FOREWORD

The role of the Bank Supervision Department is to promote a sound and stable market-based banking system in Kenya by fostering liquidity and solvency of banking institutions, ensuring efficiency in banking operations and encouraging high standards of customer service. To realize this objective, the Department focuses its activities on enforcing the requirements of the Banking Act, the Building Societies Act and Prudential Regulations. The Department has also been engaged in developing appropriate regulatory and supervisory framework for micro finance institutions.

The Department conducts both on-site examinations and off-site surveillance of banking and non-bank financial institutions to ensure they attain and sustain minimum specified performance benchmarks on capital, assets, management, earnings and liquidity. It also undertakes examination of forex bureaus to ensure adherence to the Central Bank of Kenya (CBK) operational guidelines.

In the pursuit of its role, the Department's approach will continue to be guided by market-driven principles that underly all activities and decisions. It will strive to uphold professionalism, integrity 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.

This Annual Report on Bank Supervision is prepared by the Department of Bank Supervision at the Central Bank of Kenya and is available on the internet at **http:www.Centralbank.go.ke.**

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Introduction

The banking sector recorded an improved performance in 2003 with net profits increasing by 134% from Ksh 6bn in 2002 to Ksh 14.1bn. Similarly, asset quality of the banking system improved during the year with net non-performing loan ratio declining to 11.12% from 14.1% in 2002. While the sector remained fairly stable during the year, one bank was placed under liquidation due to under capitalization. Another bank and one building society were also placed under statutory management by the Central Bank of Kenya. The statutory managers are working at various options of restructuring the bank and the building society. There was a remarkable improvement in compliance to the Banking Act as well as banking regulations. This was, *inter alia*, enforced by imposing penalties on those institutions that violated the requirements of the Banking Act and Central Bank Prudential Regulations.

The Central Bank of Kenya will continue to play its role in complementing Government efforts to revive the economy through implementation of appropriate reforms in the banking sector. In this regard, banking laws and prudential regulations will be reviewed and harmonized with international standards and practices to strengthen the supervisory function of the Central Bank of Kenya. In addition, the Central Bank will continue to emphasize good Corporate Governance practices in the banking industry in order to not only minimize the frequency of non compliance but also the associated cost of bank failures.

During the year, two studies were undertaken by the Government with the support of the World Bank and International Monetary Fund to provide a comprehensive framework for financial sector reforms. The studies included a Financial Sector Assessment Program (FSAP), Banking Sector Reform Strategy. Further, in 2004 the Government with the support of the World Bank will undertake studies on the future role of Development Finance Institutions (DFIs) and on increasing access to finance for rural and small/medium enterprise sectors. The studies will focus on assessing the current institutional structure and capacity of the DFI sector and develop a comprehensive rural finance strategy.

Initiatives aimed at eliminating money laundering and financing of terrorism activities continued to be supported by the Government. The Minister for Finance formed and gazetted the National Task Force (NTF) on anti-money laundering in April 2003 and mandated it to finalize the policy and regulatory framework on anti-money laundering and financing of terrorism. The framework is designed to meet international standards and eradicate the recycling of crime proceeds into the economic mainstream.

A regular forum has been established between the Central Bank and the other regulators in the financial sector, which serves as an effective communication channel with the aim of harmonizing regulation in the financial sector through exchange of information. The Central Bank will

continue to use this forum for receiving proposals and suggestions related to policies and issues that would enhance the stability and soundness of the banking system.

Monthly meetings have also been regularly held between the Governor and Chief Executives of major commercial banks and representatives of the Kenya Bankers Association. The meetings have provided useful contact opportunity for exchange of views and experiences on current developments in the industry and has helped to clarify policy issues.

The central Bank looks forward towards the continued support of the banking sector in providing the cooperation needed to achieve the objectives of the Government in creating an appropriate infrastructure for conducting banking business and a conducive macroeconomic environment that will spur and sustain economic growth.

CHAPTER 1
Development in the Local Banking Industry

1.1 Overview

Level of Compliance with the Banking Act Improved in 2003

Following improved economic performance, the banking sector recorded a strong and relatively stable growth in 2003. The sector registered increased profitability and improved asset quality. However, the level of non performing loans continued to be the sector's main challenge over the period. Due to decline in lending interest rates and yield on government securities, banking institutions continued to shift their income sources towards fees and commissions. The sector also continued to undertake appropriate rationalisation measures aimed at improving efficiency and minimise expenses. Increased utilisation of modern information technology led to several banks acquiring ATMs as part of their branchless development strategy measures. In the same period the level of compliance with the Banking Act and prudential regulations improved after the Central Bank invoked Banking (Penalties) Regulation Legal Notice No. 77 of 1999.

1.2 Structure of Banking Sector and Branch Network

The total number of operating institutions declined marginally from 52 in January 2003 to 51 at the end of the year. These comprised 43 commercial banks, 3 non-bank financial institutions (NBFIs), 2 mortgage finance companies (MFCs) and 4 building societies. They included 6 locally incorporated foreign owned banks and 4 branches of foreign owned institutions. Two locally incorporated banks had 4 operational branches outside the country; three in Tanzania and one in Uganda. One local bank owns a subsidiary in Malawi while another has an associate in Tanzania with 20% shareholding.

As shown in Table 1, the total number of branches after a slight decline in the year 2002 recorded a 5% increase to 512 branches at the end of 2003. The increase

TABLE 1: BRANCH NETWORK OF BANKING SECTOR

Province	2003	2002	2001	2000	1999
Central	69	69	69	65	79
Coast	69	70	69	71	80
Eastern	36	34	35	31	36
Nairobi	204	166	192	179	189
N. Eastern	4	4	4	4	5
Nyanza	40	38	40	39	46
Rift Valley	71	67	67	61	75
Western	19	18	18	15	20
Total	**512**	**466**	**494**	**465**	**530**

Source: Central Bank of Kenya

was attributed mainly to opening of new branches by building societies as they expanded their outreach to the rural and urban areas.

1.3 Institutions under Restructuring

Bank failures occur mainly due to weak corporate governance, poor lending practices and difficult economic environment. In the event of a bank failure in Kenya, the Banking Act provides only two options: either to appoint a statutory manager under section 34 (2) with powers to safeguard the institution's assets, evaluate its capital structure and management and recommend to the Central Bank any restructuring or re-organisation necessary for the revival of the institution or to appoint a liquidator under section 35 (1), in the event the institution becomes insolvent.

City Finance Bank and Delphis Bank Ltd continued to operate under schemes of arrangement prepared in accordance with section 207 of the Companies Act. The main elements of the schemes of arrangements were conversion of sufficient deposits and sundry creditors into share capital to eliminate the existing deficit in net assets and meet the statutory minimum capital requirements; the injection of additional capital by new shareholders so as to dilute the interests of existing shareholders; repayment of the outstanding depositors and sundry creditors within an agreed period of time and appointment of a new board and management to take charge of the institution.

City Finance Bank Ltd was placed under Statutory Management in 1998 after failing to meet cash reserves and liquidity requirements. Following a resolution of the bank creditors and depositors in 2000, a scheme of arrangement was approved to re-open the bank. The scheme which was to run for a period of 4 years to December 31, 2003 provided for the conversion of 80% of all deposits of over Ksh 100,000 into Share Capital while the remaining 20% was to be paid in instalments spread over 4 years. The scheme came to an end in December, 2003.

The Delphis Bank re-opened on 5th December 2002, under a scheme of arrangement which entailed the conversion of 50% of deposits in excess of Ksh 100,000 into equity and an additional capital injection of Ksh 300m by new shareholders. Under the scheme of arrangement, a total of Ksh 967m was to be paid to depositors in instalments over a period of five years to December 2007. As at December 2003 , the bank had partially accomplished the undertaking through repayment of the first instalment.

Euro Bank placed into liquidation in February 2003...

The most recent bank failure was Euro Bank Ltd which was placed into liquidation in February 2003, after becoming insolvent following substantial losses emanating

from huge non-performing loans. One month later Daima Bank Ltd was placed under statutory management by Central Bank after a prolonged loss-making period that led to gross under capitalisation. The statutory manager is pursuing various options of restructuring the bank. Similarly the Prudential Building Society was placed under statutory management in June 2003 mainly due to its insolvency which eroded its capital base.

... while Daima Bank and Prudential Building Society placed under statutory management in March 2003 and June 2003, respectively

1.4 Foreign Exchange Bureaus

Foreign exchange bureaus were introduced in 1995 with the primary objective of enhancing efficiency in the foreign exchange market. The bureaus are authorised to buy and sell foreign currency in cash but are not allowed to sell any other instruments such as travellers cheques and bank drafts without explicit authority from the Central Bank of Kenya. During the period under review, several foreign exchange bureaus have been appointed by commercial banks as sub-agents in international money transfers through Western Union.

Number of upcountry Forex bureaus increased from 48 to 81

Following the uplifting of the moratorium on the licencing of Foreign Exchange Bureaus in May 2003, the number of operating bureaus increased from 48 to 81 by December 2003 as shown in Table 2. Sixty four of them are located in Nairobi and eleven in Mombasa and one each in Nakuru, Kisumu, Eldoret, Malindi, Namanga and Narok.

Inspection of the operations of most forex bureaus was carried out during the year 2003. The consolidated financial position as at 31st December 2003 indicated that the total assets of the bureaus amounted to Ksh 1,011m while profit before tax was Ksh 49m.

TABLE 2: DISTRIBUTION OF FOREIGN EXCHANGE BUREAUS - DEC. 2003

	2003	2002
Nairobi	64	40
Mombasa	11	4
Nakuru	1	1
Kisumu	1	1
Eldoret	1	1
Malindi	1	1
Namanga	1	-
Narok	1	-
Total	81	48

Source: Central Bank of Kenya

1.5 Developments in Information and Communications Technology

1.5.1 Impact of Information Technology in the Banking Industry

Advancement in Information and Communications Technology (ICT) in the banking industry has enhanced efficiency and improved customer service. This is reflected particularly in the increased use of ATM cards resulting from broadening of ATM network, including additional ATM machines and a wider network of merchants that accept payment through credit/debit cards. This progress has, however, been accompanied with increased operational risks related to card frauds. There is therefore the need for well formulated ICT strategies and security policies to mitigate the possible attendant risks.

The number of ATMs expected to increase with implementation of Kenswitch

The total number of ATMs in the industry as at 31st December 2003 was 230 compared with 166 as at end of December 2001. The number is expected to increase with the implementation of Kenswitch, a Shared ATM network comprising a consortium of eighteen small and medium sized banks, which went live in December 2002. Four banks are currently operating under Kenswitch project with a total of 14 ATMs offering 24 hour service. It is expected that six banks will operate under the project by end of June 2004.

1.5.2 Electronic Transmission of Returns

Nearly all institutions are now in compliance with the requirement of electronic submission of returns to the Central Bank of Kenya. The parallel run came to an end in March 2004 and the system is fully functional. Some few institutions, however, are still not consistent in their submission of returns and have teething problems associated with insufficiency of trained staff and limitations in computer systems .

1.5.3 The Bank Supervision Application Project (BSA)

The Eastern and Southern African (ESAF) Banking Supervision Group and the Central Banks within the Southern Africa Development Community (SADC) region have jointly developed a software for bank supervision operations known as Bank Supervision Application (BSA). The objective is to have a bank supervision application for the purpose of enabling and supporting an improved bank supervisory function in the ESAF/SADC Central Banks. The BSA initiative has also the objective of promoting and harmonising bank supervision practices within the region. The application provides facilities for creating and maintaining supervisory data, licensing banks, conducting on-site and off-site supervision, taking enforcement actions, performing risk monitoring.

The system was developed by T-Systems, a technological company, in conjunction with ESAF/SADC banking supervision experts. The project is currently at the deployment (implementation) stage. So far, the Bank of Mozambique and Bank of Zambia have successfully installed the BSA system while the deployment was to begin at the Bank of Malawi and Bank of Angola on 29th April and 5th May, 2004, respectively. The rest of the Central Banks within the region are expected to implement the system between 2004 and 2005.

Bank Supervision Application project to be implemented in 2004/2005 finacial year

The Central Bank has made plans for the deployment of the system in Bank Supervision Department during 2004/2005 financial year. It is expected that the adoption of the new system will greatly enhance the data management and analytical capabilities of the department. When fully functional, the BSA solution is expected to offer the benefits such as a Centralized system for the performance of routine bank supervision activities such as licensing of banks, off-site analysis, planning and executing on-site inspections, and providing the basis for taking enforcement actions; efficient transmission and processing of returns; generate standard, analytical reports and graphs: export data to Ms-Excel and provide an efficient tool for data analysis and modelling: harmonise bank supervision procedures within the ESAF/SADC region that will facilitate cross-border supervision and enhance transfer of skills.

1.6 Employment and Training in Banking Industry

Employment levels remained relatively unchanged at over 11,000

Following the restructuring measures undertaken by several banks, employment levels in the industry has been on a downward trend for the past six years. However, employment levels in the banking industry as shown in Table 3 remained relatively unchanged during the year. Although some institutions continued to rationalise their staff levels, the decline was offset by increased employment by some institutions occasioned by the opening of new branches. This is evidenced by the

TABLE 3: EMPLOYMENT IN BANKING SECTOR

	2003		2002	
Category	**No.**	**%**	**No.**	**%**
Management	3,096	27.3	3,104	27.4
Supervisory & Sec. Heads	2,564	22.6	2,276	20.1
Clerks & Secretarial staff	4,862	42.9	5,032	44.4
Other Categories	809	7.1	928	7.2
	11,331	**100**	**11,340**	**99**

Source: Central Bank of Kenya

increase in the employment levels in supervisory and section Heads categories to manage the new branches.

In view of the rapid evolution in the banking industry, enhanced technical training in the sector continued to be a high priority. This is aimed at equipping employees with the necessary skills to cope with new challenges posed by increasingly complex technological and market developments. The Kenya School of Monetary Studies (KSMS) continues to play an important role in training, particularly for employees of those institutions that do not have their own training facilities. Staff in Bank Supervision Department kept abreast of the new developments in the banking industry through seminars and workshops both locally and abroad. Following the initiative within the framework of the Monetary Affairs Committee(MAC) of the East African Community (EAC), to strengthen bank supervision and harmonise inspection methods, joint inspections by the three East African Central Banks continued in the year. This arrangement facilitated the sharing of information and continued consultations.

1.7 Compliance with Banking Act and Prudential Regulations

Central Bank of Kenya levied penalties for non compliance with Banking Act

Following the issuance of Banking Circular No. 02 of 2003 on April 11, 2003, all banking institutions are required to make daily returns to the Central Bank on their compliance status. The Central Bank has continued to monitor progress made by institutions in complying with the requirements of the Banking Act and Prudential Regulations. Most institutions are compliant except for a few institutions which continued to violate the Banking Act and Prudential Regulations.

To enforce compliance, the Central Bank invoked the Banking (Penalties) Regulation Legal Notice No. 77 of 1999, which empowers it to levy monetary penalties on banking institutions that do not comply with any directions under the Act. In accordance with these regulations, the Bank levied penalties on those institutions that were in breach of various sections of the Act. Most of the institutions have since made major progress in complying with the relevant laws and regulations. As shown in Table 4, there has been marked improvement in compliance from April 2003 to December 2003. The number of institutions that were non-compliant declined from 22 to 12 during this period. In terms of specific issues, the most frequently violated sections of the Banking Act were related to single lending, which

TABLE 4: PROGRESS ON COMPLIANCE ISSUES

	April 2003	June 2003	September 2003	December 2003
No of institutions not in compliance	22	14	14	12
Frequency of non-compliance	49	38	38	31

Source: Daily returns on compliance from institutions

limits exposures to not more than 25% and 20% of institution's core capital for ordinary and insider lendings, respectively. However, the frequency of non-compliance by banking institutions fell to 31 in December 2003 from 49 in April 2003.

