BAD DEBTS RESTRUCTURING TECHNIQUES AND NON-PERFORMING LOANS OF COMMERCIAL BANKS IN KENYA

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DECLARATION

This research paper is my original work and has not been presented for a degree in any other University.

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This research paper has been submitted for examination with my approval as the university supervisor.

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DEDICATION

This study is dedicated to the following people: -

My parents Mr & Mrs Harun Kokwon Kiyai without whose sacrifice I would not have known the value of education.

My dear wife Jane and children – Andrew Katamu, Faith Jemutai and Joy Jeptarus who showed immense and unqualified love, patience, encouragement and understanding throughout the course.

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LIST OF ABREVIATIONS

CBK - Central Bank of Kenya
NPLs - Non-Performing Loans

AMCs - Asset Management Companies

LCs - Letters of Credit

NBFIs - Non-Banking Financial Institution

ABSTRACT

The 1990s passed as a decade in which commercial banks in Kenya experienced highs and lows in terms of profitability and asset quality. While other sectors suffered major losses due to the economic recession, the banks cashed in on high interest rates arising from wrong monetary policies pursued by the government immediately before and after the 1992 general elections.

It was however evident that the supernormal profits could not be sustained in the long run. By mid-1990s, the banks were already experiencing problems with growing levels of non-performing loans as customers become either unwilling or unable to service the high interest rates and charges. Profitability started declining due to dwindling good lending opportunities, lower interest incomes and high provisioning for bad and doubtful debts.

The banks were forced to institute strategies to deal with the non-performing loans if only to survive in the long run. Most of them have established in-house divisions or departments to restructure the bad loans. The government has also recognized that economic turnaround can only be achieved if the banks are relieved from the bad debts burden. Plans are therefore underway to set up a central agency to take over the bad debts from the banks.

The study aimed at finding out the techniques used by the commercial banks in Kenya to entice defaulting borrowers to resume servicing their obligations. It also aimed at identifying their importance and preference and whether there is a relationship between the restructuring techniques and the level of non-performing loans.

The general conclusion drawn is that banks use a combination of techniques ranging from lowering interest rates and charges to providing addition loan facilities to distressed borrowers (in special and rare circumstances). The study also found that banks are placing increasing emphasis on restructuring of bad debts and that there is no significant difference between the techniques used by the various categories of banks

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background

To many people, the main business of financial institutions is lending. Indeed, existing statistics on the Kenyan banking industry confirm the significance of lending to the sector. The proportion of gross advances to total industry assets was 56% and 59%, as at January 2003 and January 2002 respectively (CBK, 2003). Interest income from lending activities accounted for 54.9% and 58.8% total operating income during 2000 and 1999 respectively (Market Intelligence, 2001).

According to Saunders (1996), bank performance and employee remuneration largely depended on the size and quality of the bank's loan book. Similarly, career progression in the banks was based upon gaining experience and demonstrating success in lending roles. The aspirations of every young banker was to progress from operations and processing areas to the discreet calm of managerial parlour; that is lending (Chartered Institute of Bankers, 1988).

The downside of this is that lending presents the greatest risk exposure as unexpected misfortunes sometimes occur leading to default in scheduled payments. This default on persistent basis becomes bad debt to the banks.

According to Central Bank of Kenya prudential guidelines, bad loans are facilities whose repayments are not in accordance with agreed terms and are in arrears. Sinkey (1992) defines bad loans as facilities where there is a reasonable doubt about the ultimate collectability of principal and interest within a time frame established by the financial institution, but in any case not significantly longer than the term of the original facility.

Klingebiel (1996), defined restructured loans as those for which the original contractual terms have been modified to provide concessions of interest, principal or term for reasons related to the financial difficulties of a customer. For a facility to be classified as restructured, the financial institution and customer must formally agree to the new terms

One of the greatest challenges facing commercial banks today is classification; provisioning and restructuring impaired loan assets. According to Obiero (2002), up to mid 1990s, Central Bank of Kenya did not forcefully enforce the prudential guidelines on loan grading and provisioning. The proportion of bad loans to gross lending was 28.3% and 30.1% at January 2003 and January 2002 respectively (CBK, 2003).

