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Foreword

The primary responsibility of the Central Bank of Kenya (The Bank) is to promote and maintain price stability, an efficient payments system and foster liquidity and proper functioning of a stable market based financial system.

The Bank is mandated to perform this function under the Central Bank of Kenya Act (Cap 491), the Banking Act (Cap 488), the Building Societies Act (Cap489) and Central Bank of Kenya prudential guidelines.

Banking Supervision Department is charged with the responsibility of supervision of all commercial banks, non-bank financial institutions, mortgage finance companies, building societies and foreign exchange bureaus.

Banking sector remained stable due to favourable macroeconomic conditions that prevailed throughout the year. The Kenyan economy performed well, registering an increase in real gross domestic product of 5.8% in 2005. Stable short term interest rates of between 8% and 9% also contributed to financial sector stability and overall economic growth.

Overall, the banking sector was rated satisfactory. Assets in the banking sector expanded by 10%. The stable economic and business environment contributed significantly to growth in credit to various sectors of the economy.

Deposits, major source of funding, increased by 12%. Main sources of deposits included donor inflow and foreign direct investments, earnings from tourism and exports.

The banking sector remained liquid and well capitalized. The sector maintained an average liquidity ratio of 42% compared with the statutory minimum of 20%. Capital and reserves registered a 15% growth mainly due to capital injection and retention of profits.

Profits before tax for the sector increased by 26%, due to increased business volumes coupled with improved corporate governance practices.

To secure and foster safety and soundness of the financial system, enhance depositors protection, minimize systemic risks and burden of failure to the public, the Department revised prudential guidelines to align its supervisory practices with international best practices, developments in the International Financial Reporting Standards (IFRS), Basle Core Principles for effective banking supervision and emerging supervisory challenges. In addition, the Department issued Risk Management Guidelines to guide the sector on the minimum requirements for risk management systems and frameworks. Effective application of the risk management systems is expected to improve risk mitigation in the sector. All changes to prudential and risk management guidelines were made in consultation with stakeholders.

During the year, the Bank launched a Real Time Gross Settlement (RTGS) System known as Kenya Electronic Payments and Settlement System (KEPSS) in order to modernize the country's payment system especially for large value and time critical payments.

Proceeds of Crime and Money Laundering (Prevention Bill, 2005) was approved by the Cabinet in January 2005 for publication by the Attorney General. This proposed legislation will be the focal point of Kenya's AML regulatory regime.

The draft Bill criminalizes money laundering and estblishes a Financial Intelligence Unit (FIU). This Bill also seeks to establish a special fund where proceeds obtained from money launders shall be kept and may be applied to support the operations of the Financial Intelligence Unit and the Anti-Money Laundering law enforcement agencies. The Bill is expected to be tabled in parliament for debate before the end of year 2006.

Foreign exchange bureaus increased in number during the year and continued to face a number of challenges; some bureaus attempted to diversify into new products in addition to the initial purpose of buying and selling convertible currencies over the counter. In response to this, a circular was issued to all the bureaus to cease dealing in any new products. The Bank is in the process of developing a regulatory framework to be incorporated in the revised guidelines to guide the operation of foreign exchange business.

The Bank expects licensed institutions and all other stakeholders within the sector to play their role in ensuring that new changes introduced in the revised prudential and newly issued risk managment guidelines that seek to address corporate governance, risk management and international best practices make the banking sector more self regulated, stable and financially sound.

Chapter I

The Banking Sector in 2005

1 Structure of the banking sector

Figure 1

The Structure of the Banking Sector is as shown below.

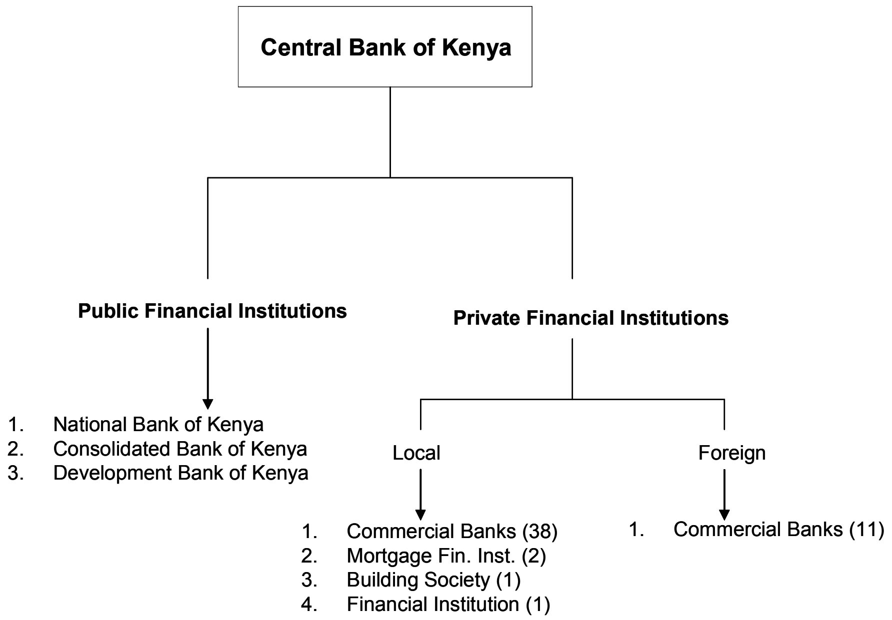
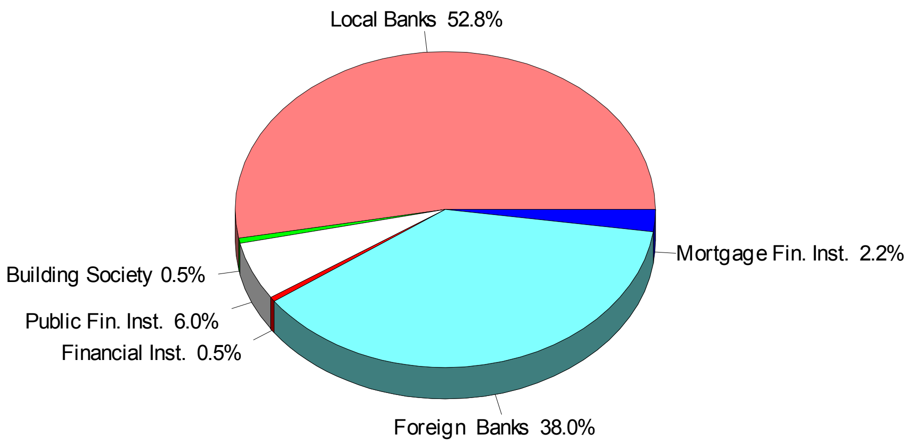


Figure 2



Note: Figures in parentheses represent the number of financial institutions in each category as at December 31, 2005

2 Market Share (Kshs. billion)

Figures 3,4, and 5 below show a summary of the financial sector's market share in terms of total assets, total deposits and total advances within the specified peer group ranges. Appendix 3 shows in more details the market share of the institutions in terms of assets, advances, deposits, capital and profits.

Figure 3 Total Assets

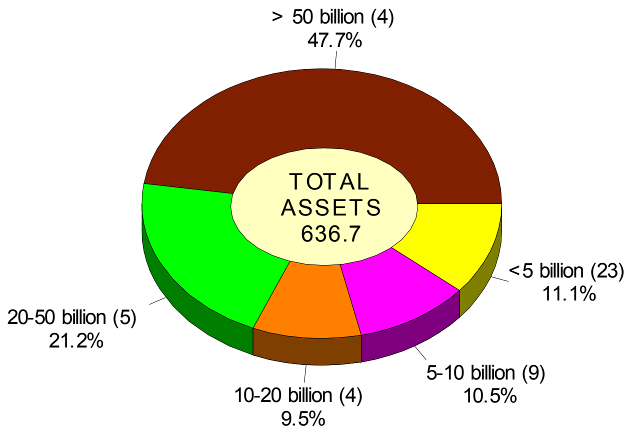


Figure 4 Total Deposits

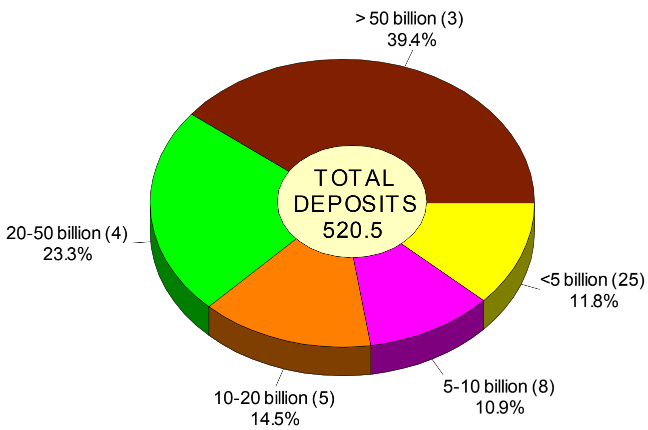
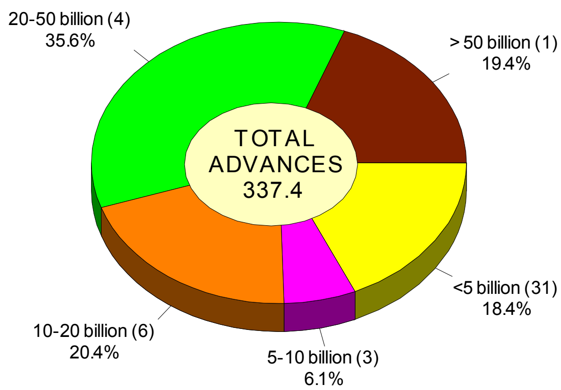


Figure 5 Total Advances



Note: Figures in parentheses represent the number of financial institutions in each peer group as at December 31, 2005

Chapter II

Developments in the Banking Industry in 2005

2.1 Introduction

In order to promote stability, soundness and proper functioning of the banking sector, Central Bank continues to review the legal and regulatory framework in order to strengthen corporate governance and align it with the International Financial Reporting Standards (IFRS), developments in the business environment, technology, emerging products and associated risks, and international best practices. In line with this, Risk Management Guidelines were issued in November 2005 outlining the minimum requirements for banking institutions' risk management systems and frameworks. Revised prudential guidelines were also released in November 2005 for implementation, effective January 1, 2006. Details of changes in the prudential guidelines are discussed in chapter 4 of this report.

In line with regulatory requirements, several institutions were penalised for various breaches of the Banking Act and prudential regulations. The most common areas of non-compliance were; failure to make adequate provisions for bad and doubtful debts, lending in excess of the allowed limits, misclassification of loans and submission of returns that were not accurate to Central Bank. Enforcement of compliance requirements by the Central Bank through monetary penalties has led to a significant decline in non-compliance incidences. As shown in table 1, the number of non-compliance incidences declined from 16 in 2004 to 10 in 2005. In addition to levying penalties, all corporate approvals for non-compliant institutions were withheld and approvals for the quarterly publication of financial statements were granted only after institutions had fully recognized potential losses and made adequate provisions in accordance with the prudential regulations.

Table 1: Trend of Non-compliance with the Banking Act

	Area of Non-compliance	2005	2004
1	Single borrower limit	3	6
2	Minimum liquidity ratio	0	2
3	Minimum core capital	0	1
4	Foreign exchange exposure limit	2	2
5	Total capital/TRWA ratio	2	1
6	Core capital/TRWA ratio	0	1
7	Core capital/Total deposit ratio	1	0
8	Minimum number of directors	1	1
9	Inadequate provisions for bad & doubtful debts	1	2
	Frequency of non-compliance	**10**	**16**

During the year under review, no institution was placed under statutory management of the Central Bank of Kenya. Prudential Building Society and Daima Bank Limited, which were under statutory management, were however, put under liquidation and Deposit Protection Funds Board appointed liquidators on January 18, and June 13, 2005 respectively.

2.2 Mergers and Acquisitions

During the course of the year the industry witnessed two acquisitions. A building society was acquired by a commercial bank as a strategy to increase the bank's capital base to enhance compliance with capital adequacy requirements and enhance its competitiveness. In the other instance, a commercial bank acquired the assets and liabilities of another commercial bank as part of its expansion strategy.

2.3 Developments in Information Technology

2.3.1 National Payments system

The Central Bank of Kenya launched a Real Time Gross Settlement (RTGS) system known as the Kenya Electronic Payments and Settlement System (KEPSS) in July 2005 in an effort to modernize the country's payment system in line with global trends.

The main objective of introducing KEPSS is to reduce the dominance of cash as a financial instrument in the payment system, reduce risk arising from payment exposure, enhance safety and efficiency of exchange in value between transacting parties and provide an on-line settlement system that enables both banks and individuals to effect funds transfer electronically on a real time basis. The KEPSS system operates on a credit push basis whereby final irrevocable settlements only occur when funds are available in the commercial bank's account with Central Bank.

