December 2001

shs.million

NO.	BANKS	1 NON-PERF. LOANS	2 SPECIFIC PROVISIONS	3 TOTAL LOANS	4 NPLs / TTL. LOANS (1/3) %	5 SPECIC PROV./ NPLS (2/1) %
1	Kenya Commercial Bank Ltd.	19,989	6,743	39,569	51	33.7
2	National Bank of Kenya Ltd.	14,582	7,567	26,119	56	51.9
3	Barclays Bank of Kenya Ltd.	5,951	1,032	47,615	12	17.3
4	Co-operative Bank of Kenya Ltd.	5,924	3,481	16,667	36	58.8
5	Delphis Bank Ltd.	1,920	1,127	2,518	76	58.7
6	Co-operative Merchant Bank Ltd.	1,726	805	2,530	68	46.6
7	Standard Chartered Bank Ltd.	1,601	249	15,106	11	15.6
8	Guardian Bank Ltd.	1,466	110	2,716	54	7.5
9	Development Bank of Kenya Ltd.	951	296	2,131	45	31.1
10	Euro Bank Ltd.	930	244	1,543	60	26.2
11	National Industrial Credit Bank Ltd.	923	542	4,702	20	58.7
12	First American Bank Ltd.	913	397	3,347	27	43.5
13	Giro Commercial Bank Ltd.	851	109	2,925	29	12.8
14	Stanbic Bank Kenya Ltd.	793	302	3,400	23	38.1
15	Consolidated Bank of Kenya Ltd.	745	272	1,061	70	36.5
16	Southern Credit Banking Corp. Ltd.	657	299	1,511	43	45.5
17	Industrial Development Bank Ltd.	583	319	1,466	40	54.7
18	Commercial Bank of Africa Ltd.	544	196	4,586	12	36.0
19	Akiba Bank Ltd.	543	192	2,452	22	35.4
20	Fina Bank Ltd.	514	155	2,893	18	30.2
21	Daima Bank Ltd.	480	114	669	72	23.8
22	Investment & Mortgages Bank Ltd.	461	88	3,695	12	19.1
23	City Finance Bank Ltd.	386	68	569	68	17.6
24	Transnational Bank Ltd.	341	95	991	34	27.9
25	Diamond Trust Bank Kenya Ltd.	339	95	1,916	18	28.0
26	Middle East Bank of Kenya Ltd.	300	50	1,528	20	16.7
27	Fidelity Commercial Bank Ltd.	298	94	816	37	31.5
28	Citibank, N.A.	296	162	12,388	2	54.7
29	Paramount-Universal Bank Ltd.	283	93	783	36	32.9
30	Victoria Commercial Bank Ltd.	274	61	1,565	18	22.3
31	Bank of Baroda Ltd.	270	40	1,260	21	14.8
32	Credit Agricole Indosuez	255	186	2,526	10	72.9
33	Imperial Bank Ltd.	235	169	2,563	9	71.9
34	CFC Bank Ltd.	225	62	5,398	4	27.6
35	African Banking Corporation Ltd.	213	66	1,340	16	31.0
36	Equatorial Commercial Bank Ltd.	178	39	917	19	21.9
37	Credit Bank Ltd.	121	22	684	18	18.2
38	Habib Bank Ltd.	107	84	792	14	78.5
39	Prime Bank Ltd.	98	54	1,618	6	55.1
40	Charterhouse Bank Ltd.	87	49	720	12	56.3
41	Dubai Bank Ltd.	69	29	325	21	42.0
42	Bank of India Ltd.	57	34	851	7	59.6
43	Habib AG Zurich	42	34	732	6	81.0
44	Biashara Bank of Kenya Ltd.	24	12	938	3	50.0
45	K-Rep Bank Ltd.	6	4	740	1	66.7
46	Chase Bank Ltd.	1	1	476	0	100.0
	SUB-TOTAL	67,552	26,242	231,657	29	38.8
	NBFI'S					
1	Housing Fin. Co. of Kenya Ltd.	5,212	1,256	9,645	54	1.0
2	Savings and Loan (K) Ltd.	707	181	2,484	28	25.6
3	Prime Capital & Credit Ltd.	130	54	1,075	12	41.5
4	Bank of India Finance Ltd.	19	-	92	21	0.0
5	Devna Finance Ltd.	-	-	26	-	0.0
	SUB-TOTAL	6,068	1,491	13,322	46	24.6
	GRAND TOTAL	**73,620**	**27,733**	**244,979**	**30**	**37.7**
	Adjust: Rounding Error	3	21	3	-	-
	GRAND TOTAL	73,617	27,754	244,976	30	37.7

NB: Specific Provisions exclude General provision
:- NPLS & Total Loans exclude interest in suspense (columns 1 & 3)