According to Gathoga (2001), banks have responded to the challenge of declining quality of loan assets by diversifying income streams to include more of government securities and non-funded income from services like funds management, business advisory services, custodial services, credit/debit cards, forward exchange contracts, funds transfers and remittances among others. All banks, however, regardless of proportion of non-performing loans, are paying increasing emphasis on their restructuring and eventual collection.

1.2 Statement Of The Research Problem

The liberalization of the Kenyan banking industry marked the beginning of intense competition among the commercial banks. This saw banks take on board substandard debts some of which appeared out-rightly political. The general economic decline and high interest rates in the 1990s resulted in business failures (due to thinning margins) thus worsening the bad debts problem.

Matu (2001) and Obiero (2002) showed that the greatest precipitators of the banking crisis of the late 1980s and the 1990s were bad corporate governance and poor quality of loan assets.

In an effort to stem declining profitability under the background of diminishing attractive lending opportunities, the financial institutions were forced not only to restructure their operations, strategies and governance but also increasingly focus on the non-performing loans (NPLs) by way of restructuring.

Several bad debt restructuring techniques are available to the banks. The choice of technique will depend on the bank's past experience and the borrower's unique circumstances. This study seeks to identify the bad debts restructuring techniques employed by commercial banks in Kenya, determine the importance of the techniques to the banks; and establish whether there exists a relationship between the level of non-performing loans over time and the restructuring techniques used.

1.3 Objectives Of The Study

1. To identify bad debts restructuring techniques used by commercial banks in Kenya.
2. To determine the most important bad debts restructuring techniques to commercial banks in Kenya
3. To determine the relationship between the restructuring techniques and the level of non-performing loans.

1.4 Importance Of The Study

This study will benefit the following groups among others: -

(a) Policy Makers

The study will provide pertinent information on the choice of bad debt restructuring techniques among commercial banks. The study will also provide insight into the experience of other countries in dealing with non-performing loans.

(b) Management Consultants

This study will benefit consultants who endeavour to advise commercial banks and the government on formulation and implementation of debt restructuring policies.

(c) Academic Researchers

This study is expected to contribute to the existing body of knowledge in the area of risk management and particularly bank responses to challenges of non-performing debts.

(d) Managers of Financial Institutions

The study will provide an insight into the most successful restructuring techniques used by the commercial banks.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Financial Sector and Economic Development

Commercial banks play a crucial role in an economy. Their traditional role is financial intermediation involving mobilization of deposits from surplus units in the economy and lending to the deficit units to finance their productive investments. By lending to manufacturers, farmers, distributors and traders, banks play a crucial role in the economic development of the country (Metropol, 2002). Governments recognize this role and try to accelerate development in desired direction by influencing allocation of loanable funds through minimum lending (to specific sectors) guidelines.

According to Read et al (1989), if bank credit were not available, the expansion of productive investments in manufacturing, agriculture, real estate development, distribution, fishing, trade, tourism etc. would in many cases be impossible. Moreover, productive units would be forced to maintain larger working capital balances to meet fluctuating requirements for funds. This is uneconomical since large sums would have to be held idle for some periods while during seasonal peaks of business activity, such sums might be insufficient.

However, according to Saunders (1996), regulation is necessary to check excessive credit creation. The economy needs adequate but not excessive supply of money, which might result in high inflation. On the other hand, if the money supply lags production, the economy may suffer from deflation with equally undesirable effects. Government monetary policy seeks to ensure a money supply commensurate with the national objectives of stable prices, sound economic growth and high level of employment.

The business of banking has been changing with time. With increasing relaxation of restrictions imposed on banking, the number and variety of services provided by commercial banks have expanded. Callier (1991) states that the role of the financial sector in the process of development goes well beyond the traditional concerns about resource mobilization to finance investment to include provision of a payment mechanism, facilitating foreign trade, safekeeping of valuables, business advisory services and funds transfer and remittances among others.