2.3.1.1 Benefits of the KEPSS system

The system has the following benefits:

- Enhances the speed of transacting as it operates on a real time basis, thereby transferring value instantaneously;
- Enables the final and irrevocable payment of transactions;
- Enables commercial banks to manage their liquidity and settlement accounts at the Central Bank;
- Provides a secure medium for inter-bank funds transfer;
- Mitigates against risk arising from payment;
- Boosts the confidence of investors and the general public in Kenya's payment system;

2.3.2 Status of RTGS in the East African Region

During the E. A. Governors Meeting held in Arusha in May 2005, it

was observed that:

- All the three East African countries had successfully implemented their respective RTGS systems;
- The three countries have developed and agreed on a cross border model and the technical features of its operations.
- An operational and regulatory framework for the proposed East African cross border payment system has been formulated; and
- The proposed settlement currency of the net central bank obligations will be in US Dollars.

2.3.3 The Way Forward

The Bank plans to roll out a public awareness campaign, about the availability and benefits of of KEPSS in making large value and time critical payments. It is expected that Kenya Revenue Authority and other Government Department will be linked to KEPSS, thus reducing the issuance of cheques.

The Bank will continue to work towards the realization of initiatives aimed at improving payment, clearing and settlement systems to promote Kenya as an international market and a regional financial centre.

2.3.4 Automated Teller Machines (ATMS)

Year 2005 saw a rapid increase in the number of ATMs in Kenya as Kenswitch which is owned by 16 member banks doubled the number of ATMs in the market to 32, while Pesa Point a private ATM service provider, installed 41 ATMs at different locations in the country.

The ATM service providers' strategy is to avail the use of ATMs to as many financial institutions as possible in order to provide banking services to a wider clientele, particularly those in marginal areas where the traditional mode of banking has not penetrated.

2.4 Bank Charges

The Banking Act requires that institutions that intend to increase their rate of banking and other charges apply to the Minster for Finance as provided under Section 44 of the Banking Act, through the Central Bank of Kenya, giving justification for the intended increase.

During the year the Central Bank continued to publish charges by institutions in the local press with a view to enhancing transparency and competitiveness. The purpose of the publication was to inform bank customers of the charges levied on various products, by the different banks.

An impact assessment of the publication of bank charges was conducted by Central Bank in 2005. The impact assessment recognised a number of weaknesses on the presentation of the published charges to the general public and therefore customers did not respond to the differentiated costs. The Central Bank is in the process of reviewing the process of communicating the charges for the various services by different banks to the public in order to make the publication more effective.

2.5 Employment Trends in the Industry

Employment in the banking sector increased by 5% as shown in table 2. A notable decline is in the support staff category which is partly attributable to the current trend of banking institutions outsourcing non–core services.

Table 2: Employment Trend in the Banking Industry

Category	2004	2005	% Change
Management	3,165	3,479	10
Supervisory & Sec. Head	2,743	2,978	9
Clerks & Secretarial Staff	5,130	5,902	15
Other Support Staff	903	230	(75)
Total	**11,941**	**12,589**	**5**

2.6 Foreign Exchange Bureaus

The number of operating Forex Bureaus increased from 89 in 2004 to 93 in 2005. Their distribution in the major cities and towns is as shown in table 3 below.

Table 3: Distribution of Forex Bureaus

Town	No. of Bureaus
Nairobi	73
Mombasa	11
Malindi	1
Nakuru	2
Kisumu	2
Eldoret	2
Lokichogio	1
Namanga	1
Total	**93**

Foreign exchange bureaus were introduced to increase competition in the foreign exchange business by serving the retail end of the market for convertible currencies and to narrow the spread in foreign exchange rates. The average foreign exchange rates and margins for major currencies traded by foreign exchange bureaus fluctuated during the period 2003 to 2005 as shown in table 4.

Table 4: Average Foreign Currency exchange Rates and Margins

	2003			2004			2005		
Currency	**Buying**	**Selling**	**Margin**	**Buying**	**Selling**	**Margin**	**Buying**	**Selling**	**Margin**
USD	74.70	77.27	2.57	78.01	80.01	2.00	74.62	76.80	2.18
GBP	120.03	125.57	5.54	140.29	145.69	5.40	134.58	139.58	5.11
EURO	82.05	86.28	4.23	94.94	99.08	4.14	91.89	96.09	4.20

Although there were significant changes in exchange rates, the change in margins was insignificant. This can be attributed to the fact that exchange rates are mainly driven by market forces of demand and supply while exchange rate margins are a factor of competition in the market.

The financial position of the Foreign Exchange Bureaus as at December 31, 2005 was as follows:

- Total assets increased marginally from Shs.1,135m in 2004 to Shs. 1,361m in 2005 reflecting the impact of the 'silent' moratorium on licensing new forex bureaus during the year.
- The total shareholders funds increased to Kshs. 785million from Shs.659m in 2004. This was attributed to an increase in retained earnings and the entry of new bureaus licensed during the year.
- The profit before tax increased from Kshs. 56m in 2004 to Kshs. 77.4m as at 31.12.2005 an increase of 38.2%.

From the inspection findings carried out during the year, it was observed that bureaus were diversifying into new products such as telegraphic transfers, which are susceptible to abuse. As a result of this concern, the Central Bank issued a circular in December 2005 instructing all foreign exchange bureaus to cease dealing in telegraphic transfers and third-party cheques. Following this development, Central Bank is currently developing a regulatory framework on telegraphic transfers and foreign currency dominated personal cheques. The proposed framework shall introduce transaction limits and Know Your Customer (KYC) procedures. The proposed regulatory framework will be incorporated in the revised guidelines for operation of Foreign Exchange Bureau business.

2.7 Corporate Social Responsibility

During the year under review, several institutions dedicated substantial amounts of their resources towards social welfare and community activities. Some of the beneficiaries of these community partnership projects were; Thika School for the Blind, Starehe Girls Centre, Kwa Watoto Children's Home, Operation Smile Kenya, and the Architectural Society of Kenya.

2.8 Future Outlook

The banking sector has witnessed re-packaging of banking and financial services to satisfy the ever changing needs of customer. This has resulted in the rapid growth of consumer banking products. More banks are increasingly offering new banking products such as the Unsecured Personal Loans, Auto Loans, Unsecured Professional Loans, Safari Savings Accounts, Jumbo Junior Accounts and the SME Business Model Accounts. An increased number of institutions are offering e-banking as well as offering services for non-residents.

The future portends intensified competition in the financial sector arising from the introduction of Islamic banking products. Financial institutions will therefore be expected to redefine their business strategies while leveraging on innovative and affordable products so as to capture new market segments.

The key to achieving and sustaining financial soundness of the institutions will depend on the achievement of operational efficiency through the application of robust risk management frameworks.

The focus of institutions over the next few years will be increased investment partnerships with other financial intermediaries such as insurance companies and increased participation in the Capital Markets, as well as expansion to the regional markets in Uganda, Tanzania, Rwanda and Southern Sudan.

Chapter III

Macroeconomic Conditions and Banking Sector Performance

3.1 Introduction

The Kenyan economy continued to perform well in 2005. Leading economic indicators show that real Gross Domestic Product (GDP) grew by 5.8 % in 2005, compared to 4.9% in 2004. This improved performance was attributed to a favourable international environment and the recovery of the domestic consumer demand and increased production of key exports.

The Agricultural sector benefited from the favourable weather conditions in the major grain growing areas. This resulted in improved harvest compared to the previous year. Horticulture and coffee production rose due to improved prices and better credit facilities. Tourism earnings rose with increased tourist in-flows following an aggressive marketing campaign of Kenya abroad. Manufacturing benefited from a robust demand for Kenyan products in the regional markets notably in the East African Community and COMESA. Growth in construction sector was associated with increased demand for residential housing following decreases in mortgage interest rates in 2004/5.

The stable macroeconomic environment also contributed towards significant growth in credit to the productive sectors such as manufacturing, transport, communication, building and construction during the year. In addition to this, the improved attention towards corporate governance enhanced stability and the overall performance in the financial sector, helped improve business confidence and increased demand for credit.

The increase in domestic credit resulted from expansionary monetary policy stance during the year. However, there was sufficient liquidity in the market to meet the needs of the economy. As a result of this policy position, short term interest rates were generally stable in 2005. The commercial bank's average lending rates increased to 13.2% in December 2005, from 12.3% in 2004. On the other hand, the average deposit rate almost doubled during the year rising from 2.8% in 2004 to 4.5% in 2005. The increase in the average deposit rate resulted in the narrowing of the interest rate spread from 9.5% in 2004 to 8.6% in 2005. In the near term, the term structure of interest rates is expected to remain steady on account of moderate Government domestic borrowing as a result of improved Government revenue collection and improved tax administration.

The stability of short term interest rates between 8% and 9%, have been vital to the financial sector stability and overall economic growth. The stability of domestic interest rates in Kenya has contributed to the predictable macroeconomic environment for investors and business people. This in turn has increased the level of confidence in the economy and has led to increased short term capital inflows.

3.1.1 Inflation and Exchange Rates

The underlying inflation rate in 2005 remained below 5%. On the other hand, the annual overall inflation eased from 16.3% in 2004 to 7.6% in 2005.

As a result of improved economic activity and prudent monetary and fiscal policies, the economy enjoyed positive business confidence and earned large inflows from exports of goods and services.

On average, the Kenya shilling appreciated against all the major international currencies in 2005 as shown in Table 5 below.

Table 5: Major currency movements

Currency	2004	2005
US Dollar	74.74	73.11
Sterling Pound	129.76	127.62
Euro	88.15	86.69
Japanese Yen	63.19	61.63

3.1.2 Balance of Payments

The balance of payments position improved mainly due to increased capital inflows and reduced capital outflows. In addition, disbursement of budgetary support by the Africa Development Bank, the IMF improved investor confidence in the economy.

Overall, the growth in real gross domestic product, stable interest and exchange rates, prudent monetary and fiscal policies and enhanced supervision of banking institutions have all supported financial sector stability.

3.2 Banking Sector Performance

During the year 2005, the banking sector remained stable mainly due to favourable macroeconomic conditions prevailing during this period. Non-performing loans net of provisions maintained a downward trend while gross loans increased leading to improved asset quality ratios and profit margins.

3.2.1 Balance Sheet Analysis

As table 6 reflects the banking sector's total assets expanded by 10.2% from Kshs. 577.6 billion in 2004 to Kshs.636.7 billion in 2005. Total Loans and advances, net of provisions, represented 53% of the total assets stood at Kshs. 337.5 billion in 2005 compared with Kshs. 301.9 billion in 2004. The increase in loans and advances was attributable to an increased lending to private households, transport, communications, manufacturing, building and construction sectors. Government securities too, increased by 15.6% from Kshs.116.0 billion in 2004 to Kshs. 134.1 billion in 2005.

The total banking system deposit liabilities, including accrued interest, increased by 11.8% from Kshs. 465.6 billion in 2004 to Kshs. 520.8 billion in 2005. The increase in the deposit base was attributed to external donor in-flows to the non-governmental organizations and the government coupled with an increase in earnings from tourism and exports.

Table 6: Movements in Assets

	Kshs. billion		% Change
Assets	**2005**	**2004**	
Cash	12.8	10.3	24.3
Balances at Central Bank of Kenya	32.1	32.8	-2.1
Placements	15.7	13.6	15.4
Government Securities	134.1	116.0	15.6
Investments	7.2	5.1	41.2
Loans & Advances (net)	337.5	301.9	11.8
Others assets	97.4	98.1	-0.7
Total Assets	**636.7**	**577.6**	**10.2**
Liabilities & Shareholders' funds			
Deposits	520.8	465.6	11.8
Other liabilities	33.8	43.2	-21.8
Capital & Reserves	82.1	68.8	19.53
Total Liabilities & Shareholders Funds	**636.7**	**577.6**	**10.2**

The structure of assets, liabilities and deposits did not change significantly in 2005 compared to 2004 as shown in figures 6, 7, and 8.