1.8 Bank Charges

Bank charges have become an important source of income, as institutions continue to shift their business towards non funded sources of income. Fees and commissions income rose by 124% from Ksh 6.3.bn in 1999 to Ksh 14.9bn in 2003 while as a percentage of total income, fees and commissions income rose from 21% to 24% in 2003 (see Appendix 13). The increase reflected the decline in income from loans and advances over the years, from Ksh 37.1bn or 58% of total income in 2002 to Ksh 25bn or 42% of total income in 2003.

Central Bank started publishing selected charges in print media

To facilitate public access to information on charges, the Central Bank in 2003, began publishing in the local print media selected charges, alongside other disclosures currently being published. It is anticipated that the disclosures will enhance market discipline and encourage banks to ensure that their tariffs are competitive, justifiable and based on reasonable cost analysis. This is expected to further enhance transparency and disclosure in pricing of banking services. Customers are expected to use the information to source banking services from the least cost banks.

1.9 Surveillance of the Banking Sector

The overall thrust of the Central Bank's supervisory function continued to focus on promoting a sound and stable banking system. The Bank continued to use a combination of on-site and off-site surveillance to fulfil its supervisory responsibilities.

The Bank Supervision Department continued to conduct comprehensive on-site inspections of all institutions in the sector during the year. In evaluating the overall

performance of the institutions, the on-site inspection process makes use of CAMEL rating, an acronym that stands for capital adequacy, asset quality, management, earnings and liquidity. The traditional method of on-site surveillance has been full scope examination of all areas of banking operations including extensive transactions testing.

To compliment on-site inspection, the Department conducts surveillance by analysing supervisory data gathered regularly from financial institutions through standard regulatory reporting forms. The analysis facilitates close monitoring of institution performance and its observance of supervisory requirements over time. Problems are identified as they emerge and corrective supervisory action taken accordingly.

The Department is in the process of developing the necessary arrangements with the objective of adopting a risk-based supervision framework which will focus examination activity to specific areas of risk in institutions.

CHAPTER 2

Performance of The Banking Sector in 2003

2.1 Recent Economic Developments

2.1.1 Growth in Gross Domestic Product (GDP)

Economic performance improved in 2003 as a result of improved economic and political governance

The Kenyan economy recovered to expand in real terms by 1.8 % in 2003 compared with 1.1.% in 2002 and 1.2% in 2001. The economic expansion was broad based but driven mainly by the agricultural and services sectors and partly reinforced by strong macro economic fundamentals. The improved economic and political governance underlined by measures aimed at eradicating corruption also contributed to the economic recovery process.

The economy is expected to gain momentum and expand by 3.1% in 2004 due to the recent normalization of relationship with the development partners and the Government's commitment to creating a favourable investment climate. Progress is also expected in a number of sectors, notably, the agricultural sector which is projected to expand significantly supported by improvements in the management of agricultural marketing and regulatory institutions. The proposed increased investment in the country's physical infrastructure, particularly the planned reconstruction of major highways and regional roads, is also expected to support economic growth.

2.1.2 Inflation

Inflation rose in 2003 due to food price increases

Inflation remained within single digits but edged up substantially in 2003 with the overall annual average inflation increasing to 9.8% in the year compared with 1.9% in 2002 and 5.8% in 2001 as shown in Chart 1 and Table 5. The upward trend in inflation was mainly attributed to food which accounts for 50% of the inflation basket weight. Transport and communication and medical goods and services also contributed significantly to the increase in inflation. Inflation in food related items increased by 13.5% in December 2003 from 5.7% in December 2002. Similarly, inflation in transport and communication rose to 6.2% in December 2003 from 5.7% while inflation in medical goods and services increased to 6.5% from 4.1% over the same period. Inflation in fuel and power, which comprise 4.2% of the inflation basket, however, decreased to 2.6% in December 2003 from 7.5% in December 2002.

CHART 1: TRENDS IN OVERALL INFLATION

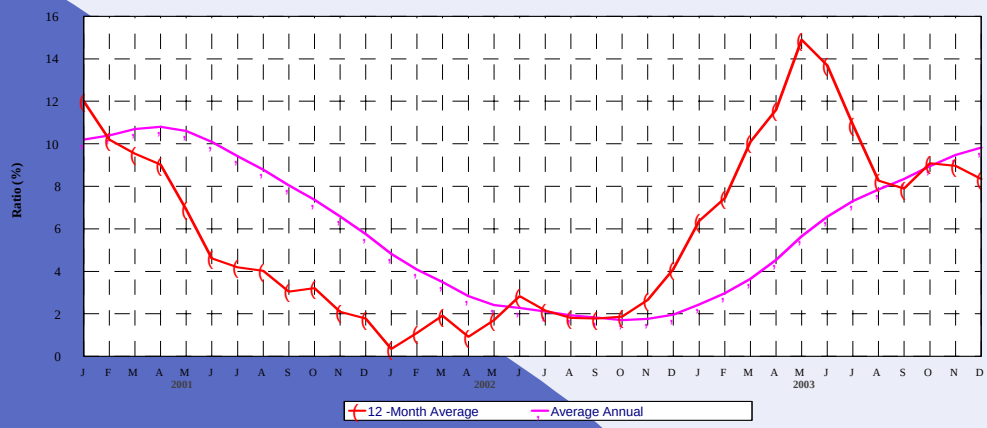


TABLE 5: OVERALL INFLATION

	2001	2002				2003	
	Dec.	Dec.	Jan	Mar	Jun	Sept.	Dec.
12 month Average	1.78	4.1	6.37	10.1	13.7	7.89	8.35
Average Annual	5.76	1.96	2.45	3.64	6.57	8.35	9.82

Source: Central Bank of Kenya

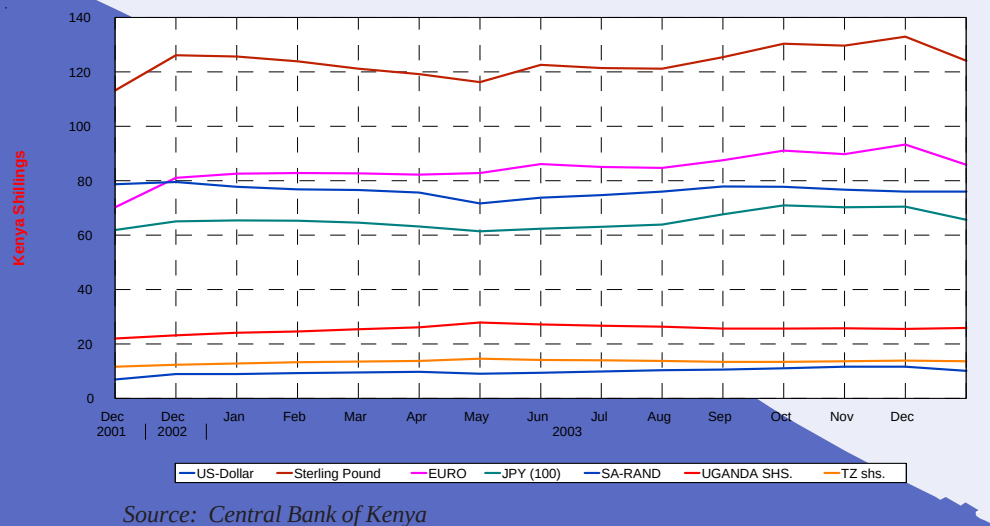
The underlying inflation which excludes food and energy products, however, remained low and below 5% over the 12 month period to December 2003. The average annual underlying inflation declined from 2.9% in December 2002 to 2.7% in December 2003 reflecting prudent monetary policy management at the Central Bank.

2.1.3 Exchange Rates

Shilling strengthened against US dollar but weakened against Euro and Pound

As illustrated in Chart 2 and Table 6, the Kenya shilling exchange rate movement against major international currencies was mixed in 2003. While the shilling strengthened against the US dollar by 4.4% from shs 79.5 per US dollar in

CHART 2: SHILLING EXCHANGE RATE - 2003



Source: Central Bank of Kenya

TABLE 6: SHILLING EXCHANGE RATES - 2003

	2003														
MONTH	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Avg.	Dec. 2002	Dec. 2001
USD	77.72	76.84	76.58	75.66	71.61	73.72	74.75	75.96	77.90	77.77	76.74	76.02	75.94	79.5	78.7
GBP	125.66	123.84	121.17	119.18	116.19	122.53	121.47	121.12	125.46	130.41	129.60	132.93	124.13	126.1	113.2
EURO	82.60	82.78	82.67	82.18	82.82	86.08	85.04	84.70	87.48	91.02	89.78	93.28	85.87	81.0	70.2
JPY (100)	65.41	64.33	64.54	63.14	61.17	62.34	62.99	63.93	67.69	70.97	70.27	70.50	65.61	65.1	61.9
SA-RAND	8.9	9.3	9.5	9.8	9.0	9.4	9.9	10.3	10.6	11.1	11.6	11.6	10.09	8.9	6.9
Uganda shilling	24.08	24.54	25.39	26.14	27.94	27.12	26.70	26.32	25.59	25.60	25.72	25.49	25.89	23.2	22.0
Tanzania shilling	12.81	13.28	13.55	13.74	14.53	14.09	13.93	13.73	13.44	13.44	13.67	13.90	13.68	12.3	11.6

Source: Central Bank of Kenya

December 2002 to Ksh 76.0 per US dollar in December 2003, it weakened against the pound sterling and Euro by 9.6% and 18.4%, respectively, during the period.

The shilling remained relatively stable against the US dollar during most of 2003 exchanging at Ksh 76.6 per US dollar in March, Ksh 76.7 per US dollar in November and Ksh 76.0 in December. The relative stability in the shilling exchange rate against the US dollar reflected the virtual matching between the demand for and supply of US dollar in the foreign exchange market except for a few episodes particularly in May and June 2003 when speculative tendencies of the foreign exchange market players influenced the shilling movement. In tandem with the strengthening of the Euro and pound sterling relative the US dollar in the international foreign exchange market, the shilling weakened against the Euro and the Pound Sterling in 2003.

On the regional front, the shilling strengthened against both the Tanzania shilling and Uganda Shilling by 13.8% and 5% respectively in 2003. The strengthening of the Kenya shilling against the regional currencies reflected the dominating position of Kenya in regional trade following the relaunch of the East African Community and increased trade due to the expected formation of the East African Customs Union in 2004.

2.1.4 Interest Rates

Interest rates generally declined in 2003

The downward trend in interest rates which began in February 2001 continued into the year 2003 and was reflected in the decline in all the primary interest rates. As shown in the Chart 3 and Table 7 below, the interest rates on the 91-day Treasury bill fell from 8.4% in December 2002 to 1.5% in December 2003 while the average overdraft rate declined to 13.7% from 18.6% over the same period. Similarly, the inter-bank rates declined to settle at 0.8% in December 2003 from 8.7% in December 2002. Following the direction of other interest rates, the average lending and deposits rates fell from 18.3% and 4.7% in December 2002 to 13.5%

CHART 3: SHORT-TERM INTEREST RATES - 2003

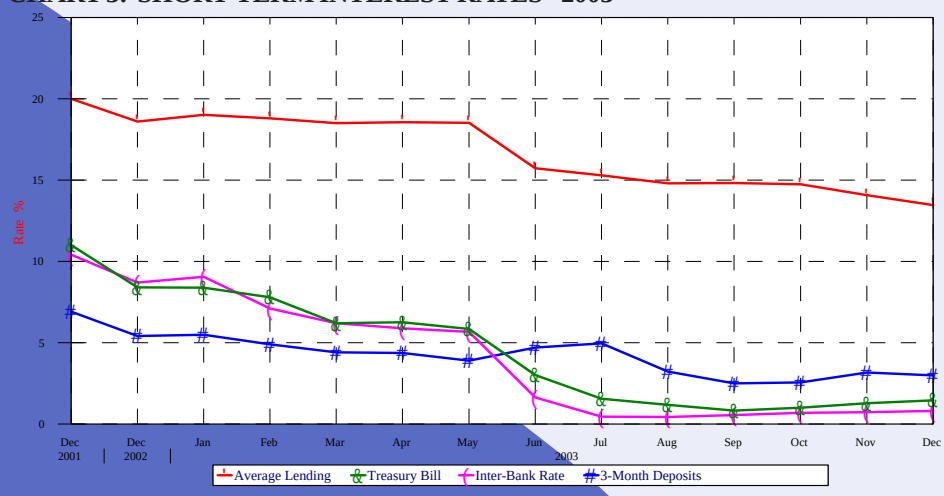


TABLE 7: INTEREST RATES - 2003 (%)

	2003												2002	2001
FACILITY	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Dec	Dec
Average Lending	19.02	18.80	18.50	18.57	18.52	15.73	15.30	14.81	14.82	14.75	14.07	13.47	18.6	20.0
Treasury Bill	8.38	7.80	6.20	6.25	5.84	3.00	1.54	1.18	0.83	1.00	1.28	1.46	8.4	11.0
Inter-bank	9.04	7.10	6.20	5.88	5.67	1.62	0.45	0.43	0.54	0.69	0.73	0.81	8.7	10.4
3-Months Deposit	5.49	4.90	4.40	4.37	3.90	4.69	3.96	3.23	2.50	2.56	3.17	2.99	5.4	6.9

Source: Central Bank of Kenya

and 3.3% in December 2003, respectively. Consequently, the spread between the lending and deposit rates narrowed to 10.2% in December 2003 from 13.6% in December 2002.

2.1.5 Monetary Developments

Broad money supply expanded during the year

The expansion in the main money supply aggregates, namely, broad money supply, M3, comprising currency in circulation and private sector demand deposits and broader money supply, M3X, comprising M3 and residents' foreign currency deposits exceeded both respective targets and expansion in 2002. M3 rose by 12.7% compared with 7.3% target growth and the 8.8% realized over a similar period in 2002. The increase in M3, reflected an acceleration in demand deposits to 43.8% in 2003 from 13.6% increase in 2002 which offset the deceleration in currency in circulation to 3% increase in 2003 from 18% in 2002.

The broader money supply measure ,M3X, which is the intermediate target for monetary policy management, increased by 11.7% compared with 6.4% target growth and 10% increase in 2002. The expansion in M3X was generated from both external and domestic sources as reflected in 9.7% build up in net foreign assets (NFA) and 12.3% expansion in net domestic assets (NDA). The growth in NFA reflected 25.6% increase in foreign exchange holdings at the Central Bank following foreign exchange purchases from the inter-bank market and external

receipts from development partners during the second half of 2003. The increase in the banking system NDA in 2003 was attributed to 11.1 % increase in domestic credit, particularly credit to government which increased by 23.2% while that to private and other public sectors rose by 5.9%. Meanwhile, the broadest measure of money supply, M3XT, comprising M3X and non-bank public holdings of government securities increased by 9.2% in 2003 compared with 8.1% target growth and 12.8 increase in 2002. The slowdown in M3XT was attributed to the decrease in non bank public holdings of government securities due to the decline in their yields during 2003.