2.2 Non-Performing Debts and Financial Crisis

Obiero (2002) found that of the 39 banks which failed during the period 1984 and 2002, 37.8% collapsed mainly due to poor quality of lending. Though most banks pride in clear and sound lending policies, the reality is that they have been quite reckless in their lending activities. Coupled with this is the immense pressure particularly on government controlled banks to lend to politically connected individuals and institutions regardless of their credit standing (Market Intelligence, 2001).

According to Kamara et al, (1997) a classic case of financial crisis precipitated by bad debts is the financial turmoil that befell East Asia in late 1990s, affecting mainly Thailand, Indonesia, Malaysia and South Korea. At that time, more than 15% of bank loans in the four countries were non-performing compared to only 1% in the United States of America. Causes of high levels of non-performing loans ranged from political meddling on the part of government in directing credit to preferred sectors to heavy lending to the property sector which soured as the property bubble burst as well as imprudent risk assessment, pricing and monitoring practices

2.3 Measures of Non-performing Loans

According to Simonson et al (1986), what differentiates well-managed banks from badly managed banks is the proportion of the delinquent loan book. Banks must do everything they can to minimize loan delinquency. This requires them to continuously review individual exposures in order to monitor loan quality and reduce losses.

The success of individual banks in credit risk management is largely reflected in the proportion of NPLs loans to gross lending calculated as: -

$$\text{Asset Quality} = \frac{\text{Non-Performing Loans}}{\text{Total Loans}}$$

The quality of lending in the Kenyan banking industry as reflected in the NPLs proportion has deteriorated overtime peaking at 40% in 1998 (CBK, 2000). This has subsequently improved mainly because of write-offs of the bad loans.

2.4 Restructuring Techniques and Approaches

There are two main approaches to restructuring bad loans i.e. the decentralized and centralized workouts, while several restructuring techniques have been identified by Sinkey (1992), Kearns et al (1992), Gill et al (1989), Jankov 92000) and Pazarbasioglu (1998) as discussed below.

2.4.1 Restructuring Techniques

According to Gill et al (1989), a problem loan does not necessarily mean that all is lost, that the borrower has come to the end of the line, and that, if a bank has extended credit, the loan will not be repaid in whole or in part. It does imply the inability to pay in accordance with the loan contract and possible insolvency.

Kearns et al (1992) stated that in handling problem loans commercial banks have two broad choices i.e. workout or liquidation. The bank's choice will be influenced by factors such as impact on the bank's reputation if it enforces collection, borrower's honesty and attitude towards debt, borrowers financial strength and ability to meet obligations over time, the value of the borrower to the bank, the costs involved in collecting and rehabilitating the borrower and the return on each option.

Sinkey (1992) stated that the commercial bank should devise a workout plan only if the workout option presents a positive net present value. The immediate concern for every workout plan is to stem the hemorrhaging of cash flow through cost reduction, asset sales and revenue generation.

Regardless of whether it is done in-house by the commercial banks or through a central agency, usually, the restructuring plan constitutes a revised loan agreement. The following are some of the concessions a commercial bank can give to entice a customer to resume servicing a bad account: -

A new repayment schedule

The loan monthly repayment is determined by the length of the repayment period and is normally calculated to amortize the loan evenly throughout that repayment period.

According to Gill et al (1989), the bank can vary the repayment schedule of the loan to reduce the size of loan repayments. This improves borrower liquidity and enables additional cash flows to finance important operations. The expectations is that if operations pick up then the borrower will be able to meet its debt obligations in the long run.

Interest Holiday

According to Sinkey (1992) the commercial bank can also allow the borrower to service only the capital amount of the loan for a specified period after which he resumes servicing both capital and interest. This has the effect of improving liquidity of the borrower and may translate to improved performance and ability to pay debt obligation in future.

Deferral or Extension of Principal and/or Interest Payments.

According to Sinkey (1992), extensions or deferrals should only be used to help borrowers overcome temporary financial difficulties, such as loss of job, medical emergency, or change in family circumstances like loss of a family member. A permissive policy extensions or deferrals can cloud the true performance and delinquency status of the bank's loan portfolio. However, prudent use of a policy is acceptable when it is based on recent, satisfactory performance and the true improvement in a borrower's other credit factors, and when it is structured in accordance with the institution's internal policies.