Figure 6 Global Balance Sheet - Assets

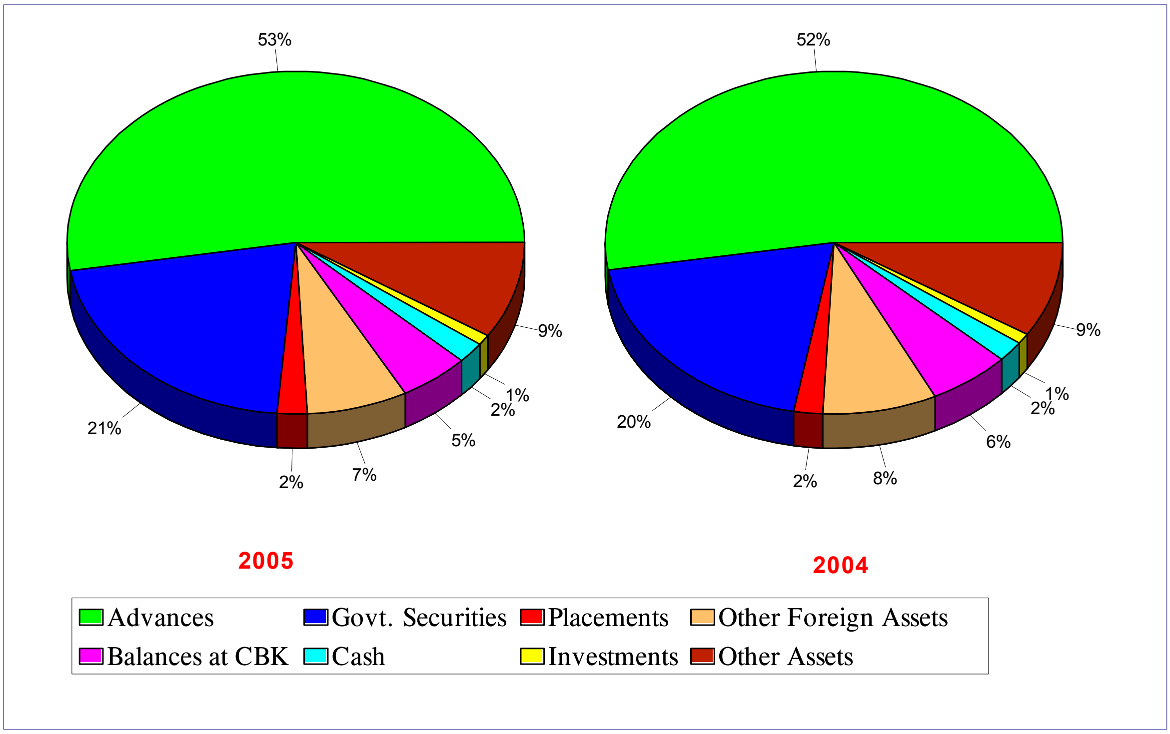


Figure 7 Global Balance Sheet - Liabilities

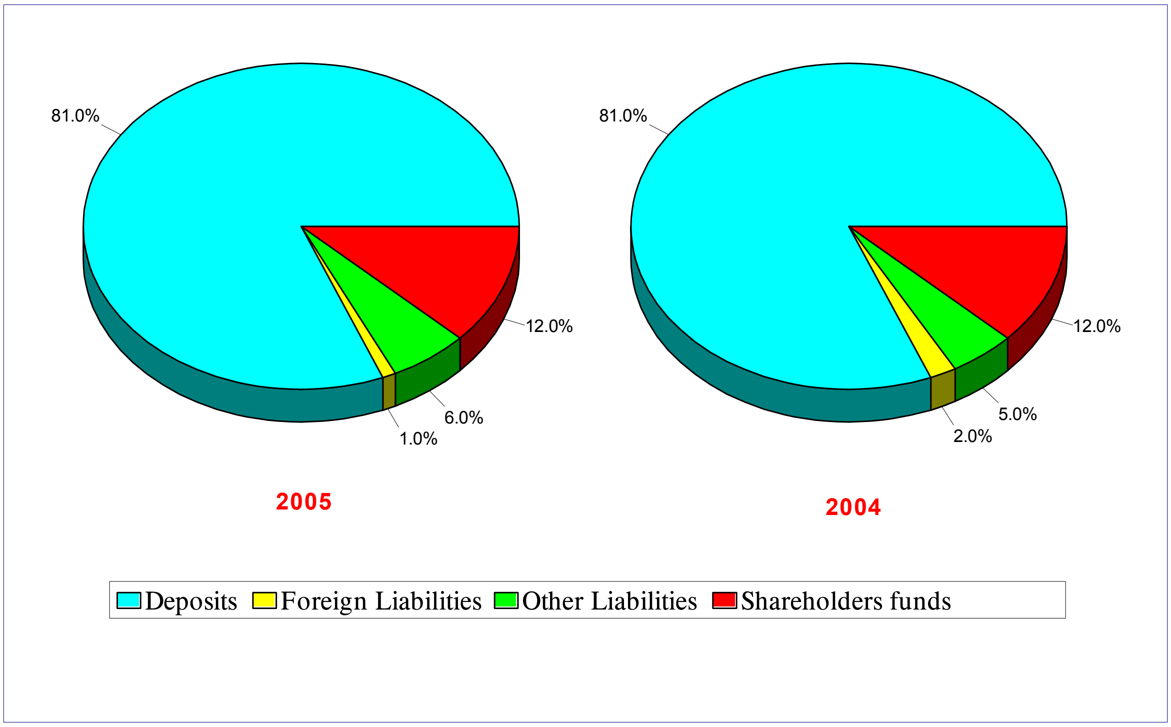
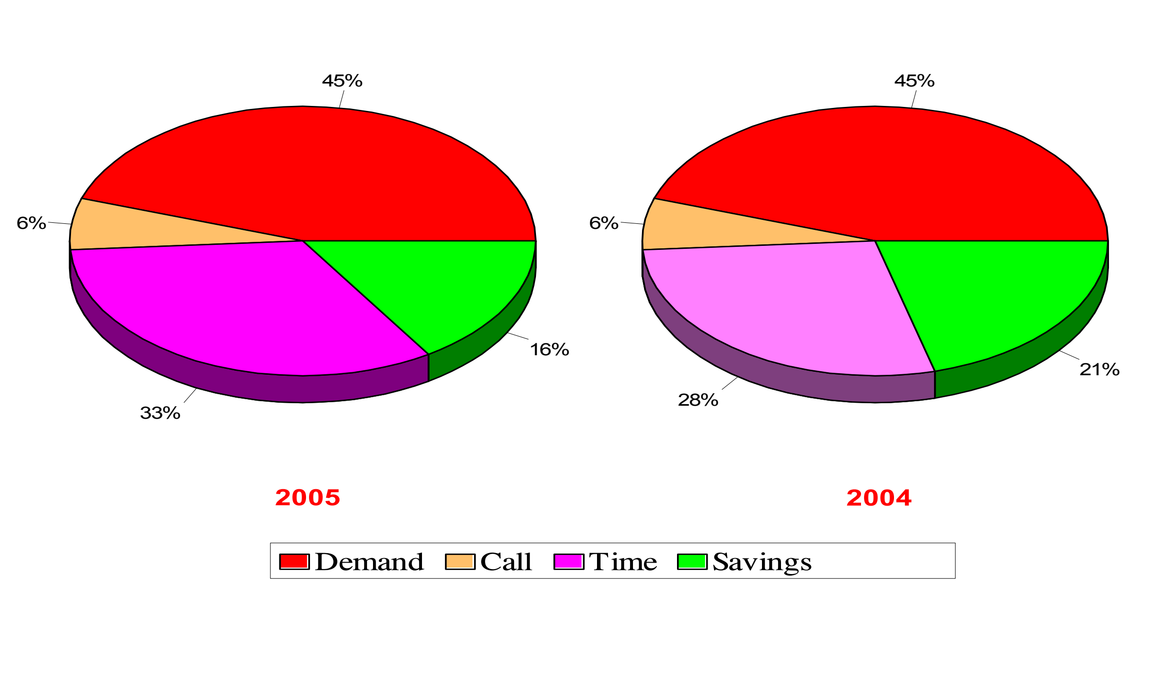


Figure 8 Structure of Deposits



3.2.1.1 Asset Quality

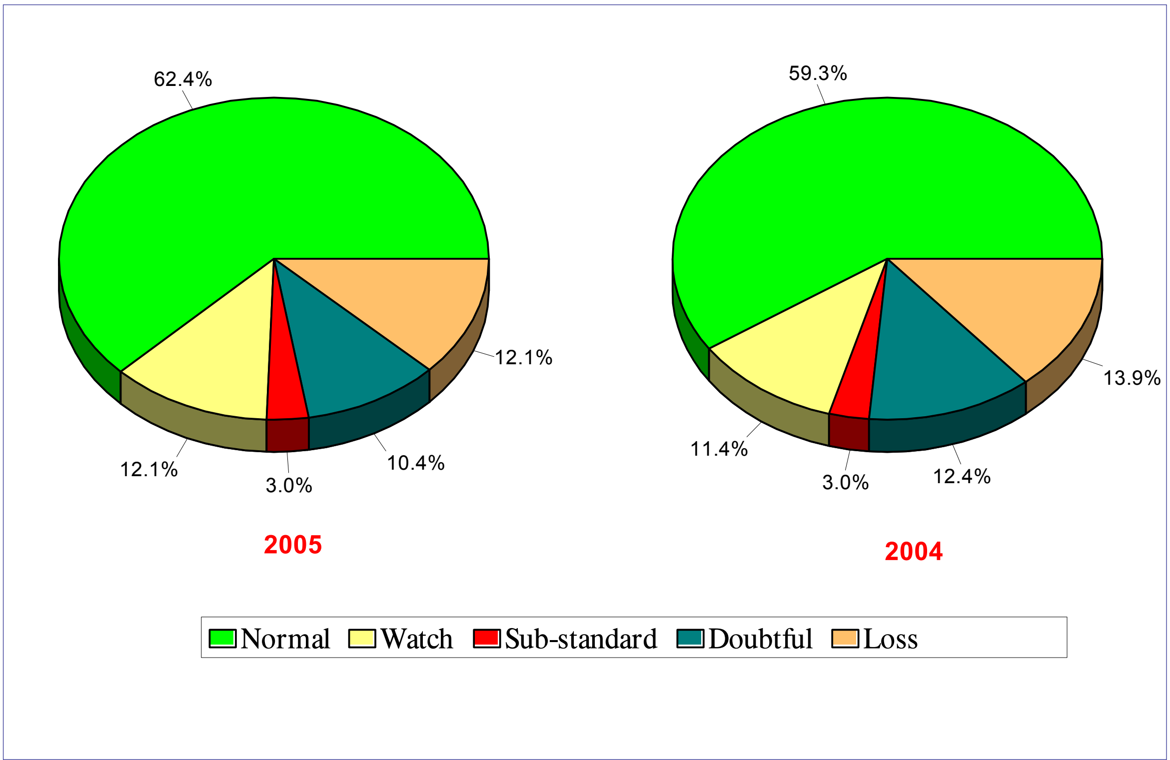
As a result of improved performance of the economy, non-performing loans, net of interest in suspense, declined by 5.4% from Kshs. 72.5 billion in 2004 to Kshs. 68.6 billion in 2005. Consequently, the ratio of net non-performing loans to gross loans declined from 9.1% in 2004 to 7.2% in 2005 reflecting an improvement in asset quality in 2005 as shown in table 7.

There was a marginal shift in the loans' risk classification from doubtful and loss categories in 2004 to normal and watch categories in 2005 as shown in figure 9.

Table 7: Asset Quality

Kshs. billion	2005	2004	% Change
Total Assets	636.7	577.6	10.2
Gross loans	417.3	382.6	9.1
Total loans (Net of Interest Suspense)	379.4	343.1	10.6
Gross Non-performing Loans	106.5	111.9	-4.8
Interest in suspense	37.9	39.4	-3.8
Total Non- performing Loans	68.6	72.5	-5.4
Specific provisions	38.4	37.8	1.6
Net Non- performing Loans	30.2	34.7	-13.0
Gross Loans/ Total assets%	65	66	
Gross NPLs/ Gross Loans (%)	25	29	
Total NPLs/ Total Loans (%)	18	21	
Net NPLs/Gross loans	7.2	9.1	

Figure 9 Risk Classification of Loans



3.2.1.2 Capital Adequacy

During the year under review, the banking sector remained well capitalised with, capital and reserves increasing by 15.1% from Kshs. 68.8 billion in 2004 to Kshs. 79.2 billion in 2005. The increase in capital and reserves in the sector was as a result of fresh capital injection and retention of profits by several institutions. Capital adequacy in the sector, as measured by the ratio of total capital to total risk weighted assets ratio increased slightly by 0.3 percentage point to 16.9% in 2005 from 16.6% in 2004, as shown in table 8.

Table 8: Capital adequacy ratios

Percentage ratio	2005	2004	Minimum
Core Capital/ TRWA*	15.3	16.2	8.0
Total Capital/TRWA*	16.9	16.6	12.0
Core Capital/Total Deposits	14.6	13.8	8.0

** Total Risk Weighted Assets*

3.2.1.3 Liquidity

The liquidity ratio which is a measure of liquid assets over total assets, and which is a measure of an institution's ability to meet its maturing obligations as they fall due remained strong as in the previous years. During the year under review, commercial banks maintained an average liquidity ratio of 42.3% compared with the minimum requirement of 20%. Mortgage finance companies and Non-Bank Financial Institutions (NBFIs) maintained an average liquidity ratio of 36.5%, while the only building society in the sector, maintained an average of 31%.

3.2.2 Profit and Loss Analysis

During 2005, banking institutions recorded growth in nearly all aspects of their businesses. Consequently pre-tax profits of the banking sector increased by 26% to Kshs.19.0 billion in 2005 compared to Kshs. 15.1 billion in 2004. The market experienced a significant decline in the level of government borrowing from the domestic market; the fall in the Treasury Bill has made investment in this instrument unattractive.

To mitigate reduced earnings from corporate lending and government securities, most banking institutions, aggressively ventured into personal banking, enticing customers with attractive products.

3.2.2.1 Income

As shown in table 9, interest income on advances increased by 40.2% to Kshs. 35.6 billion from Kshs. 25.4 billion in 2004 and accounted for 46% of total income. The increase in interest income was attributed to substantial growth in loans and advances. Interest income on government securities increased by 34.2% to Kshs.10.2 billion in 2005 from Kshs. 7.6 billion in 2004. The increase in interest income from government securities was due to increases in interest rate on government securities and bond and level of investment by institutions in government securities. Fees and commissions income accounted for 33% of the banking sector gross income, having increased by 3.2% from Kshs.24.8billion in 2004 to Kshs.25.6 billion.