2.2 Overview of Banking Sector Performance

The recovery of the economy had a positive impact on the banking sector in 2003 as reflected by changes in the structure of both the consolidated balance sheet and profit and loss account of the banking sector. The sector recovered substantially in 2003 and mainly reflected in increased profitability due to increases in income and lower level of bad debt provisions and substantial decrease in interest expenses. Strong capitalization levels supported by increased profits and additional capital injection also characterized the sector. Similarly, the asset quality of the banking industry improved during the year with the net non-performing loans ratio declining to 11.2% in December 2003 from 14.1% in December 2002. There was also a marked improvement in governance in the sector as reflected by increased compliance with the Banking Act and the Central Bank Prudential Regulations.

2.3 Structure of the Banking Sector Balance Sheet

2.3.1 Analysis of assets

Level and Trend

The general downward trend in net assets of the banking sector since 1998 was reversed in 2002. Total assets in the banking system increased by Ksh 50bn from Ksh 466bn in 2002 to Ksh 516bn as at the end of December 2003. As shown in Table 8 and Chart 4, the increase in assets was largely due to increases in loans and investments in government securities which rose by Ksh 15bn and KSh 40bn, respectively.

Composition of assets

Despite the declining trend in the proportion of loans to total assets since 1998, total assets continued to be comprised mainly of loans that stood at Ksh 241bn in

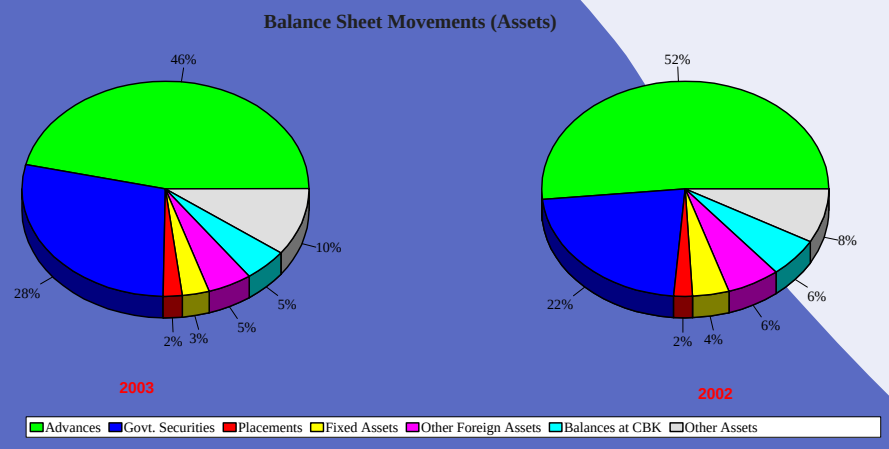
the period under review compared with Ksh 226bn as at December 2002. This accounted for 46% of the total assets compared with 49% in the previous year. The other significant asset was investment in government securities whose share of assets has been on an increasing trend and which accounted for 28% compared with 22 % in 2002.

TABLE 8: BALANCE SHEET MOVEMENTS - ASSETS

Kshs"million"

	2003		2002		2001		2000	
Assets	Amount	%	Amount	%	Amount	%	Amount	%
Cash	9,688	2%	10,495	2%	8,943	2%	9,754	2%
Balances at CBK	24,408	5%	25,896	6%	26,511	6%	26,119	6%
Placements	12,330	2%	11,031	2%	10,016	2%	14,536	3%
Government Securities	143,049	28%	103,008	22%	92,781	22%	71,923	17%
Investments	4,555	1%	6,314	1%	4,986	1%	3,815	1%
Domestic Loans	197,591	38%	186,096	40%	178,435	42%	192,563	44%
Foreign Loans	43,187	8%	39,690	9%	36,248	9%	33,736	8%
Other Foreign Assets	26,875	5%	36,152	8%	25,762	6%	35,043	8%
Fixed assets	17,082	3%	18,349	4%	18,608	4%	18,652	4%
Other assets	37,060	7%	28,839	6%	22,673	5%	28,397	7%
Total assets	515,825	100%	465,870	100%	424,963	100%	434,538	100%

CHART 4: GLOBAL BALANCE SHEET



Source: Central Bank of Kenya

As shown in Table 8 and Chart 4 above, the proportion of loans in banks' balance sheets has been on a declining trend. With the anticipated upturn in the country's economic performance, this trend is expected to reverse, thus enhancing the intermediation role of banking institutions.

Credit distribution to the private sector

Greater emphasis placed on personal loans by banks

Total credit to various economic sectors increased in the period under review reflecting improved economic activities and the low borrowing costs. The allocation of credit favoured mainly the private households and the Trade and Hotels sub-

TABLE 9: SECTORAL DISTRIBUTION OF CREDIT TO THE PRIVATE SECTOR AND SECTORAL GDP CONTRIBUTION

	SECTOR	2003 Credit Amount. (bn)	2003 % of Total	2003 % of GDP	2002 Credit Amount. (bn)	2002 % of Total	2002 % of GDP	Annual Change (%) 2003/2002
1	Agriculture	27.5	10.4	28.0	24.9	10.0	28.1	10.4
2	Manufacturing	52.7	19.8	15.3	50.6	20.4	15.2	4.2
3	Trade & Hotels	47.2	17.8	15.0	41.5	16.7	14.9	13.7
4	Finance, Insurance, Real Estate & Buss. Serv.	66.1	24.9	12.3	66.3	26.7	12.4	-0.3
5	Transport & Communications	16.8	6.3	7.5	16.7	6.7	7.3	0.6
6	Building & Construction	19.4	7.3	2.7	20.0	8.1	2.8	-3.0
7	Private households	24.8	9.3	3.5	18.1	7.3	3.4	37.0
8	Other Services	11.1	4.2	15.7	10.2	4.1	15.9	8.8
9	Total	**265.6**	100.0	100.0	**248.3**	**100.0**	100.0	7.0

CHART 5: CREDIT DISTRIBUTION

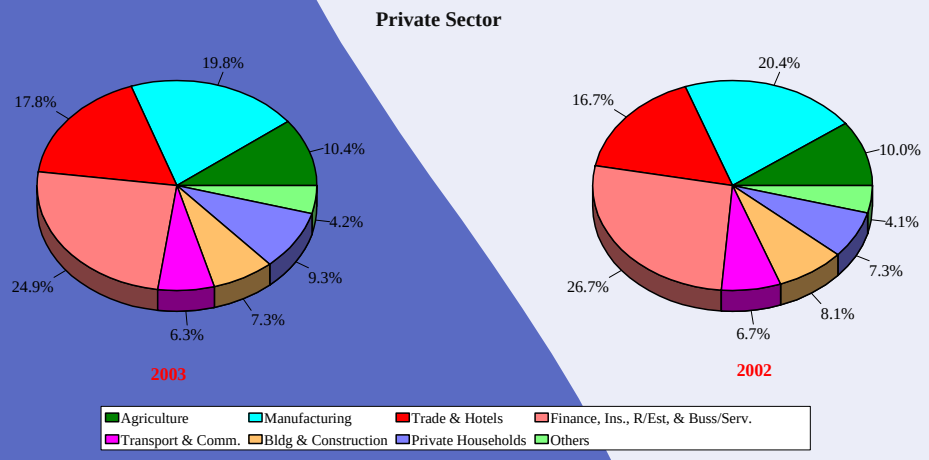
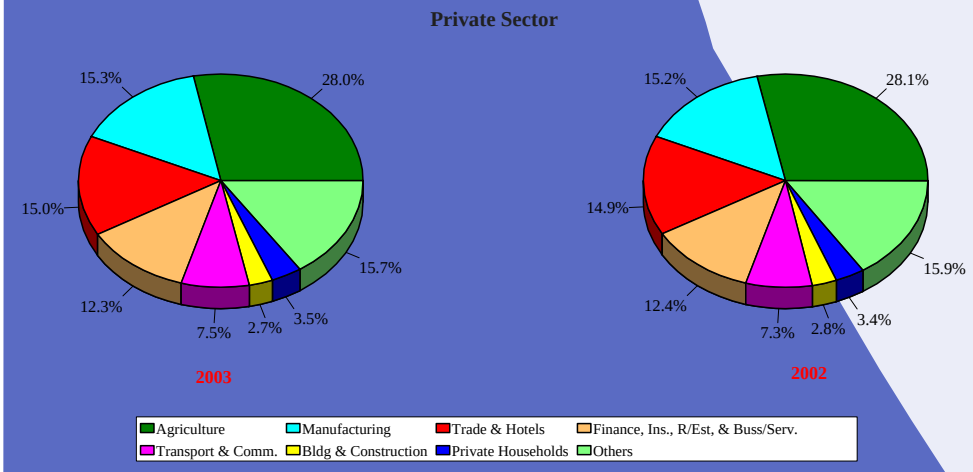


CHART 6: SECTORAL GDP DISTRIBUTION



Source: Central Bank of Kenya

sectors. The increased lending to private households was attributed to the renewed emphasis on personal loans by a large number of banks in the sector mainly to those employed in the formal sector.

In terms of sectoral distribution of credit as shown in Table 9 and charts 5 and 6, the agricultural sector, which accounts for approximately 28% of the economy, received Ksh 28bn or 10.4% of total credit to the private sector. The financial and services sub-sector was allocated Ksh 66.1bn or 25% of total private sector credit which was the highest proportion of private sector credit. The sector contributed only 12.3% of GDP. This imbalance is partly attributed to perceived credit risks in the agricultural sub-sector compared with the relatively less risky financial sector.

2.3.2 Analysis of Liabilities

Level and trend

Banking sector total liabilities stood at Ksh 455bn, an increase of 10.5% or Ksh 43bn from Ksh 412bn at the end of 2002. The increase was mainly attributed to deposits which rose by 12% from Ksh 368bn to Ksh 414bn.

Composition of liabilities

Deposit liabilities remained the main sourceof funding for the banking sector

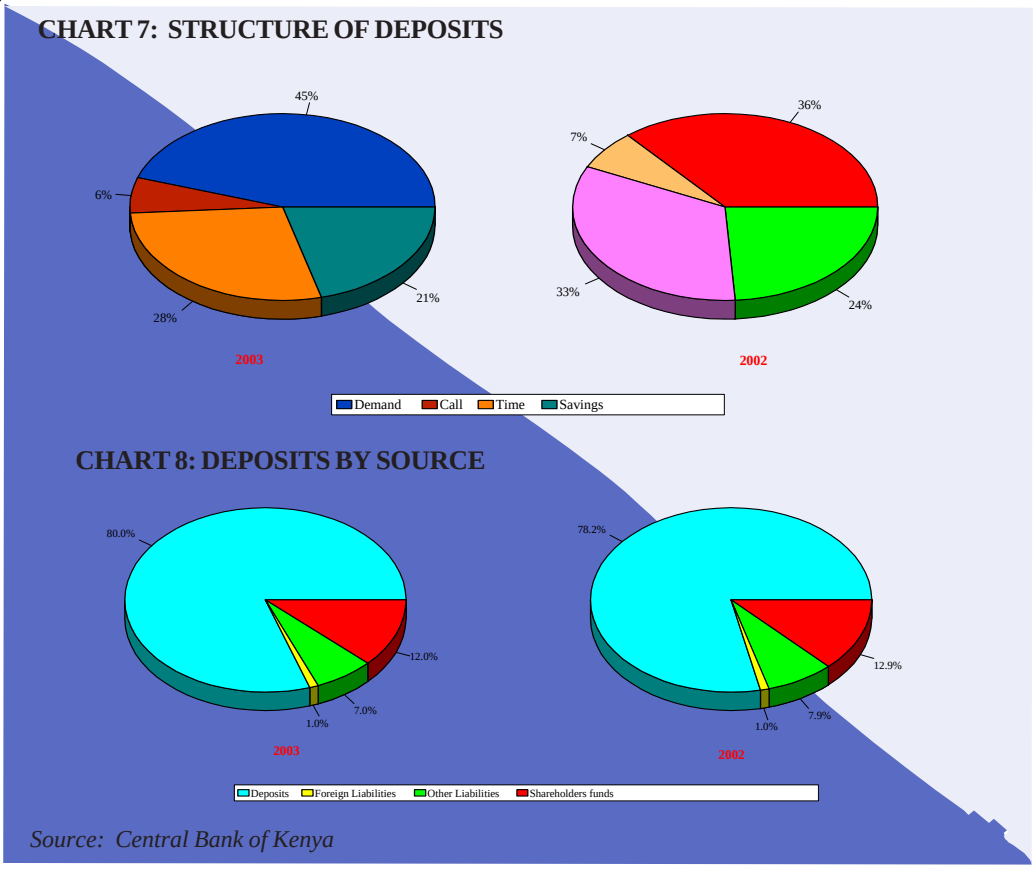
As shown in Table 10, Deposit liabilities continued to be the primary source of funding for the banking sector in 2003. Domestic deposits liabilities which accounted for 69% of total liabilities increased from Ksh 311bn to Ksh 356 bn. However, foreign liabilities declined during the year due to some matured foreign

TABLE 10: BALANCE SHEET MOVEMENTS - LIABILITIES

Kshs"million"

	2003		2002		2001		2000	
	Amount	%	Amount	%	Amount	%	Amount	%
Liabilities								
Local Currency Deposits	355,957	69%	311,457	67%	283,591	67%	326,703	75%
Foreign Currency deposits	58,884	11%	56,616	12%	48,977	12%	N/A	N/A
Accrued Interest	1,131	0%	2,068	0%	3,035	1%	3,797	1%
Foreign Liabilities	4,772	1%	5,994	1%	7,730	2%	9,386	2%
Other Liabilities	34,062	7%	35,526	8%	25,097	6%	38,831	9%
Total Liabilities	454,806	88%	411,661	88%	368,430	87%	378,717	87%
Net Assets / Liabilities	60,993	12%	54,209	12%	56,533	13%	57,072	13%
Capital & Reserves								
Paid-up Assigned Capital	38,803	8%	30,291	7%	30,569	7%	42,344	10%
Reserves	15,495	3%	21,444	5%	20,389	5%	10,742	2%
P & L Account	6,696	1%	2,470	1%	5,575	1%	3,986	1%
Total Shareholders Funds	60,994	12%	54,205	12%	56,533	13%	57,072	13%

Source: Central Bank of Kenya



lines of credit which were not renewed. Non-profit making institutions and individuals continued to be highest source of deposits contributing Ksh 242bn and accounting for 63% of total deposits. As shown in Charts 7 and 8, there was significant increase in demand and savings deposits during the year, reflecting the unattractive interest rates offered on term deposits that fell from 4.6% in 2002 to 2.7% in 2003.

2.3.3 Capital and reserves

Capital and reserves of the banking sector increased by Ksh 6.8bn to Ksh 61bn from Ksh 54.2bn at the end of 2002. The increase in capital and reserves was attributed to general improvement in the profitability of most institutions and favourable turnaround into profitability by one institution from its loss making position in 2002.

2.4 Structure of Banking Sector Profit and Loss Account

2.4.1 Overview

The performance of the banking sector in terms of profitability improved substantially in 2003, with the pre-tax profits increasing by 134% or Ksh 8.1bn

The pre-tax profit increased by Ksh 8.1bn

from Ksh 6bn in 2002 to Ksh 14.1bn in 2003. Commercial banks contributed 95% of the increase while non-banks financial institutions and building societies contributed 2.5% each. Out of 49 institutions that were operating, 44 made an aggregate profit of Ksh 15.5bn while the remaining 5 made a combined loss of Ksh 1.4bn. The increase in profitability in the banking sector was attributed partly to the marginal improvement in performance of the economy that made bad debt charge decrease by Ksh 2.7bn from Ksh 11.1bn to Ksh 8.4bn in 2003 and the reduction on cost of deposits by Ksh 4.5bn from Ksh 13bn to Ksh 8.5bn in 2003.

