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LETTER OF TRANSMITTAL TO THE HONOURABLE MINISTER FOR FINANCE

In accordance with Section 54 of the Central Bank of Kenya Act, I have the honour to present to you the Annual Report of the Central Bank for the year 2000/2001, providing a comprehensive review of the performance of the economy, and the Statement of the Audited Accounts of the Central Bank of Kenya for the financial year ended June 30, 2001.

Kenya's economy contracted in 2000 with real gross domestic product declining by 0.3% compared with 1.4% growth in the previous year. The services and trade sectors experienced marginal positive growth, but all the other sectors performed poorly. Various factors, including a prolonged drought, severe power shortage, structural and governance problems, and poor infrastructure, were responsible for the dismal economic performance. On price stability, the Bank faced serious challenges in the year as inflation threatened, particularly in the second half of 2000, to accelerate beyond the single digit range. However, because of the tight monetary policy stance adopted to arrest the situation, the Bank managed to contain it within the single digit range.

With regard to the budget, fiscal operations in the year resulted in a smaller deficit than originally programmed following substantial cut in expenditure occasioned by the delay in donor funds that were intended to finance a large portion of the planned poverty-reducing expenditures. The balance of payments weakened in the period under review, mainly on account of substantial increase in imports, especially those associated with power shortage and drought. Reduced private capital inflows exacerbated the external payments problem. Nevertheless, the level of gross national foreign exchange reserves remained fairly healthy at 5.1 months of import cover.

The banking sector, like the rest of the economy, exhibited mixed performance during the year under review. The profitability indicator showed some improvement, but other performance indicators generally remained at the same level in year 2000 as in 1999. However, the sector remained stable over the twelve months to June 2001 despite the placing of three banks under statutory management.

NAHASHON N. NYAGAH
GOVERNOR

BOARD OF DIRECTORS



NAHASHON N. NYAGAH
*Governor and Chairman
Central Bank of Kenya*



DR. SALLY KOSGEI
*Permanent Secretary, and Head
of the Public Service*



DR. EDWARD SAMBILI
*Deputy Governor
Central Bank of Kenya*



MWAGHAZI MWACHOFI
*Permanent Secretary
Ministry of Finance and Planning*



THOMAS KITHINJI
*Chairman and Chief Executive
Skylark Africa Insurance Brokers*



JOHN H. MRAMBA
*Group Chairman
Communication Concepts Ltd.*



PROF. FRANCIS KIBERA
*Principal, College of Humanities
& Social Sciences, University of Nairobi*



ANDREW WANYANDEH
*Chairman and Chief Executive
Creative Freight Handling Limited*

SENIOR MANAGEMENT



JOSEPH K. KINYUA
Director, Research



DANIEL K. KIANGURA
*Director, Management
Information Services*



MAURICE P. KANGA
Director, Financial Markets



JOHN M. GIKONYO
*Bank Secretary & Director,
Human Resources*



JONES M. NZOMO
Director, Banking



JOHN K. MURUGU
Director, Bank Supervision



JACINTA W. MWATELA (Mrs.)
Director, Supplies & Services



JONATHAN K. BETT
Director, Finance



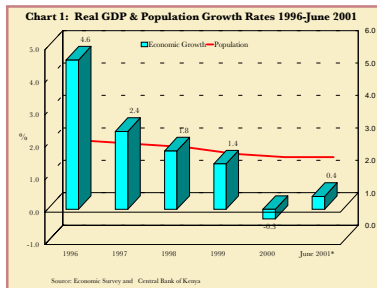
LAWRENCE C. KUNGU
*Executive Director, Kenya
School of Monetary Studies*



NICHOLAS M. KIRITU
Chief Internal Auditor

1. REAL ECONOMY

1.1 Performance in 2000



Kenya's economy further weakened in 2000, with real gross domestic product (GDP) declining by 0.3% during the year compared with the 1.4% growth in 1999 (Chart 1). The services and trade sectors recorded some marginal growth, but all the major sectors of the economy contracted during the last one year period (Table 1).

Table 1: Gross Domestic Product & Sector Share at Constant 1982 Prices

Sector	Annual Growth (%)			Shares in GDP %	
	1999	2000	FY 2000/ 2001 Est./ ¹	1999	2000
Agriculture	1.2	-2.4	1.0	24.6	24.0
Manufacturing	1.0	-1.5	-1.0	13.1	13.1
Building & construction	0.9	-1.5	-1.4	2.4	2.4
Trade, rest & hotels	2.0	1.0	1.9	12.5	12.7
Transport & communications	1.4	2.0	4.4	6.0	6.1
Financial services	2.0	0.4	0.8	10.5	10.6
Government services	0.7	0.7	0.7	14.6	14.7
Non-monetary sector	1.4	1.2	1.0	5.6	5.6
Domestic services	4.6	2.4	1.3	2.8	2.9
Ownership of dwellings	1.6	1.4	1.2	5.6	5.7
Other/ ²	2.1	-4.5	-1.0	2.3	2.2
Total	1.4	-0.3	0.4	100	100

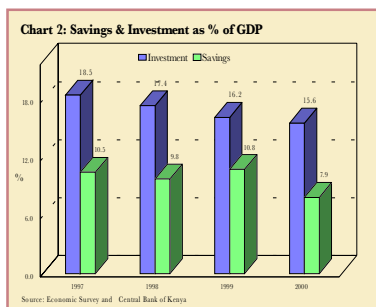
¹ Estimates based on selected economic indicators

² Includes forestry and fishing, mining and quarrying, electricity and water and other less imputed bank charges

Source: Economic Survey 2001

The weak performance of the economy in year 2000 was attributed to a combination of factors, including:

- The worst drought in the last fifty years that adversely affected agricultural production;
- Severe power shortage, as the sources of the country's 70% hydro power generation capacity almost dried up due to drought;
- Governance and management problems in the agricultural co-operative institutions that adversely affected production of most cash crops;
- Poor transport and communications infrastructure that continued to impose heavy costs on businesses;



- Reduced effective demand particularly for manufactures; and
- Reduced domestic investment and savings (Chart 2).

1.2 Outlook for the Year 2001

Available information on economic activities of the key sectors up to June 2001 indicates that the economy is recovering, although at a slow pace. Following improved rains since November 2000, agricultural production increased substantially during the first half of 2001 (Table 2). Production of tea, the leading foreign exchange earner, increased by over 47% between December 2000 and June 2001. Horticultural crops, also a significant foreign exchange earner, performed equally well during this period. Foreign exchange earnings from sale of horticultural produce increased by nearly 43% in the first six months of 2001 to US\$ 137m compared with US\$ 96m during a similar period last year. Overall, the sector is estimated to have grown by 1.0% in the twelve months to June 2001.