3.2.2.2 Expenses

Total expenses increased by 22.5% from Kshs. 47.6 billion in 2004 to Kshs. 58.3 billion in 2005. The increase in total expenses was attributed to an increase in interest expenses and staff costs. Interest expenses on deposit accounted for 18.2% of total income in 2005 compared to 10.4% in 2004. Staff costs accounted for 22.9% of total income and increased by 19.5% from Kshs.14.9 billion in 2004 to Kshs.17.8 billion in 2005 as shown in table 9.

The comparative changes in income and expenses as a percentage of total income are shown in figures 10 and 11.

Table 9: Income and Expenditure items as Percentage of Total Income

	Kshs. billion				
	2005		2004		%
Income	**Kshs.**	**%**	**Kshs.**	**%**	Change
Interest on advances	35.6	46	25.4	41	40.2
Interest on government securities	10.2	13	7.6	12	34.2
Interest on placement	6.2	8	4.9	8	26.5
Other income	25.6	33	24.8	39	3.2
Total Income	**77.6**	**100**	**62.7**	**100**	**23.8**
Expenses					
Interest expenses	14.1	18.2	6.5	10.4	116.9
Bad debts charge	6.9	9.0	7.7	12.2	-10.4
Salaries and wages	17.8	22.9	14.9	23.8	19.5
Other expenses	19.5	25.1	18.5	29.5	5.4
Total expenses	**58.3**	**75.1**	**47.6**	**75.9**	**22.5**
Profit before tax	**19.3**	**24.9**	**15.1**	**24.1**	**27.8**

The comparative changes in income and expenses as a percentage of total income are shown in figures 10 and 11.

Figure 10 Income as a percentage of Total Income

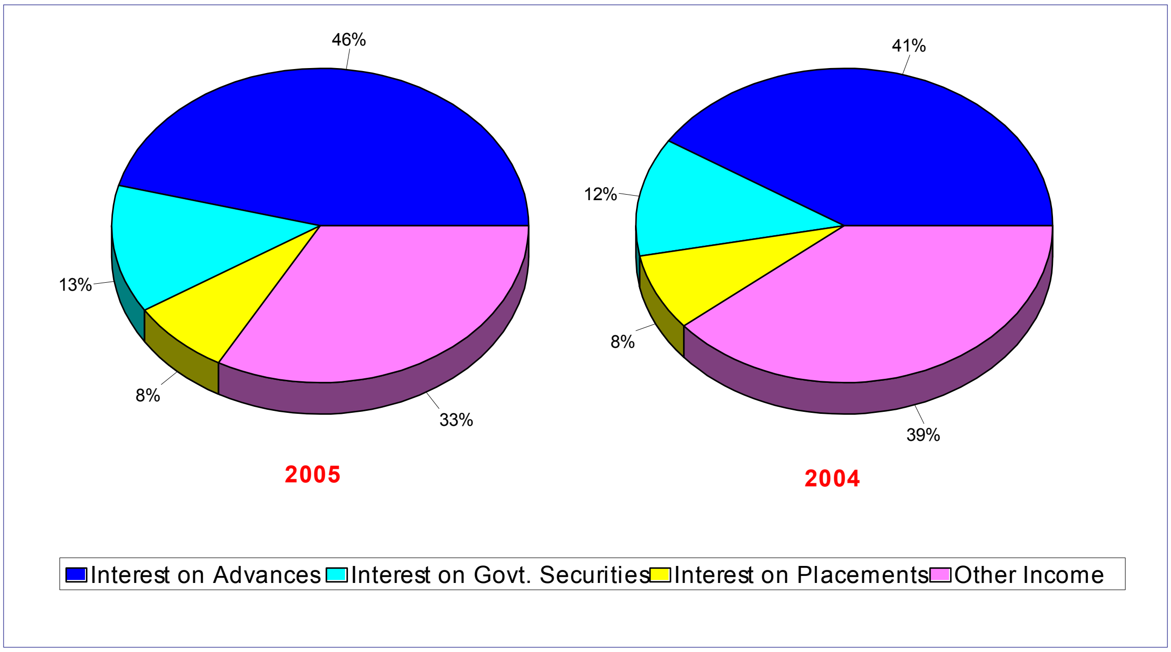
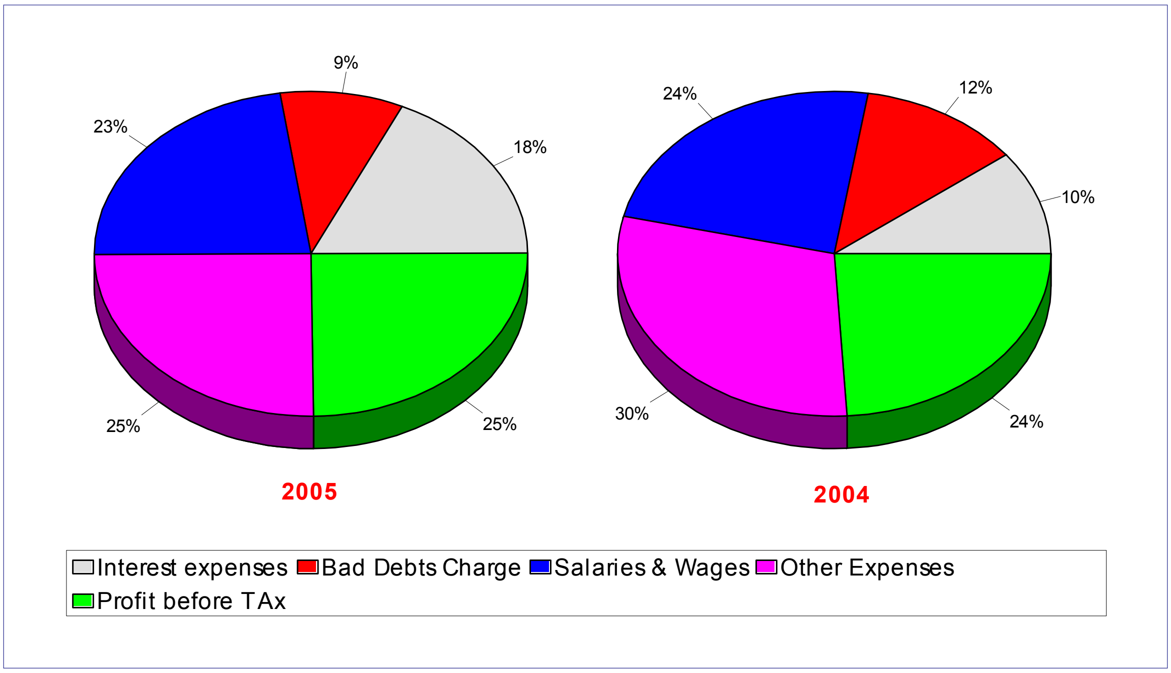
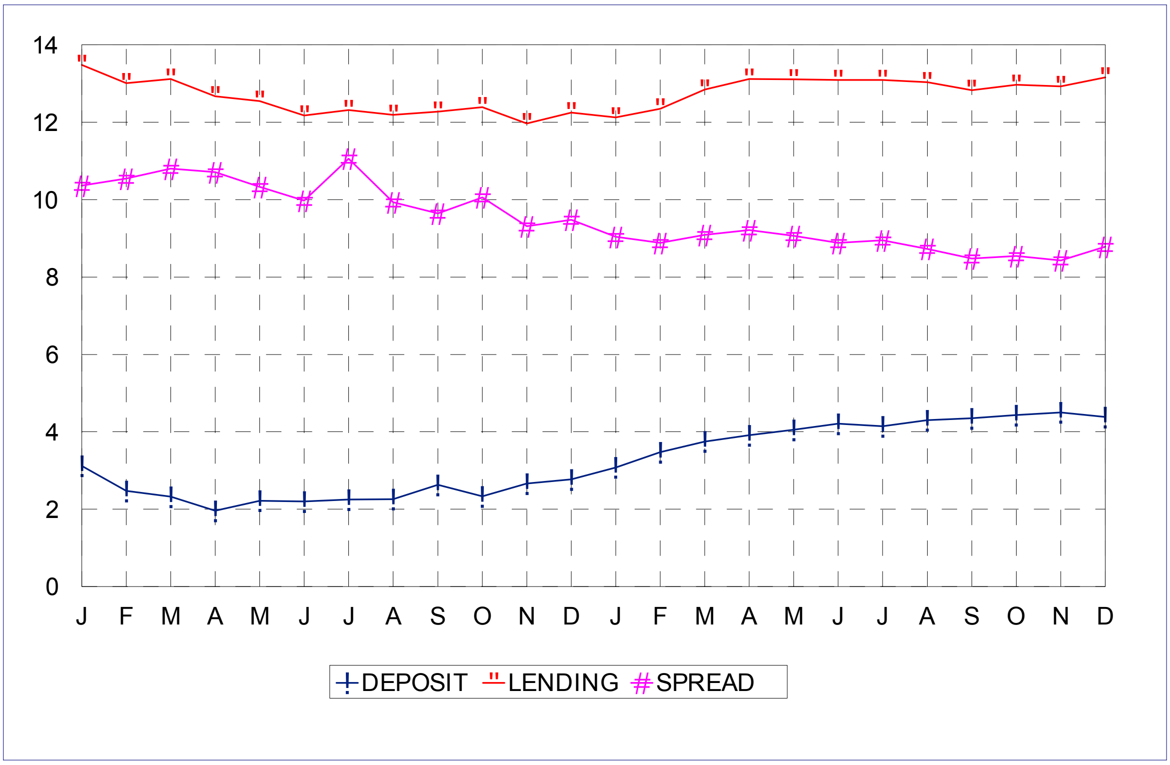


Figure 11: Expenses as a percentage of total income



Interest rates on deposits have been increasing gradually in 2005, whilst the lending rates have remained relatively constant. The spread between lending rates and deposit rates has been declining as shown in figure 12.

Figure 12 Commercial Banks Weighted Average Interest Rate



3.3 Year End Performance Rating

3.3.1 Rating indicators

The rating of the banking sector has been based on the CAMEL(S) rating framework. The framework is based on **C** - Capital Adequacy, **A** - Asset Quality, **M -** Management Quality. **E -** Earnings, **L** - Liquidity and **S -** Sensitivity.

The overall performance of the banking sector based on the CAMEL rating framework was satisfactory, the same composite rating as in the previous year.

Table 10: Year-end overall banking sector performance ratings

	2005			2004		
CATEGORY	**INSTITUTIONS**	*** ASSETS**	**%**	**INSTITUTIONS**	***ASSETS**	**%**
STRONG	6	49.3	7.8	4	12.6	2.2
SATISFACTORY	28	493.8	77.5	23	357.8	62.0
FAIR	10	90.3	14.2	17	186.0	32.2
MARGINAL	1	3.3	0.5	5	21.1	3.7
UNSATISFACTORY	0	0.0	0.0	0	0.0	0.0
TOTALS	45	636.7	100.0	49	577.6	100.0
OVERALL	**SATISFACTORY**			**SATISFACTORY**		

** Net Assets in Kshs. billion*

3.3.2 Performance Rating

As shown in table 10 above, six institutions with a combined market share of Kshs.49.3 billion (7.8% of total assets) were rated strong compared to four institutions in the previous year, while twenty eight institutions with a market share of Kshs.493.8 billion (77.5% of total assets) were rated satisfactory. Ten institutions were rated fair compared to 17 in the previous year while only one institution was rated marginal compared to five in 2004. Like the previous year, no institution was rated as unsatisfactory, an indication of sustained good performance of the sector.

Chapter IV

Developments in Supervisory Framework

4.1 Introduction

The Banking Act Cap 488, Central Bank of Kenya Act Cap 491 and prudential guidelines issued under these legislative statutes have been designed and promulgated to secure and foster safety and soundness of the financial system. The need for a strong legislative and regulatory regime cannot be over emphasized in view of the need to ensure the safety and soundness of the financial system, protection of depositors, prevention of risk of contagion within the system and the need to minimize and reduce the cost of failure to the tax payer/public.

4.2 Key amendments to legislation and prudential guidelines

During the year under review, comprehensive changes and amendments were made on the Banking Act and related prudential guidelines. The highlights of key changes are given here below:

Guideline	Key Changes	Rationale for the Change
1. **CBK/PG/01** - Licensing of New Institutions	Additional requirements for licensing of new institutions: - • Confirmation from the home country supervisor that the promoters of a foreign incorporated bank do not operate a shell bank • The home country supervisor shall exchange supervisory information with the Central Bank of Kenya.	• Prevent the use of shell banks for money laundering. • Facilitate the monitoring of The performance of foreign incorporated banks.
2. **CBK/PG/02** - Corporate Governance	• Combination of the previous CBK/RG/07 on the code of conduct for Directors, Managers and other employees with the current CBK/RG/08 on duties and responsibilities of Directors, Chief Executives and management.	• Both regulations relate to corporate governance in banks. • Introduction of best practices in corporate governance.