2.4.2 Income

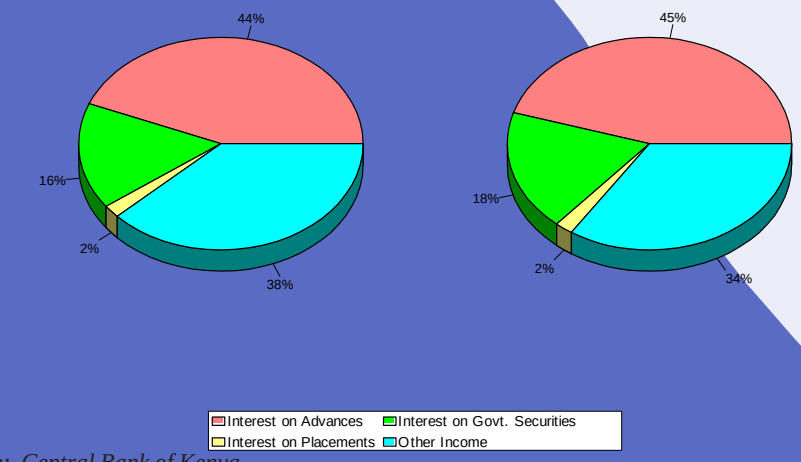
Total income for the banking industry was Ksh 63.9bn

Total income of the banking system increased marginally by 1% from Ksh 63.5bn to Ksh 63.9bn in 2003.The increase in income was from non-bank financial institutions and building societies as income from commercial banks declined by Ksh 127million. As illustrated in Table 11 and Chart 9, interest on loans and advances remained the major source of income at Ksh 27.9bn compared with Ksh 28.7bn in 2002. Its contribution

TABLE 11: INCOME AND EXPENDITURE ITEMS

Income	2003		2002		% change
	Ksh. Bn	%	Ksh. Bn	%	
Interest on advances	27.9	43.7	28.7	45.2	-2.8
Interest on government securities	10.3	16.1	11.8	18.6	-12.7
Interest on placements	1	1.6	1.3	2.0	-23.1
Other income	24.7	38.7	21.7	34.2	13.8
Total Income	63.9	100.0	63.5	100.0	0.6
Expenses					
Interest expenses	8.5	13.3	13.0	20.5	-34.6
Bad debts charge	8.4	13.1	11.1	17.5	-24.3
Salaries and wages	14.8	23.2	15.9	25.0	-6.9
Other expenses	18.1	28.3	17.5	27.6	3.4
Total expenses	49.8	77.9	57.5	90.6	-13.4
Profit before tax	14.1		6.0		135.0

CHART 9: INCOME AS A PERCENTAGE OF TOTAL INCOME



Source: Central Bank of Kenya

to total income, however, declined from 45% to 44% in 2003. The marginal increase in income from loans and advances can be attributed to unsecured personal lending. Banking institutions, however, continued to charge low interest rates as a result of declining indicative Treasury bill rates. Interest from government securities declined from Ksh 11.8bn to Ksh 10.3bn in 2003 and their contribution to income declined from 18.6% to 16.1%.

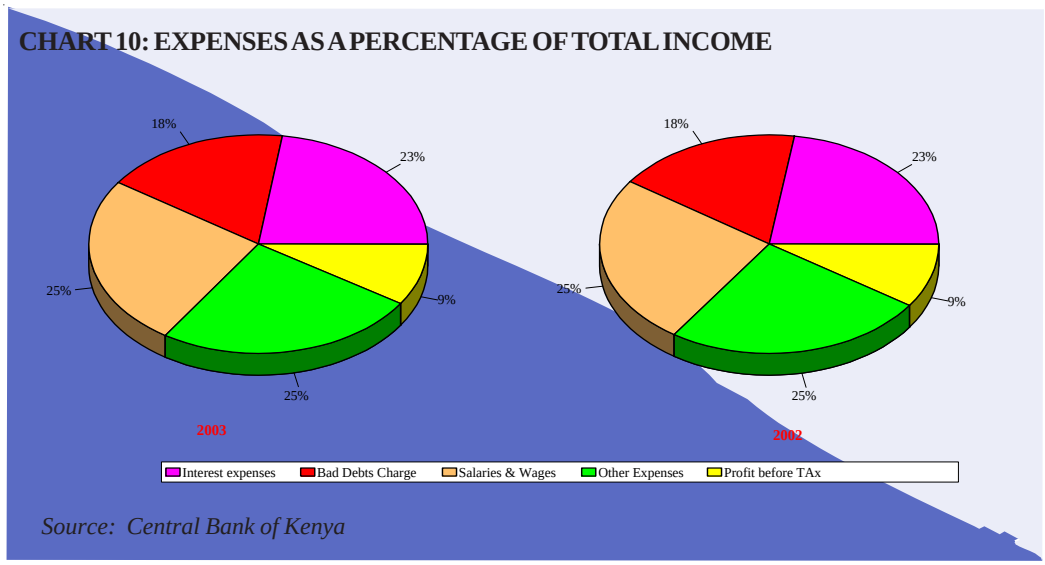
Income from other sources, including fees, commissions and foreign exchange gains rose from Ksh 21.1bn to Ksh 23.9bn in 2003 following increased emphasis on non-interest income as a source of revenue. Similarly, the contribution of non-interest income to total income increased from 33% in 2002 to 37% in 2003 reflecting deliberate move by banking institutions to shift away from traditional sources of income to fee and commission-based income as general interest rates remained low.

2.4.3 Expenses

Total expenses for banking sector were Ksh 49.8bn

Total expenses decreased by 13.4% from Ksh 57.5bn to Ksh 49.8bn in 2003. The decline in expenses was solely attributed to rationalization programs undertaken by commercial banks in 2002. Interest on deposits accounted for 17% of total expenses compared with 23% in the year 2002. The decline in interest on deposits was due to lower interest rates offered by financial institutions. As a percentage of total income, interest expense fell from 22.8% to 15.1% in 2003. Provisions for bad and doubtful debts declined by Ksh 2.7bn from Ksh 11.1bn to Ksh 8.4bn in 2003. As a percentage of total income provisions for bad and doubtful debts declined from 17.5% in 2002 to 13.2% as shown in Chart 10.

CHART 10: EXPENSES AS A PERCENTAGE OF TOTAL INCOME



Source: Central Bank of Kenya

2.5 Market Share

The banking sector continued to be dominated by a few banks as shown in Table 12. Thirteen banks in peer group I with total net asset base of Ksh 394bn accounted for 80.8% of the banks' total net assets of Ksh 487bn. These banks in peer group 1 also contributed 94.1% of the banks' total pre-tax profits. The remaining 30 banks had a total net asset base of Ksh 93bn and accounted for 19.2% of the banks' total assets and contributed 5.9% of the banks' pre-tax profits. With respect to non-bank financial institutions as shown in Table 13, only one institution was in

TABLE 12: BANKS RANKING BY ASSETS AND DEPOSITS AS AT DECEMBER 2003

PEER	ASSET RANGE	NUMBER OF	NET ASSETS		DEPOSITS		PRE-TAX PROFITS	
GROUP	Shs' billion	INSTITUTIONS	Shs' billion	Market Share	Shs' billion	Market Shar	Shs'million	Market Share
1	Over 10	13	393.6	80.8%	320.9	82.1%	12,748.1	94.1%
2	5-10	13	60.4	12.4%	49.1	12.5%	374.1	2.8%
3	3-5	7	19.8	4.1%	13.3	3.4%	236.8	1.7%
4	1-3	8	12.2	2.5%	7.0	1.8%	300.2	2.2%
5	0-1	2	1.1	0.2%	0.7	0.2%	- 107.3	-0.8%
GRAND TOTAL		**43**	**487.1**	**100.0%**	**391.0**	**100.0%**	**13,551.9**	**100.0%**

TABLE 13: NBFIs RANKING BY ASSETS AND DEPOSITS AS AT DECEMBER 2003

PEER	ASSET RANGE	NUMBER OF	NET ASSETS		DEPOSITS		PRE-TAX PROFITS	
GROUP	Shs' billion	INSTITUTIONS	Shs' billion	Market Share	Shs' billion	Market Shar	Shs'million	Market Share
1	Over 10	1	10.8	61.8%	9.4	64.8%	112.4	39.8%
2	5-10	0	0.0	0.0%	0.0	0.0%	0.0	0.0%
3	3-5	1	3.9	22.4%	3.1	21.4%	17.2	6.1%
4	1-3	1	2.7	15.5%	2.0	13.7%	169.4	60.0%
5	0-1	1	0.1	0.4%	0.0	0.1%	-16.6	-5.9%
GRAND TOTAL		**4**	**17.5**	**100.0%**	**14.5**	**100.0%**	**282.5**	**100.0%**

TABLE 14: BUILDING SOCIETIES RANKING BY ASSETS AND DEPOSITS AS AT DECEMBER 2003

PEER	ASSET RANGE	NUMBER OF	NET ASSETS		DEPOSITS		PRE-TAX PROFITS	
GROUP	Shs' billion	INSTITUTIONS	Shs' billion	Market Share	Shs' billion	Market Shar	Shs'million	Market Share
1	Over 10	0	0.0	0.0%	0.0	0.0%	0.0	0.0%
2	5-10	1	6.1	53.8%	5.0	53.2%	62.1	22.2%
3	3-5	1	3.9	34.7%	3.4	35.8%	142.7	50.9%
4	1-3	1	1.3	11.5%	1.0	11.0%	75.6	27.0%
5	0-1	0	0.0	0.0%	0.0	0.0%	0.0	0.0%
GRAND TOTAL		**3**	**11.3**	**100.0%**	**9.4**	**100.0%**	**280.4**	**100.0%**

Source: Published Audited Accounts

peer group I and controlled 61.8% of net assets. The institution also controlled 65% of total deposit liabilities. One building society in peer group 2 as shown in Table 14 controlled 53.8% of the net assets. None of the building societies had an asset base of more than Ksh 10bn and hence no society was classified in peer group I. The market share are shown in Appendix 3.

2.6 Year-end Performance Rating

The performance of the banking sector is assessed in terms of the internationally recognized CAMEL, an acronym for Capital adequacy (C) Asset quality (A), Management quality (M), Earnings (E) and liquidity (L). The relative performance is classified in five categories as follows:

	Rating	Performance Characteristics
1.	**Strong**	Excellent performance in all parameters
2.	**Satisfactory**	Good performance in at least three parameters
3.	**Fair**	Average performance and meets minimum statutoryrequirements
4.	**Marginal**	Below average performance in some parameters
5.	**Unsatisfactory**	Poor performance in most parameters and violates minimum statutory requirements.

As shown in Table 15, the overall performance of the sector was rated satisfactory, an improvement from the fair rating in the previous year. Nine institutions with a combined market share of 8.6% were rated strong while only one bank was rated unsatisfactory.

Overall performance rating for the banking sector improved to satisfactory

TABLE 15: YEAR END OVERALL PERFORMANCE RATINGS

	2003			2002		
	NUMBER OF	NET ASSETS		NUMBER OF	NET ASSETS	
CATEGORY	INSTITUTIONS	Shs. Billion	%	INSTITUTIONS	Shs. Billion	%
STRONG	9	44.5	8.6	6	21.3	4.6
SATISFACTORY	23	298.8	57.9	26	249.9	53.6
FAIR	13	124.9	24.2	13	84.8	18.2
MARGINAL	5	47.5	9.2	7	109.1	23.4
UNSATISFACTORY	0	0.0	0.0	1	0.8	0.2
TOTALS	50	515.8	100.0	53	465.9	100.0
OVERALL	**SATISFACTORY**			**FAIR**		

Source: Central Bank of Kenya

2.6.2 Capital adequacy

Capital provides the cushion to protect depositors incase of loss. Capital adequacy ratio is measured in terms of total capital as a percentage of total risk weighted assets which shows the amount of capital an institution holds relative to the risk profile of its assets. Banking institutions are required to maintain a minimum of 12%. In addition to this requirement, institutions are expected to satisfy other capital requirments such as minimum core capital which as at end of 2003 was Ksh 250m for banks and Ksh 200m for NBFIs. Core capital is the capital after adjustments for losses and excludes revaluation reserves. It also excludes goodwill and investment in unconsolidated subsidiary, institution's investments in capital instruments of other institutions and other intangible assets. The other minimum capital requirements include the ratio of the core capital to deposits of 8% and minimum ratio for core capital to total risk weighted assets ratio of 8%. The overall rating of the banking sector's capital strength was satisfactory, same as the previous year. Institutions with unsatisfactory capital rating were only 5 and this did not constitute a significant threat to the sector, as they held a market share of only 6.6% in terms of net assets as shown in Table 16.

TABLE 16: YEAR END CAPITAL ADEQUACY RATINGS - BANKING SECTOR

	2003			2002		
	NUMBER OF	NET ASSETS		NUMBER OF	NET ASSETS	
CATEGORY	INSTITUTIONS	Shs. Billion	%	INSTITUTIONS	Shs. Billion	%
STRONG	33	153.9	29.8	33	128.6	27.6
SATISFACTORY	5	78.9	15.3	5	44.7	9.6
FAIR	6	238.3	46.2	6	195.7	42.0
MARGINAL	1	10.8	2.1	3	92.5	19.8
UNSATISFACTORY	5	33.9	6.6	6	4.5	1.0
TOTALS	50	515.8	100.0	53	465.9	100.0
OVERALL	**SATISFACTORY**			**SATISFACTORY**		

Source: Central Bank of Kenya

2.6.3 Asset quality

Overall asset quality for banking sector was rated fair

The overall asset quality as measured in terms of the ratio of net non-performing loans to gross loans was rated fair as in the previous year. Although the ratio declined from 14% to 11% over the period, it did not have a significant impact on the overall quality of assets as the overall rating remained fair. As shown in table 17, twenty four institutions had their asset quality rated strong, compared with seventeen in 2002. The number of institutions with unsatisfactory asset quality remained eleven in both years.

TABLE 17: YEAR END OVERALL ASSET QUALITY RATINGS-BANKING SECTOR

	2003			2002		
	NUMBER OF	NET ASSETS		NUMBER OF	NET ASSETS	
CATEGORY	INSTITUTIONS	Shs. Billion	%	INSTITUTIONS	Shs. Billion	%
STRONG	24	221.8	43.0	17	88.0	18.9
SATISFACTORY	4	108.2	21.0	10	187.8	40.3
FAIR	8	84.3	16.3	10	85.2	18.3
MARGINAL	3	63.5	12.3	5	15.5	3.3
UNSATISFACTORY	11	38.0	7.4	11	89.4	19.2
TOTALS	50	515.8	100.0	53	465.9	100.0
OVERALL	**FAIR**			**FAIR**		

2.6.4 Earnings

The overall rating for earnings improved from fair to satisfactory in 2003 following improved profitability during the year. Institutions whose earnings were rated strong remained at 10 as in the previous year while those rated unsatisfactory declined from 10 to 7 as shown in Table 18.