The decision extent or defer a loan, like any other modification of contractual terms, should be supported in the institution's management information systems. Adequate management information systems usually identify and document any loan that is extended or deferred including the number of times such action has been taken.

Capital holidays

This is similar to the interest holidays except that the customer is allowed to service interest only for some time. Once the borrowers financial health improves substantially, then he can resume servicing both capital and interest.

Interest waivers

To ease the cash flow burden of the borrower, the commercial bank may decide to write-off accumulated accrued interest on the account. The bank may even go further and forego interest as the customer pays only the capital amount. Sinkey (1992) recommends that interest waivers should be granted only in the extreme case where the financial viability of the borrower can be salvaged in the long run

Concessions

Like in the case of interest, the bank can decide to waive all charges levied on the customer both in the past and in the future (probably with the exception of legal fees).

Additional facilities to the customer

According to Jankov (2000), an insolvent bank generally confronts the choice of either stopping or continue providing credit to bad clients. Providing additional facilities should occur only in the very rare situation where the banker is certain the business will be able to pull and regain health otherwise it would be like “throwing good money after bad money”.

The bank assumes the risk of new losses and assumes that new loans to the same client will enable that client to settle in an orderly manner all his obligations in the future. The client will pay interest on his old loans with the new loans. However, if the client remains bad, the problem of bad assets will reoccur in even greater magnitude.

Conversion

Quite often, distressed borrowers negotiate with their bankers that their overdraft facilities be converted to term loans. Hence they not only benefit from an extended repayment period but also avoid many penalties and charges associated with overdraft excesses.

Reduction in the principal of the original loan agreement.

In many cases, the most effective way for banks to minimize their losses on existing loans may be to renew or extend loans beyond the original plan. In other cases it may make sense to restructure the loan terms. As with any commercial credit, these renewals, extensions, or restructurings must be based on sound underwriting standards and must be subject to normal loan classification rules.

Below market rate of interest.

According to Pazarbasioglu (1998), one of the most commonly used restructuring techniques is to offer the borrower a less than market interest rate. This tends to convince the customer that the bank is mindful of its long-term financial health and resume servicing its debt obligations sooner rather than later. A refined interest rate has the effect of improving the borrowers immediate cash flows.

2.4.2 Loan Covenants

More often than not, the borrower also commits himself to meeting certain additional requirements as may be specified by the bank or Asset Management Companies (AMC). Additional demands on the customer may include covenants limiting the customer's activities, new reporting requirements detailing the content and frequency of the repayment to be made by the customer to the bank and the extent of the bank's authority to participate in management decisions.

2.4.3 Restructuring Approaches

Decentralized workouts

A decentralized bad debt workout can be accomplished either by establishing an internal workout unit within the bank or a separate subsidiary (bad bank). This is the approach used in the Kenyan environment. Okatch (The Banker, 2002), however, recommends that the Kenya government should form an agency, which will purchase NPLs from commercial banks by floating government guaranteed bonds in the international markets to obtain funds for the purpose.

According to Klingebiel (1996), banks should be better placed to resolve NPLs than centralized institutions as they have the loan files and some institutional knowledge of the borrower. Leaving the problem assets on banks' balance sheets may also provide better incentives for banks to maximize the recovery value of bad debts and avoid future losses by improving loan approval and monitoring procedures. Leaving NPLs with banks also has the advantage that these banks can provide new loans in the context of debt restructuring.

Decentralized debt workouts require, however, limited or no ownership links between banks and borrowers, otherwise the same party would be both debtor and creditor. Moreover, successful debt workout by banks requires that financial institutions have sufficient skills and resources to deal with their problem loans.

Centralized workouts

This is where government in conjunction with industry players sets up a central AMC to which troubled banks will transfer their bad loans (usually at a discount and receiving government securities in exchange).

According to Klingebiel (1996), the approach permits a consolidation of skills and resources within one agency, which may thus be more efficient in recovering maximum possible value. It also centralizes the ownership of collateral, thus providing potentially more leverage over debtors and more effective management. Moreover, distressed loans are removed clearly, quickly and completely from banks allowing them in turn to focus on their day-to-day activities.