Guideline	Key Changes	Rationale for the Change
	• The number of non-executive directors should be at least three fifths and majority of them to be independent. • Multiple directorships in institutions restricted to two. • Shareholders owning more than 5% in the institution should not participate in management. • Express requirement for shareholders to ensure a competent board. • Significant shareholders (above 5%) to be vetted. • Institutions required to uphold social responsibility • Boards must set up independent compliance function • The boards required to set up various committees (whose roles have been specified): Board Audit Committee, Board Credit Committee, ALCO, Risk Management Committee and Executive Committee	
3. **CBK/PG/03** - Capital Adequacy	• Exclusion of fair value gains and losses on investment property and financial instruments from core capital computation. • Inclusion of foreign treasury bills and bonds in definition of risk-weighted assets. • Adoption of the original exposure method recommended by the Basel Committee to compute the credit equivalent amount of forward exchange contracts. • Inclusion of Credit Risk Mitigation (CRM). Under CRM, exposures guaranteed by specified Multilateral Development Banks will attract a lower risk weight.	• To take into account developments in International Financial Reporting Standards (IFRS). • To recognize increased risks from higher levels of investment by banks in foreign (regional) government securities. • Adoption of international best Apractice • To comply with Basel I requirements.

Guideline	Key Changes	Rationale for the Change
4. **CBK/PG/04** - Risk Classification of Assets and Provisioning	• It will cover credit risk in other assets other than loans held in Financial Institutions Balance Sheets. The previous regulation focused on the credit risk in loans. • Enhanced provisioning for non-performing assets- The revised guideline seeks to enhance provisioning levels by requiring provisions to be made for all risk categories of assets as opposed to the current practice of just providing for doubtful and loss loan categories. • Where specific provisions exceed impairment charges (provisions) computed under International Financial Reporting Standard (IFRS) 39 the excess provisions will be charged to the institutions' retained earnings in accordance with the requirements of IFRS 30.	• Other assets held by banks such as bank balances and investments are also subject to credit risk • Adoption of international best practice • Take into account requirements of International Financial Reporting Standards.
5. **CBK/PG/05** - Liquidity Management	• Separation of leasehold land from fixed assets in the maturity analysis return, which falls under this regulation. • Foreign governments' treasury bills /bonds to qualify for liquidity computation, on condition that they are freely marketable or readily discounted, and the country should not have any foreign exchange restrictions or controls. • Short term liabilities maturing within 91 days other than deposits should be included in liquidity computation.	• Take into account IFRS 17 which requires that leasehold land be separated from fixed assets • Institutions are increasingly in foreign TBills and Bonds, in other countries • Obligations arising from short term liabilities other than deposits maturing within 91 days are met from institution's liquid assets

Guideline	Key Changes	Rationale for the Change
6. **CBK/PG/06** - Foreign Exchange Exposure Limits	• Incorporation of intercompany balances denominated in foreign currency in the computation of foreign exchange exposure.	• Intercompany balances denominated in foreign currency are increasingly prevalent especially in multinational banks.
7. **CBK/PG/08** - Proceeds of Crime and Money Laundering (Prevention)	• Board of Directors of an institution should ensure that management:- - Maintain adequate records for a minimum of 7 years regarding the sources of funds. - Train staff on a regular basis on the prevention, detection and control of money laundering and the identification of the proceeds of crime. • Institutions should formulate policies on the maximum cash transaction amounts that non-customers can undertake with them. • Introduction of Know Your Customer procedures for non face-to-face transactions such as postal, telephone and internet banking.	• Incorporate best Anti Money Laundering practices • Take cognizance of developments in banking service delivery channels.
8. **CBK/PG/09** - Appointment, Duties and Responsibilities of External Auditors	• An Auditor or any partner should not be a member of the board of that institution or any other institution or the Central Bank. • The audit firm or its partners should not be involved with the institution in other non-audit services.· • Rotation of partners every 5 years while audit managers and audit seniors should be rotated every 3 years.	• To avoid conflict of interest • Enhance Auditor Independence
9. **CBK/PG/10** - Publication of Financial	• Reporting of assets and liabilities gross of interest	• Incorporate new disclosure requirements stipulated

Guideline	Key Changes	Rationale for the Change
Statements and other Disclosurers	• Separate disclosure of leasehold land from fixed assets. • Disclosures of investments in commercial paper and corporate bonds under loans and advances.	by various International Financial Reporting Standards (IFRS).
10. **CBK/PG/11** - Opening of New Place of Business, Change of Location and Closures Closing Existing Place of Business or Changing Location of Place of Business	• In considering an application for a new place of business, the Central Bank shall require that the institution meets the requirements of the Banking Act and Prudential Guidelines. Where an institution does not meet the requirements, the Central Bank may at its own discretion, recommend an approval if otherwise satisfied, that it will be in the public interest to do so. • The license of a branch, which fails to commence operations within one year of the Minister's approval, shall be considered to have lapsed.· • The Central Bank may close a place of business and impose a penalty on an institution in case it comes to the knowledge of the Central Bank that an institution is operating an unauthorised place of business.	• To prevent weak banks opening new branches, and as a remedial measure to ensure compliance with regulatory requirements. • This is to ensure that institutions conduct comprehensive feasibility studies before applying for branch licences. • This is meant to curb the few incidents of institutions opening branches without the regulator's authority.
11. **CBK/PG/12** - Mergers , Amalgamations Transfers of Assets . and Liabilities.	• Incorporation of the definitions of the terms:- - Acquisition - Amalgamation. - Merger. - Take-over. - Consolidation. - Transfer of assets and liabilities. - Partial transfer of assets and liabilities.	• The current regulation does not define certain crucial terms to which it refers to.

4.2.2 Amendments to Legislation

4.2.2.1 Banking Act (Cap 488)

The Finance Act (Act No. 6 of 2005), 2005 amended sections 2 and 12 of the Banking Act as follows:

Section 2

Section 2(2)(a) was amended to widen the definition of the term “associate” in so far as a company or other body corporate is concerned. The meaning of the term “associate” now includes “any company in which an individual is a director”.

A new sub section (3) was added to section 2 to define the term control for purposes of subsection (2). The new subsection defines the term “control” as including the ability to influence whether directly or indirectly, the composition of the board of directors of a company or other body corporate or, the holding whether directly or indirectly an aggregate of twenty per cent or more of the voting power of a company or body corporate.

This amendment was made to clarify the extent of the term ‘associate’ for purposes of defining lending limits to insiders.

Section 12

The previous section 12 (c) was deleted and substituted with a new paragraph whose effect was to introduce a proviso to subsection (c). The proviso requires those institutions that had purchased or acquired land or any interest or right therein prior to the commencement of paragraph 12 (c) to bring their holding or interest in such land within the prescribed limit not later than 31st December 2010.

4.2.2.2 The Penal Code (Cap 63)

The Penal Code was amended by the insertion of sections 316A and 316B to criminalise the bouncing of cheques and provide for certain felonies for banks and other institutions. Under section 316A, a person is guilty of a misdemeanour if he draws or issues a bad cheque, while under section 316B, a bank or other institution commits a felony if, with intent to conceal its true financial position, it holds a cheque or similar instrument that cannot be settled or, it assists a person to obtain money or credit on the basis of a bad cheque drawn or issued in the circumstances set out in section 316A or, with intent to defraud, it facilitates the transfer of money to the holder of a false cheque.

4.2.2.3 The Bills of Exchange Act (Cap 27)

New sections were added to this Statute to allow for the presentation and settlement of cheques by electronic means. Section 74A provides for the presentation of the cheque while section 74B provides for the procedures where a cheque is dishonoured.

4.2.2.4 The Banking (Amendment) Bill, 2004

This Bill sought to amend the Banking Act to provide certain changes in the regulation of financial institutions. His Excellency the President did not assent the Bill but referred it back to Parliament for further deliberation. It is intended that the proposals contained in this bill will be passed by parliament in the near future.

4.2.2.5 Comprehensive Review of the Banking Act

In order to harmonise the Banking Act with recent developments in the banking sector and to keep abreast with international best practices, a comprehensive review of the Banking Act will be undertaken with technical assistance from Financial and Legal Sectors Technical Assistance Project (FLSTAP) under the auspices of the World Bank. The revision process is expected to be conducted in the year 2006.

4.2.2.6 Comprehensive Review of the Building Societies Act

The Building Societies Act is considered out-dated and does not meet the needs of the modern financial sector. One of the key discrepancies in the Act is the conflicting roles between the Central Bank of Kenya and the office of the Registrar General in the regulation of building societies. The FLSTAP review will therefore include a thorough and comprehensive revision of the Building Societies Act to produce a framework that meets the current and future requirements of building societies.

Chapter V

Current Supervisory Issues

5.1 Introduction

The supervisory function in the year 2005 continued to be geared towards achieving and maintaining a sound and stable banking system. This function comprises of on-site examination, off-site analysis and enforcement actions specified under the Banking Act and prudential regulations. During the year, revised Prudential Guidelines and Risk Management Guidelines were issued. Prudential guidelines were revised to align them with international best practices. Other supervisory developments during the year included the adoption of Risk Based Supervision (RBS) and continued deployment of the Bank Supervision Application (BSA) system.

5.2 Risk Management Guidelines

A survey was carried out by Banking Supervision Department in 2004 to identify gaps in risk management practices in financial institutions. In response to the survey a number of gaps were identified and Risk Management Guidelines were formulated and issued to all financial institutions in August 2005.

The purpose of these guidelines is to guide financial institutions on minimum requirements for risk management systems and frameworks. The most common risks covered in the guidelines are:

i) Strategic Risk

ii) Credit Risk

iii) Liquidity Risk

iv) Interest Rate Risk

v) Foreign Exchange Risk

vi) Price Risk

vii) Operational Risk

viii) Reputation Risk

ix) Compliance/Regulatory Risk

The guidelines outline the minimum coverage and elements of a comprehensive risk management programme. The guidelines outline the following as principal elements of a sound risk management system:

1) Active board and senior management oversight.

2) Adequate policies, procedures and limits.

3) Adequate risk monitoring and Management Information Systems.

4) Adequate Internal Controls.

All institutions without independent risk management structures were required to set them up to facilitate the development of an adequate risk management function.

Effective adoption and application of these risk measures are expected to provide insights into institutional risks and lead to better risk mitigation, enhanced risk-return decisions and improved capital deployment.

5.3 International Financial Reporting Standards (IFRS)

Although efforts have been made to align the revised Prudential Guidelines with the international best practices, significant differences between IFRS No.39 on impairment and the Prudential Guideline CBK/PG/04 on risk classification of assets and provisioning emerged during the year. The differences arose because the provisions computed in accordance with CBK guidelines were higher than those computed as per the impairment rules under IFRS No.39 for some institutions. The IFRS in such cases requires that the excess provisions as per the regulating legislation be treated as appropriations of retained earnings and not expenses in determining the profit and loss. Whereas this treatment may be agreeable to the extent of charging the excess provisions to retained earnings, the carrying amount of the loans and advances may be overstated particularly where the excess provisions are directly identifiable with specific loans and advances.

5.3.1 Impact of IFRS on Banking Sector

The International Accounting standards Board (IASB) which is responsible for issuing IFRS statements recently amended fifteen standards. The banking Industry has been affected by amendments to IAS 32 on Financial Instruments presentation and disclosures. IAS 39 on Financial Instruments recognition and measurement.

While IFRS clarifies the recognition of expenses and income, assets and liabilities, it does not provide a regimented measurement criterion. According to the standard, an IFRS reporter requires 45 instances where management must use judgment/estimates to measure items recognized in the accounts. In the banking sector, the most significant judgments/estimates required to be approved to determine the measurement of an item under IFRS lies in the instances summarised below

5.3.2 Effective Interest Rate

To measure the effective interest rate on advances, institutions have to determine the expected life of the advance by taking into account historical and forward-looking data such as potential change in customer behaviour. This methodology makes effective interest rates very sensitive to any changes in the estimated life of an advance.

5.3.3 Impairment of Advances

Institutions are required to determine the recoverable amount of advances by estimating the expected timing and amount of future cash flows. This is done in the basis of historical data and potential changes in customer behaviour due to macroeconomic circumstances. In addition, there is need to provide for latest losses, in a portfolio of loans based on historical loss rate modified to represent current circumstances. This requires significant amount of data to be retained by institutions to justify their estimates. Management of Institutions that do not have this information will have to make estimates and apply judgment.

Banking Regulators are concerned with the soundness of individual institutions and the overall reduction of system risk. Central Bank expects that the use of estimates and judgment in measuring particular items should not overshadow the value that IFRS brings to the banking environment.

5.3.4 Disclosures

Disclosure is a way of dealing with uncertainty, ambiguity and lack of comparability that arises from the use of estimates and judgments. Unlike IFRS 4 on insurance contractors, banking institutions are not required to provide detailed disclosures relating to the estimates they make for items that they do not believe, have a significant risk of causing a material adjustment to the carrying amount of asset s and liabilities.

5.4 Development of the Anti-Money Laundering (AML) and Combating of Financing of Terrorism (CFT) Regime in Kenya

Following the ratification of the memorandum of understanding of Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) by the Cabinet in 2000, the National Task Force on Anti-money Laundering (NTF) comprising fourteen Government agencies was gazetted on 25th April, 2003. The Task Force is chaired by Ministry of Finance (Fiscal and Monetary Affairs Department). The Central Bank of Kenya (Director of Banking Supervision) is secretary to the National Task Force (NTF). The NTF has continued to be the focal point of AML and CFT in Kenya. The efforts of the Task Force are at the moment geared towards the establishment of the requisite legal framework that would create a conducive environment for AML and CFT.