Overall ratings for banking sector earnings improved from fair to satisfactory

TABLE 18: YEAR END OVERALL EARNING RATINGS - BANKING SECTOR

	2003			2002		
	NUMBER OF	NET ASSETS		NUMBER OF	NET ASSETS	
CATEGORY	INSTITUTIONS	Shs. Billion	%	INSTITUTIONS	Shs. Billion	%
STRONG	10	180.8	35.1	10	79.2	17.0
SATISFACTORY	7	70.5	13.7	3	17.8	3.8
FAIR	15	138.9	26.9	17	161.0	34.6
MARGINAL	11	96.1	18.6	13	108.0	23.2
UNSATISFACTORY	7	29.5	5.7	10	100.0	21.5
TOTALS	50	515.8	100.0	53	465.9	100.0
OVERALL	**SATISFACTORY**			**FAIR**		

Source: Central Bank of Kenya

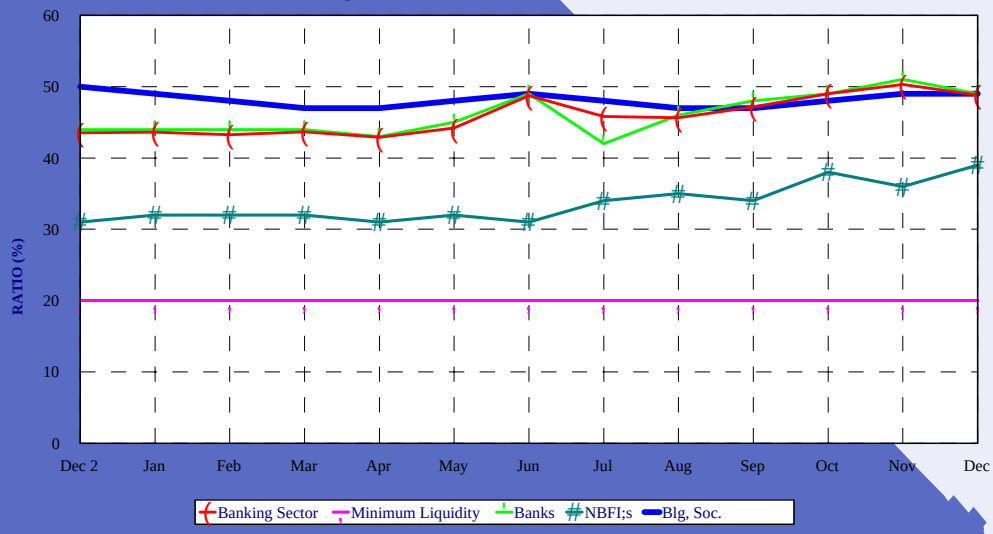
2.6.5 Liquidity

The liquidity is measured in terms of net liquid assets as a percentage of deposit liabilities and is a reflection of an institution's ability to meet its maturing obligations. The overall liquidity rating for the sector was rated strong as in the previous year. Thirty six institutions with a combined market share of 77% were rated strong while only one bank with a market share of 5% was rated unsatisfactory.

TABLE 19: YEAR END OVERALL LIQUIDITY RATINGS-BANKING SECTOR

	2003			2002		
	NUMBER OF	NET ASSETS		NUMBER OF	NET ASSETS	
CATEGORY	INSTITUTIONS	Shs. Billion	%	INSTITUTIONS	Shs. Billion	%
STRONG	36	401.9	77.9	36	303.8	65.2
SATISFACTORY	12	83.7	16.2	9	86.1	18.5
FAIR	1	4.3	0.8	2	29.8	6.4
MARGINAL	0	0.0	0.0	2	5.3	1.1
UNSATISFACTORY	1	26.0	5.0	4	40.9	8.8
TOTALS	50	515.801	100.0	53	465.9	100.0
OVERALL	**STRONG**			**STRONG**		

CHART 11: AVERAGE LIQUIDITY - 2003



Source: Central Bank of Kenya

2.7 Non-Performing Loans and Provisions in Banking Sector

Risk classification of loans

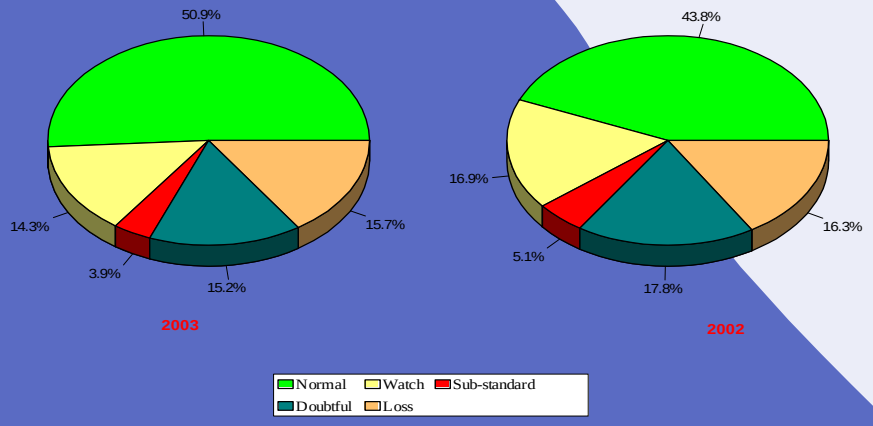
Total performing loans amounted to Ksh 206bn or 65% of total loans

The total performing loans comprising loans classified as normal and watch increased from Kshs.183b or 61% of total loans as at December, 2002 to Kshs.206bn or 65% of total loans as at December, 2003, as shown in Table 20, Appendix 7 and chart 11. Loans classified as non performing namely, substandard, doubtful and loss declined from Kshs.119bn or 39% of total loans as at December 2002 to Kshs.110bn or 35% of total loans as at December 2003.

TABLE 20: RISK CLASSIFICATION OF LOANS

No.	Item	2003		2002	
	Category	Amount Kshs	%	Amount Kshs	%
1	Normal	160,905	50.9	132,108	43.8
2	Watch	45,074	14.3	51,099	16.9
3	Substandard Accounts	12,386	3.9	15,476	5.1
4	Doubtful Accounts	47,981	15.2	53,707	17.8
5	Loss Accounts	49,532	15.7	49,322	16.3
	Total Loans	**315,878.00**	**100.0**	**301,712**	**100.0**

CHART 12: RISK CLASSIFICATION OF LOANS



Source: Central Bank of Kenya

As shown in Table 21, the banking institutions cushioned themselves against potential losses by making specific provisions of Ksh 33.4bn and after taking into account an estimated realisable value of securities of Ksh 34.3bn, the net exposure was only 1.1%.

TABLE 21: NON-PERFORMING LOANS & PROVISIONS (Ksh m)

	Item	Dec-03	Dec-02	Change
1	Total Loans (6-9)	276,732	261,418	6%
2	Specific Provisions Held	33,390	33,512	0%
3	General Provisions	2,706	2,422	12%
4	Total Provisions (2+3)	36,096	35,934	0%
5	Net Loans (1 - 4)	240,636	225,484	7%
6	Total NPLs (7 - 9)	70,753	78,211	-10%
7	Net Npls (6-2)	37,363	44,699	-16%
8	Value of Securities (estimated)	34,302	43,554	-21%
9	Net Exposure (7-8)	3,061	1,145	167%
10	Total Npls/ Total Loans (6/1)	26%	30%	
11	Net Npls / Net Loans (7/5)	16%	20%	
12	Total provisions / Total Loans (4/1)	13%	14%	
13	Nat Exposure /Total Loans (9/1)	1%	0%	

Source: Central Bank of Kenya

Level and Trend of Non Performing Loans

Level of non performing loans amounted to Ksh 70.7bn or 26% of total loans

The level of non performing loans (NPLs) as at end of December 2003 was estimated at Ksh 70.7bn or 26% of total loans compared with Ksh 78.2bn or 30% in December 2002. The declining ratio reflects decrease in the level of non performing loans both in absolute terms and in relation to total loans in the sector.

Specific provisions remained unchanged at Ksh 33.4bn partly due to the decline in NPLs, despite increase in total loans. Total provisions to total loans ratio declined slightly from 14% in December 2002 to 13% in December 2003. The exposure of the banking sector NPLs that are neither provided for nor secured stood at Ksh 3bn and additional provisions for this portfolio are likely to reduce the level of profits and revenue reserves for the sector if recovery is not made. However, the level of capital and reserves for the sector are currently adequate to cushion this exposure.

Non performing loans were mainly concentrated in ten institutions and particularly public sector banks whose ratio of the non-performing loans to their total loans was above 45%. However, the NPLs in the ten institutions are historical in nature and arose due to weak credit risk management and external influence on the board and management of the institutions affected. The incidence of NPL in specific institutions is shown in Appendix 7.

CHAPTER 3

DEVELOPMENT IN BANKING LEGAL FRAMEWORK AND REGULATIONS

3.1 Overview

The Central Bank continued to update the Banking Act and other prudential regulations to strenghthen supervision and regulation of the banking sector. This is intended to ensure that laws and regulation are current and consistent with local developments and international best practice.

Minimal changes were made to the existing legislation in 2003. The changes made were intended to harmonise the legal framework with current trends in the industry, accommodate the newly licensed Investments banks, empower the Minister to issue certain regulations and enable institutions to exchange credit information among themselves using credit reference bureaus. The amendments were also aimed at improving corporate governance, transparency, market discipline in the banking sector and to promote establishment and regulation of an efficient and effective payment and settlement system.

In an effort to improve on transparency, the Central Bank now requires all institutions to submit charges that they levy to customers for all services they provide. These are then published for the public to be informed of the most competitive banking instititons.

Institutions now have to submit their charges to CBK

3.2 Amendments to legislation during the year

The following amendments were made to the Banking Act in 2003:

- **Section 3:** Allowing investment banks to use the word 'bank' or 'finance'.

- **Section 31(3)**: Empowering the Minister for Finance to issue regulations prescribing the manner in which institutions in Kenya may exchange information as is reasonably required for their functions. The regulations also provided for the establishment of and operation of Credit Reference Bureaus, which shall have access to and exchange credit information with institutions in Kenya.

- **Section 35(5)**: Empowering Deposit Protection Fund Board (DPFB) to carry on the business of an institution under their jurisdiction, appoint an advocate, pay any classes of creditors in full, and make any compromise arrangements with debtors and creditors.

- **Section 35(A):** The Deposit Protection Fund Board shall no longer be required to provide any security for costs in any suit or any other legal proceedings whether as plaintiffs or defendants.

- **Second Schedule:** Reducing the core capital required to be maintained by banks and non-bank financial institutions to shs 250 million and shs 200 million, respectively. The earlier requirement for institutions to progressively increase capital on annual basis by Ksh 50m per year to shs500m in 2005 was discontinued.

CBK authorised to grant loans to Deposit Protection Fund Board

The Central Bank of Kenya Act was amended as follows:

- **Section 4(a):** The role of the Central Bank in promoting the smooth operation of payments, clearing and settlement systems was made broader and clear definition of the payment system incorporated.

- **Introduction of Section 46A:** The Central Bank is now authorised to grant loans to the DPFB for a period not exceeding three years subject to monetary policy ceilings on money supply growth.

CHAPTER 4

CURRENT ISSUES IN BANK SUPERVISION

4.1 International Accounting Standards (IAS) 39

4.1.1 Overview

Banks are now required to adopt IAS 39

The standard was issued by International Accounting Standards Board (IASB) in 1999, with 1st January 2001 as the effective date. However, in the first two years, financial institutions did not fully comply as there were many areas that required further clarification. In December 2003, IASB issued some ammendments to the standard and areas which were not clear were clarified. The standard identifies four categories of financial assets and two categories of financial liabilities. The prescribed accounting treatment is determined based on the categorisation of the financial asset or liability as shown in Table 22.

TABLE 22: CATEGORISATION OF ASSETS AND LIABILITIES

Category	Defining Characteristics	Prescribed Accounting Treatment
Financial Assets		
Held-to-maturity item	Fixed determinable payments	Armotised cost (at the effective interest rate)
Held for trading	Purchased with the intention of making a profit from short-term market fluctuations (including all non-hedging derivative assets)	Fair value gains and losses on revaluation recognized in income statements.
Loans and receivable originated by the enterprise	Loans and receivable originated by the enterprises by providing money, goods or services directly to a debtor and not for trading	Amortised cost (at effective interest date)
Available for-sale	All other financial assets	Fair value-gains recognized as income or equity.
Financial liabilities		
Held for trading	Incurred to make a margin or a gain from short-term market fluctuations including non-hedging derivative liabilities	Fair value adjustment recognized in income.
Other liabilities	All other liabilities	Amortised cost.

Source: Central Bank of Kenya

4.1.2 Areas of concern to the regulator

Impairmant of loans and advances

Previously, there was no accounting standard which was dealing with the way loans and advances were accounted for. All financial institutions were relying on Central Bank Regulation No. 10(CBK/RG/10) when making provisions for their non-performing loans and advances. The regulation requires institutions to use matrix provisions which is not allowed under the standard. The standard requires the financial institutions or any other company to calculate loan impairment by comparing the recoverable amount of a loan to its carrying value. In case, the former is lower than the latter, the loan is considered impaired and should be written down to the recoverable amount. The calculation of recoverable amount is a highly subjective excercise as banks have to make their own estimate of the future expected cashflows on the loan and discount the same to the present value. Due to this flexibility, institutions are likely to overstate their loan assets while understating their loan loss provision.

Volatility of profits

The standard requires similar types of financial instruments to be measured at fair value and the resulting gains and losses be reported directly in the income statement. Market prices are rarely stable, as they tend to fluctuate rapidly depending on current market situation and perception. Accordingly, the reported figures will change as price varies on the market.

Capital Adequacy Ratio

The capital adequacy ratio is a major prudential ratio used by bank regulators around the world. It represents the ratio of a bank's capital base to its total risk weighted assets and it basically defines the maximum capital a bank should have as a buffer against credit and market risk.

Under the standard, fair value changes will be booked on the balance sheet with changes in gains and losses in value being recorded in the income statement or directly in equity. There is therefore likelihood for significant unrealised value changes being recorded as gains or losses. The Central Bank is yet to issue guidelines on this issue and the resulting gains or losses will affect the capital base of institutions and capital adequacy ratios. In addition unscrupulous institutions may play around with their capital adequacy ratios by manipulating fair value changes. This manipulaiton may be wrongly interpreted by the market and may result in erosion of market confidence.

4.2 International and Regional Cooperation

4.2.1. Overview

Regional cooperation enhanced during the year

The collaborative relationship between the Bank Supervision Department and other foreign supervisory agencies was further strengthened in 2003. This relationship has proved to be mutually beneficial and forward looking as it facilitated cooperation and information exchange. It also provided an appropriate forum to deliberate on cross border supervisory issues as well as international best practices on banking supervision. At the regional level, the Department continued to participate in initiatives of Common Market for Eastern and Southern Africa (COMESA), Monetary Affairs Committee (MAC) and East and Southern Africa Banking Supervisors Group (ESAF). Internationally, the Department continued to collaborate with the Basel Committee in promoting understanding among bank supervisors and banking institutions on new global benchmarks for the assessment of capital adequacy and other supervisory benchmarks.