Profitability Of Banking Institutions For The Year 2001

shs.million

		1	2	3	4	5
			RETURN ON ASSETS		RETURN ON EQUITY	
NO	BANKS	PROFIT BEFORE TAX	TOTAL ASSETS AND CONTINGENCIES	RETURN ON ASSETS (1/2) %	SHARE-HOLDERS EQUITY	RETURN ON EQUITY (1/4) %
1	Barclays Bank of Kenya Ltd	4,215.49	89,923.00	4.69	11,401.00	36.97
2	Standard Chartered Bank Ltd	3,205.07	67,479.00	4.75	4,672.00	68.60
3	Citibank, N.A.	699.24	41,850.00	1.67	4,015.00	17.42
4	Commercial Bank of Africa Ltd.	477.11	20,374.00	2.34	1,703.00	28.02
5	National Industrial Credit Bank Ltd.	377.04	9,821.00	3.84	2,326.00	16.21
6	First American Bank Ltd.	227.50	8,386.00	2.71	1,145.00	19.87
7	Transnational Bank Ltd.	221.09	2,762.00	8.00	640.00	34.55
8	Kenya Commercial Bank Ltd	169.47	89,904.00	0.19	6,406.00	2.65
9	Imperial Bank Ltd.	147.62	4,370.00	3.38	525.00	28.12
10	CFC Bank Ltd.	145.22	10,569.00	1.37	1,459.00	9.95
11	Bank of India	115.53	3,572.00	3.23	383.00	30.17
12	Habib AG Zurich	112.85	3,946.00	2.86	354.00	31.88
13	Development Bank of Kenya Ltd.	106.66	4,269.00	2.50	1,014.00	10.52
14	Investment & Mortgages Bank Ltd.	101.10	8,848.00	1.14	1,078.00	9.38
15	Habib Bank Ltd.	98.10	3,514.00	2.79	316.00	31.04
16	Charterhouse Bank Ltd.	92.21	2,474.00	3.73	328.00	28.11
17	Middle East Bank of Kenya Ltd.	80.10	5,173.00	1.55	677.00	11.83
18	Biashara Bank of Kenya Ltd	70.81	2,751.00	2.57	376.00	18.83
19	Credit Agricole Indosuez	62.76	8,803.00	0.71	723.00	8.68
20	K-Rep Bank Ltd.	56.89	1,202.00	4.73	549.00	10.36
21	Guardian Bank Ltd.	55.64	4,850.00	1.15	635.00	8.76
22	Prime Bank Ltd.	55.29	3,862.00	1.43	476.00	11.62
23	Bank of Baroda	52.09	4,391.00	1.19	383.00	13.60
24	Fina Bank Ltd.	51.60	5,846.00	0.88	508.00	10.16
25	African Banking Corporation Ltd.	40.94	3,717.00	1.10	352.00	11.63
26	Diamond Trust Bank Kenya Ltd.	38.23	6,232.00	0.61	1,043.00	3.67
27	Credit Bank Ltd.	37.62	1,881.00	2.00	348.00	10.81
28	Chase Bank Ltd.	30.00	1,038.00	2.89	334.00	8.98
29	Giro Commercial Bank Ltd.	29.59	5,272.00	0.56	375.00	7.89
30	Equatorial Commercial Bank Ltd.	27.39	2,677.00	1.02	372.00	7.36
31	Fidelity Commercial Bank Ltd.	25.85	1,517.00	1.70	237.00	10.91
32	Akiba Bank Ltd	22.01	4,527.00	0.49	605.00	3.64
33	Victoria Commercial Bank Ltd	20.01	3,275.00	0.61	465.00	4.30
34	Paramount-Universal Bank Ltd.	12.09	1,771.00	0.68	268.00	4.51
35	Dubai Bank Ltd.	10.15	963.00	1.05	296.00	3.43
36	City Finance Bank Ltd.	1.51	1,008.00	0.15	390.00	0.39
37	Consolidated Bank of Kenya ltd.	(13.14)	4,368.00	(0.30)	802.00	(1.64)
38	Daima Bank Ltd.	(38.81)	1,255.00	(3.09)	38.00	(102.14)
39	Southern Credit Banking Corp. Ltd.	(64.11)	3,936.00	(1.63)	1,108.00	(5.79)
40	Euro Bank Ltd.	(76.90)	2,506.00	(3.07)	31.00	(248.05)
41	Industrial Development Bank Ltd.	(221.38)	2,905.00	(7.62)	524.00	(42.25)
42	Stanbic Bank Kenya Ltd.	(290.44)	8,456.00	(3.43)	754.00	(38.52)
43	National Bank of Kenya Ltd	(322.58)	50,394.00	(0.64)	2,457.00	(13.13)
44	Co-operative Merchant Bank Ltd.	(365.91)	4,242.00	(8.63)	(181.00)	202.16
45	Co-operative Bank of Kenya Ltd.	(439.28)	30,786.00	(1.43)	1,992.00	(22.05)
46	Delphis Bank Ltd.	(518.13)	3,725.00	(13.91)	(667.00)	77.68
	SUB-TOTAL	8,941.15	555,390.00	1.61	54,035.00	16.55
	NBFI'S					
1	Savings and Loan (K) Ltd.	97.95	4,265.00	2.30	791.00	12.38
2	Prime Capital & Credit Ltd.	56.98	2,474.00	2.30	424.00	13.44
3	Bank of India Finance Ltd.	20.32	847.00	2.40	246.00	8.26
4	Devna Finance Ltd.	0.85	86.00	0.99	69.00	1.23
5	Housing Fin. Co. of Kenya Ltd.	(256.76)	15,645.00	(1.64)	968.00	(26.52)
	SUB-TOTAL	(80.66)	23,317.00	(0.35)	2,498.00	(3.23)
	GRAND TOTAL	**8,860.48**	**578,707.00**	**1.53**	**56,533.00**	**15.67**

Core Capital And Risk Weighted Assets – December, 2001

shs "m"

	INSTITUTION	TOTAL CAPITAL	CORE CAPITAL	OVERALL RISK WEIGHTED ASSETS	CORE CAPITAL TO RISK WEIGHTED ASSETS RATIO	TOTAL CAPITAL TO RISK WEIGHTED ASSETS RATIO
1	Barclays Bank of Kenya Ltd	9,635	9,583	58,141	16.5%	16.6%
2	Kenya Commercial Bank Ltd	6,677	6,406	47,294	13.5%	14.1%
3	Standard Chartered Bank Ltd	4,310	4,236	31,851	13.3%	13.5%
4	Citibank, N.A.	3,812	3,691	27,159	16.0%	16.4%
5	Co-operative Bank of Kenya Ltd	2,392	1,194	14,185	8.4%	16.9%
6	National Industrial Credit Bank Ltd	2,221	2,130	5,412	39.4%	41.0%
7	National Bank of Kenya Ltd	1,993	-4,082	28,493	-14.3%	7.0%
8	CFC Bank Ltd	1,835	1,782	7,292	24.4%	25.2%
9	Commercial Bank of Africa Ltd	1,467	1,384	6,166	22.4%	23.8%
10	First American Bank Ltd	1,145	1,145	2,876	39.8%	39.8%
11	Investment & Mortgages Bank Ltd	1,078	1,078	5,307	20.3%	20.3%
12	Diamond Trust Bank Kenya Ltd	961	950	2,557	37.2%	37.6%
13	Credit Agricole Indosuez	761	723	3,845	18.8%	19.8%
14	Development Bank of Kenya Ltd	728	655	2,506	26.2%	29.2%
15	Middle East Bank of Kenya Ltd	700	688	2,856	24.1%	24.5%
16	Stanbic Bank Kenya Ltd	658	626	4,581	13.6%	14.3%
17	Guardian Bank Ltd	635	635	2,682	23.7%	23.7%
18	Akiba Bank Ltd	612	593	3,271	18.1%	18.7%
19	Imperial Bank Ltd	572	525	2,530	20.7%	22.6%
20	K-Rep Bank ltd	556	549	856	64.1%	65.0%
21	Trans-National Bank Ltd	551	540	1,584	34.1%	34.8%
22	Consolidated Bank of Kenya Ltd	549	449	2,086	21.5%	26.3%
23	Fina Bank Ltd	522	498	3,059	16.3%	16.3%
24	Victoria Commercial Bank Ltd	478	465	1,305	35.6%	36.6%
25	Prime Bank Ltd	446	446	2,279	20.5%	20.5%
26	Southern Credit Banking Corp. Ltd	444	417	1,778	23.4%	25.0%
27	Giro Commercial Bank Ltd	396	375	3,148	11.9%	12.6%
28	City Finance Bank Ltd	390	390	823	47.4%	47.4%
29	Industrial Development Bank Ltd	390	361	1,418	31.9%	34.0%
30	Biashara Bank of Kenya Ltd	385	376	1,252	30.0%	30.7%
31	Bank of Baroda (K) Ltd	383	383	1,395	27.5%	27.5%
32	Equatorial Commercial Bank Ltd	383	372	1,105	33.7%	34.6%
33	African Banking Corporation Ltd	367	352	1,703	20.6%	21.5%
34	Credit Bank Ltd	356	348	737	47.2%	48.3%
35	Habib AG Zurich	354	354	1,051	33.6%	33.6%
36	Chase Bank Ltd	334	334	456	73.3%	73.3%
37	Charterhouse Bank Ltd	328	328	1,086	30.2%	30.2%
38	Habib Bank Ltd	316	316	732	43.2%	43.2%
39	Bank of India	308	308	873	35.3%	35.3%
40	Dubai Bank Ltd	303	301	437	68.8%	69.4%
41	Paramount-Universal Bank Ltd	268	268	760	35.3%	35.3%
42	Fidelity Commercial Bank Ltd	242	236	853	27.6%	28.4%
43	Daima Bank Ltd	38	38	576	6.7%	6.7%
44	Euro Bank Ltd	33	31	1,695	1.8%	2.0%
45	Co-operative Merchant Bank Ltd	-160	-181	1,880	-9.6%	-8.5%
46	Delphis Bank Ltd	-673	-705	1,616	-43.6%	-41.7%
	Sub-Total	**50,480**	**41,890**	**295,545**	**14.17**	**17.08**
	NON-BANK FINANCIAL INSTITUTIONS					
1	Housing Fin. Co. of Kenya Ltd	925	799	9,625	8.3%	9.6%
2	Savings and Loan (K) Ltd	752	715	2,598	27.5%	28.9%
3	Prime Capital & Credit Ltd	426	417	1,189	35.1%	35.8%
4	Bank of India Finance (K) Ltd	246	246	106	231.6%	231.6%
5	Devna Finance Ltd.	61	58	67	87.2%	91.4%
	Sub-Total	**2,410**	**2,235**	**13,585**	**16.5**	**17.7**
	GRAND TOTAL	52,890	44,125	309,131	14.27	17.11