5.4.1 Establishment of the Legal Framework

Kenya has signed and ratified all the United Nations Conventions on combating Money Laundering and the Financing of Terrorism. However, Kenya has only criminalized money laundering under the Narcotics Drugs and Psychotropic Substances (Control) Act No. 4 of 1994. The National Task Force (NTF) drafted an anti-money laundering Bill in 2004 to criminalize other non-drug related money laundering activities. The Proceeds of Crime and Money Laundering (Prevention) Bill, 2005 was approved by the Cabinet in January 2005 for publication by the Attorney General. The bill is expected to be tabled in parliament by September 2006. The proposed legislation will form the basis of Kenya's AML regulatory regime.

5.4.2 Sensitisation programmes

The NTF, in collaboration with the International Monetary Fund, will organize a three-day stakeholders' and legislators' sensitization workshop on the Proceeds of Crime and Money Laundering (Prevention) Draft Bill, in February 2006. The aim of the workshop will be to enhance stakeholder ownership of the bill and avoid pitfalls experienced in the attempted enactment of the Suppression of Terrorism Bill in year 2003. Stakeholders will comprise of members of Parliament, top Government Officials, Chief Executive Officers of various parastatals and organizations.

5.4.3 Financial Intelligence Unit (FIU)

The establishment of an autonomous and independent financial intelligence unit (FIU) is the next important step in the development of the AML/CFT program. FIU will serve as the bridge between the private sector as the provider of information on suspicious transactions and the judicial authorities as the prosecutor of crimes after the AML/CFT law is enacted. Towards this end, Kenyan authorities obtained technical assistance from the Monetary and Financial Systems and the Legal Departments of the International Monetary Fund in the area of development of a financial intelligence unit (FIU). The mission took place in Nairobi from December 5 to December 9, 2005.

5.4.4 Drafting of the National Strategy

The Kenyan National Strategy on AML has been drafted. The implementation plan proposes a developmental approach for ESAAMLG member countries in implementing AML/CFT measures. The approach has identified priority areas for member countries and recommends focus on these priority areas and incremental build up.

5.5 International Convergence of Capital Measurement and Capital Standards

The Basel Committee on Banking Supervision issued the International Convergence of Capital Measurement and Capital Standards commonly known as Basel II in June 2004 with a fundamental objective of further strengthening the soundness and stability of the international banking system. Basel II is underpinned by a three-pillar approach: -

- **Pillar I-Minimum Capital Requirements** - Capital adequacy of a bank is assessed in relation to the credit, market and operational risks it faces. This is an extension of the Basel I accord which initially only assessed capital adequacy in relation to credit risk. Basel I was however extended to include market risk in 1996.
- **Pillar II-Supervisory Review** - Supervisors are required to ensure that banks hold adequate capital in relation to their risk profile.
- **Pillar III-Market Discipline-** It is anticipated that through disclosures well run banks will be rewarded by market forces while poorly run banks will be penalised.

Basel II will be implemented in the G10 countries from the end of 2006. However, it is anticipated that it will be implemented in emerging countries after 2006. Various challenges that will hinder implementation of Basel II in emerging countries include:

1) Complexity of the accord
2) Lack of capacity amongst the regulators and banks
3) Weak supervisory infrastructure due to non-compliance with supervisory best practices as stipulated by the Basel Committee on Bank Supervision

Within the East African Region, the last consultative forum of the Monetary Affairs Committee (MAC) of the East African Community held in May 2005 resolved that the East African Central Banks will only implement Basel II after fulfilling the following:

a) Full implementation of the Basel I accord by incorporating the

Market Risk Amendments issued in 1996 and updated in 1998

b) Implementation of Risk Based Supervision

c) Compliance with the Basel Core Principles for Effective Banking Supervision

d) Capacity building

5.6 Banking Sector Reforms

Despite the stable environment in the Kenyan banking sector in 2005, there has been a need to address bottlenecks that impede the sector from providing efficient, affordable and accessible banking services to the Kenyan public. These bottlenecks include:-

a) Non-performing loans especially in state influenced banks

b) Delays in the resolution of litigation cases

c) Outdated laws such as the Companies Act

d) Inefficiencies in the payment systems

To address these bottlenecks, support has been obtained from the World Bank for two reform projects:-

1. **The Financial and Legal Sector Technical Assistance Project (FLSTAP)** This project will provide technical assistance through provision of consultancies, training, software and hardware to strengthen the Financial and Legal Sectors.

2. **The Financial Sector Reform Credit (FSRC) -** The project is to provide the Government with direct credit to support the financial sector reforms that includes restructuring and privatisation of state owned banks.

A Project Implementation Unit (PIU) for the FLSTAP was set up in 2005 and activities under this project are expected to be rolled out in 2006. The key priority reform initiative for the banking sector in 2006 will be the comprehensive review of the Banking Act and the Building Societies Act, to align these Acts to international best practice. It is expected that the revised Acts will play a catalytic role in fostering a stable, efficient and accessible financial system. The FSRC is expected to be approved by the World Bank Board of Directors in the course of 2006 and commence operations thereafter.

5.7 International and Regional Supervisory Initiatives

In the year under review the Central Bank participated in the following international and regional supervisory initiatives.

5.7.1 The FSI Connect

The Financial Stability Institute (FSI) of the Bank of International Settlements (BIS) launched the FSI connect, which is an e-learning tool for supervisors in 2004. The tool is intended to keep supervisors up to date with contemporary developments in global supervisory practices. The Central Bank Kenya has, since year 2004 subscribed twenty five users on a pilot basis.

5.7.2 The African Association of Central Banks (AACB)

In July 2005 the Central Bank participated in the ACCB symposium in Ghana that focused on the new Accord and the implementation challenges facing emerging countries.

Challenges for Basel II implementation were identified as

- Complexity of the accord,
- Lack of prerequisite human resource capacity and;
- Non adherence by emerging countries to supervisory best practices.

5.7.3 The Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI)

MEFMI, which is a regional capacity building body in debt management, macroeconomic management and financial management, was formed in 1997.

The objective of MEFMI is to develop training facilitation skills within the Eastern and Southern Africa region. Kenya joined the body in 2003 and has actively participated in various training programmes offered by MEFMI during the year. Two members from Banking Supervision department are currently pursuing the MEFMI fellowship program.

5.7.4 The Common Market for Eastern and Southern Africa (COMESA)

The Tenth meeting of the COMESA Committee of Governors of Central Banks was held in November 2005 in Bujumbura, Burundi and reiterated the need to fast track the proposed COMESA Monetary Union. The Governors present noted and approved the following technical Sub-Committees, set up to enhance monetary cooperation among COMESA member States:

- Monetary and Exchange Rate Policies Sub-Committee;
- Financial System Development and Stability Sub-Committee and;
- Mobilisation of Financial Resources Sub-Committee.

5.7.5 The Monetary Affairs Committee (MAC) of the East African Community

The three East African Central Bank Governors held a consultative meeting of MAC in Arusha, Tanzania in May 2005 and resolved to:-

1) Expedite the enactment of Anti-Money Laundering legislation in the three countries
2) Hasten the legitimisation of Credit Reference Bureau's
3) Put in place mechanisms to facilitate the sharing of information and experiences by domestic regulators
4) Strengthen banking supervision and observe best practices for recovering non performing loans
5) Consider assigning more judges to commercial courts
6) Implement Basel II after fulfilling the following:-
    i) Full implementation of Basel I.
    ii) Compliance with Basel Core Principles (BCPs) for Effective Banking Supervision.
    iii) Implementation of Risk Based Supervision.

Appendix 1

Audited Banking Sector Balance Sheet As at December 2004 & 2005

Kshs. million

	AUDITED DECEMBER 2005						AUDITED DECEMBER 2004			
	BANKS	NBFIS	BLD SOC	TOTAL	%	GROWTH	BANKS	NBFIS	BLD SOC	TOTAL
A. ASSETS										
1. Cash	12,649	66	136	12,851	2%	25%	10,164	70	64	10,298
2. Balances at CBK	31,969	110	-	32,079	5%	-2%	32,653	114	-	32,767
3. Placements	12,190	2,760	746	15,696	2%	16%	10,932	1,427	1,223	13,582
4. Government Securities	131,335	2,583	152	134,070	21%	16%	110,617	3,371	2,006	115,994
5. Investments	6,838	251	98	7,187	1%	42%	4,480	124	452	5,056
6. Advances(net)	272,544	10,483	1,673	284,700	45%	12%	242,714	9,879	2,120	254,713
7. (a) Foreign Loans	52,722	33	-	52,755	8%	12%	47,144	34	-	47,178
(b) Other Foreign Assets	44,078	11	-	44,089	7%	3%	42,679	63	-	42,742
8. Fixed Assets	18,740	389	323	19,452	3%	8%	16,483	336	1,142	17,961
9. Other Assets	33,415	279	158	33,852	5%	-9%	35,842	635	881	37,358
10. Total Assets	616,480	16,965	3,286	636,731	100%	10%	553,708	16,053	7,888	577,649
B. LIABILITIES										
11. Local Currency Deposits	420,452	13,517	2,834	436,803	69%	13%	365,804	12,947	6,353	385,104
12. Foreign Currency Deposits	84,017	-	-	84,017	13%	6%	79,429	-	-	79,429
13. Accrued Interest	23	-	1	24	0%	-98%	929	57	53	1,039
14. Foreign Liabilities	5,625	-	43	5,668	1%	-50%	11,225	-	-	11,225
15. Other Liabilities	27,205	827	69	28,101	4%	-12%	30,928	732	363	32,023
16. Total Liabilities	537,322	14,344	2,947	554,613	87%	9%	488,315	13,736	6,769	508,820
17. Net Assets/(Liabilities)	79,158	2,621	339	82,118	13%	19%	65,393	2,317	1,119	68,829
C. CAPITAL & RESERVES										
18. Paid up/Assigned Capital	44,306	1,475	250	46,031	7%	9%	40,472	1,475	350	42,297
19. Shareholders Loans/Grants	-	-	-	0	0%	-100%	746	-	-	746
20. Reserves	26,069	1,079	27	27,175	4%	26%	20,497	463	680	21,640
21. P & L Account	8,782	67	62	8,911	1%	115%	3,678	379	89	4,146
22. Total Shareholders' Funds	79,157	2,621	339	82,117	13%	19%	65,393	2,317	1,119	68,829
23. Contingent Liabilities	108,960	36	-	108,996		22%	89,413	3	-	89,416
24. Gross Loans	400,332	14,444	2,028	417,296		9%	364,405	14,758	3,127	382,290
25. Total Loans	365,773	11,086	2,021	379,372		11%	329,521	10,723	2,737	342,981
26. Gross Non-Performing Loans	99,053	7,118	367	106,538		-5%	101,971	8,416	1,502	111,889
27. Total Non-Performing loans	64,494	3,760	360	68,614		-5%	67,087	4,381	1,112	72,580
28. Interest in suspense	34,559	3,358	7	37,924		-4%	34,884	4,035	390	39,309
29. Specific Provisions	37,276	816	325	38,417		1%	36,593	749	598	37,940
30. General Provisions	3,401	77	22	3,500		11%	3,070	61	19	3,150
31. Total Provisions	40,677	893	347	41,917		2%	39,663	810	617	41,090
32. Gross Provisions	75,236	4,251	354	79,841		-1%	74,547	4,845	1,007	80,399
33. Accum. Depreciation	17,895	455	136	18,486		11%	16,087	336	218	16,641
34. Core Capital	73,012	2,053	266	75,331		17%	61,532	2,157	619	64,307
35. Total Capital	76,801	2,536	266	77,067		17%	65,077	2,316	705	65,782
36. Total Risk Weighted Assets	456,898	11,916	2,392	471,206		19%	380,639	11,538	4,679	396,857
D. PERFORMANCE INDICATORS										
37. Capital/Deposits Ratio	15.7%	19.4%	12.0%	15.8%			14.7%	17.8%	17.5%	14.8%
38. Capital/Assets Ratio (Unweighted)	10.9%	15.4%	10.3%	11.0%			10.2%	14.4%	14.2%	10.3%
39. Core Capital/TRWA	16.0%	17.2%	11.1%	16.0%			16.2%	18.7%	13.2%	16.2%
40. Total Capital/TRWA	16.8%	21.3%	11.1%	16.4%			17.1%	20.1%	15.1%	16.6%
41. Core Capital/Total Depoists	14.5%	15.2%	9.4%	14.5%			13.8%	16.7%	9.7%	13.8%
42. Liquidity Ratio	42.3%	36.5%	31.0%	41.6%			42.4%	36.3%	47.8%	48.2%
43. Gross Prov/Gross Non-perf Loans	76.0%	59.7%	96.5%	74.9%			73.1%	57.6%	67.0%	71.9%
44. Gross Non-perf.Adv/Gross Loans	24.7%	49.3%	18.1%	25.5%			28.0%	57.0%	48.0%	29.3%
45. Total NPLs/Total Loans (27/25)	17.6%	33.9%	17.8%	18.1%			20.4%	40.9%	40.6%	21.2%
46. (Total NPLs-S/Prov.)/Net Loans	5.9%	19.9%	0.6%	6.4%			7.5%	24.2%	15.8%	8.2%
47. Gross Loans/Deposits Ratio	79.4%	106.9%	71.5%	80.1%			81.7%	113.5%	48.8%	82.1%
48. Gross Provisions/Gross Loans	18.8%	29.4%	17.5%	19.1%			20.5%	32.8%	32.2%	21.0%
49. Total Provisions/Total Loans	11.1%	8.1%	17.2%	11.0%			12.0%	7.6%	22.5%	12.0%
50. Total NPL's/Total Assets	10.5%	22.2%	11.0%	10.8%			12.1%	27.3%	14.1%	12.6%