Table 2: Production of Key Agricultural Crops (% Change)

CROP	JANUARY – JUNE	
	2000	2001
Tea	-8.0	47.3
Horticulture (exports)	-15.8	8.1
Pyrethrum	-2.5	68.1
Sisal	-6.7	5.4
Coffee	35.0	-37.5
Sugar Cane	11.6	-21.6

Sources: Central Bureau of Statistics, Pyrethrum Board of Kenya, Sisal Board of Kenya, Kenya Sugar Authority and Horticultural Development Authority.

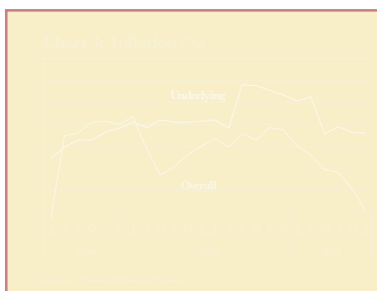
Manufacturing, on account of improved power supply, and the services sectors also improved in the first half of 2001, but building and construction declined in real terms by 1.4% in the 12 months to June 2001 and is likely to remain

depressed for the rest of the financial year in view of the limited public sector construction works.

The overall improvement in economic performance in the first half of 2001 is expected to continue into the second half and culminate in a growth of about 2% in 2001. Improved agriculture and manufacturing output are expected to be the main source of overall growth in 2001. Good weather conditions and increased supply of hydro electric power are expected to buoy economic activities during the second half of 2001. Equally, the expanded market for the country's goods in the context of the emerging larger East African Community (EAC) and the Common Market for Eastern and Southern Africa (COMESA), will support the momentum for growth. It is also expected that increased exports to the United States of America under the provision of the African Growth and Opportunities Act (AGOA) will further support economic performance in 2001.

2. INFLATION

2.1 Recent Developments



The period between July and December 2000 presented a major challenge to the Bank as both the overall and underlying inflation were on an upward trend (Table 3 and Chart 3). Overall, month-on-month inflation rose from an average 6% in June 2000 to 7.5% in December 2000, while underlying month-on-month inflation significantly increased from 8.3% in June 2000 to 10.7% in December 2000. The main factors behind this inflation trend were the rising cost of fuel and power associated with the steep increase in the international price of crude oil, the depreciation of the shilling and the increase in food prices arising from shortages caused by the severe drought conditions.

The Bank tightened monetary conditions between January and June 2001 to stem the emerging acceleration in inflation. The need for tighter monetary policy became more urgent during the March 2001 quarter when prospects for economic recovery became elusive. Following the tightening of monetary policy, coupled with the improved food supply situation and the fall in international price of crude oil, the Bank was able to

Table 3: Month-on-month Inflation (%)

	2000					2001					
	Jan	Mar	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun
Overall	8.7	3.4	6.0	7.1	7.5	6.0	5.2	3.9	3.7	2.1	0.2
Underlying	8.2	8.4	8.3	11.6	10.7	10.1	10.5	7.1	7.8	7.3	7.2

Source: Central Bank of Kenya

contain inflation to within the single digit range during the fiscal year 2000/01. Overall month-on-month inflation eased to 2.1% in May and 0.2% in June 2001 from 7.5% in December 2000, while underlying month-on-month inflation, though still above the 5% target, eased to 7.3% in May and 7.2% in June 2001 from 10.7% in December 2000.

2.2 Outlook for 12 months to June 2002

Overall inflation is forecast to stabilise at around 4 to 5% in the next one year. This outcome is expected partly because of lower food prices brought about by improved performance in agricultural production, stability in the shilling exchange rate that minimises inflationary pressures emanating from this source, and the continued maintenance of a prudent monetary stance.

3. MONETARY DEVELOPMENTS

At the beginning of financial year 2000/2001, the Bank established a 4% annual growth target for reserve money (Table 4). Consistent with this growth in the reserve money, broad money supply, M3, defined as currency held by the non-bank public and shilling deposits held with banks and NBFIs, was projected to increase by 8.0% during the period under review. The target rate of increase in reserve money was established on the basis of relatively optimistic overall economic performance. Growth in real gross domestic product was factored to accelerate and reach 2.5% during the year while the 5% inflation target would be attainable.

Table 4: Money Supply and Its Sources (Ksh bn)

	Jun 1998/1999	Jun 1999/2000	Jun 2000/2001	Jun 2000/2001 Original	Jun 2000/2001 Revised
1.0 Liability					
Money Supply					
Money supply, M2 1/	274.1	292.2	290.1		
Money supply, M3 2/	291.2	309.8	305.6	335.2	315.0
Money supply, M3X 3/	320.6	341.4	352.2	375.6	363.1
Money supply, M3XT 4/	379.9	399.6	439.3	458.7	445.4
2.0 Assets (2.1+2.2)	320.6	341.4	352.2	375.6	363.1
2.1 Net foreign assets 5/	45.8	46.7	88.5	76.4	92.7
Central Bank	33.8	35.4	65.9	63.1	64.5
Commercial banks and NBFIs	12.1	11.3	22.7	13.2	28.2
2.2 Net domestic assets (2.21+2.22)	274.8	294.8	263.6	299.3	270.4
2.2.1 Domestic Credit (2.210+2.211)	343.5	368.4	370.2	393.8	382.0
2.210 Government (net)	77.7	89.9	68.5	70.1	83.6
2.211 Private sector and other public sector	265.9	278.5	301.8	323.6	298.5
2.2.2 Other assets net	-68.7	-73.6	-106.6	-94.5	-111.7
Memorandum Item:					
Reserve Money 6/	78.5	72.7	69.3	75.5	71.4

1/ Money Supply, M2, is money supplied by CBK and commercial banks. It comprises currency outside banking institutions, other non-banking institutions' deposits with the CBK, demand, savings & time deposits as well as certificates of deposits held by the private sector & parastatals with commercial banks. It excludes deposit placement of the central and local Government.

2/ Broad money, M3, comprises M2 and call, 7-days, savings & time deposits as well as certificates of deposits held by the private sector & parastatals with NBFIs. M3 excludes deposits of both the central & local Government with NBFIs, and all cross deposits of both commercial banks and NBFIs.

3/ Broad money, M3X, comprises M3 plus foreign currency deposits held by residents with banking institutions.

4/ Broad money, M3XT, includes M3X & outstanding Government Treasury securities with the non-banking public.

5/ NEA at constant exchange rate of Ksh 62.025 to the US \$ (September 30th, 1997)

6/ Reserve money comprises currency in circulation & commercial banks balances held with the Central Bank.

Source: Central Bank of Kenya

The Bank, however, in the course of the year revised its monetary programme as economic activity continued to slow down contrary to original expectations and as inflationary pressures, fueled by the depreciation of the shilling, intensified. In light of the emerging scenario, the Bank adopted a tight monetary policy that was aimed

at absorbing the liquidity in excess of the amount needed to support real economic activity, while maintaining a conducive climate for economic recovery.