NB: Ranked in terms of Total Capital

Mergers & Conversions of institutions Since 1994

(a) Mergers

NO.	INSTITUTION	MERGED WITH	CURRENT NAME	DATE APPROVED
1	Indosuez Merchant Finance	Banque Indosuez	Credit Agricole Indosuez	10.11.1994
2	Transnational Finance Ltd.	Transnational Bank Ltd.	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 Ltd.	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 Ltd.	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 Banking Corp.	NIC Bank Ltd.	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 Ltd.	11.01.2000
21	Kenya Commercial Bank Ltd	Kenya Commercial Finance Co. Ltd	Kenya Commercial Bank Ltd.	21.03.2001
22	Bullion Bank Ltd.	Southern Credit Bank Ltd.	Southern Credit Banking Corp. Ltd.	17.12.2001
23	Citibank NA	ABN Amro Bank Ltd	Citibank NA	16.10.2001

* Merger not finalized

Mergers & Conversions of institutions Since 1994

(b) Conversions

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

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 possess 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				
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

Level of Compliance With Basel Core Principles For Effective Banking Supervision (Continued)

SUMMARISED DESCRIPTION OF CORE PRINCIPLES		ASSESSMENT					
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

Prudential Supervision Circulars issued in 2001

Circular No	Date of issue	Title	Subject
1	12.01.2001	Publication of audited accounts and disclosures in national newspapers under section 22 of the Banking Act (Cap. 488)	Additional disclosures to ensure compliance with the IAS as regards non-performing loans, provisions, insider lending and contingencies to be incorporated in the audited accounts to be published by 31.03.2001
2	26.01.2002	Vetting of new directors.	'Fit & proper' forms be forwarded to the Central Bank at least 14 days before the date of the Annual General Meeting where the directors are to be elected.
3	09.02.2001	Kenswitch ATM / POS consortium.	Meeting for all Chief Executives of non-ATM consortium member banks to discuss the progress of the proposed plan to share ATM facilities.
4	20.06.2001	Alert: Lost/stolen travellers cheques.	Notice to all commercial banks and forex bureaus that CitiCorp traveller cheques belonging to the Reserve Bank of Malawi were stolen while in transit and may infiltrate the domestic market.
5	25.06.2001	Submission of CBK BS (M) monthly returns.	Banks and NBFI's to submit their end-month returns to the Research and Bank Supervision Departments on or before 12.00 noon of the 15^{th} day of the following month.
6	20.11.2001	Statistical returns on foreign exchange transactions by commercial banks.	Banks to gather more information from their customers for the purpose of accurately compiling the FXS(M) return. A revised FXS(M) was forwarded to replace the previous one taking effect from January 2002.
7	21.11.01	Launch of the Euro notes and coins.	Seminar for all Chief Executives of commercial banks to sensitise the banking communit on the security features of the currency.

Banking Institutions as at 31 December 2001

INSTITUTIONS OPERATING IN KENYA AS AT 31.12.2001
Appendix 11
A). COMMERCIAL BANKS

NAME OF INSTITUTION AND CHIEF EXECUTIVE	P.O. BOX	TELEX NO. FAX NO.	TEL. NO.	PHYSICAL ADDRESS OF HEAD OFFICE	DATE LICENSED	FULL	SUB	AGENCIES AND OTHERS	PEER GROUP CODE
1. AFRICAN BANKING CORP. LTD NAIROBI Managing Director Mr. Ashraf Savani	46452 22069	TELEX 251540/1 FAX 222437	223922 Mezzanine Floor	ABC Bank Koinange Street ho@abcthebank.co.ke	1.5.1984	8	-	-	3
2. AKIBA BANK LTD. NAIROBI Executive Director Mr. D. Pandit	49584 22060	TELEX 218360/1 FAX 225694	331709 Muindi Mbingu st. 249633/4 249670/1/2	Fedha Towers Nairobi finance.headoffice@akiba.com	`1.7.1995	4			3
3. BANK OF BARODA (K) LTD. NAIROBI Managing Director Mr. T. K. Krishnan	30033 FAX	22250 228405 254-2- 333089	227869 Street	Tom Mboya barodak_ho@forn-net.com	1.7.1953	6	-	-	3
4. BANK OF INDIA NAIROBI Managing Director Mr. P.A. Kalyanansunder	30246 22725	TELEX 218063 FAX 229462	221414-7 Avenue 218871	Kenyatta boi10@calva.com	5.6.1953	2	-	-	3
5. BARCLAYS BANK OF KENYA LTD. 30120 Managing Director Mr. Isaac Takawira '(Succeeded by Mr. Adan Mohamed w.e.f. July 2002)	22210 NAIROBI	TELEX 332230 FAX 213915	Barclays Plaza	Loita Street bbkfin@user.africanline.co.ke	`1.7.1925	45	3	7	1
6. BIASHARA BANK OF KENYA LTD. Managing Director Mr. N.D. Chudasama (Since merged with Investment and Mortgages Bank w.e.f. 31.12.2002)	30831 NAIROBI	25161 FAX 221679	221064 223168 338384 220632	Jethalal Chambers Biashara st. business@biasharabank.com	1.7.1984	4	-	-	4
7. CFC BANK LIMITED (Converted to a commercial bank in 1995) Managing Director Mr. Robert Barry	72833 NAIROBI	22814 FAX 223032	340091 741861	CFC Centre Chiromo road Westlands	14.05.55	3			1