Appendix 2

Audited Banking Sector Profit & Loss As at December 2004 & 2005

Kshs. million

	AUDITED DECEMBER 2005						AUDITED DECEMBER 2004				
	BANKS	NBFIs	BLD SOC	TOTAL	%	GROWTH	BANKS	NBFIs	BLD SOC	TOTAL	%
A. INCOME											
1. Interest on Advances	34,115	1,255	259	35,630	46%	40%	23,752	1,383	322	25,457	41%
2. Interest on Placement	5,964	171	60	6,195	8%	27%	4,763	48	57	4,868	8%
3. Interest on Govt. Securities	9,985	183	10	10,179	13%	34%	7,239	183	154	7,576	12%
4. Foreign Exc. Gain/(Loss)	8,291	- 2	- 0	8,289	11%	83%	4,523	1	6	4,530	7%
5. Other Interest Income	905	16	-	921	1%	21%	753	8	4	765	1%
6. Other Income	15,703	297	426	16,426	21%	-16%	18,822	282	380	19,484	31%
7. Total	74,964	1,920	755	77,640	100%	24%	59,852	1,905	923	62,680	100%
B. EXPENSES											
8. Interest on Deposits	12,665	555	35	13,255	23%	113%	5,661	398	152	6,211	13%
9. Other Interest Expenses	791	4	5	800	1%	162%	299	4	2	305	1%
10. Occupancy Costs	2,014	61	87	2,163	4%	20%	1,610	72	118	1,800	4%
11. Director's Emoluments	463	11	1	475	1%	12%	372	9	42	423	1%
12. Bad Debts Charge	6,576	144	130	6,850	12%	-10%	7,183	335	97	7,615	16%
13. Salaries & Wages	17,142	492	195	17,829	31%	19%	14,266	484	184	14,934	31%
14. Other Expenses	16,365	338	207	16,909	29%	4%	15,724	319	210	16,253	34%
15. Total	56,015	1,605	661	58,281	100%	23%	45,114	1,621	805	47,540	100%
16. Profit Before Tax	18,949	315	94	19,358		28%	14,738	284	118	15,140	
17. No. of Employees	12,752	355	383	13,490			11,941	355	398	12,694	
C. PERFORMANCE INDICATORS											
18. Yield on Earning Assets	11.6%	8.3%	12.3%	11.5%			9.1%	8.6%	8.8%	9.1%	
19. Cost of Funding Earning Assets	2.6%	2.9%	1.5%	7.5%			1.3%	2.1%	2.5%	7.4%	
20. Interest Margin on Earning Assets	9.0%	5.5%	10.8%	8.7%			7.8%	6.5%	6.3%	8.7%	
21. Yield on Advances	9.5%	9.0%	15.4%	5.4%			7.3%	9.9%	12.8%	5.6%	
22. Cost of Deposits	3.2%	4.1%	1.4%	3.2%			1.6%	3.1%	2.4%	1.6%	
23. Return on Assets(Including Contingencies)	2.4%	1.5%	2.7%	2.4%			2.1%	1.4%	1.4%	2.1%	
24. Return on Shareholders Funds	23.9%	12.0%	27.7%	23.6%			22.5%	12.3%	10.5%	22.0%	
25. Overhead to Earnings	56.8%	54.4%	82.3%	57.0%			65.4%	64.0%	70.5%	65.4%	
D. RATINGS											
Capital Adequacy	2.00	1.00	4.00	2.00			2.00	1.00	3.00	2.00	
Asset Quality	2.00	4.00	1.00	2.00			2.00	5.00	4.00	2.00	
Earnings	2.00	3.00	2.00	2.00			2.00	3.00	3.00	2.00	
Liquidity	1.00	1.00	2.00	1.00			1.00	1.00	1.00	1.00	
Composite Score	1.75	2.25	2.25	1.75			1.75	2.50	2.75	1.75	
Performance Category	Satisfactory	Satisfactory	Satisfactory	Satisfactory			Satisfactory	Fair	Fair	Satisfactory	

Appendix 3

Market Share: (Net Asset, Net Advances, Deposits, Capital and Profit) As at December 2005)

Kshs. million

	NAME OF INSTITUTION	TOTAL NET ASSETS	MARKET SHARE	NET ADVANCES	MARKET SHARE	TOTAL DEPOSITS	MARKET SHARE	CAPITAL & RESERVES	MARKET SHARE	PRE-TAX PROFITS	MARKET SHARE (%)
1	African Banking Corporation	5,145	0.83%	2,611	0.80%	4,455	0.88%	586	0.74%	122.8	0.65
2	Bank of Africa Ltd	5,349	0.87%	2,998	0.92%	4,396	0.87%	652	0.82%	7.5	0.04
3	Bank of Baroda	9,266	1.50%	3,373	1.04%	8,083	1.60%	1,069	1.35%	238.4	1.26
4	Bank of India	7,206	1.17%	2,300	0.71%	6,102	1.21%	858	1.08%	123.7	0.65
5	Barclays Bank of Kenya Ltd	104,522	16.95%	65,562	20.16%	84,275	16.71%	13,177	16.65%	5,401.5	28.47
6	CFC Bank Limited	20,896	3.39%	11,662	3.59%	16,696	3.31%	2,718	3.43%	417.6	2.20
7	Charterhouse Bank Limited	4,221	0.68%	2,335	0.72%	3,465	0.69%	581	0.73%	122.4	0.65
8	Chase Bank Limited	2,601	0.42%	1,674	0.51%	1,979	0.39%	562	0.71%	61.2	0.32
9	Citibank, N.A.	30,928	5.02%	10,009	3.08%	23,679	4.69%	5,355	6.76%	1,284.9	6.77
10	City Finance Bank	510	0.08%	277	0.09%	94	0.02%	370	0.47%	(46.7)	(0.25)
11	Commercial Bank of Africa	29,667	4.81%	11,589	3.56%	26,545	5.26%	2,331	2.94%	613.7	3.23
12	Consolidated Bank of Kenya	2,909	0.47%	1,283	0.39%	1,950	0.39%	699	0.88%	(12.7)	(0.07)
13	Co-operative Bank of Kenya	51,835	8.41%	29,089	8.94%	44,110	8.74%	4,057	5.13%	705.6	3.72
14	Credit Bank Limited	2,798	0.45%	1,699	0.52%	2,278	0.45%	464	0.59%	89.8	0.47
15	Development Bank of Kenya	2,745	0.45%	1,073	0.33%	1,167	0.23%	1,050	1.33%	166.0	0.87
16	Diamond Trust Bank Kenya	16,234	2.63%	10,318	3.17%	13,779	2.73%	1,416	1.79%	363.5	1.92
17	Dubai Bank Limited	1,152	0.19%	784	0.24%	710	0.14%	386	0.49%	29.0	0.15
18	EABS Bank	8,857	1.44%	3,906	1.20%	7,227	1.43%	1,287	1.63%	7.2	0.04
19	Equatorial Commercial Bank	3,671	0.60%	1,846	0.57%	3,055	0.61%	579	0.73%	109.0	0.57
20	Equity Bank Limited	11,453	1.86%	5,524	1.70%	9,048	1.79%	1,594	2.01%	500.5	2.64
21	Fidelity Commercial Bank	1,666	0.27%	1,045	0.32%	1,384	0.27%	270	0.34%	16.2	0.09
22	Fina Bank Limited	6,215	1.01%	3,358	1.03%	5,279	1.05%	847	1.07%	94.7	0.50
23	Giro Commercial Bank	4,904	0.80%	3,277	1.01%	4,364	0.87%	431	0.54%	(5.58)	(0.03)
24	Guardian Bank	4,451	0.72%	2,945	0.91%	3,568	0.71%	757	0.96%	56.4	0.30
25	Habib AG Zurich	4,743	0.77%	1,123	0.35%	4,048	0.80%	543	0.69%	146.8	0.77
26	Habib Bank Limited	2,890	0.47%	664	0.20%	2,344	0.46%	428	0.54%	20.7	0.11
27	Imperial Bank Limited	7,773	1.26%	4,261	1.31%	6,441	1.28%	1,122	1.42%	304.8	1.61
28	Investment & Mortgages Bank	18,042	2.93%	11,084	3.41%	15,307	3.03%	2,057	2.60%	489.4	2.58
29	Kenya Commercial Bank Ltd	74,338	12.06%	32,849	10.10%	61,062	12.10%	9,969	12.59%	1,908.6	10.06
30	K-Rep Bank	3,781	0.61%	2,427	0.75%	1,969	0.39%	790	1.00%	48.1	0.25

Appendix 3

Market Share: (Net Asset, Net Advances, Deposits, Capital and Profit) As at December 2005 (Continued)

Kshs. million

	NAME OF INSTITUTION	TOTAL NET ASSETS	MARKET SHARE	NET ADVANCES	MARKET SHARE	TOTAL DEPOSITS	MARKET SHARE	CAPITAL & RESERVES	MARKET SHARE	PRE-TAX PROFITS	MARKET SHARE (%)
31	Middle East Bank of Kenya	4,051	0.66%	1,526	0.47%	2,984	0.59%	794	1.00%	115.2	0.61
32	National Bank of Kenya Ltd	32,584	5.29%	24,213	7.44%	27,071	5.37%	3,223	4.07%	859.1	4.53
33	National Industrial Credit Bank	20,630	3.35%	14,127	4.34%	16,988	3.37%	2,722	3.44%	403.3	2.13
34	Oriental Commercial Bank	1,379	0.22%	308	0.09%	542	0.11%	723	0.91%	(85.70)	(0.45)
35	Paramount-Universal Bank	1,491	0.24%	892	0.27%	1,163	0.23%	301	0.38%	15.8	0.08
36	Prime Bank Limited	7,154	1.16%	3,400	1.05%	6,113	1.21%	722	0.91%	125.0	0.66
37	Southern Credit Banking Corp.	4,221	0.68%	1,957	0.60%	3,620	0.72%	519	0.66%	31.0	0.16
38	Stanbic Bank Kenya Limited	14,997	2.43%	8,741	2.69%	12,640	2.51%	2,032	2.57%	439.8	2.32
39	Standard Chartered Bank Ltd	72,970	11.84%	34,043	10.47%	59,996	11.89%	9,508	12.01%	3,500.3	18.45
40	Transnational Bank Limited	2,023	0.33%	1,202	0.37%	910	0.18%	1,048	1.32%	59.1	0.31
41	Victoria Commercial Bank Ltd	4,212	0.68%	1,912	0.59%	3,585	0.71%	562	0.71%	123.7	0.65
		616,480	**100%**	**325,266**	**100%**	**504,471**	**100%**	**79,159**	**100%**	**18,972**	**100**
	NBFI's										
1	Housing Finance Co. of Kenya	9,903	58.37	6,443	61.47%	8,437	62.42	1,291	48.30	101.7	32.26
2	Prime Capital and Credit Ltd.	2,947	17.37	1,426	13.60%	2,096	15.51	798	29.85	136.9	43.41
3	Savings & Loan (K) Ltd	4,116	24.26	2,613	24.93%	2,984	22.08	584	21.85	76.7	24.33
	TOTAL	**16,966**	**100.00**	**10,482**	**100%**	**13,517**	**100.00**	**2,673**	**100.00**	**315.4**	**100.00**
	BUILDING SOCIETIES										
	Family Finace Building Society	3,285	100.00	1,673	100%	2,536	100.00	338	100.00	94.0	100.00
	TOTAL	**3,285**	**100.00**	**1,673**	**100%**	**2,536**	**100.00**	**338**	**100.00**	**94.0**	**100.00**