Towards the efforts to manage reserve money and other monetary aggregates, the Bank responded by intensifying its open market operations especially in the second half of financial year 2000/01. To a large extent this policy move was successful as domestic liquidity remained within the set benchmarks under the programme.

3.1 Money and Credit

As can be seen in Table 4, money supply growth remained within target during the twelve months to June 2001. The successful containment of growth in money supply within target was partly due to liquidity mop up by the Central Bank, and partly due to subdued demand for money following a steep slowdown in economic activity. Money supply (M3) declined by 1.5% in the year to June 2001 compared with a target growth of 1.5% and a 0.2% increase in the year to June 2000. However, broader money supply, M3X which includes foreign currency holdings, though still below the 4.9% target, grew by 1.7% during the period under review compared with a 1.4% increase in the previous year. M3XT, which comprises M3X plus non-bank holding of government securities (T), rose by 3.8% compared with 5.8% in the year to June 2000.

The increase in both M3X and M3XT during the year to June 2001 was all attributed to the increase in net foreign assets (NFA) of the banking system as net domestic assets (NDA) declined. Net foreign assets increased by about 35% to Ksh 88.5bn in the year to June 2001 compared with 40% rise in the previous year. The rise in the NFA was mainly in the forex holdings of the Central Bank, which benefited from external inflows disbursed in support of the Government's economic reform programme under the

International Monetary Fund (IMF) Poverty Reduction and Growth Facility (PRGF).

NDA of the banking system on the other hand declined by 6.1% in the twelve months to June 2001, compared with a fall of 4.7% during the previous year. The decline in NDA in the fiscal year reflected a reduction of 17.7% in net credit to the Government from the banking system following a Ksh 8.3bn build up of government deposits with the Central Bank and a reduction of government net indebtedness to commercial banks and NBFIs. The Ksh 15.7bn decline in other domestic assets associated with the 2 percentage points reduction in cash ratio in October 2000 and increased capitalisation of operations of banking institutions also supported the fall in NDA.

Banking system credit to the private and other public sectors, however, increased by 4.6% in the twelve months to June 2001 compared with a 3.6% increase in the year to June 2000 and 3.5% target. All the new credit was extended by commercial banks as NBFIs were repaid a net Ksh 5.0bn. The private sector alone absorbed Ksh 10.4bn of the new credit, while the other public sector absorbed the balance of Ksh 2.8bn. Credit to the private sector was distributed to various activities as follows: Ksh 7.1bn went to finance and insurance, Ksh 3.3bn was taken by business services, Ksh 1.6bn to mining and quarrying, Ksh 1.0bn to private households, Ksh 0.3bn to consumer durables, Ksh 0.1bn to trade and Ksh 2.8bn to other activities. Manufacturing, building and construction, agriculture, real estate, and transport and communications, however, repaid Ksh 5.8bn.

3.2 Open Market Operations

In light of the tight monetary policy stance adopted, the strategy for open market operations during the 12 months to June 2001 was to control reserve money and, in

consequence, the other monetary aggregates with a view to reducing inflationary pressures.

As in the previous year, the Central Bank relied on open market operations as the main instrument for managing domestic liquidity. The stock of Repos rose from Ksh 10.6bn in June 2000 to Ksh 17.0bn in June 2001. To enhance transparency and flexibility in the management of monetary policy and hence improve its effectiveness, the Bank introduced in November 2000 the bidding system for Repo Treasury bill issues. This system allows the market to determine interest rate payable on Repo bills, commonly known as the Repo rate. The system also provides better indication of the underlying liquidity conditions.

Other policy changes introduced during the year included: reduction of the minimum statutory cash ratio for banks and NBFIs from 12% to 10%, to help banks lower lending rates; and streamlining of the two-tier discount windows at the Central Bank. The old two-tier overnight discount windows were, beginning 21st August 2000, consolidated into one window. Presently, banks borrow on an overnight basis from the Central Bank at 3 percentage points above the latest Treasury bill rate.

3.3 Interest Rates

Interest rates displayed mixed performance in the year to June 2001 (Table 5). Overall, domestic interest rates followed the trend of the 91-day Treasury bill rate. During the July to September 2000 quarter, interest on the 91-day Treasury bills declined to 9.9% in August from 10.5% in June. The decline in the rate was caused by the excess liquidity in the banking system and strong competition by investors as a result of dampened alternative investment opportunities.

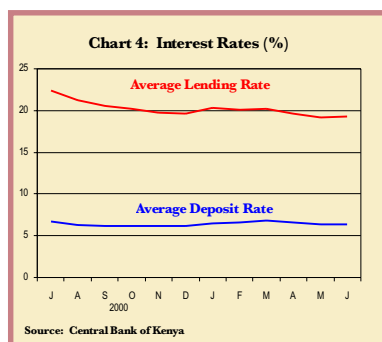
The Treasury bill rate rose to 10.4% in September 2000 and maintained the upward trend, rising to 15.3% by February 2001. This trend was sustained by higher government borrowing from the domestic sources following delay in the disbursement of funds under the PRGF. The trend, which was also sustained by speculative bidding by commercial banks, reversed in March with the rate declining to a low of 10.5% by May before rising to 12.1% in June 2001. The downward momentum in Treasury bill rate was sustained by lack of alternative attractive avenues for investment, as the level of economic

Table 5: Interest Rates (%)

	2000						2001					
	J	A	S	O	N	D	J	F	M	A	M	J
Average Lending Rate	22.4	21.2	20.6	20.2	19.8	19.6	20.3	20.1	20.2	19.6	19.2	19.3
Overdraft	22.1	20.9	20.6	19.9	20.1	19.7	20.2	20.5	20.1	19.9	19.5	19.7
91-day Treasury Bill	9.9	9.2	10.4	10.6	11.2	12.9	14.8	15.3	15.0	12.9	10.5	12.1
182-day Treasury Bill	..	..	..	..	..	12.1	14.4	15.4	14.9	12.9	11.3	
1 year Treasury Bond	12.3		11.3	9.9		10.1	11		11.9		15.7	14.9
Inter-bank rate	6.7	9.9	8.4	8.3	10.2	9.8	11.8	11.9	9.3	8.5	10.9	10.7
3-months Deposits	7.4	6.9	7.9	7.1	7.1	7.5	8.1	8.6	8.5	8.1	7.7	7.5
Savings	4.7	4.5	4.4	4.3	4.4	4.5	4.7	4.6	4.7	4.6	4.4	4.4
Average Deposit Rate	6.7	6.3	6.2	6.2	6.2	6.2	6.5	6.6	6.9	6.6	6.4	6.4

Source: Central Bank of Kenya

activity in the period under review remained depressed. The weekly bids for Treasury bills in the primary auction remained high, averaging 170% in March and April 2001.