Centralized agencies may also have the advantage of breaking links between banks and borrowers and may thus be better able to collect on connected loans. Other arguments that are sometimes advanced in favor of a single entity include: application of uniform workout practices, and easier government monitoring and supervision of workout practices.

Pazarbasioglu et al (1998), however, states that they also face problems related to size and ownership structure. It may be difficult for the government to insulate it from political pressure especially in cases where a large portion of assets has been transferred from state owned enterprises. Moreover, a transfer of loans can break the links between banks and borrowers, links that may have positive value given banks' privileged access to borrower information.

2.4.4 Cross Country Experience

According to Klingebiel (1996) most countries that have recognized the seriousness and need to tackle the problem have chosen to form centralized institutions. Some of the countries that have formed central asset management companies for the purpose and proportions of NPLs to gross lending at the time of formation are: Spain (11%), Sweden (13%), Mexico (23%), United States of America (8%), Ghana (50%), and Philippine (22%). He identified two types of asset management companies can be distinguished i.e. those set up to expedite corporate restructuring among the troubled banks (USA, Spain, Mexico, Philippine and Ghana) and those established as rapid asset disposition vehicles (Sweden).

According to Sheng (1996), the Spanish and the US agencies, Resolution Trust Corporation (RTC) and Spanish Guarantee Fund (SGF) met their narrow objectives as both of them disposed of 50 percent of assets within the five year time period. SGF and RTC were successful in developing fair, credible and transparent processes and mechanisms for the resolution and sale of financial institutions and managed to sell those institutions in a relatively short period of time minimizing disruptions for depositors and borrowers.

The RTC's success was helped by the fact that most of the assets to be disposed of were real estate loans/or assets or mortgage loans that could relatively easily be bundled and securitized or sold via auctions. Despite succeeding in selling the 26 banks, the SGF proved to be less successful in disposing of the assets that had been carved out because of an inadequate legal framework and administrative obstacles (Klingebiel, 1996).

The Mexican agency Fondo Bancario de Proteccion al Ahorro (FOBAPROA) and the Philippine agency Asset Privatization Trust (APT) were not successful in achieving their broader objective of helping to build a more robust banking system. The Mexican banking system remains weak and one of the two banks that were cleaned up in the Philippine case appears to be in financial distress again (Klingebiel, 1996).

According to Bergen (1998), the Swedish asset management agency (Securum) was successful in achieving its narrow objective of restructuring and/or selling off the assets in a relatively brief period of time. On the other hand, Non-Performing Asset Restructuring Trust (N-PART) of Ghana did not achieve its narrow objective of performing a substantial role in the restructuring of expediting the restructuring process. In the end, the agency engaged mostly in cosmetic financial restructuring extending maturity, and lowering interest rates and functioned as a collection agency.

2.4.5 Lessons from Cross-Country Experience

Sheng (1996), observes that the success of any debt-restructuring agency hinges on the objective, type of assets transferred (real estate assets or assets or loans to politically motivated loans), the independence of the agency, legal framework and funding resources. AMCs in developing countries were mainly hindered by the kind of assets received (they mostly received non-real estate, state-owned enterprise assets, or assets reflecting political connections which tend to be harder to restructure), lack of independence hence susceptible to political pressure and lack of appropriate funding to dispose of assets quickly.

Pazarbasioglu et al (1998) states that whether the centralized or decentralized approach is adopted a legal framework that facilitates the workout will be a key element in influencing the success and final costs of asset restructuring. A good bargaining position for the holder of the asset and power to act are essential factors for the management of non-performing loans. Well functioning legal procedures and good access to courts are therefore crucial.

2.5 Causes of Non-Performing Loans

According to The Kenyan Banker (2002), causes of non-performing loans in the Kenyan context include a decline in real GDP particularly in the last decade due to poor economic performance, unprofessional risk evaluation and credit management practices among the commercial banks, which puts emphasis on loan security and more or less ignores other important considerations, insider lending to major shareholders and directors without adequate security and political influence.

2.6 Types of Credit Facilities Offered by Banks

According to Saunders (1996), loans may be categorized on the basis of features like maturity period (whether short-term or long-term loans), purpose of the loan (whether commercial or consumer loans), or security (whether secured or unsecured).