4.2.2 Basel Committee for Banking Supervision

The Basel Committee for Banking Supervision was formed in 1974 under the auspices of the Bank for International Settlements (BIS), to provide a forum for international cooperation on banking supervisory matters. Over recent years, it has developed into a standard-setting body on all aspects of banking supervision. More than a decade has passed since the Basel Committee in Banking Supervision introduced the first Capital Accord in 1988. The business of banking, risk management practices, supervisory approaches and capital markets each have undergone significant transformation since then.

In June 1999, the Basel Committee released proposals to replace the 1988 Accord with a new risk-sensitive framework while maintaining the overall level of regulatory capital. The new framework is less descriptive than the original Accord and offers a range of approaches for banks capable of using more risk sensitive analytical methodologies. The Central Bank continued to maintain regular contact with the Basel Committee, particularly on developments related to the New Basel Capital Accord. The Committee in 2003 issued various guidelines on risk management principles covering supervision of various aspects of bank operations.

New Basel Capital Accord(Basel II)

The New Capital Accord consists of three mutually reinforcing pillars, which together should contribute to the safety and soundness of the financial system. These pillars are the minimum capital requirement, supervisory review process

and market discipline. The Bank's supervisors benefited greatly from the materials on the New Accord provided by the Basel Committee on a regular basis.

The first pillar sets out the minimum capital requirements. While the new framework maintains both the current definition of capital and the minimum requirement of 8% of capital to risk weighted assets, it will be extended on a consolidated basis to holding companies of banking groups. The second pillar, the supervisory review process requires supervisors to ensure that each bank has sound internal processes ,to assess the adequacy of its capital based on a thorough evaluation of its risks. The new framework stresses the importance of bank management developing an internal risk assessment process and setting targets for capital that are commensurate with the bank's particular risk profile and control environment. The third pillar of the new framework aims to bolster market discipline through enhanced disclosure by banks.

The Basel Committee is expected to release the final Accord in 2004 to be implemented beginning 2007. The implementation of this New Accord will in many cases require a more detailed dialogue between central bank supervisors and banks. Thus, the Central Bank will in 2004 commence formal consultation with the stakeholders in the banking sector in order to formulate an action plan on implementation of the New Accord.

4.2.3 Common Market For Eastern and Southern Africa (COMESA)

Kenya hosted a COMESA meeting in November 2003

Kenya hosted the COMESA meetings on Monetary Cooperation between 10th and 18th November 2003. The Committee of Central Bank Governors and the Meeting of Ministers of Finance adopted, with amendments, some aspects of the Report of the Second Meeting of Bank Supervisors dealing with Consolidated Supervision of the Banking Group, and a proposed Framework for Harmonisation of Banking Supervision and Regulation within the COMESA Region. This framework will enable supervisors within COMESA to harmonise their supervisory practices. The main issues adopted during the forum were:

- Need to equip bank supervisors in the Region with skills to participate in Financial Sector Assessment Programmes (FSAP).
- Bank supervisors to establish a co-ordinated approach to supervision so that prudential assessment can be made on a comperative basis.
- Need to liaise with New Partnership for African Development (NEPAD) to establish a framework for harmonization of bank supervision and regulation in the COMESA region.

4.2.4 Monetary Affairs Committee (MAC)

In March 2003 Governors of East African countries met

In March 2003, the Governors of the three East African Central Banks met in Arusha, Tanzania for the annual meeting of the Monetary Affairs Committee (MAC). The Governors endorsed the efforts made towards harmonisation of bank supervisory practices in the region, as well as measures aimed at improving financial intermediation, and resolving problems facing the banking sector in the region. The meeting agreed that:

- Studies be conducted in the respective central banks, to enhance the performance of Commercial Courts, and improve their role in resolving commercial disputes affecting banks.
- The process of enacting anti money laundering legislation and MFI legislation be expedited.
- The three central banks facilitate the establishment of credit reference bureaus in their jurisdictions.
- Studies be conducted in the respective central banks, to evaluate the efficacy of having a single regulatory framework for the financial sector in each country.
- Kenya and Uganda to speed up the process empowering their Central Banks to approve and revoke the licencing of financial institutions.
- A joint workshop be held by bank supervision staff from the three central banks to prepare for implementation of the New Basel Capital Accord (Basel II).
- Defining money laundering offences and suspicious transactions.
- Establishing financial reporting centre, including mechanism for reporting to the centre, its independence, authority and mandate. The centre is proposed to be answerable to the Treasury.

4.3 Anti-Money Laundering Initiatives in Kenya

A National Task force on money laundering formed in April 2003

Money Laundering is the processing of criminal proceeds to disguise their illegal origin. The process involves three-stages process including, placement, layering and integration of the proceeds back into the economy. This process is of critical importance, as it enables criminals to enjoy the profits while concealing the sources. The Central Bank is committed to ensure that the integrity of the country's banking system is not compromised by these criminal activities. Thus, the main initiative introduced by the Central Bank to counter money laundering in Kenya is the "Know

Your Customer"(KYC) Guidelines introduced in 2000 and is expected to be revised in 2004. These were issued to prevent banking institutions from being used as conduit for money laundering, and require banking institutions to determine the true identity of customers opening accounts and develop transactions profile of each customer with the objective of identifying unusual or suspicious transactions. In this regard, the department, during on site examinations, assesses the adequacy and effectiveness of financial institutions' anti-money laundering policies , procedures, systems and controls put in place to ensure compliance with the requirements of the guidelines. The fight against money laundering and combating the financing of terrorism will be enahanced further in 2004.

Following the ratification of the Eastern and Southern Africa Anti Money Laundering Group (ESAAMLG) Memorandum of Understanding in 2000, the Kenya Government formed a National Task Force (NTF) comprising fourteen government agencies in April 2003. The Task Force is chaired by the Ministry of Finance while the Central Bank of Kenya is the Secretariat. The NTF has three distinct working sub-groups that correspond to the ESAAMLG working groups, namely Finance, Legal, and Law Enforcement. The NTF has prepared a draft legislation on anti-money laundering based on the United Nations (UN) model. The Draft Bill, which has been discussed by the stakeholders, has the following broad objectives:

- Enable institutions and law enforcement agencies to identify, trace, seize, freeze, confiscate, forfeit, proceeds of crime following criminal or civil recovery proceedings.
- Establishing criminal assets recovery account and unit to deal with the process.
- Establishing mechanism for international assistance on investigations and mutual legal assistance.

The overall broad objective of the National Task Force is to work on the remaining weaknesses that render Kenya and the region vulnerable to money laundering and financing of terrorist activities. Some of the major challenges include:

- Lack of policy and legislative framework to fight AML.
- Existence of predominantly cash based economy.
- Existence of porous boarders and political instability in neighbouring countries.
- Lack of training, technical and institutional capacity to deal with the new issues of AML.

4.4 Developments in the Micro Finance Sector

4.4.1 Overview

Minister for Finance stressed the important role of microfinance institutions

The provision of a broad range of financial services to small and micro enterprises (SME) has been recognized as an important component for poverty reduction and development strategy. In the 2003/2004-budget speech, the Minister for Finance reiterated the increasing role of the microfinance institutions (MFIs), savings and credit co-operatives (SACCOs) and other formal financial institutions in providing finance for micro and small enterprises and low income households.

During the year under review, the principal policy focus has been to promote financial deepening by creating a favourable and supportive policy environment and the legal and regulatory framework for the development of the microfinance sector.

4.4.2 Supervision and regulation of micro finance institutions

Task force formed to develop regulatory framework for microfinance institutions

A Task Force was formed in 2003 to co-ordinate the initiative of developing appropriate regulatory framework for the microfinance institutions. The Task Force completed the draft Bill which was subsequently discussed by the stakeholders and was forwarded to the Attorney General at the end of the year for publication and presentation to Parliament.

In the policy paper advocating for the bill, The Task Force proposed a three- tier framework for the regulation and supervision of the microfinance institutions. The first tier of the micro finance institutions comprise the informally constituted MFIs like rotating savings and credit associations (ROSCAs), Club pools and financial services associations. These institutions are proposed to be regulated by an external agency. Donors, commercial banks and government agencies from which they obtain support are expected to carry out due diligence and make informed decisions about them. The second tier institutions comprise formally constituted micro finance organisations that do not take deposits from the general public but accept cash collateral tied to loan contracts. These institutions are proposed to be regulated by an umbrella body like the Association of Microfinance Institutions (AMFI)of Kenya.

The third tier comprises formally constituted MFIs that intend to take and intermediate deposits from the general public. The policy proposes that the Central Bank of Kenya be empowered by the Micro Finance Bill to license, regulate and supervise these institutions.

4.5 Studies on the financial sector

Financial Sector Assessment Programme (FSAP)

Financial sector assessment programme carried out in the year 2003

At the request of the Government of Kenya, a joint World Bank/IMF Mission undertook a Financial Sector Assessment Programme (FSAP) in 2003, with the objective of informing policy makers on crisis prevention and mitigation in the financial sector. During the first phase of the exercise conducted in July 2003, the Mission gathered information from various organizations in all major sub sectors, including banking, insurance, co-operatives, pensions, capital markets, public sector and major private companies. In October 2003, the Mission held the second phase of the exercise, and finalised the report, which covered the following areas:

i. Identification of strengths and vulnerabilities of the financial system,

ii. Assessment of observance of relevant international standards and codes, and related financial system infrastructure,

iii. Identification of the overlapping functions of the various regulators,

iv. Design of appropriate policy responses,

v. Development and technical assistance needs.

A number of other banking sector issues were covered, including adequacy of prudential regulation and supervision, interest rate spreads, banking sector risks and vulnerabilities, improving access to financial services and adequacy of the financial safety net. The report formed the basis of government policy for reforms in financial sector.

In line with the key objective of assessing a country's observance of various international standards and codes, the FSAP carried out an assessment of the extent of implementation of Basel Core Principles for Effective Banking Supervision. This was the first independent assessment of Kenya's compliance with the Basel Core Principles which are a set of 25 principles developed in 1997 by the Basel Committee on Banking Supervision to provide a basic framework to effectively supervise the banking sector. A summary of the assessment is shown in Appendix 8.

Banking Sector Reform Strategy

Banking sector reform strategy study carried out in July 2003

In July 2003, the Government of Kenya, with the assistance of the Department for International Development (DFID), commissioned a study on the banking sector in order to provide a sound basis for conducting reforms, as part of the wider financial sector reform strategy. A group of local and international experts was identified to propose strategies for increasing competition and reducing costs, of extending banking services to all Kenyans, and increasing banking products in the country.

In their report, the consultants made a wide range of recommendations, which are currently being used by Government as input to on-going policy formulation. A comprehensive reform agenda will be drawn from the recommendations of this report, the FSAP report, and other reports on other facets of the financial sector.

Appendix 1

CONSOLIDATED BANKING SECTOR BALANCE SHEET
DECEMBER 2002 & DECEMBER 2003.

Figures in Rsh million

	AUDITED DECEMBER 2003						AUDITED DECEMBER 2002					
	BANKS	NBFIS	SUB TOTAL	BLD SOC	TOTAL	CHANGE	BANKS	NBFIS	SUB TOTAL	%	BLD SOC	TOTAL
A. ASSETS												
1. Cash	9,373	65	9,438	250	9,688	-8%	10,298	60	10,358	2%	137	10,495
2. Balances at CBK	24,292	116	24,408	0	24,408	-6%	25,723	173	25,896	6%	0	25,896
3. Placements	7,334	2,431	9,765	2,565	12,330	12%	8,488	1,522	9,930	2%	1,101	11,031
4. Government Securities	137,030	3,497	140,527	2,522	143,049	39%	97,736	2,722	100,458	22%	2,550	103,008
5. Investments	3,948	94	4,042	513	4,555	-28%	5,490	86	5,576	1%	738	6,314
6. Advances(net)	184,111	10,118	194,229	3,285	197,514	6%	172,169	10,915	183,084	40%	3,012	186,096
7. Foreign Loans	43,187	-	43,187	0	43,187	9%	39,665	25	39,690	9%	0	39,690
7.(b) Other foreign Assets	26,692	63	26,755	120	26,875	-26%	35,916	236	36,152	8%	0	36,152
8. Fixed Assets	15,395	335	15,730	1,403	17,133	-7%	16,353	511	16,864	4%	1,485	18,349
9. Other Assets	35,662	734	36,396	664	37,060	29%	28,063	620	28,683	6%	156	28,839
10. Total Assets	487,024	17,453	504,477	11,322	515,799	11%	439,821	16,870	456,691	100%	9,179	465,870
B. LIABILITIES												
11. Local Currency Deposits	332,146	14,452	346,598	9,359	355,957	14%	290,404	13,622	304,026	67%	7,431	311,457
12. Foreign Currency Deposits	50,884	-	50,884	0	50,884	4%	56,616	-	56,616	12%	0	56,616
13. Accrued Interest	983	83	1,066	65	1,131	-45%	1,802	143	1,945	0%	123	2,068
14. Foreign Liabilities	4,772	-	4,772	0	4,772	-20%	5,977	17	5,994	1%	0	5,994
15. Other Liabilities	32,951	711	33,662	400	34,062	-4%	34,482	728	35,210	8%	316	35,526
16. Total Liabilities	429,736	15,246	444,982	9,824	454,806	10%	389,281	14,510	403,791	88%	7,870	411,661
17. Net Assets/(Liabilities)	57,288	2,207	59,495	1,498	60,993	13%	50,540	2,360	52,900	12%	1,309	54,209
C. CAPITAL & RESERVES												
18. Paid up/Assigned Capital	36,859	1,531	38,390	413	38,803	28%	28,358	1,730	30,088	7%	203	30,291
19. Shareholders Loans/Grants	-	-	-	0	0	0%	-	-	-	0%	0	0
20. Reserves	14,162	383	14,545	950	15,495	-28%	20,182	380	20,562	5%	882	21,444
21. P & L Account	6,267	293	6,560	135	6,695	171%	2,000	250	2,250	0%	224	2,474
22. Total Shareholders' Funds	57,288	2,207	59,495	1,498	60,993	13%	50,540	2,360	52,900	12%	1,309	54,209
23. Contingent Liabilities	65,898	7	65,905	2	65,907	-11%	74,374	11	74,385		3	74,388
24. Gross Loans	296,384	15,304	311,688	4,189	315,877	5%	280,813	17,515	298,328		3,493	301,821
25. Total Loans	261,945	10,905	272,850	3,881	276,731	6%	245,610	12,711	258,321		3,378	261,699
26. Gross Non-Performing Loans	98,887	9,283	108,170	1728	109,898	-7%	106,092	11,018	117,020		1,485	118,505
27. Total Non-performing loans	64,448	4,883	69,332	1,420	70,752	-10%	70,799	6,214	77,013		1,270	78,283
28. Interest in suspense	34,439	4,399	38,838	308	39,146	-2%	35,293	4,804	40,097		115	40,122
29. Specific Provisions	32,101	725	32,826	564	33,390	0%	31,434	1,706	33,140		362	33,502
30. General Provisions	2,615	61	2,675	31	2,706	12%	2,342	65	2,407		4	2,411
31. Total Provisions	34,716	786	35,501	595	36,096	1%	33,776	1,771	35,547		366	35,913
32. Gross Provisions	69,154	5,185	74,340	903	75,243	-1%	68,979	6,575	75,554		481	76,035
33. Accum. Depreciation	0	0	0	0	0	-100%	12,671	488	13,079		0	13,079
34. Core Capital	51,326	2,026	53,352	863	54,215	20%	42,845	2,178	44,223		842	45,065
35. Total Capital	54,549	2,186	56,735	937	57,672	7%	50,919	2,352	53,271		863	54,134
36. Total Risk Weighted Assets	316,290	11,784	328,074	6,605	334,680	5%	300,020	12,529	312,549		5,176	317,725
D. PERFORMANCE INDICATORS												
37. Capital/Deposits Ratio	14.6%	15.2%	14.6%	15.9%	14.7%		14.5%	17.1%	14.6%		17.3%	14.6%
38. Capital/Assets Ratio (Unweighted)	10.4%	12.6%	10.4%	12.2%	10.5%		9.8%	14.0%	10.0%		14.3%	10.0%
39. Core Capital/TRWA	16.2%	17.2%	16.3%	13.5%	16.2%		14.0%	17.4%	14.1%		16.3%	14.2%
40. Total Capital/TRWA	17.2%	18.6%	17.3%	14.6%	17.2%		17.0%	18.8%	17.0%		16.7%	17.8%
41. Core Capital/Total Deposits	13.1%	14.8%	13.2%	9.2%	13.1%		12.1%	16.0%	12.3%		11.3%	12.2%
42. Liquidity Ratio	49.2%	39.4%	48.8%	47.8%	48.2%		43.9%	31.1%	43.4%		49.6%	43.5%
43. Gross Prov/Gross Non-perf Loans	69.9%	55.9%	68.7%	52.3%	68.5%		65.1%	59.7%	64.6%		32.4%	64.2%
44. Gross Non-perf. Adv/Gross Loans	33.4%	60.7%	34.7%	41.3%	34.8%		37.7%	62.9%	39.2%		42.5%	39.3%
45. Total NPLs/Total Loans (27/25)	24.6%	44.8%	25.4%	36.6%	25.6%		28.8%	48.9%	29.8%		40.6%	30.0%
46. (Total NPLs-S/Prov.)/Net Loans	10.8%	26.8%	10.9%	19.7%	11.0%		13.2%	25.6%	13.9%		28.7%	14.1%
47. Gross Loans/Deposits Ratio	75.6%	105.3%	76.7%	44.4%	75.9%		80.5%	127.2%	82.3%		46.2%	81.5%
48. Gross Provisions/Gross Loans	23.3%	33.9%	23.9%	21.6%	23.8%		24.6%	37.5%	25.3%		13.8%	25.2%
49. Total Provisions/Total Loans	13.3%	7.2%	13.0%	15.3%	13.0%		13.8%	13.9%	13.8%		10.8%	13.7%
50. Total NPLs/Total Assets	13.2%	28.8%	13.7%	12.5%	13.7%		16.1%	36.8%	16.9%		14.9%	16.8%