Source: Central Bank of Kenya

The variance between the lending and deposit rates, usually known as the ‘spread’, narrowed to 12.9% by the end of June 2001 from 15.7% in July 2000 (Chart 4). The average interest rate paid by commercial banks on savings deposits fell from 4.7% to 4.4%, while the 0-3 months deposit rate declined to 7.4% from 7.5%. The average lending rate also fell from 22.4% in July 2000 to 19.3% in June 2001.

4. BANKING SECTOR

4.1 Structure of Banking System

The number of commercial banks tallied 49 in June 2001 from 51 as at the end of June 2000, following a merger of two banks and liquidation of one bank. NBFIs declined to 7 in June 2001 from 10 in June, 2000 as two institutions merged with their parent banks while one institution was liquidated. Commercial banks reduced their branches from 512 to 465 in an effort to reduce their operating costs. Two major banks accounted for most of the branch closures with a majority of the branches closed being in the rural areas.

Eight commercial banks with assets of more than Ksh 10bn in June 2001 continued to dominate business in the sector. They accounted for 67.9% of the total assets and 71% of the total deposits. As for the NBFIs, the two largest institutions with assets over Ksh 5bn, accounted for 63.6% of all the assets in the sub-sector.

The number of foreign exchange bureaus also decreased to 47 in June 2001 from 48 in June 2000 after the closure of one bureau. A moratorium placed in March 1999 on the licensing of new foreign exchange bureaus was maintained during the year. This course of action was intended to allow the Central Bank to assess the impact of existing bureaus with a view to further streamlining the laws and regulations governing the sub-sector. The moratorium will be reviewed after December 2001.

4.2 Total Assets and Deposits

The performance of the banking sector during the year under review was mixed, reflecting the depressed state of the economy. With the exception of improved profitability during the year, most of the other banking indicators showed little improvement.

4.2.1 Assets

Total assets of the banking system decreased by 0.1% to Ksh 432.9bn as at the end of June 2001 from Ksh 433.4bn at the end of June 2000 (Table 6). Total loans and advances, which comprised 52% of banks' assets, increased by 4.5% to Ksh 302bn in June 2001 from Ksh 289bn in June 2000.

Table 6: Banking Industry Performance Indicators (Ksh m)

Performance Indicators	1999 June	2000 June	2001 June	% Change over June 2001
Assets	431,770	433,360	432,878	0.1
Deposits	313,451	316,056	317,775	0.5
Total Advances (Gross)	277,773	289,180	302,122	4.5
NPLs	83,485	101,488	122,427	20.6
Provisions	44,269	64,934	77,222	18.9
Net NPLs	39,216	36,554	45,205	23.7
Net NPLs/Total Advances	14%	13%	15%	
NPLs/Total Advances	30%	35%	41%	
Provisions/NPLs	53%	64%	63%	
Capital & Reserves	50,075	51,213	55,917	9.10%
Profit/(Loss) Before tax	1,859	4,211	5,035	
Liquid Assets/Deposit Liabilities	41%	44%	41,7%	
Cash Ratio	12.8%	13.50%	10.20%	

Source: Central Bank of Kenya

Other major assets, namely, holdings of government securities and balances with the Central Bank accounted for 18% and 5% of total assets, respectively. Holdings of government securities increased by 0.9% to Ksh 78.6bn in June 2001, from Ksh 77.9bn in June 2000.

The quality of the assets of banks remained under strain. The level of non-performing loans (NPLs) by June 2001 was estimated at Ksh 122.4bn, or 40.5% of gross loans, compared with Ksh 101.5bn or 35.1% of gross loans in June 2000. Non-performing loans (NPLs) are defined as loans not being serviced as per loan contracts and expose banking institutions to potential losses. The Central Bank continued to require more prudent provisioning for bad and doubtful debts in view of the observed relatively high level of non-performing loans. The level of provisions for bad and doubtful loans therefore increased correspondingly to Ksh 77.2bn in June 2001 from Ksh 64.9bn in June 2000.

4.2.2 Deposits

Deposits held by the banking system stood at Ksh 317.8bn at the end of June 2001, up by 0.5% over the June 2000 level (Table 7). Time deposits accounted for 40.8% of funds followed by demand and savings deposits at 34.7% and 24.5%, respectively. As for the NBFIs, including mortgage finance companies, time deposits accounted for 85.9% of their total deposits while savings deposits accounted for the balance of 14.1%.

Table 7: Composition of Deposits (Ksh m)

BANKS	1999 JUNE	2000 JUNE	2001 JUNE	Share in 2001 (%)
TYPE OF DEPOSITS				
Demand deposits	87,439	94,133	104,005	34.7
Kenya Shillings	63,237	70,255	75,782	25.3
Foreign currency	24,202	23,879	28,223	9.4
Time deposits	135,543	131,237	122,473	40.8
Kenya Shillings	129,156	117,980	101,854	34.0
Foreign currency	6,387	13,256	20,620	6.9
Savings deposits	69,893	69,143	73,366	24.5
Kenya Shillings	69,661	68,904	73,086	24.4
Foreign currency	232	238	280	0.1
Total	292,875	294,513	299,845	100.0
Kenya Shillings	262,054	257,140	250,722	83.6
Foreign currency	30,821	37,373	49,123	16.4
NBFIs				
TYPE OF DEPOSITS				
Demand deposits	0	0	0	0.0
Kenya Shillings	0	0	0	0.0
Foreign currency	0	0	0	0.0
Time deposits	17,136	18,010	15,397	85.9
Kenya Shillings	17,136	18,010	15,397	85.9
Foreign currency	0	0	0	0.0
Savings deposits	3,441	3,532	2,526	14.1
Kenya Shillings	3,441	3,532	2,526	14.1
Foreign currency	0	0	0	0.0
Total	20,576	21,543	17,924	100.0
Kenya Shillings	20,576	21,543	17,924	100.0
Foreign currency	0	0	0	0.0

Source: Central Bank of Kenya

4.3 Profitability

Despite the depressed state of the economy, the banking sector still managed to improve its profitability during the period under review. Net profits before tax for the entire banking sector increased to Ksh 2.8bn in the year 2000 from Ksh 0.2bn in the year to December 1999 (Table 8). This was partly due to the closure of three troubled institutions (Reliance Bank, Prudential Bank and Fortune Finance) which hitherto weighed down the sector; lower

losses reported by some major banks and restructured institutions in the year than in the previous year; and reduced charges for bad and doubtful loans.