Banking Institutions as at 31 December 2001

NAME OF INSTITUTION AND CHIEF EXECUTIVE	P.O. BOX	TELEX NO. / FAX NO.	TEL. NO.	PHYSICAL ADDRESS OF HEAD OFFICE	DATE LICENSED	FULL	SUB	AGENCIES AND OTHERS	PEER GROUP CODE
8. CHASE BANK (KENYA) LTD. (changed name from United Bank Ltd w.e.f. 15.11.95) Managing Director Mr. Zafrullah Khan	64042 NAIROBI 246334	TELEX 23152 FAX 252385	244035 245611 330222 Wabera Street	Prudential Assurance Building 6th Floor. info@chasebank.co.ke	1.4.1991	1	-	1	4
9. 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	43252 NAIROBI	23041 FAX 219058 223060	242246/53	Longonot Place 6th. Floor Kijabe Street info@charterhouse-bank.com	1.10.98	1			4
10. CITIBANK N.A. NAIROBI General Manager Mr. Terry Davidson (Since been succeeded by Sridhar Srinivasan w.e.f. 30.08.2002)	30711 22432	22411 222248 FAX 714810/1	711221 Upper Hill Road	Citibank House	1.7.1974	4		1	1
11. CITY FINANCE BANK LTD. Managing Director - S.V. Ramani	22741 NAIROBI 335386	22037 FAX	224238-9 210338/9 cfbl@saamnet.com	Unity House Koinange St.	10.09.1984	1			5
12. COMMERCIAL BANK OF AFRICA LTD. NAIROBI Managing Director Mr. Isaac Awuondo	30437	23115 340200 FAX 335827	228881 Street	Wabera cba@cba.co.ke	13.2.1967	7		9	1
13. CONSOLIDATED BANK OF KENYA LTD. NAIROBI Managing Director Mr. K.A.K. Bett	51133 FAX	22482 340830 340213	340551 Bank Hse. 340920 New Location-(H.Q)	Consolidated Koinange Street consobank@iconnect.co.ke	18.12.1989	12	-	-	2
14. CO-OPERATIVE BANK OF KENYA LTD. NAIROBI Managing Director Mr. Gideon M. Muriuki	48231 FAX	22938 227747 246635	225579 Aga Khan Walk 228453/7 251290/9	Kenya-Re Building coopbankmd@form-net.com	1.7.1968	27	0	14	1
15. CO-OPERATIVE MERCHANT BANK Managing Director Mr. Gideon M. Muriuki '(Merged with Co-operative Bank Ltd w.e.f. 31.07.2002)	48231 NAIROBI	22938 FAX 219821	228711/2/3	New Location-(H.Q) International Life House Mama Ngina Street cmb@africaonline.co.ke	1.3.1992	1			3

Banking Institutions as at 31 December 2001

NAME OF INSTITUTION AND CHIEF EXECUTIVE	P.O. BOX	TELEX NO. FAX NO.	TEL. NO.	PHYSICAL ADDRESS OF HEAD OFFICE	DATE LICENSED	FULL	SUB	AGENCIES AND OTHERS	PEER GROUP CODE
16 CREDIT AGRICOLE INDOSUEZ (Previously Bank Indosuez- changed name on 5.8.1997) Regional Manager Mr. Jean Marguier	69562 NAIROBI	23091 FAX 214166	211175 210546	Re-Insurance Plaza Taifa Road cai.kenya@ke.ca-indosuez.com	1.1.1998	2	-	-	2
17. CREDIT BANK LIMITED NAIROBI Managing Director Mr Narendra Kumar Agarwal	61064 23050	TELEX 222317 FAX 216700	222300 Mercantile Hse 220789 332015	Ground Floor Koinange st. cblnbi@creditbankltd.com	14.5.1986 2	-	-	4	
18. DAIMA BANK LTD. NAIROBI Executive Chairman Mr. S.K. Muumbi	54319	23275 FAX 211351 215368	330620 330612 330615 330617	Utalii House Off Uhuru Highway daima@daimabank.co.ke	1.9.1992	2	-	-	5
19. DEVELOPMENT BANK OF KENYA LTD. General Manager Mr. J.V. Bosse '(Succeeded by Mr. Rakhit Sanjay w.e.f. Jan 2003).	30483 NAIROBI	FAX 0254-2-338426 054-2-22662	340426 340478 340416	Finance House dbk@africaonline.co.ke	1.5.1995 Loita Street	1	-	-	3
20. DIAMOND TRUST BANK KENYA LTD. (merged with Premier Finance on 01.04.99) Managing Director Mrs. N.M. Devji	61711 NAIROBI	23177 FAX 336836	210988/83 (20 lines) 210985/86	Nation Centre- 8th Floor Kimathi Street user@dtbkenya.co.ke	1.11.94	3			2
21. DUBAI BANK KENYA LIMITED (changed name from Mashreq Bank from Apr. 2000) Managing Director Mr. Frederick K. Njoroge	11129 NAIROBI	22596 FAX 245242	330562-6	I.C.E.A Building Kenyatta avenue user@dubaibank-kenya.com	11.9.1981	2	-	-	5
22. EQUATORIAL COMMERCIAL BANK LTD 52467 Managing Director Mr. T.N. Khwaja	23198 NAIROBI	331122/338308 FAX 331606	330611/221114	Sasini House Loita street ecd@saamnet.com	20.12.95	3			4
23. EURO BANK LIMITED Managing Director Mr. Zachary Kamondo	43071 NAIROBI	25010 FAX-254-2 221781	218879/63 Wabera st. 221367	Hamilton Hse eurobank@spacenetonline.com	17.12.1992	1	-	-	4

Banking Institutions as at 31 December 2001

NAME OF INSTITUTION AND CHIEF EXECUTIVE	P.O. BOX	TELEX NO. FAX NO.	TEL. NO.	PHYSICAL ADDRESS OF HEAD OFFICE	DATE LICENSED	FULL	SUB	AGENCIES AND OTHERS	PEER GROUP CODE
24. FIDELITY COMMERCIAL BANK LTD. NAIROBI Managing Director Mr. Sultan Khimji	34886 243389	FAX 244187	242348 7th Floor	I.P.S Bldng. Kimathi St. customerservice@fidelitybankkenya.com	1.6.1992	1			4
25. FINA BANK LIMITED. NAIROBI Managing Director Mr. V.M. Shanbhag	20613 254-2	FAX 337070 337082	240798 Kimathi Street 222580	Fina House banking@finabank.com	13.01.95	2		2	2
26. FIRST AMERICAN BANK OF KENYA LTD. NAIROBI Managing Director Mr. M. Blasetti	30691 22398	TELEX 215936/7 FAX 333868 216021/226577	Building (15LINES)	I.C.E.A Kenyatta Ave. 6TH&7TH FLOORS	1987 fabk@saamnet.com	3	-	-	2
27. 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	46983 NAIROBI	23214 FAX 254 (2) 229248	211230 214070	Nation Centre 7th Floor Kimathi Street viewpark@guardian-bank.com	17.12.1992	5			2
28. GIRO COMMERCIAL BANK LIMITED (Merger with Commerce Bank effective 11-12-98) Managing Director Mr. R.B. Singh	46739 NAIROBI	22013 FAX 336991 210679	330129 339519 216005 330135/7/9	Giro House Kimathi Street gcbl@swiftkenya.com	17.12.1992	6	-	-	3
29. HABIB BANK A.G. ZURICH (Merger with Habib African Ltd app. on 31.12.1999) Country Manager Mr. I.A Allawala	30584 NAIROBI	TELEX 22982	334984-5	National House Koinange Street habibbank@form-net.com	1.7.1978	4	-	-	3
30. HABIB BANK LTD. General Manager (Africa Region) Mr. Hamid M. Baig	6906 NAIROBI	TELEX 22238	246613 246641	Exchange Building Koinange Street hblronbi@africaonline.co.ke	2.3.1956	6	-	-	3
31. IMPERIAL BANK LTD. NAIROBI Managing Director Mr.A.Janmohamed	44905 FAX	2719705	2719617 Upper Hill	Bunyala Road impbank@iconnect.co.ke	1.11.1992	3			3