CONSOLIDATED BANKING SECTOR PROFIT & LOSS
DECEMBER 2002 & DECEMBER 2003.

Figures in Ksh million

	AUDITED DECEMBER 2003						AUDITED DECEMBER 2002					
	BANKS	NBFIs	SUB TOTAL	BLD SOC	TOTAL	CHANGE	BANKS	NBFIs	SUB TOTAL	BLD SOC	TOTAL	%
A. INCOME												
1. Interest on Advances	25,044	2,282	27,326	570	27,896	-3%	26,378	1,824	28,202	535	28,737	45%
2. Interest on Placement	853	69	922	85	1,007	-26%	1,159	122	1,281	75	1,356	2%
3. Interest on Govt. Securities	9,844	204	10,048	275	10,323	-12%	11,154	306	11,460	309	11,769	19%
4. Foreign Exc. Gain/(Loss)	4,675	30	4,705	-1	4,704	42%	3,318	-	3,318	0	3,318	5%
5. Other Interest Income	738	12	770	20	790	32%	550	2	552	45	597	1%
6. Other Income	18,359	282	18,641	552	19,193	8%	17,180	267	17,367	396	17,763	28%
7. Total	59,532	2,880	62,412	1,501	63,913	1%	59,659	2521	62,180	1,361	63,541	100%
B. EXPENSES												
8. Interest on Deposits	7,516	646	8,162	290	8,452	-35%	11,607	943	12,550	408	12,958	23%
9. Other Interest Expenses	1,186	5	1,191	3	1,195	-23%	1,537	9	1,546	5	1,551	3%
10. Occupancy Costs	1,708	65	1,773	115	1,888	-4%	1,834	73	1,907	66	1,973	3%
11. Director's Emoluments	370	9	379	37	416	14%	325	5	330	36	366	1%
12. Bad Debts Charge	7,272	1,042	8,313	103	8,416	-24%	10,609	425	11,034	76	11,110	19%
13. Salaries & Wages	14,036	483	14,519	328	14,847	-7%	15,147	547	15,694	259	15,953	28%
14. Other Expenses	12,895	350	14,245	344	14,589	7%	12,970	365	13,335	257	13,592	24%
15. Total	45,983	2,599	48,582	1,221	49,803	-13%	54,029	2,367	56,396	1,106	57,502	100%
16. Profit Before Tax	13,549	281	13,830	280	14,110	134%	5,630	154	5,784	255	6,039	
17. No. of Employees	11,139	390	11,529	700	12,229		10,884	426	11,310	524	11,834	
C. PERFORMANCE INDICATORS												
18. Yield on Earning Assets	10.8%	12.6%	10.2%	10.3%	10.2%		11.9%	11.2%	11.8%	12.8%	11.9%	
19. Cost of Funding Earning Assets	2.1%	3.2%	2.2%	3.2%	2.2%		3.7%	4.7%	3.7%	5.5%	3.8%	
20. Interest Margin on Earning Assets	7.9%	9.5%	8.0%	7.1%	8.0%		8.2%	6.5%	8.1%	7.3%	8.1%	
21. Yield on Advances	9.6%	15.7%	9.9%	15.9%	10.0%		10.7%	11.6%	10.7%	17.1%	10.8%	
22. Cost of Deposits	2.6%	4.5%	2.7%	3.1%	2.7%		4.4%	7.0%	4.5%	5.6%	4.6%	
23. Return on Assets(Including Contingencies)	2.3%	1.3%	2.3%	2.4%	2.3%		1.0%	0.7%	1.0%	2.7%	1.0%	
24. Return on Shareholders Funds	23.7%	12.7%	23.2%	18.7%	23.1%		11.1%	6.5%	10.9%	19.5%	11.1%	
25. Overhead to Earnings	62.6%	67.7%	62.9%	61.7%	62.8%		68.5%	56.1%	68.0%	50.9%	67.7%	
D. RATINGS												
Capital Adequacy	2.00	2.00	2.00	3.00	2.00		2.00	2.00	2.00	2.00	2.00	
Asset Quality	3.00	5.00	3.00	4.00	3.00		3.00	5.00	3.00	5.00	3.00	
Earnings	2.00	3.00	2.00	2.00	2.00		3.00	4.00	4.00	2.00	3.00	
Liquidity	1.00	1.00	1.00	1.00	1.00		1.00	2.00	1.00	1.00	1.00	
Composite Score	2.00	2.75	2.00	2.50	2.00		2.25	3.25	2.50	2.50	2.25	
Performance Category	Satisfactory	Fair	Satisfactory	Fair	Satisfactory		Satisfactory	Fair	Fair	Fair	Satisfactory	

Key: 1=Strong 2=Satisfactory 3=Fair 4=Marginal 5=Unsatisfactory

Appendix 3

MARKET SHARE (NET ASSETS, NET ADVANCES, DEPOSITS, CAPITAL & PROFITS) DEC., 2003

Figures in Ksh million

No	NAME OF INSTITUTION	NET ASSETS	MARKET SHARE	NET ADVANCES	MARKET SHARE	TOTAL DEPOSITS	MARKET SHARE	CAPITAL & RESERVES	MARKET SHARE	PRE-TAX PROFIT	MARKET SHARE
1	African Banking Corporation	3,833	0.79%	1,717	0.76%	3,239	0.83%	426	0.74%	66	0.49%
2	Akiba Bank Ltd	4,176	0.86%	2,608	1.15%	3,122	0.80%	689	1.20%	-754	-5.57%
3	Bank of Baroda	8,044	1.65%	1,811	0.80%	6,994	1.79%	823	1.44%	143	1.05%
4	Bank of India	5,829	1.20%	1,363	0.60%	4,708	1.20%	885	1.54%	176	1.30%
5	Barclays Bank of Kenya Ltd	97,001	19.92%	56,207	24.73%	77,329	19.78%	11,022	19.24%	4,764	35.17%
6	CFC Bank Limited	13,811	2.84%	7,811	3.44%	11,361	2.91%	1,601	2.79%	254	1.87%
7	Charterhouse Bank Limited	2,632	0.54%	1,442	0.63%	2,023	0.52%	475	0.83%	107	0.79%
8	Chase Bank Limited	1,710	0.35%	926	0.41%	1,109	0.28%	471	0.82%	59	0.44%
9	Citibank, N.A.	33,769	6.93%	8,580	3.77%	22,797	5.83%	4,172	7.28%	826	6.10%
10	City Finance Bank	650	0.13%	325	0.14%	72	0.02%	406	0.71%	11	0.08%
11	Commercial Bank of Africa	18,341	3.77%	4,301	1.89%	15,986	4.09%	1,648	2.88%	544	4.02%
12	Consolidated Bank of Kenya	2,442	0.50%	1,115	0.49%	1,565	0.40%	636	1.11%	12	0.09%
13	Co-operative Bank of Kenya	32,518	6.68%	18,094	7.96%	27,052	6.92%	2,130	3.72%	183	1.35%
14	Credit Agricole Indosuez	4,809	0.99%	3,280	1.44%	3,832	0.98%	740	1.29%	1	0.00%
15	Credit Bank Limited	2,145	0.44%	865	0.38%	1,721	0.44%	404	0.71%	47	0.35%
16	Daima Bank Limited	404	0.08%	226	0.10%	670	0.17%	-274	-0.48%	-119	-0.88%
17	Delphis Bank Limited	2,211	0.45%	1,122	0.49%	490	0.13%	650	1.13%	-230	-1.70%
18	Development Bank of Kenya	2,693	0.55%	977	0.43%	948	0.24%	901	1.57%	126	0.93%
19	Diamond Trust Bank Kenya	8,571	1.76%	4,882	2.15%	6,680	1.71%	1,175	2.05%	180	1.33%
20	Dubai Bank Limited	783	0.16%	437	0.19%	401	0.10%	355	0.62%	9	0.06%
21	Equatorial Commercial Bank	2,941	0.60%	1,445	0.64%	2,400	0.61%	460	0.80%	96	0.71%
22	Fidelity Commercial Bank	1,235	0.25%	749	0.33%	956	0.24%	260	0.45%	18	0.13%
23	Fina Bank Limited	5,851	1.20%	2,650	1.17%	5,104	1.31%	629	1.10%	105	0.78%
24	First American Bank Limited	6,660	1.37%	3,058	1.35%	5,300	1.36%	1,243	2.17%	150	1.11%
25	Giro Commercial Bank	4,257	0.87%	2,797	1.23%	3,719	0.95%	420	0.73%	33	0.25%
26	Guardian Bank	4,066	0.83%	2,615	1.15%	3,235	0.83%	681	1.19%	52	0.38%
27	Habib AG Zurich	4,030	0.83%	683	0.30%	3,384	0.87%	409	0.71%	77	0.57%
28	Habib Bank Limited	3,569	0.73%	873	0.38%	3,058	0.78%	406	0.71%	95	0.70%
29	Imperial Bank Limited	4,921	1.01%	2,897	1.27%	3,867	0.99%	742	1.30%	254	1.87%
30	Industrial Development Bank	1,486	0.31%	1,146	0.50%	196	0.05%	274	0.48%	-85	-0.63%
31	Investment & Mortgages Bank	12,130	2.49%	5,315	2.34%	10,220	2.61%	1,596	2.79%	285	2.10%
32	Kenya Commercial Bank Ltd	58,067	11.92%	24,949	10.98%	49,897	12.76%	4,681	8.17%	856	6.32%
33	K-REP BANK	2,174	0.45%	1,510	0.66%	1,179	0.30%	689	1.20%	120	0.89%
34	Middle East Bank of Kenya	3,455	0.71%	1,429	0.63%	2,504	0.64%	711	1.24%	79	0.58%
35	National Bank of Kenya Ltd	25,977	5.33%	20,321	8.94%	21,621	5.53%	2,154	3.76%	492	3.63%

MARKET SHARE (NET ASSETS, NET ADVANCES, DEPOSITS, CAPITAL & PROFITS) DEC., 2003

Figures in Ksh million

No	NAME OF INSTITUTION	NET ASSETS	MARKET SHARE	NET ADVANCES	MARKET SHARE	TOTAL DEPOSITS	MARKET SHARE	CAPITAL & RESERVES	MARKET SHARE	PRE-TAX PROFIT	MARKET SHARE
36	National Industrial Credit Bank	11,142	2.29%	6,821	3.00%	7,939	2.03%	2,576	4.50%	359	2.65%
37	Paramount-Universal Bank	1,209	0.25%	774	0.34%	902	0.23%	284	0.50%	11	0.08%
38	Prime Bank Limited	5,232	1.07%	2,119	0.93%	4,365	1.12%	604	1.05%	82	0.60%
39	Southern Credit Banking Corp.	3,264	0.67%	1,823	0.80%	2,694	0.69%	463	0.81%	49	0.36%
40	Stanbic Bank Kenya Limited	9,974	2.05%	3,976	1.75%	8,574	2.19%	945	1.65%	-151	-1.12%
41	Standard Chartered Bank Ltd	64,241	13.19%	18,924	8.33%	54,494	13.94%	6,368	11.12%	4,011	29.61%
42	Transnational Bank Limited	1,439	0.30%	685	0.30%	523	0.13%	867	1.51%	121	0.89%
43	Victoria Commercial Bank Ltd	3,336	0.68%	1,644	0.72%	2,799	0.72%	492	0.86%	31	0.23%
	TOTAL	**487,028**	**100.00%**	**227,292**	**100.00%**	**391,029**	**100.00%**	**57,289**	**100.00%**	**13,546**	**100.00%**
	NBFI's										
1	Devna Finance	62	0.36%	13	0.13%	8	0.1%	47	2.13%	-16.6	-5.89%
2	Housing Finance Co. of Kenya	10,783	61.78%	7,131	70.48%	9,366	64.8%	1,013	45.86%	112.4	40.02%
3	Prime Capital & Credit	2,699	15.46%	1,090	10.77%	1,984	13.7%	628	28.43%	171.8	61.18%
4	Savings & Loan	3,910	22.40%	1,884	18.62%	3,094	21.4%	521	23.59%	13.2	4.69%
	TOTAL	**17,454**	**100.00%**	**10,118**	**100.00%**	**14,452**	**100.00%**	**2,209**	**100.00%**	**280.8**	**100.00%**
	BLG. SOCIETIES										
1	East African Blg. Soc.	6,089	53.78%	1,266	38.54%	4,980	53.2%	807	53.91%	62.1	22.15%
2	Equity Blg. Soc.	3,927	34.68%	1,607	48.92%	3,351	35.8%	459	30.66%	142.7	50.87%
3	Family Finance Bld. Soc.	1,306	11.54%	412	12.54%	1,028	11.0%	231	15.43%	75.6	26.98%
	TOTAL	**11,322**	**100.00%**	**3,285**	**100.00%**	**9,359**	**100.00%**	**1,497**	**100.00%**	**280.4**	**100.00%**
	GRAND TOTAL	**515,804**		**240,695**		**414,840**		**60,995**		**14,108**	