Table 8: Trend in Profits/(Losses) (Ksh m)

Item	June 2000 (6 months)	Dec 2000 (12 months)	June 2001 (6 months)
Total Income	36,465	67,689	33,077
Expenses before provisions	(28,039)	(51,172)	(24,251)
Profit before provisions	8,426	16,517	8,826
Provisions for bad debts	(4,215)	(13,721)	(3,791)
Profit before tax	4,211	2,796	5,035

Source: Central Bank of Kenya

Altogether, 16 institutions made a cumulative loss of Ksh 7.5bn while 40 institutions made a profit Ksh 10.3bn. The charge for bad and doubtful debts, a significant expense item in the sector, was Ksh 13.7bn in the year compared to Ksh 16.3bn.

Results for the six month period ended June 2001 similarly showed improved performance when compared with the same period in 2000. During the six month period, 46 institutions made profits of Ksh 6.4bn while 9 institutions made losses of Ksh 1.4bn, giving an overall net profit before tax of Ksh 5.0bn. The results surpass the pre-tax profits of Ksh 4.2bn recorded in June 2000.

4.4 Liquidity

The banking sector remained stable over the twelve months to June 2001 as most banking institutions met their cash and liquidity ratio requirements. Over the twelve months to June 2001, the sector remained fairly liquid with the average liquid asset ratio closing at 41.7% at the end of June 2001. The cash ratio averaged 10.2% in June 2001. The minimum liquidity ratio requirement remained at 20% while the minimum cash ratio was lowered to 10% from October 1st 2000. The downward revision in the minimum cash ratio

requirement was meant to encourage banking sector to lower lending rates to the private sector.

4.5 Capital and Reserves

Capital and reserves of the banking system increased by 9.2% to Ksh 55.9bn in June 2001 from Ksh 51.2bn as at June 2000 (Table 6). As a result of the increase in capital, the level of capitalization as measured by the ratio of capital and reserves to total deposits increased to 20.1% at the end of June 2001 from 15.5% at the end of June 2000.

4.6 Measures to Strengthen the Banking Sector

During the year under review, the banking sector enjoyed relative stability compared to the previous period with only one bank, The Delphis Bank Ltd, being placed under statutory management in May 2001. Two institutions, namely, Reliance Bank and Fortune Finance that were under statutory management, were liquidated during the period under review.

To strengthen further the banking sector, the Bank introduced various measures in the course of the year. **First**, the minimum core capital for banks and mortgage finance companies was raised to Ksh 400m from Ksh 250m while that of non-bank financial institutions was raised to Ksh 300m from Ksh 187.5m to be effected gradually so that the new levels are observed by 2005. **Second**, the Building Societies Act was amended to harmonize the regulations of the entire banking sector. Like the Mortgage Finance Companies, Building Societies are presently subjected to similar prudential requirements such as core capital, gearing ratio, liquidity ratio and borrowing by directors. **Third**, monetary penalties to be charged to institutions failing to comply with prudential requirements were gazetted. **Fourth**, in the spirit of the East African Community, the Bank continued to work closely with the central banks of Tanzania and Uganda in order to

harmonize banking laws, regulations and practices in the region.

In the current fiscal year, 2001/02, efforts are being made to resolve the problem of the large stock of non-performing loans, that poses a major threat to the stability of the sector. Particularly crucial in this respect is the development of a legislation that will facilitate passage of information on loan defaulters to credit reference bureaus. Sharing of information on creditors will help to improve credit assessments by banking institutions and thereby minimize cases of loan defaulters. Another important aspect that will be attended to in the coming year is the development of appropriate procedures to facilitate banking mergers. In addition, legislation to criminalise issuing of bouncing cheques will be worked out in the year.

5. GOVERNMENT FINANCE

Government fiscal operations in 2000/2001 financial year resulted in a commitment budget deficit of Ksh 16.6bn or 1.9% of GDP compared with a surplus of Ksh 7.6bn or 1% of GDP in the previous year. On a cash basis, the deficit was Ksh 12.9bn or 1.5% of GDP against a surplus of Ksh 1.8bn in 1999/2000 and a target of Ksh 25.4bn or 2.0% of GDP (Table 9). The smaller deficit relative to the target resulted from corrective measures taken during the financial year to contain expenditure below budget estimates following withholding of the expected budgetary support under the PRGF programme by the development partners.

5.1 Revenue and Grants

Government receipts, comprising revenue and inflows of external grants, amounted to Ksh 220.2bn in financial year 2000/01 compared with Ksh 182.7bn in the previous year

Table 9: Budget Outturn (Ksh bn)

	1999/00		2000/01			
	July-June Actual	Share (%)	July-June Actual*	Share (%)	July-June Target**	Over(+)/ Below(-)
1. TOTAL REVENUE & GRANTS	182.7		220.2		223.0	-2.8
Revenue	178.4	97.7	197.3	89.6	202.6	-5.3
External Grants	4.2	2.3	23.0	10.4	20.5	2.5
2. TOTAL EXPENDITURE AND LENDING	175.1		236.8		246.5	-9.7
Recurrent Expenditure	156.5	89.4	200.2	84.5	207.9	-7.7
of which						
Interest on domestic debt	21.1	12.1	23.2	9.8	23.6	-0.4
Interest on foreign debt	8.6	4.9	8.4	3.5	9.9	-1.5
Wages and Salaries	65.9	37.6	67.9	28.7	69.5	-1.7
Development Expenditure	18.6	10.6	36.6	15.5	38.6	-2.0
3. DEFICIT ON A COMMITMENT BASIS (1-2)**	7.6		-16.6		-23.4	6.9
4. ADJUSTMENT TO CASH BASIS	-6.0		2.9		-2.0	4.8
5. DEFICIT ON A CASH BASIS	1.5		-13.7		-25.4	11.7
As a ratio of GDP (%)	0.2		-1.6		-2.0	0.4
6. DISCREPANCY: Expenditure (+) / Revenue (-)	-0.3		-0.8		0.0	
7. FINANCING	-1.8		12.9		25.4	
Domestic (Net)	17.5		0.6		9.3	
External (Net)	-19.3		12.3		16.0	

* Provisional

** The target deficit for fy 2000/01 was programmed to be high to accommodate poverty related expenditures that were to be incurred in the year and financed by donor funding

Sources: Treasury and Central Bank of Kenya

and a target of Ksh 223.0bn. Revenues stood at Ksh 197.3bn or 22.9 % of GDP. Although higher than the Ksh 178.4bn in the previous year, revenues were Ksh 5.3bn below target. The shortfall in revenue, virtually in all the major taxes, was due to the lower level of economic activity than originally anticipated.

5.2 Expenditure and Net Lending

Following the suspension by the donors of budgetary support in the course of the financial year, the Government introduced stringent controls on expenditure that saw total expenditure fall below budgetary provisions by Ksh 9.7bn to Ksh 236.8bn or 27.5% of GDP. However, expenditure in the year was still more than that of the previous year which amounted to Ksh 175.1bn. The sharp increase in expenditure in the year was partly the result of the unexpected emergency expenditures incurred to mitigate the adverse effects of the severe drought on food and energy supply.