According to Market Intelligence (2001), 45% of loans in the commercial bank loans comprise shot-term loans lent for periods up to 1 year. This includes facilities like overdrafts and letters of credit (L/Cs). A sizeable proportion is made on an unsecured basis to borrowers with short-lived and project-oriented needs for funds. Secured short-term borrowers typically are less strong financially or are untested businesses without an earnings record. Term loans on the other hand are those with maturities of over 1 year and are normally used to finance permanent increases in working capital or fixed assets purchases and expansions.

According to The Kenyan Banker (2002), there has been rising emphasis on consumer loans among the banks due to the unpleasant experience of non-performing loans arising from business lending. New forms of credit such as credit cards, personal overdraft facilities and longer loan maturities have made credit more attractive and available to individual consumers.

2.7 Credit Risk Management

Though banking is indeed undergoing rapid change, the basic business remains essentially the same. That business entails seeking to make profit from financial risk. Banks measure, price, assume and manage risk of all kinds including credit risk, market risk, liquidity risk, reputation risk and legal risk (Market Intelligence, 2002).

Coyle (2000) defines credit risk as losses from the refusal or inability of credit customers to pay what is owed in full and on time. Every financial institution bears a degree of risk when it lends to business and consumers and will experience some loan losses when certain borrowers fail to repay their loans as agreed. Over the years, banks have realized the hazardous effects of poor credit risk management and have had to develop or adopt risk-mitigating techniques.

2.7.1 Credit Risk Assessment

According to Saunders (1996), banks need to gather adequate information about potential customers to be able to calibrate the credit risk exposure. The information gathered will guide the bank in assessing the probability of borrower default and price the loan accordingly. Much of this information is gathered during loan documentation. The bank should however go beyond information provided by the borrower and seek additional information from third parties like credit rating agencies and credit reference bureaus.

Rouse (1989) states that applying the 'CAMPARI' technique during the initial assessment of the borrower will help in determining whether a loan is good or bad, recoverable or not recoverable. CAMPARI is a technique by which the viability of a proposal is assessed and evaluated. It is an acronym that stands for: Character (says a lot about the probability of a loan arrangement going sour), Ability (borrower's ability in managing financial affairs), Margin (the bank should obtain a reasonable return in view of the risks taken), Purpose (should be acceptable to the bank), Amount (the potential customer should justify the amount requested), Repayment (lender should ensure the source of repayment is clear), Insurance (Security is necessary in case the repayment proposals fail to materialize).

If any of these key areas are ignored, problems will be encountered sooner or later. A full assessment must be made in order to reach a balanced judgment. Although bad debts can occur for many reasons, the cause of loss to the bank should not be through failure to establish the correct facts or through inadequate analysis of information available.

2.7.2 The Need for Sound Credit Policy

The maintenance of asset quality is fundamental to the sound operation of a commercial bank. The board and management should establish policies and procedures which ensure that the bank has a well documented credit granting process, a strong portfolio management approach, prudent limits, effective credit review and loan classification procedures and an appropriate methodology for dealing with problem exposures.

According to Simonson et al (1986), a sound credit policy would help improve prudential oversight of asset quality, establish a set of minimum standards, and to apply a common language and methodology (assessment of risk, pricing, documentation, securities, authorization, and ethics), for measurement and reporting of non-performing assets, loan classification and provisioning. The credit policy should set out the bank's lending philosophy and specific procedures and means of monitoring the lending activity.

2.7.3 Loan Collateral

A bank loan can have three sources of repayment i.e. the cash flows of the borrower, security in the form of a fixed or floating charge on the borrower's assets and a guarantee from a third party, such as a holding company (Simonson et al, 1986).

According to Weber et al (1998), banks commonly look for at least two of these sources of repayment for any loan they make. It would be irresponsible for a bank to advance funds without taking adequate and proper security, unless the credit-worthiness of the customer is beyond reproach. In the case of a corporate borrower, banks will expect loans to be repaid normally out of operational cash flows of the company. Securities taken must be perfected in terms of documentation, authorization and registration. Taking security such as a charge on assets of the borrower is a fallback source of repayment. However, as past experience has shown, banks can be inadequately protected against credit risk, even when loans are secured. This happens when the value of the secured assets falls below the amount of the loan.