NON-PERFORMING LOANS & PROVISIONS - DECEMBER 2003

Figures in Ksh million

	BANKS	1 TOTAL NON-PERORMING LOANS (NPLS)	2 SPECIFIC PROVISIONS	3 TOTAL LOANS	4 NPLS / TOTAL LOANS (1/3) %	5 SPECIC PROV./ NPLS (2/1) %
1	African Banking Corporation Ltd.	144	59	1,795	8.0%	41.2%
2	Akiba Bank Ltd.	1,011	237	2,723	37.1%	23.4%
3	Bank of Baroda Ltd.	298	59	1,886	15.8%	19.7%
4	Bank of India Ltd.	120	74	1,452	8.2%	62.2%
5	Barclays Bank of Kenya Ltd.	8,844	2,652	60,039	14.7%	30.0%
6	CFC Bank Ltd.	422	159	8,047	5.3%	37.6%
7	Charterhouse Bank Ltd.	143	111	1,568	9.1%	77.4%
8	Chase Bank Ltd.	2	1	937	0.2%	72.3%
9	Citibank, N.A.	466	129	8,795	5.3%	27.7%
10	City Finance Bank Ltd.	126	20	347	36.3%	15.8%
11	Commercial Bank of Africa Ltd.	503	281	4,625	10.9%	55.8%
12	Consolidated Bank of Kenya Ltd.	846	419	1,589	53.2%	49.6%
13	Co-operative Bank of Kenya Ltd.	8,195	4,976	23,250	35.2%	60.7%
14	Credit Agricole Indosuez	30	30	3,343	0.9%	100.0%
15	Credit Bank Ltd.	162	28	912	17.7%	17.0%
16	Daima Bank Ltd.	513	347	576	89.0%	67.7%
17	Delphis Bank Ltd.	1,286	544	1,675	76.8%	42.3%
18	Development Bank of Kenya Ltd.	407	119	1,108	36.7%	29.2%
19	Diamond Trust Bank Kenya Ltd.	128	83	5,015	2.5%	65.0%
20	Dubai Bank Ltd.	97	71	510	19.1%	73.1%
21	Equatorial Commercial Bank Ltd.	119	77	1,537	7.7%	65.0%
22	Fidelity Commercial Bank Ltd.	205	77	833	24.6%	37.8%
23	Fina Bank Ltd.	397	193	2,869	13.8%	48.6%
24	First American Bank Ltd.	626	198	3,283	19.1%	31.6%
25	Giro Commercial Bank Ltd.	743	162	2,981	24.9%	21.7%
26	Guardian Bank Ltd.	946	143	2,776	34.1%	15.1%
27	Habib AG Zurich	52	36	725	7.2%	68.4%
28	Habib Bank Ltd.	33	9	890	3.7%	26.1%
29	Imperial Bank Ltd.	241	155	3,109	7.8%	64.2%
30	Industrial Development Bank Ltd.	543	126	1,280	42.4%	23.2%
31	Investment & Mortgages Bank Ltd.	448	131	5,498	8.1%	29.2%
32	Kenya Commercial Bank Ltd.	15,620	8,279	33,418	46.7%	53.0%
33	K-Rep Bank Ltd.	97	41	1,561	6.2%	42.4%
34	Middle East Bank of Kenya Ltd.	326	71	1,512	21.6%	21.9%
35	National Bank of Kenya Ltd.	16,432	10,549	31,106	52.8%	64.2%
36	National Industrial Credit Bank Ltd.	759	626	7,447	10.2%	82.4%

NON-PERFORMING LOANS & PROVISIONS - DECEMBER 2003

Figures in Ksh million

	BANKS	1 TOTAL NON-PERORMING LOANS (NPLS)	2 SPECIFIC PROVISIONS	3 TOTAL LOANS	4 NPLS / TOTAL LOANS (1/3) %	5 SPECIC PROV./ NPLS (2/1) %
37	Paramount-Universal Bank Ltd.	299	93	873	34.2%	31.0%
38	Prime Bank Ltd.	216	89	2,065	10.5%	41.2%
39	Southern Credit Banking Corp. Ltd.	660	127	1,968	33.6%	19.2%
40	Stanbic Bank Kenya Ltd.	200	87	4,110	4.9%	43.4%
41	Standard Chartered Bank Ltd.	1,345	224	19,328	7.0%	16.6%
42	Transnational Bank Ltd.	217	122	838	25.9%	56.5%
43	Victoria Commercial Bank Ltd.	182	87	1,746	10.4%	47.4%
	SUB-TOTAL	64,449	32,103	261,948	24.6%	49.8%
	NBFI'S					
1	Devna Finance Ltd.	0	0	13	0.0%	#DIV/0!
2	Housing Fin. Co. of Kenya Ltd.	4,281	376	7,540	56.8%	8.8%
3	Prime Capital & Credit Ltd.	54	52	1,152	4.7%	96.8%
4	Savings and Loan (K) Ltd.	548	297	2,199	24.9%	54.2%
	SUB-TOTAL	4,883	725	10,905	44.8%	14.8%
	BLG. SOCIETIES					
1	East Afican Blg. Soc.	960	348	1,622	59.2%	36.2%
2	Equity Blg. Soc.	286	47	1,671	17.1%	16.5%
3	Family Finance Bld. Soc.	174	170	588	29.5%	97.6%
	SUB-TOTAL	1,420	564	3,881	36.6%	39.8%
	GRAND TOTAL	**70,752**	**33,392**	**276,734**	**25.6%**	**47.2**
	Adjust: Rounding Error	**-**		**-**	**-**	**-**
	GRAND TOTAL	**70,752**	**33,392**	**276,734**	**25.6%**	**47.2**

NB: ***Specific Provisions exclude General provision***

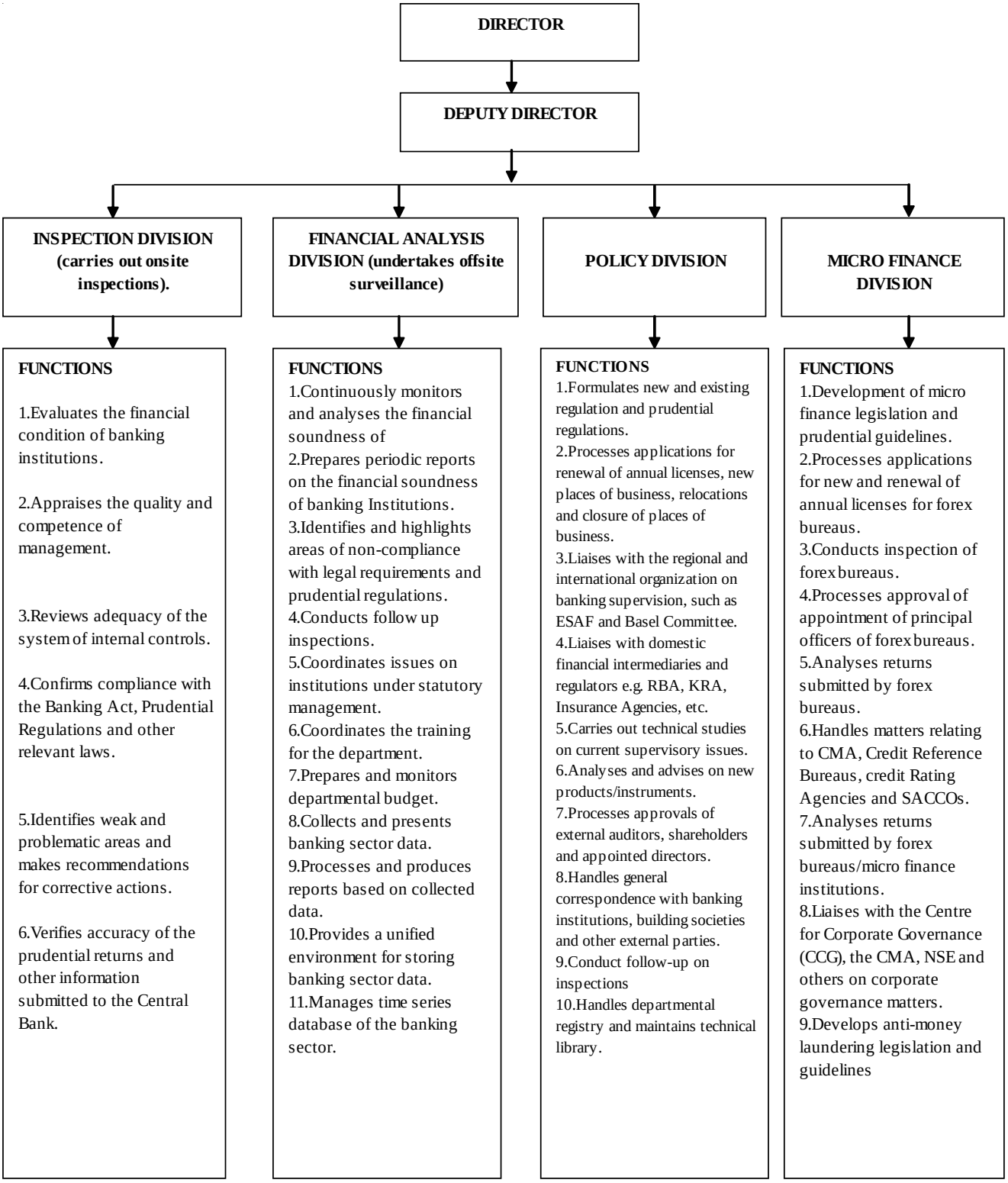
NPLS & Total Loans exclude interest in suspense (columns 1 & 3)

PROFITABILITY OF BANKING INSTITUTIONS IN 2003

Figures in Ksh-25.STITUTIONS IN 2003

		1	2	3	4	5
		PROFIT BEFORE	RETURN ON ASSETS		RETURN ON EQUITY	
NO	BANKS	TAX	TOTAL ASSETS AND CONTINGENCIES	RETURN ON ASSETS (1/2) %	SHAREHOLDERS EQUITY	RETURN ON EQUITY (1/4) %
1	African Banking Corporation Ltd.	66	3,989	1.66%	426	15.57
2	Akiba Bank Ltd	-754	4,517	-16.70%	689	(109.48)
3	Bank of Baroda	143	8,341	1.71%	823	17.36
4	Bank of India	176	6,028	2.92%	885	19.92
5	Barclays Bank of Kenya Ltd	4,764	104,084	4.58%	11,022	43.23
6	CFC Bank Ltd.	254	14,406	1.76%	1,601	15.86
7	Charterhouse Bank Ltd.	107	2,848	3.75%	475	22.48
8	Chase Bank Ltd.	59	1,739	3.42%	471	12.63
9	Citibank, N.A.	826	34,523	2.39%	4,172	19.81
10	City Finance Bank Ltd.	11	721	1.58%	406	2.80
11	Commercial Bank of Africa Ltd.	544	19,443	2.80%	1,648	33.02
12	Consolidated Bank of Kenya ltd.	12	4,114	0.30%	636	1.91
13	Co-operative Bank of Kenya Ltd.	183	45,912	0.40%	2,130	8.61
14	Credit Agricole Indosuez	1	5,124	0.01%	740	0.09
15	Credit Bank Ltd.	47	2,155	2.20%	404	11.72
16	Daima Bank Ltd.	-119	803	-14.78%	-274	43.32
17	Delphis Bank Ltd.	-230	3,173	-7.26%	650	(35.43)
18	Development Bank of Kenya Ltd.	126	3,049	4.13%	901	13.97
19	Diamond Trust Bank Kenya Ltd.	180	9,153	1.97%	1,175	15.32
20	Dubai Bank Ltd.	9	1,113	0.77%	355	2.40
21	Equatorial Commercial Bank Ltd.	96	3,154	3.04%	460	20.87
22	Fidelity Commercial Bank Ltd.	18	1,392	1.28%	260	6.84
23	Fina Bank Ltd.	105	6,350	1.66%	629	16.74
24	First American Bank Ltd.	150	7,367	2.04%	1,243	12.08
25	Giro Commercial Bank Ltd.	33	4,608	0.72%	420	7.90
26	Guardian Bank Ltd.	52	4,829	1.07%	681	7.60
27	Habib AG Zurich	77	4,239	1.82%	409	18.83
28	Habib Bank Ltd.	95	3,667	2.60%	406	23.46
29	Imperial Bank Ltd.	254	5,313	4.78%	742	34.22
30	Industrial Development Bank Ltd.	-85	1,868	-4.54%	274	(30.97)
31	Investment & Mortgages Bank Ltd.	285	12,786	2.23%	1,596	17.85
32	Kenya Commercial Bank Ltd	856	73,061	1.17%	4,681	18.28
33	K-Rep Bank Ltd.	120	2,285	5.25%	689	17.40
34	Middle East Bank of Kenya Ltd.	79	3,830	2.06%	711	11.12
35	National Bank of Kenya Ltd	492	53,470	0.92%	2,154	22.84
36	National Industrial Credit Bank Ltd.	359	12,091	2.97%	2,576	13.95
37	Paramount-Universal Bank Ltd.	11	1,737	0.64%	284	3.90
38	Prime Bank Ltd.	82	5,449	1.50%	604	13.56
39	Southern Credit Banking Corp. Ltd.	49	3,727	1.32%	463	10.62
40	Stanbic Bank Kenya Ltd.	-151	10,466	-1.44%	945	(16.00)
41	Standard Chartered Bank Ltd	4,011	67,092	5.98%	6,368	62.98
42	Transnational Bank Ltd.	121	1,887	6.41%	867	13.96
43	Victoria Commercial Bank Ltd	31	3,646	0.85%	492	6.32
	SUB-TOTAL	**13,546**	**569,549**	**2.38%**	**57,289**	**23.65**

PRUDENTIAL SUPERVISION CIRCULARS ISSUED IN 2003

Circular No	Date of issue	Title	Subject
1	07.01.2003	Renewal of account operating mandates	Effective January 2003 all authorised will have to be renewed annually. All mandates to be renewed by 31.03.2003.
2	11.04.03	Daily Returns on compliance	Effective 14.04.2003,all commercial banks are to forward to CBK on a daily basis, a statement of Compliance with the Banking Act,and Prudential Guidelines and Regulations issued by Central Bank. These returns should be forwarded to the Central Bank by 10.00 a.m. daily.
3	17.06.03	Compliance with sect 44of the Banking Act	All institutions licensed under the Banking Act are required to submit to the Minister through the Central Bank the list of all current banking or other charges.This information is to be forwarded to CBK by 30.06.03. Institutions licensed under the Banking Act shall ensure that they comply with Provisions of section 44 of the Banking Act. Institutions licensed under the Banking Act which do not comply fully with provisions of the Banking Act the Prudential Guidelines issued by CBK shall be charged penalty in accordance with the Banking(penalties) Regulations of 1999 made under section 55(2) of the Banking Act.
5	22.07.2003	Compliance With section 44 of the B.A.	The primary purpose of the Banking circular no. 3of 2003 is to collect comprehensive data on all current banking and other charges in order to enforce transparency by regularly publishing banks deposit and lending rates, as well as their other charges to customers. All Financial Institutions will be required to communicate all changes in rate of banking or other charges to their customers at least 30 calendar days before such changes become effective. Furthermore, the Minister shall continue to be informed of such changes in a timely manner through the Central Bank.

ORGANISATIONAL STRUCTURE OF BANK SUPERVISION DEPARTMENT