As in previous years, the bulk of government expenditure went towards paying salaries and interest on government debt, amounting to Ksh 67.9bn and Ksh 31.6bn, respectively. At Ksh 200.2bn and Ksh 36.6bn, recurrent

and development expenditures were, respectively, Ksh 7.7bn and Ksh 2.0bn below the target for the year.

5.3 Financing

The deficit was almost wholly financed by proceeds from external borrowing amounting to Ksh 12.3 bn. Borrowing from domestic sources on a net basis was only Ksh 0.6bn.

6. PUBLIC DEBT

Central government debt, including government guaranteed external debt, increased to Ksh 625.6bn at the end of June 2001 compared with Ksh 609.4bn in June 2000 (Table 10). However, as a proportion of GDP, public debt declined by 5.7 percentage points to 72.6% by the end June 2001. Out of the total debt stock, the domestic component accounted for 34.2% while the foreign component was 65.8%.

6.1 Domestic Debt

Public domestic debt increased by Ksh 7.7bn to Ksh 213.8bn at the end of June 2001 from Ksh 206.1bn in June 2000. The increase in domestic debt reflected a Ksh 8.4bn borrowing by the Government from bank and non-bank sources and Ksh 2.0bn proceeds from the disbursement of the first tranche of the augmented PRGF loan that the Central Bank lent to the Government. The additional PRGF loan of SDR 40m was in support of the Government's drought relief efforts. The Government, however, reduced its borrowing in form of direct advances from the Central Bank and commercial banks by Ksh 2.7bn.

The Central Bank took steps in the last half of financial year 2000/01 to reduce the share of the 91-day Treasury bills in the domestic debt while increasing the share of

Table 10: Public Debt

	June 2000		June 2001*	
	Ksh bn	%	Ksh bn	%
DOMESTIC DEBT				
Securitised debt	170.9	82.9	183.5	85.8
Treasury Bills	131.0	63.6	137.5	64.3
of which repo t.bills	16.9	8.2	21.1	10.2
Treasury Bonds	36.9	17.9	44.5	20.8
Government Stocks	3.0	1.5	1.5	0.7
Non Securitised debt	35.2	17.1	30.3	14.2
Overdraft/Advances	15.2	7.4	12.5	5.8
Non-interest bearing debt	20.0	9.7	15.8	7.4
IMF Funds lent to Government	0.0	0.0	2.0	0.9
TOTAL DOMESTIC DEBT	206.1	100.0	213.8	100.0
EXTERNAL DEBT				
Bilateral	146.0	36.2	148.2	36.0
Multilateral	224.3	55.6	232.2	56.4
Comm. Banks	31.8	7.9	30.1	7.3
Export Credit	1.3	0.3	1.3	0.3
TOTAL EXTERNAL DEBT	403.3	100.0	411.8	100.0
TOTAL PUBLIC DEBT	609.4		625.6	
(as a % of GDP)		78.3		72.6

* Provisional

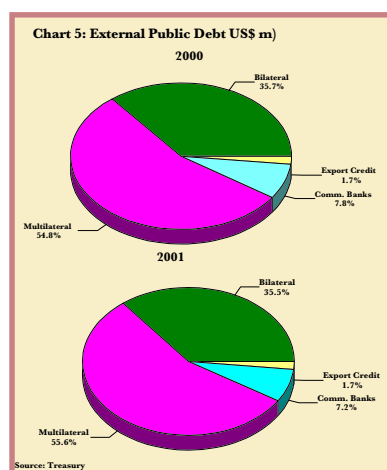
Sources: Treasury and Central Bank of Kenya

longer dated Treasury bonds. The restructuring programme adopted also aimed at developing a yield curve so that the structure of domestic interest rates reflects better the maturity profile of various debt instruments.

In line with the restructuring programme, a 5-year floating rate Treasury bond for Ksh 5bn was issued in May and a 3-year floating rate Treasury bond for Ksh 6bn was issued in June 2001. The 5-year bond recorded a performance rate of 86% while the 3-year bond realised a 140% performance. The successful placement of bond issues was a reflection of investors' endorsement of the debt restructuring process. Reflecting this success, Treasury bonds increased to Ksh 44.5bn in June 2001 from Ksh 36.9bn in June 2000. Part of the Treasury bond proceeds were used to finance redemptions of Treasury bills. As a result, Treasury bills which stood at 79.4% of the total securitised domestic debt in March 2001 fell to 75.0% as at the end of June 2001.

6.2 External Debt

Kenya's stock of external debt, including Government guaranteed loans, increased from Ksh 403.8bn at the end



of June 2000 to Ksh 411.8bn as at the end of June 2001. During the year under review, the Government successfully rescheduled US\$ 268.5bn bilateral loans under the Paris Club arrangement.

Kenya's external debt continues to be mainly in multilateral and bilateral loans, which account for over two-thirds of the total long-term debt. As at June 2001, multilateral institutions accounted for 56.4% of the total external debt followed by the bilateral creditors at 36.0%, commercial creditors at 7.3% and suppliers credit at 0.3%.

7. BALANCE OF PAYMENTS

Kenya's overall balance of payments position weakened in the year to June 2001 recording a smaller surplus of US\$ 142m compared with a surplus of US\$ 212m in the previous year (Table 11). The deterioration was attributed to a sharp increase in imports that more than offset the increase in exports, and a drop in private capital inflows.

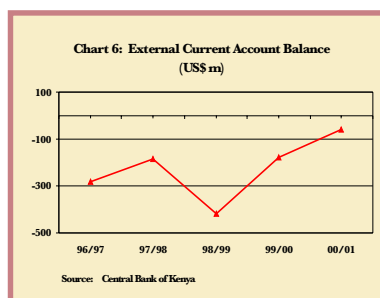
Table 11: Balance of Payments (US\$ m)

	1997/98	1998/99	1999/00	2000/01
1. Overall Balance (2+3)	-194	-63	212	142
2. Current Account	-186	-381	-177	-127
Trade Balance	-1,055	-1,084	-1,253	-1,608
Exports	2,006	1,754	1,676	1,870
Imports	3,061	2,837	2,929	3,478
Services (net)	459	380	434	602
of which tourism	350	230	306	305
3. Capital Account	-8	317	389	269
Official	-178	-182	-196	18
Inflows	247	237	245	287
Outflows	426	418	441	269
Private & net error & omissions	170	499	585	251
Memorandum:				
Gross reserves	1,083	997	1,208	1,467
Official	771	657	808	955
Commercial Banks	(3.0)*	(2.8)*	(3.3)*	(3.3)*

* The numbers in parentheses show official reserves in months of import cover

Source: Central Bank of Kenya

7.1 The Current Account



The current account deficit narrowed to US\$ 127m in year 2001 from a deficit of US\$ 177m in the previous year (Chart 6). The improvement in the current account during the year under review reflected increased earnings from export of goods and services that more than offset the increase in imports.