2.7.4 Pricing of Credit Risk

Spencer (1990) observes that because lending represents the central activity of banks and underpins their profitability, loan pricing tends to be the focal point of both revenues and costs.

Sinkey (1992) states that in a competitive environment, interest rates charged by individual banks must price competitively taking into account credit risk and interest rate. The common practice among the banks is to peg lending rates on the Treasury bill rate. Each bank quotes a base rate which is normally equal to the Treasury bill rate plus 2 to 5 basis points depending on the bank's cost of funds and operating efficiency plus a premium based on perceived risk.

2.7.5 Early Warning Signs of Loan Delinquency

According to Rouse (1989), information which leads a lender to suspect that a borrower is in financial difficulty can come from many sources but will usually arise from carrying out monitoring and control procedures. Some of the signs of possible delinquency are late payment of principal and interest, unauthorised overdraft excess, significant changes in account turnover, hardcore balances, unpaid cheques (in and out), high gearing ratio, operating losses, abnormal delays in submitting periodic financial statements, unexplained change of borrower's attitude towards the bank among others.

The information may be obtained from internal records, through interviews with the borrower, audited accounts and management accounts. Taken individually, one sign may not cause undue concern, but careful investigation will be necessary where a number of them appear together.

2.7.6 Controlling Loan Losses

Gill et al (1989) states that credit analysis has not progressed to the point where it is possible to predict with absolute accuracy whether or not a loan will be repaid as agreed. Invariably, commercial banks find a certain proportion of their loans become delinquent. According to Simonson et al (1986), this basic risk of the lending function is not entirely bad; commercial banks would be remiss in not bearing such risk in the course of underwriting a variety of business enterprises and consumer needs.

Sinkey (1992) states that commercial banks must maintain surveillance of its loans. The frequency of reviewing individual loan exposures depends on the size and quality of the loan. Large poor-quality loans must be reviewed frequently. Aspects that should be of interest to the loan reviewer include perfection of securities, completeness of documentation, financial condition and repayment ability of the customer, consistency with loan policy, legal and regulatory compliance and profitability of the loan arrangement.

The importance of periodic loan review is that the bank is able to detect actual or potential problem loans as early as possible, enforce uniform loan documentation, ensure that the bank's loan policy is followed and determine the overall condition of the loan portfolio

Once a loan exposure has been found to be facing difficulties, immediate action should be taken (Sinkey, 1992). If it is clear that the account is not going to improve, then it is advisable that the bank goes for a break up solution through realization of securities. The bank should go for a workout solution only if there is clear evidence the customer is able to regain his financial health and resume loan repayment.

2.7.7 Prudential Guidelines on Loan Provisioning

Under provisions of the prudential regulations, commercial banks should classify loans according to inherent risk, make adequate provisions and forward quarterly returns to the Central Bank of Kenya. Further, to ensure compliance, the prudential guidelines require management of financial institutions not to finalize annual accounts before taking into account provisions recommended in the latest Central Bank Inspection report. Auditors must also ensure that loans are provided for and classified in accordance with Central Bank regulations (CBK, 2000).

The prudential guidelines specify five loan classifications, i.e. normal risk loans (well-documented facilities to sound customers), watch loans (good accounts, which however exhibit some weaknesses), sub-standard loans (facilities which, though still operative, involve some degree of risk, and there is possibility of future loss), doubtful loans (advances with major weaknesses indicating recovery of full amount outstanding will be extended or is doubtful and that loss as yet uncertain will probably occur) and loss loans (facilities with outstanding arrears considered uncollectible and security is worthless).

For Normal and Watch facilities, only general provision of 1% is required. No specific provision is required for sub-standard loans but interest should be suspended. A specific provision net of interest suspended should be made for doubtful loans while full provision net of interest is required for loss loans.

2.8 Related Local Studies

The issue of non-performing loans, their restructuring and recovery has only recently been given prominence by the banking industry. As such documentation of precise depth of the problem and bank/country experience is not easily found. Apart from newspapers, published journals, Central Bank reports, Commercial Banks' annual reports and the Internet no other literature was found on the subject. Of the literature available, none specifically addressed restructuring of non-performing loans.