Banking Institutions as at 31 December 2001

AME OF INSTITUTION AND CHIEF EXECUTIVE	P.O. BOX	TELEX NO. FAX NO.	TEL. NO.	PHYSICAL ADDRESS OF HEAD OFFICE	DATE LICENSED	FULL	SUB	AGENCIES AND OTHERS	PEER GROUP CODE
32. INDUSTRIAL DEVELOPMENT BANK LTD. (Converted to a Commercial Bank on 10.09.98) Managing Director Mr. Lawrence Masaviru	44036 NAIROBI	22339 FAX 334594	337079	National Bank Building Harambee Avenue bizcare@idbkenya.com	1.7.1989	1			4
33. INVESTMENTS & MORTGAGES BANK LTD. Managing Director Mr. Arun S. Mathur	30238 NAIROBI	TELEX 22178 713757/716372	 711994-8	I & M Bank House 2nd Ngong Avenue	25.5.1980 invest@imbank.co.ke	3			2
34. KENYA COMMERCIAL BANK LTD. NAIROBI Managing Director Mr. Gareth A George	53290 FAX	23085 339450/2 336422	339441/3 House 339446/9	Kencom Moi Avenue kcbhq@kcb.co.ke		87	26		1
35. K-REP BANK LIMITED Managing Director Mr. Kimanthi Mutua	39312 NAIROBI	FAX NO. 573178 711645 573141/8	571511 573169 573236/45/67	 Naivasha Road Riruta Registry@k-repbank.com	25.03.99	1			4
36. MIDDLE EAST BANK KENYA LTD. 2 Managing Director Mr. S.S Dinamani '(Succeeded by Mr. Debdutta Ghosh w.e.f. July 2002)	47387 0100 NRB -GPO	23132 MEBANK FAX 336182	 723120	 Milimani Road Nairobi mebkenya@nbnet.co.ke	Mebank Tower		15.12.1980	3	- -
37. NATIONAL BANK OF KENYA LTD (merged with KENYAC effected on 25.05.99) Managing Director - R.M. Marambii	72866 NAIROBI 330784	25743 FAX 0254-2-	226471-8 339690 nbkinfo@swift kenya.com	National Bank Building Harambee Avenue	1.1.1968	24		6	1
38. NATIONAL INDUSTRIAL CREDIT BANK LTD. '(Merged with Ambank on 14.06.97) Managing Director Mr. M. N. Davidson	44599 NAIROBI	25535 NINCKENA 718232	718200	N.I.C. House Masaba Road nic@iconnect.co.ke	17.9.1959	3			2
39. PARAMOUNT UNIVERSAL BANK LTD. (Merger of Paramount with Universal Bank) Managing Director Mr. Ayaz Merali	14001 NAIROBI	 FAX 449265	449266-8	Sound Plaza Building Westlands pbl.bank@africaonline.co.ke	1.101993	3			4
40. PRIME BANK LTD. NAIROBI Managing Director Mr. Vasant K. Shetty	43825 FAX	23224 214869/70 334549	211979 Loita Street 334312	Kenindia Hse. primebank@form-net.com	1.3.92	7	-	-	3

Banking Institutions as at 31 December 2001

NAME OF INSTITUTION AND CHIEF EXECUTIVE	P.O. BOX	TELEX NO. / FAX NO.	TEL. NO.	PHYSICAL ADDRESS OF HEAD OFFICE	DATE LICENSED	FULL	SUB	AGENCIES AND OTHERS	PEER GROUP CODE
41. SOUTHERN CREDIT BANKING CORP. LTD. NAIROBI Managing Director Mr. D.A. Shah	66171 FAX	447441	220939/48	Off Muranga Road	1.10.80	3			4
42. STANBIC BANK KENYA LIMITED. (changed name from Grindlays Bank w.e.f 1.7.93) Managing Director Mr. P.R. Southey	30550 NAIROBI	25207 22397 FAX 229287 330227	335888	Stanbic Bank Building Kenyatta Ave. stanbic@africaonline.co.ke	9.5.1970	3	-		1
43. STANDARD CHARTERED BANK (K) LTD. NAIROBI Managing Director Allan Christopher M. Low	30003 22209	TELEX 331210 214086	330200 House	Stanbank Moi Avenue mds.office@ke.standardchartered.com	1.10.1910	28	2	0	1
44. THE DELPHIS BANK LTD. '(Under CBK Statutory Management- Manager Ms R. Detho Re-opened to the public on 05/12/2002 after restructuring). Managing Director Mr. Yogendra M. Shukla	44080	22493 NAIROBI	228461/2 FAX 219469	Finance Hse. 221875 222076	02.08.91 Koinange St. delphiskenya@connect.co.ke	5	-	-	3
45. TRANS - NATIONAL BANK LTD. NAIROBI Managing Director Mr. Patrick Noble '(Succeeded by Mr. Dhirendra K. Rana w.e.f. July 2002)	34353 23231	TELEX 339201-4 FAX 339227	224234-6 Plaza 339225 339223	Transnational Mama Ngina Street tnbl@form-net.com	1.8.1985	6	-	-	4
46. VICTORIA COMMERCIAL BANK LTD. 00100 Managing Director Mr. Yogesh K. Pattni	41114 22471 NAIROBI	TELEX FAX 2713778	2719499 Upper Hill	Victoria Towers Victoria@vicbank.com	1.6.1987	2			3