7.1.1 Exports

Exports grew strongly by 11.6% in the year to June 2001 following increased earnings from oil and non-traditional commodities, particularly horticulture. The good performance in horticulture, despite the adverse weather conditions, largely reflected higher international world prices. Earnings from horticulture rose to US\$ 253m in the year to June 2001 from US\$ 166m in the year to June 2000. Earnings from oil exports increased by US\$ 73m to US\$ 172 due to increased exportation of jet fuel.

Coffee and tea exports, on the other hand, fell by 24% and 6%, respectively, during the year. The fall in coffee receipts resulted from the sharp drop in world coffee prices from US\$ 1,812 per tonne in financial year 1999/2000 to US\$ 1,335 in financial year 2000/01. Coffee production also declined over the same period by 0.5% to 77,695 tonnes from 78,048 tonnes. As for tea exports, the fall mainly reflected lower world tea prices.

In terms of destination, the share of Kenya's merchandise exports to the East African Community (EAC) countries together decreased to 26% in the year to March 2001 from 27% in the previous year. The share of exports to the United States increased to 2.7% from 2.6% while that to Europe decreased to 31% from 32%. The share of exports to new markets, such as the Middle East, increased to 5.4% from 4.8% while that to the Far East decreased to 11.9%

from 13%. However, the shares of Kenya's exports to South Africa and Australia remained at 0.4% over the period.

7.1.2 Imports

Imports grew by 18.7% in the year to June 2001 compared with a rise of 3.2% during the previous year. This reflected increases in imports of oil, manufactured goods, machinery, transport and equipment of 30.4%, 7.9% and 25.5%, respectively. The sharp increase was mainly due to large increases in international oil prices, and importation of diesel-powered energy equipment occasioned by the sharp drop in hydro power generation.

The share of imports from traditional sources such as Europe, decreased to 34.2% from 34.7% while the share of imports from the Middle East increased to 28.4% from 21.3%. Import shares from Japan, the United States and South Africa declined to 5.2%, 4.1%, and 5.9% from 7.1%, 5.3% and 8.5%, respectively.

7.1.3 Services

Receipts from services grew by nearly 38% during the year to June 2001. The improvement in the services account was attributed to a large increase in transfer earnings, mainly official grants, from US\$ 778m in the year to June 2000 to US\$ 1,004m in the year to June 2001. Private transfers also increased modestly during the period under review. Meanwhile, tourism earnings, at US\$ 305m, were roughly the same as in the previous year.

7.2 Capital Account

The capital account recorded a surplus of US\$ 269m in the year to June 2001 compared with a surplus of US\$ 389m in the year to June 2000. The reduction in the capital

account surplus mainly reflected the fall in private capital inflows to US \$ 251m in the year from US\$ 585m during the previous year. Net official capital inflows on the other hand improved, reflecting an increase in inflows following disbursement of programme financing by Kenya's development partners to fund the Government's IMF-supported economic reform programme. In addition, the capital account benefited from the debt service relief arising from rescheduling in November 2000 of part of the Government's external debt owed to the Paris Club creditors.

7.3 Foreign Exchange Reserves

Gross foreign exchange reserves of the banking system rose by US\$ 259m to US\$ 1,467m, equivalent to 5.1 months of imports as at the end of June 2001 from US\$ 1,208m in June 2000. This reflected reduced demand for foreign exchange by the Government following, as noted above, rescheduling of its principal repayments that were due during the period under review. Out of the total gross reserves, official reserves were US\$ 955m as at the end of June 2001 compared with US\$ 808m a year earlier. The foreign exchange reserves of commercial banks were US\$ 512m at the end of June 2001 compared with US\$ 401m as at the end of June 2000.

7.4. Exchange Rate

During the period under review, the shilling exchange rate appreciated against all the major currencies except the US dollar against which it depreciated by 1.4% (Table 12 and Chart 7). The appreciation of the shilling was more sharp against the Yen, followed by the Euro and the Deutschemark, and the Pound Sterling, in that order.

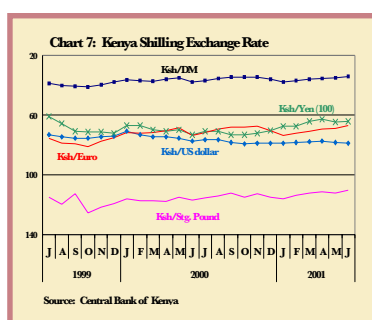


Table 7: Kenya Shilling Exchange Rate

	1999			2000			2001		% Change Jun-00 to Jun-01
	Jan	Jun	Dec	Jan	Jun	Dec	Jan	Jun	
Kshs/US\$	61.8	73.6	73.9	70.7	77.5	78.7	78.6	78.6	1.4
Kshs/Stg. £	102.0	117.5	119.3	116.0	117.0	114.9	116.3	110.3	-5.8
Kshs/DM	36.7	39.1	38.1	36.7	37.7	36.0	37.7	34.3	-8.9
Kshs/Yen	54.6	61.0	72.1	67.2	73.1	70.3	67.3	64.4	-11.8
Kshs/Euro	71.8	76.4	74.9	71.8	73.7	70.5	73.8	67.2	-8.9

Source: Central Bank of Kenya

However, in relation to a basket of currencies of the main trading partners of Kenya, the shilling exchange rate depreciated by 3.1% compared with an appreciation of 0.6% in the previous year. In real terms, the shilling weakened by 0.5%, reflecting the reduction in the variance between Kenya's inflation and that of its major trading partners.

8. FINANCIAL PERFORMANCE

The extract financial statements and the auditor's report for the Bank as at 30th June 2001 are set out on pages 31 and 34. To gain a full picture of the Bank's operations, these extracts should be read together with the full set of accounts that can be availed on request. However, below are brief notes explaining changes in the accounts between the period June 30, 2000 and June 30, 2001.

8.1 PROFIT AND LOSS ACCOUNT

8.1.1 Income

(i) Interest Income

Interest income earned mainly from investment of the Bank's foreign exchange, amounted to Ksh 4,437m in financial year 2000/01, an increase of Ksh 260m or 6.2% over the previous year. The improvement is explained by

the increase in foreign investments of Ksh 12,444m in the year and more competitive interest rates.

(ii) Non- Interest Income

There was a marginal increase of Ksh 173m or 4.6% in non-interest income from Ksh 3,706m (2000) to Ksh 3,879m (2001).

8.1.2 Expenses

(i) Interest Expenses

Interest expenses absorbed by the Bank rose substantially by Ksh 821m or 67.7% from Ksh 1,212m (2000) to Ksh 2,033m (2001), mainly due to increased activity in monetary policy mop ups.