Appendix 4

Non-Performing Loans and Provisions As at December 2005

Kshs. '000

		1	2	3	4	5
	INSTITUTION	LOANS	PROVISIONS	LOANS	TOTAL LOANS (1/3) %	NPLS (2/1) %
1	African Banking Corporation	145,262	64,705	2,707,287	5.4	44.5
2	Bank of Africa Ltd	29,324	29,324	3,060,483	1.0	100.0
3	Bank of Baroda	248,554	73,972	3,480,423	7.1	29.8
4	Bank of India	80,544	64,301	2,386,838	3.4	79.8
5	Barclays Bank of Kenya Ltd	11,877,000	4,057,090	70,267,827	16.9	34.2
6	CFC Bank Limited	748,003	155,165	11,891,086	6.3	20.7
7	Charterhouse Bank Limited	308,263	188,893	2,545,807	12.1	61.3
8	Chase Bank Limited	89,697	16,483	1,707,330	5.3	18.4
9	Citibank, N.A.	353,522	104,074	10,109,317	3.5	29.4
10	City Finance Bank	257,361	75,372	354,864	72.5	29.3
11	Commercial Bank of Africa	916,520	266,907	11,918,284	7.7	29.1
12	Consolidated Bank of Kenya	801,787	413,202	1,709,721	46.9	51.5
13	Co-operative Bank of Kenya	9,742,231	6,917,404	36,507,720	26.7	71.0
14	Credit Bank Limited	262,839	34,335	1,748,942	15.0	13.1
15	Development Bank of Kenya	232,872	112,767	1,197,489	19.4	48.4
16	Diamond Trust Bank Kenya	85,707	80,086	10,586,064	0.8	93.4
17	Dubai Bank Limited	229,091	99,140	889,900	25.7	43.3
18	EABS Bank	1,548,863	391,638	4,325,822	35.8	25.3
19	Equatorial Commercial Bank	121,125	49,219	1,913,264	6.3	40.6
20	Equity Bank Limited	519,377	168,071	5,743,428	9.0	32.4
21	Fidelity Commercial Bank	141,320	44,921	1,100,325	12.8	31.8
22	Fina Bank Limited	485,270	316,128	3,726,242	13.0	65.1
23	Giro Commercial Bank	676,576	184,920	3,489,031	19.4	27.3
24	Guardian Bank	903,868	354,585	3,326,548	27.2	39.2
25	Habib AG Zurich	47,856	35,100	1,169,065	4.1	73.3
26	Habib Bank Limited	85,637	24,543	697,293	12.3	28.7
27	Imperial Bank Limited	337,847	150,404	4,452,396	7.6	44.5
28	Investment & Mortgages Bank	684,629	126,594	11,323,697	6.0	18.5
29	Kenya Commercial Bank Ltd	10,005,038	6,402,306	39,593,341	25.3	64.0
30	K-Rep Bank	110,276	13,859	2,467,835	4.5	12.6
31	Middle East Bank of Kenya	240,603	104,172	1,644,325	14.6	43.3
32	National Bank of Kenya Ltd	17,146,219	13,712,046	38,140,284	45.0	80.0
33	National Industrial Credit Bank	705,865	529,947	14,748,356	4.8	75.1
34	Oriental Commercial Bank	998,749	823,022	1,139,760	87.6	82.4
35	Paramount-Universal Bank	287,412	107,116	1,006,384	28.6	37.3
36	Prime Bank Limited	401,955	176,828	3,524,859	11.4	44.0
37	Southern Credit Banking Corp.	694,271	122,234	2,098,363	33.1	17.6
38	Stanbic Bank Kenya Limited	124,128	94,686	8,836,144	1.4	76.3
39	Standard Chartered Bank Ltd	1,679,449	384,809	34,710,772	4.8	22.9
40	Transnational Bank Limited	365,160	176,430	1,388,948	26.3	48.3
41	Victoria Commercial Bank Ltd	31,339	31,339	1,963,113	1.6	100.0
	TOTAL	**64,751,409**	**37,278,137**	**365,598,977**	**17.7**	**57.6**
	NBFI's					
1	Housing Finance Co. of Kenya	3,245,521	530,847	6,720,187	48.3	16.4
2	Prime Capital and Credit Ltd.	45,538	30,102	1,472,172	3.1	66.1
3	Savings & Loan (K) Ltd	469,341	254,630	2,893,703	16.2	54.3
	TOTAL	**3,760,400**	**815,579**	**11,086,062**	**33.9**	**21.7**
	BUILDING SOCIETIES					
1	Family Finace Building Society	360,179	325,433	2,020,928	17.8	90.4
	TOTAL	**360,179**	**325,433**	**2,020,928**	**17.8**	**90.4**

Appendix 5

Profitability of Banking Sector As at December 2005

Kshs. million

	BANKS	PROFIT BEFORE TAX	RETURN ON ASSETS		RETURN ON EQUITY	
			TOTAL ASSETS AND CONTINGENCIES	RETURN ON ASSETS (1/2) %	SHAREHOLDERS EQUITY	RETURN ON EQUITY (1/4) %
1	African Banking Corporation	122.8	6,099	2.01%	586	20.95
2	Bank of Africa Ltd	7.5	7,898	0.09%	652	1.15
3	Bank of Baroda	238.4	10,150	2.35%	1,069	22.30
4	Bank of India	123.7	8,177	1.51%	858	14.42
5	Barclays Bank of Kenya Ltd	5,401.5	129,237	4.18%	13,177	40.99
6	CFC Bank Limited	417.6	27,171	1.54%	2,718	15.36
7	Charterhouse Bank Limited	122.4	5,510	2.22%	581	21.06
8	Chase Bank Limited	61.2	2,948	2.07%	562	10.88
9	Citibank, N.A.	1,284.9	37,019	3.47%	5,355	23.99
10	City Finance Bank	-46.7	691	-6.76%	370	(12.63)
11	Commercial Bank of Africa	613.7	36,463	1.68%	2,331	26.33
12	Consolidated Bank of Kenya	-12.7	5,069	-0.25%	699	(1.81)
13	Co-operative Bank of Kenya	705.6	71,532	0.99%	4,057	17.39
14	Credit Bank Limited	89.8	3,386	2.65%	464	19.35
15	Development Bank of Kenya	166.0	3,288	5.05%	1,050	15.81
16	Diamond Trust Bank Kenya	363.5	18,749	1.94%	1,416	25.67
17	Dubai Bank Limited	29.0	1,954	1.49%	386	7.52
18	EABS Bank	7.2	10,658	0.07%	1,287	0.56
19	Equatorial Commercial Bank	109.0	4,286	2.54%	579	18.83
20	Equity Bank Limited	500.5	12,341	4.06%	1,594	31.40
21	Fidelity Commercial Bank	16.2	1,938	0.84%	270	6.00
22	Fina Bank Limited	94.7	8,589	1.10%	847	11.18
23	Giro Commercial Bank	-5.6	6,082	-0.09%	431	(1.30)
24	Guardian Bank	56.4	5,679	0.99%	757	7.45
25	Habib AG Zurich	146.8	5,351	2.74%	543	27.04
26	Habib Bank Limited	20.7	3,250	0.64%	428	4.83
27	Imperial Bank Limited	304.8	9,896	3.08%	1,122	27.16
28	Investment & Mortgages Bank	489.4	24,515	2.00%	2,057	23.79
29	Kenya Commercial Bank Ltd	1,908.6	104,487	1.83%	9,969	19.15
30	K-Rep Bank	48.1	3,952	1.22%	790	6.09
31	Middle East Bank of Kenya	115.2	5,596	2.06%	794	14.51
32	National Bank of Kenya Ltd	859.1	65,211	1.32%	3,223	26.66
33	National Industrial Credit Bank	403.3	23,349	1.73%	2,722	14.81
34	Oriental Commercial Bank	-85.7	2,624	-3.27%	723	(11.85)
35	Paramount-Universal Bank	15.8	2,485	0.64%	301	5.25
36	Prime Bank Limited	125.0	8,938	1.40%	722	17.32
37	Southern Credit Banking Corp.	31.0	5,030	0.62%	519	5.98
38	Stanbic Bank Kenya Limited	439.8	17,573	2.50%	2,032	21.64
39	Standard Chartered Bank Ltd	3,500.3	104,274	3.36%	9,508	36.81
40	Transnational Bank Limited	59.1	2,654	2.23%	1,048	5.64
41	Victoria Commercial Bank Ltd	123.7	4,836	2.56%	562	22.01
	SUB-TOTAL	**18,971.6**	**818,935**	**2.32%**	**79,159**	**23.97**
	NBFI'S					
1	Housing Fin. Co. of Kenya Ltd.	101.7	13,658	0.74%	1,291	7.88%
2	Prime Capital & Credit Ltd.	136.9	3,049	4.49%	798	17.16%
3	Savings and Loan (K) Ltd.	76.7	4,728	1.62%	584	13.14%
	SUB-TOTAL	**315.4**	**21,435**	**1.47%**	**2,673**	**11.80%**
	BUILDING SOCIETIES					
1	Family Finace Building Society	94.0	3,777	2.49%	338	27.82%
	SUB-TOTAL	**94.0**	**3,777**	**2.49%**	**338**	**27.82%**
	GRAND TOTAL	**19,381**	**844,147**	**2.30%**	**82,170**	**23.59%**

Appendix 6

Capital and Risk Weighted Assets As at December 2005

Kshs. '000

	INSTITUTION	CORE CAPITAL	TOTAL CAPITAL	OVERALL RISK WEIGHTED ASSETS	CORE CAPITAL TO RISK WEIGHTED ASSETS RATIO	TOTAL CAPITAL TO RISK WEIGHTED ASSETS RATIO
1	African Banking Corporation	585,149	585,149	3,325,576	17.60	17.60
2	Bank of Africa Ltd	652,356	685,856	3,707,219	17.60	18.50
3	Bank of Baroda	1,068,511	1,068,511	3,763,670	28.39	28.39
4	Bank of India	818,418	841,418	2,639,987	31.00	31.87
5	Barclays Bank of Kenya Ltd	11,377,000	11,433,000	85,635,586	13.29	13.35
6	CFC Bank Limited	2,574,695	3,239,195	15,814,136	16.28	20.48
7	Charterhouse Bank Limited	580,585	580,085	2,956,914	19.63	19.62
8	Chase Bank Limited	562,141	562,141	1,943,475	28.92	28.92
9	Citibank, N.A.	5,185,315	5,284,697	31,184,018	16.63	16.95
10	City Finance Bank	369,610	369,610	468,710	78.86	78.86
11	Commercial Bank of Africa	2,116,927	2,227,993	17,325,921	12.22	12.86
12	Consolidated Bank of Kenya	483,938	509,671	2,252,370	21.49	22.63
13	Co-operative Bank of Kenya	3,604,662	5,601,028	31,702,690	11.37	17.67
14	Credit Bank Limited	463,821	463,821	1,785,278	25.98	25.98
15	Development Bank of Kenya	980,201	980,201	1,528,152	64.14	64.14
16	Diamond Trust Bank Kenya	1,336,784	1,710,644	12,016,550	11.12	14.24
17	Dubai Bank Limited	386,186	386,186	1,114,193	34.66	34.66
18	EABS Bank	1,050,805	1,078,575	6,354,020	16.54	16.97
19	Equatorial Commercial Bank	553,714	572,014	2,210,463	25.05	25.88
20	Equity Bank Limited	1,412,957	1,412,957	7,367,838	19.18	19.18
21	Fidelity Commercial Bank	270,247	270,247	1,229,602	21.98	21.98
22	Fina Bank Limited	684,643	684,643	4,711,871	14.53	14.53
23	Giro Commercial Bank	428,474	428,474	3,064,002	13.98	13.98
24	Guardian Bank	756,502	756,502	3,094,506	24.45	24.45
25	Habib AG Zurich	540,556	540,556	1,556,534	34.73	34.73
26	Habib Bank Limited	428,008	428,008	699,401	61.20	61.20
27	Imperial Bank Limited	1,072,014	1,072,014	4,811,400	22.28	22.28
28	Investment & Mortgages Bank	1,892,904	1,895,504	15,120,864	12.52	12.54
29	Kenya Commercial Bank Ltd	9,801,739	9,801,739	53,340,753	18.38	18.38
30	K-Rep Bank	789,805	789,805	2,842,646	27.78	27.78
31	Middle East Bank of Kenya	792,093	792,459	2,918,101	27.14	27.16
32	National Bank of Kenya Ltd	2,731,907	2,854,766	28,422,576	9.61	10.04
33	National Industrial Credit Bank	2,385,338	2,412,278	16,590,149	14.38	14.54
34	Oriental Commercial Bank	722,519	730,940	1,012,984	71.33	72.16
35	Paramount-Universal Bank	291,195	291,195	1,044,793	27.87	27.87
36	Prime Bank Limited	721,930	721,930	4,631,030	15.59	15.59
37	Southern Credit Banking Corp.	508,504	511,160	2,354,684	21.60	21.71
38	Stanbic Bank Kenya Limited	2,001,931	2,092,307	12,827,182	15.61	16.31
39	Standard Chartered Bank Ltd	8,388,022	8,473,804	58,015,366	14.46	14.61
40	Transnational Bank Limited	1,048,068	1,048,068	1,493,441	70.18	70.18
41	Victoria Commercial Bank Ltd	562,462	562,462	2,059,585	27.31	27.31
	TOTAL	**72,982,636**	**76,751,613**	**456,938,236**	15.97	16.80
	NBFI's					
1	Housing Finance Co. of Kenya	757,558	1,145,925	7,236,966	10.47	15.83
2	Prime Capital and Credit Ltd.	772,602	788,218	1,806,260	42.77	43.64
3	Savings & Loan (K) Ltd	522,975	602,015	2,872,909	18.20	20.95
	TOTAL	**2,053,135**	**2,536,158**	**11,916,135**	**17.23**	**21.28**
	BUILDING SOCIETIES					
1	Family Finace Building Society	266,078	266,078	2,391,746	11.12	11.12
	TOTAL	**266,078**	**266,078**	**2,391,746**	**11.12**	**11.12**