Banking Institutions as at 31 December 2001

B). FINANCIAL INSTITUTIONS

NAME OF INSTITUTION AND CHIEF EXECUTIVE	P.O. BOX	TELEX NO. / FAX NO.	TEL. NO.	PHYSICAL ADDRESS OF HEAD OFFICE	DATE LICENSED	FULL	SUB	AGENCIES AND OTHERS	PEER GROUP CODE
1. BANK OF INDIA FINANCE (K) LTD Managing Director Mr. P.A. Kalyanansundar '(Merged with Bank of India w.e.f. 30.11.2002).	30246 30246 NAIROBI	TELEX 22725 FAX NO. 229462	221414-6 334359	Kenyatta Avenue	1.11.1985	1			5
2. DEVNA FINANCE LTD. Managing Director Mr. J.D. Nanji	1299 NAKURU	NONE NAKURU	(037)40973 43495 212370/1 Nakuru	Devna House	8.2.1986	1			5
3. PRIME CAPITAL AND CREDIT LTD. NAIROBI Managing Director Mr. R.C. Kantaria	46559 FAX	227910 334483	223644 Loita Street 218670 223139	Kenindia House 4th Floor	1.11.1987	2			4

C). MORTGAGE FINANCE COMPANIES

NAME OF INSTITUTION AND CHIEF EXECUTIVE	P.O. BOX	TELEX NO. / FAX NO.	TEL. NO.	PHYSICAL ADDRESS OF HEAD OFFICE	DATE LICENSED	FULL	SUB	AGENCIES AND OTHERS	PEER GROUP CODE
1. HOUSING FINANCE CO. (K) LTD. Managing Director Mr. Peter Lewis Jones	30088 NAIROBI	FAX 334670	221101/333910 333920	Rehani House Kenyatta Avenue	7.5.1965	12			1
2. SAVINGS AND LOAN (K) LTD. Managing Director Frederick M. Mwihia	45129 NAIROBI	FAX 334384	338777-8	Salama House Mama Ngina Street	1995.00	8			3

Banking Institutions as at 31 December 2001

D). BUILDING SOCIETIES

NAME OF BUILDING SOCIETY AND CHIEF EXECUTIVE	P.O. BOX	TELEX NO. FAX NO.	TEL. NO.	PHYSICAL ADDRESS OF HEAD OFFICE	DATE LICENSED	FULL	SUB	AGENCIES AND OTHERS	PEER GROUP CODE
1. EAST AFRICAN BUILDING SOCIETY Managing Director Mr. R.L. Pandit	47499 NAIROBI	FAX 216799	214357/214176 224204/210304 215327/214639 214176	Fedha Towers Muindi Mbingu Street	1959	8			2
2. EQUITY BUILDING SOCIETY Chief Executive Mr. J.K. Mwangi	75104 NAIROBI	FAX 252575	330433-4 252576/83/90	Fourways Towers Muindi Mbingu Street	1984	10			4
3. FAMILY FINANCE BUILDING SOCIETY Chairman Mr. T.K. Muya	74145 NAIROBI	337231	211365 335003 214271 jamii@thorntree.org	Fourways Towers Muindi Mbingu Street	1984	8			5
4. PRUDENTIAL BUILDING SOCIETY NAIROBI Chairman Mr. W.K. Kipkoti	28759 340477	FAX 227282	227233 Haile Selassie Avenue	Protection House Parliament Road	1984.00	1			5

FOOTNOTES

1 This directory includes Banks, Financial Institutions and Building Societies operating in Kenya as at 31.12.2001.

2 Peer Group Codes used are as follows:

(R.ATINGS AS AT 31.07.2001)

Grp	Description
0	Unrated
1	Assets over Kshs 10000 million
2	Assets 5000 - 9999.9 million
3	Assets 3000 - 4999.9 million
4	Assets 1000 - 2999.9 million
5	Assets 0 - 999.9 million

Banking Institutions as at 31 December 2001

NAME OF REPRESENTATIVE OFFICE AND CHIEF OFFICERS	P.O. BOX	TELEX NO. FAX	TEL. No.	PHYSICAL ADDRESS	YEAR ESTAB.
1. ABN-AMRO BANK N.V NAIROBI Country Manager Mr. Adriaan Van der Pol	30262	310880/2 22262 FAX 718014 713391	710455/6 710514/5 710829/30 710972/3	ABN-Amro Building Nyerere Road info@abnamro.co.ke	13.5.1951

NAME OF REGIONAL OFFICE AND CHIEF OFFICERS	P.O. BOX	TELEX NO. FAX	TEL. No.	PHYSICAL ADDRESS	YEAR ESTAB.
1. P.T.A. BANK NAIROBI President / Chairman Dr. Michael Gondwe	48596 22826	Telex (2) 712250 Fax 254(2)711510	254- 22nd & 23rd	NSSF Building Floors Bishops Road president@ptabank.co.ke	1991

OVERSEAS AFFILIATIONS

NAME OF LOCAL INSTITUTION	NAME OF FOREIGN SUBSIDIARY AND CHIEF OFFICER	ADDRESS TEL. NO.	FAX NO.	POSTAL ADDRESS	TELEX NO. ESTABLISHED	PHYSICAL	YEAR
1. PRIME CAPITAL AND CREDIT LTD 1994	1. FIRST MERCHANT BANK LTD. (MALAWI) Managing Director Mr S.V. Nighoskar		Private Bag 122 Blantyre, MALAWI		Telex 43170 Fax - 000-265-622737 Tel - 000-265-622787	Delamere Hse. Victoria Ave.	 Blantyre, MALAWI.
2. DIAMOND TRUST BANK LIMITED	1. DIAMOND TRUST BANK (Uganda) LTD. Chief Executive Mr M. Guha		P.O BOX 7155 Kampala		Tel. 259331/3 Fax (256-41) 242286	Diamond Trust 17/19 Kampala Road	1965
2. DIAMOND TRUST	P.O BOX BANK (Tanzania) LTD. Chief Executive off. Mr S. Pira	Tel. 051-20492 Dar-es- - Salaam	Diamond 115 Fax 051-44272	 22862 2nd Floor	 Jubilee Bld.	 1965	
3. KENYA COMMERCIAL BANK LIMITED	1. KENYA COMMERCIAL BANK (Tanzania) LTD. Chief Manager Mr. M. A. Rayi	 804 Dar-es- - Salaam	P.O BOX 87-90 Fax 051-116391	Tel. 051-155386/ 38 Upanga Road	Peugeot House		1997

BANKING REGULATOR

NAME OF BANKING REGULATOR	P. O. BOX	TELEX/FAX NO.		TEL:NO	PHYSICAL ADDRESS DATE ESTABLISHED
CENTRAL BANK OF KENYA GOVERNOR: Mr. Nahashon N. Nyagah	60000 NAIROBI	22324,22721 FAX	254 - 2246000 254 - 2226431 254 - 2217940 infor@centralbank.go.ke	Central Bank Building Haile Selassie Avenue Nairobi	1966