(ii) Non-interest Expenses

Non-interest expenses, which mainly include general office administration expenses, banking/currency expense and losses on revaluation of foreign assets and liabilities, recorded a drop of Ksh 447m or 13.6% from Ksh 3,285m in the previous year to Ksh 2,838m during the review period. The fall in non-interest expenses reflected the effect of the austerity measures taken by the Bank to cut down its overhead costs.

8.2 BALANCE SHEET

8.2.1 Assets

(i) Foreign Exchange

The Bank's foreign exchange holdings increased by Ksh 12,444m or 20% from Ksh 62,290m (2000) to Ksh 74,734m (2001). The additional forex came from the receipts of financial support from various development partners and the Bank's net purchases in the inter-bank forex market.

(ii) Advances and Discounts

During the period under review, overnight borrowings by commercial banks declined by Ksh 2,063m or 63% from Ksh 3,270m (2000) to Ksh 1,209m (2001).

(iii) Government Securities

The Bank's investments in government securities fell by Ksh 1,631m or 53.4% from Ksh 3,051m (2000) to Ksh 1,420m (2001) owing to redemption of both discounted Treasury Bills and government stock in the course of the year.

(iv) Government Accounts

The government overdraft position with the Bank declined by Ksh 1,699m or 26% from Ksh 6,529m (2000) to Ksh 4,830m (2001).

(v) Deferred Receivable

Deferred receivable is a new class of asset that represents the unamortised balance of the cost of Times Tower of Ksh 1,801m. The amount was previously classified under property and equipment.

(vi) Other Assets

Other assets include, clearing accounts, debtors, retirement benefit assets and fixed assets. This category of assets decreased by Ksh 1,644m or 13.9% during the financial year under review.

8.2.2 Liabilities**(i) Repo Sales to Banks**

During the period under review, there was a noted increase in issue of Repo securities through OMO sales to mop up excess liquidity in the banking system. Repo bills increased by Ksh 6,358m or 60% in the year from Ksh 10,600m (2000) to Ksh 16,958m (2001).

(ii) Deposits

Deposits decreased by Ksh 3,336m or 4% in the year from Ksh 83,112m (2000) to Ksh 79,776m (2001). The decline was in deposits of the financial institutions and project accounts.

(iii) Other Liabilities

Other liabilities, which comprise mainly currency in circulation, increased by Ksh 3,751m or 8.6% from Ksh 43,178m (2000) to Ksh 46,929m (2001) due to an increase in currency in circulation.

(iv) Equity

The Bank's capital account decreased by Ksh 565m or 8.5% from Ksh 6,603m (2000) to Ksh 6,038m (2001) as a result of netting off year 2001 dividend to the Government of Ksh 1,000m paid off in advance in the course of the year.

FINANCIAL STATEMENTS

CENTRAL BANK OF KENYA

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 30 JUNE 2001

	2001	2000
	(Ksh m)	(Ksh m)
Interest Income	4,437	4,177
Interest Expenses	-2,033	-1,212
Net Interest Income	2,404	2,965
Losses on Loans and Advances	-10	-922
Net Interest Income after provision for Losses on Loans and Advances	2,394	2,043
Non-interest Income	3,879	3,706
Non-interest Expenses	-2,838	-3,285
Net Profit from Ordinary Activities	3,435	2,464
Charge in respect of Deferred Receivable	-1,000	-
Charge in respect of Deferred Receivable	-1,000	-1,000
Net Profit for the Year	<u>1,435</u>	<u>1,464</u>

Source: Central Bank of Kenya

CENTRAL BANK OF KENYA

BALANCE SHEET FOR THE YEAR ENDED 30TH JUNE 2001

	2001 (Kshs m)	2000 (Kshs m)
ASSETS		
Balances due from banking institutions and Gold	74,734	62,290
Advances to banks	1,209	3,272
Investments in government securities	1,420	3,051
Government of Kenya accounts	4,830	6,529
Items in the course of collection	7,351	6,018
Other assets	1,875	1,825
Deferred receivable	1,801	-
Retirement benefit asset	289	262
Property and equipment	633	3,687
Revaluation account	18,642	19,642
Loan amount from Government of Kenya	<u>36,917</u>	<u>36,917</u>
TOTAL ASSETS	<u>149,701</u>	<u>143,493</u>
LIABILITIES		
Currency in circulation	46,677	42,850
Deposits	79,776	83,112
Amounts repayable under repurchase agreements	16,958	10,600
Other liabilities	<u>252</u>	<u>328</u>
TOTAL LIABILITIES	<u>143,663</u>	<u>136,890</u>
EQUITY AND RESERVES		
Share capital	1,500	1,500
General reserve fund	4,248	4,103
Proposed Dividend	<u>290</u>	<u>1,000</u>
TOTAL EQUITY AND RESERVES	<u>6,038</u>	<u>6,603</u>
TOTAL LIABILITIES AND EQUITY	<u>149,701</u>	<u>143,493</u>

Source: Central Bank of Kenya

REPORT OF THE INDEPENDENT AUDITORS PURSUANT TO SECTION 54 OF THE CENTRAL BANK OF KENYA ACT

We have audited the financial statements set out on pages 6 to 23, which have been prepared on the basis of the accounting policies set out on pages 10 to 12. We obtained all the information and explanations which to the best of our knowledge and belief were necessary for purposes of our audit and to provide reasonable basis for our opinion. The financial statements are in agreement with the books of account.

As stated on page 4, the directors are responsible for the preparation of financial statements which give a true and fair view of the Bank's state of affairs and of its operating results. Our responsibility is to express an independent opinion on the financial statements based on our audit and to report our opinion to you.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit so as to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the directors in the preparation of the financial statements, as well as an evaluation of the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

The financial statements comply with the requirements of Central Bank of Kenya Act (CAP 491) and applicable International Accounting Standards, except in so far as the Bank has not considered it appropriate to do so having regard to its functions, as set out in Note 1(a).

In our opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the financial affairs of the Bank at 30 June 2001 and of the results of its operations and cash flows for the year then ended in accordance with International Accounting Standards and comply with requirements of the Central Bank of Kenya Act.

CERTIFIED PUBLIC ACCOUNTANTS

.....
ERNST & YOUNG KPMG PEAT MARWICK
P.O BOX 44286 P.O BOX 40612
NAIROBI NAIROBI

JOINT AUDITORS

Date.....2001

The statement of profit and loss account is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 23 of the full report of the accounts.

The balance sheet is to be read in conjunction with the notes to and forming part of the financial statements set out on pages 10 to 23 of the full report of the accounts.

These accounts were approved by the Board of Directors on.....2001 and signed on its behalf by:

.....GOVERNOR

.....DIRECTOR

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