Foreign Exchange Bureaus as at 31 December 2001

NAME OF FOREX BUREAU	DIRECTORS	PHONE NO.	FAX NO.	PHYSICAL ADDRESS
1 AMEX FOREX BUREAU LTD P.O. Box 42457 Nairobi	Noorali M. Ajani Nazir Manji	243495/6469	244346	IPS Building Standard Street
2 AL BARAKAT FOREX BUREAU LTD P.O. Box 12161 Nairobi	Salad Awale Mohamed J . Awale Noor Yusuf Dinni Bashir A. Jumale	763013 761212 223374 224513	760032	Barwaka House Eastleigh Section II 1st Avenue
3 ARISTOCRATS FOREX BUREAU LTD P.O. Box 10884 Nairobi	Mayur Govindji Sandeep .P Govindji	228080, 245247	215063	Kenindia House
4 BAY FOREX BUREAU LTD P.O. Box 40832 Nairobi	Ahmed Abdul Hafedh Anisa Salim	245233 245234	246421	Jamia Plaza Kigali Street
5 BLUE NILE FOREX BUREAU LTD Moving to I & M Towers P.O. Box 47740 Nairobi	Nishil Kumar shah Jinal. N Kumar Shah Pradipkumar .h. Shah Pratin k kapurchand Shah	221927,221400, 223091	253434	Bazaar Plaza
6 BLUE SEAS FOREX BUREAU LTD P.O. Box 66012 NAIROBI	Anil Bharmal Shah Alka Anil Shah	339000 333114 336680 338583	334577	Clyde House Kimathi Street
7 CAPITAL FOREX BUREAU LTD P.O. Box 54210 Nairobi	Samuel Kairu Njonde Peter O. Mboya Kimenyi Waruhiu	251704/08	241307	Jubilee Insurance House
8 CENTRAL FOREX BUREAU LTD P.O. Box 43966 Nairobi	Mohamud Ahmed Mohamed M. Osman Barrow	226777 331343	337743	Posta Sacco Plaza
9 CHASE BUREAU DE CHANGE LTD P.O. Box 45746 Nairobi	Noorali Maji Mrs Nazmina N. Manji Mrs Parviz Bhatia	244497	244651	Gilfillan House
10 CONTINENTAL FOREX BUREAU LTD P.O. Box 49850 Nairobi	Hassan Virjee Zarina Virjee	222140 330883 216163	216163	Old Mutual Building Kimathi Street
11 CRATER FOREX BUREAU LTD P.O. Box 7357 Nakuru	M. R. Khagram Ramesh D. Khagram Prafulra J.M. Patel	037 214183	245403	Menengai Motors George Morara Avenue
12 CROWN BUREAU DE CHANGE (K) Ltd. P.O. Box 22515 Nairobi	Anverali M. Rajpar Moonaver Dhanani Shiraz Dharamshi Mohamed J. Kermali Mumir A. Barwani	250720/1/2	252365	Corner House
13 DIANI FOREX BUREAU LTD P.O. Box 90775 Mombasa	Joseph M. Magari Maheshi K. M. Patel	0127-2205 011 226047	011 222978	Paradise Cottages Diani
14* DOLLAR FOREX BUREAU LTD P O Box 1722 Malindi	Hanifa Mohamed Marian Osman Barrow Amin Mohamud Mohamud Ahmed Hassan Mohamud	760543	0123-31976	FN Centre Lamu Road Malindi
15 DOWNTOWN CAMBIO LTD P.O. Box 42444 Nairobi	Rose Wanjiku Kangethe Dr. Francis Thuo Kangethe	608659 602963	608354	Wilson Airport
16 FINERATE FOREX BUREAU LTD P.O. Box 39252 Nairobi	Alfred N. Mwaniki Mrs. Lucy K. Mwaniki	250406	250407	Bruce House

Foreign Exchange Bureaus as at 31 December 2001

NAME OF FOREX BUREAU	DIRECTORS	PHONE NO.	FAX NO.	PHYSICAL ADDRESS
17 FOREX BUREAU AFRO LTD P.O. Box 14353 Nairobi	Mr.Sadru Jiwa Mr. Zahir A. R. Manji Ms Salim Jiwa	250676 247041	251071	Jamia Plaza Kigali Street
18 FORT JESUS FOREX BUREAU LTD P.O. Box 89991 Mombasa	Nooran Manji Ali Jariwallah	011 316717	11 315924	Old Town Mombasa
19 GIANT FOREX BUREAU DE CHANGE LTD P.O. Box 10532 Nairobi 00100	Jay P. Mandaliya Jassa Singh Virdee Indira Mandaliya (Mrs)	823327	825327	Unit 1 - Departure JKIA
20 GLORY FOREX BUREAU LTD P.O. Box 42909 Nairobi	Paul Ndungu B. Mugambi Gituru Amin Mohamed	244333 241164 243115	245614	Norwich Union House, Kimathi Street
21 GOLDFIELD FOREX BUREAU LTD P.O. Box 46371 Nairobi	Jitendra J. Lodhia Pratihah J Lodhia Jamnadas V. Lodhia Vilas J Lodhia	332565 223761 244554 248713/4	223761	Fedha Towers Nairobi
22 GREENLAND FOREX BUREAU (K) LTD P.O. Box 72985 Nairobi	Dr. S. Kiggundu H. Sebaggala M. Bagalaliwo L. Musoke M. Lubega	246644 246145	246550	Uganda House, Kenyatta Avenue
23 JODECI BUREAU DE CHANGE LTD P.O. Box21819 Nairobi	Robert M. Okora George H. O. Siddondo	822845/50 824536 824544 246094 245863	245741	Unit 1, JKIA
24 KAREN BUREAU DE CHANGE LTD P.O. Box 24673 Nairobi	Bipin R. Mawjee Vijay P Mawjee	884674 884675	884675	Karen Provision Stores Corner Langata Rd/Ngong Road
25 LEO FOREX BUREAU LTD P.O. Box 82304 Mombasa	Hassan M. Ahamed Ahmed A. Ali	011 230396/7/8	011 230399	T.S.S. Towers Nkrumah Road Mombasa
26 MAXFAIR FOREX BUREAU LTD P.O. Box 10334 Nairobi	Mohamed A. Mohamud Hanifa M. Ahmed Ahmed A. Ali	226212 228842	521865	Standard Building Wabera Street
27 METROPOLITAN BUREAU DE CHANGE LTD P.O. Box 7080 Nairobi	Joseph Gichungwa Nancy Gichungwa	820203	820203	Unit 2 - Departure JKIA
28 MIDDLETOWN FOREX BUREAU LTD P.O. Box 41830 Nairobi	Stephen Mbaabu Angelina Mbaabu	211798 211227	332534	Westminister House (Kaunda Street)
29 MUTHAIGA FOREX BUREAU LTD P.O. Box 63533 Nairobi	Nadir M. Dawoodani Anis Ali	748883 750331	746512	Muthaiga Shopping Centre Nairobi
30 NAIROBI BUREAU DE CHANGE LTD P.O. Box 54210 Nairobi	Violet M. Kairu Sam Kairu Njonde	820777 251704/8 072-510213	241307 822884	Unit 2 JKIA
31 NAIROBI FOREX BUREAU LTD P.O. Box 73194 Nairobi	P.M.N. Njuguna Kikagi Ltd Robert Kimani Mrs M. Kimani	244767	251312	Gujarat House, Muindi Mbingu St.
32 ORION FOREX BUREAU LTD P.O. Box 31958 Nairobi	Jay Kaaria Eric Maina	337189 213910 711773	214316	Mercantile House Loita Street

Foreign Exchange Bureaus as at 31 December 2000

33	OVERSEAS FOREX BUREAU LTD P.O. Box 66864 Nairobi	Kalpesh P. Shah Niraj S. Haria Asit C. Shah	216250, 249657	213027	View Park Towers Monrovia/Utalii St.
34	PEARL FOREX BUREAU LTD P.O. Box 58059 Nairobi	James Gakinya Margaret Gakinya	218335	330793	Hurlingham Shopping Centre
35	PEL FOREX BUREAU LTD Kisumu P O Box 957	Ramesh M. Karia Pravin M. Karia	035 40972	035 22495	Allmran Plaza, Oginga Odinga Road, Kisumu
36	PINNACLE FOREX BUREAU LTD P.O. Box 10020 Nairobi Mr Sultn Ali Dewany	Mr Karim B Jamal Mr. Amin Manji Hassan Popat	219240 249283/4/5	214832	Corner House, Kimathi Street
37	PWANI FOREX BUREAU LTD P.O. Box 87200 Mombasa	Mohamed Hassan P. Hemani	011 22172 011 221734	011 221570	Mombasa Block 404 XVII/MI Abdel Nasseiz
38	SECAS FOREX BUREAU LTD P.O. Box 63533 - 00619 Muthaiga Nairobi	Samuel Gituruku Kihiko Waithira Catherine MwAniki Bancy Nyambura Njuguna	44163	492887	ABC, PLACE, Wayiaki Way
39	SOLID EXCHANGE BUREAU LTD P.O. Box 19257 Nairobi	Wellington Omodho Rose Olale	247684	822923	
40	SPEEDY FOREX BUREAU LTD P.O. Box 45888 Nairobi Karim Popat	D. N. Gichuru Aniz Popat Shelina Popat Lanob	225941	221761	Jubilee Insurance Exchange Kaunda Street
41	STERLING FOREX BUREAU LTD P.O. Box 43673 Nairobi	Bhupendrankumar Shah Julbha Shah	228923 245315 Nairobi	330894	Laxmi Plaza Biashara Street
42	TAIPAN FOREX BUREAU LTD* P. O. Box 42909 Nairobi	Amin Premji Paul Ndungu Sheila Premji	244186 244188	229665	Stanley Hotel Building
43	TRADE BUREAU DE CHANGE LTD P.O. Box 7080 Nairobi	Wilson Karungaru Gilbert Khuria	241107 241256	218127	Cotts House City Hall Way Transnational Bank Nairobi
44	TRAVELLERS FOREX BUREAU LTD P.O. Box 13580 Nairobi	B. R. Mawjee Vijay P Mawjee	44720/5/6	443859	The Mall Westlands
45	UNION FOREX BUREAU LTD P.O. Box 43847 Nairobi	Mr. Rajesh Rajani Mrs. Nila Rajani	448327 444345	441855 447618	Sarit Centre, Westlands
46	VILLAGE MARKET FOREX BUREAU LTD P.O. Box 625 Village Market Nairobi	Sheila Premji Susan Wachira	522473 520946	520946	Village Market Complex, Limuru Road
47	WALLSTREET FOREX BUREAU LTD P.O. Box 6841 Eldoret Sunil Kumar N. Patel	Jitendra J. Lodhia Lodhia Natubhai D. Patel	0321 63299	0321 62907	Bargetuny Plaza, Uganda Road
48	YAYA CENTRE EXCHANGE BUREAU LTD P.O. Box 76302 Nairobi	Rebecca N. Mutungi Joe M. Mutungi	569097	569097	Yaya Centre

Directory Of Major Micro Finance Intitutions As At 31December 2001

NAME	CHIEF EXECUTIVE	ADDRESS	TEL/FAX/EMAIL	LOCATION
1 Business Initiatives and Management Assistance	Mrs P Kagaombe Managing Director	2299 Embu	0161-20645	Embu
2 Faulu Kenya	Mr. Gerald Macharia Managing Director	60240 Nairobi	577290 572183-4 567504 Fax email:enquiries@faulukenya.com	Muthangari Gardens Off Gitanga Road After Valley Arcade Shopping Centre
3 Jitegemee Trust Ltd	Mr. Henry Kiema Chief Executive	21768 Nairobi	561120 566386 561120 Fax email:jtrust@nbnet.co.ke	Ngong Lane-Last Gate Off Ngong Road Adams Arcade
4 Kenya Ecumenical Church Loan Fund (ECLOF)	Ms Mary Kuria Managing Director	34889 Nairobi	745055 741430 Fax	Maua Close, Off Parklands Road Opposite Unga House
5 Kenya Post Office Savings Bank	Mr E. Saina Managing Director	30311 Nairobi	229551 229186 Fax	Postbank House Banda Street
6 Kenya Small Traders & Entrepreneurs Society (KSTES)	Mr. Charles M. Kingatua General Manager	12454 Nairobi	331103 245984 331103 Fax	New Kireita Building 1st Floor Kirinyaga Road
7 Kenya Women Finance Trust	Dr. Jennifer Riria Managing Director	55919 or 10701-001000 Nairobi	712903 712823 723883 Fax email:kwft@kwft.org	Muchai Drive Off Ngong Road (Residential House)
8 K-Rep Development Agency	Mr. Aleke Dondo Managing Director	39312 Nairobi	572422 572365 572375 711645 Fax	Ring Road, Kilimani
9 Plan International	Country Director	25196 Nairobi	562593/568137/570216/574987 570710 Fax email:c.Kenya@plan.geis.com	Kirichwa Lane Off Ngong Road
10 Pride Ltd	Ms Terry Kantay Chief Executive	63386 Nairobi	447500 448784/5/6 448757 Fax	Chiromo Lane Next to Club House 1 Parklands
11 Small and Micro Enterprise Programme (SMEP)	Mr. B. Nkungi General Manager	64063 Nairobi	561929 560961 561927 Fax smep@africaonline.co.ke	Kirichwa Road Off Argwings Kodhek Road
12 Vintage Management Ltd	Mr. S. K. Kamau Managing Director	44760 Nairobi	445810 442436 Fax	New Waumini House 2nd Floor Westlands Shopping Centre Waiyaki Way
13 Wedco Enterprises Limited	Mr. Ben Noballa Chief Executive	6711 Kisumu	035-21211 44724/85 035-21680 Fax wedco.ltd@swiftkisumu.com	Sifa House Mission Road Off Kakamega Road Next to Kibuye Cathedral
14 World Vision Kenya	National Director	50816	883652/71 Fax 883669 wvkenya@africaonline.co.ke	Karen Road Off Ngong Road
15 Association of Micro Finance Institutions (AMFI)	Ms. Beatrice Sabana Chief Executive Officer	3912 or 55919 10701-00100 Nairobi	576799 Telefax 712823 712903 723883 Fax	James Gichuru Road Near Lavington Shopping Centre, or Muchai Drive Off Ngong Road At KWFT Offices

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http://www.centralbank.go.ke

CENTRAL BANK OF KENYA

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