According to Mucheke (2001) the key causes of non-performing loans in the banking industry are bad lending practices, incompetence on the part of bank risk managers, political interference in the management of state-controlled banks and economic decline.

Obiero (2002) observed that between 1984 and 2001, there were 39 bank failures in Kenya. These bank failures costed the economy about Ksh 19,685 million in terms of loans and grants to restructure the Consolidated Bank of Kenya Ltd, compensation to depositors and outright losses due to depositor funds not covered by the Deposit Protection Fund compensation scheme. There were also high non-monetary costs associated with resultant unemployment and the general instability in the financial system. Of the 39 financial institutions that failed, 14 (37.8%) failed partly because of high levels of non-performing loans.

Matu (2001) looked at the applicability of financial crisis predictive models to bank failures in Kenya and observed that the high levels of non-performing loans puts pressure on banks to retain high lending rates in an attempt to minimize the losses associated with these loans.

Bett (1992), while looking at financial performance of the banking sector observed that loan portfolios deteriorate as banks keep lending to their major big borrowers because of fear that if they fail, the bank will equally follow suit. He also observed that failed banks were lending at high interest rates to mainly speculators and high-risk operators who were unable to repay.

2.9 An Overview of the Kenyan Banking Sector

2.9.1 Evolution of the Sector

Commercial banking took root in Kenya at the turn of the 20th century with the partitioning of Africa by the European imperial powers. The first bank to establish operations was National Bank of India, which started a branch in Mombasa in 1896.

By 1972, there were a total of 12 commercial banks operating in the Kenyan market. The banking system currently has 43 Commercial Banks, 2 Non-Banking Financial Institutions, 2 mortgage finance companies and 4 building societies.

2.9.2 Financial Crisis and Liberalization of the Sector

Weaknesses in the banking system became apparent in the late 1980s and were manifest in the a relatively controlled and fragmented financial system, differences in regulations governing banking and non-bank financial intermediaries, lack of autonomy and weak supervisory capacities to carry out its surveillance role and enforce banking regulations by the Central Bank, inappropriate government policies which contributed to an accumulation of non-performing loans, loss of control of money supply by the Central Bank and non-compliance by financial institutions to regulatory requirements of the 1989 Banking Act among others.

In the early 1990s the government (under pressure from the International Monetary Fund, World Bank and western donor agencies) embarked on reforms designed to promote a more efficient and market-oriented financial system; improve the mobilization, allocation and utilization of financial resources; increase the efficiency of the process of financial intermediation; and develop more flexible instruments of monetary policy. The reform program focused on policy, legal and institutional framework

According to Basu and Rolfes (1995) deregulation dramatically change the operating environment for banks. Since liberalization, the industry has undergone tremendous changes. Competition resulted from micro-finance houses & cooperative societies, which opened front-office operations providing services very much similar to those of the commercial banks and NBFIs converting to commercial banks (Koros, 2000).

Because of poor economic performance and dwindling good lending opportunities, banks have been forced to diversify to non-balance sheet based income streams. Attracting this source of income requires banks to take deliberate strategic initiatives towards improvement of the product/service range and delivery channels (Market Intelligence, 2002).

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Research Design

The study is a survey which seeks to establish the specific techniques used by commercial banks in restructuring non-performing loans.

3.2 Population

The population comprised all the 43 commercial banks operating in Kenya as at June 2003.

3.3 Data Collection

3.3.1 Secondary Data

The relevant data was collected from existing records of the banks such as published accounts, management accounts and strategic plans as well as internal communications (where possible) like circulars and internal publications. In addition, local and international newspapers and trade journals such as the Central Bank of Kenya publications i.e. Monthly Economic Review, Annual Report and Annual Supervision Report; The Banker, Euromoney publications etc. were scrutinized for relevant information.

3.3.2 Primary Data

Data was collected by the researcher who administered a semi-structured questionnaire to Credit Remedial Managers in the commercial banks. The questionnaire was divided into two sections. Section A sought data on the bank's and respondent's profile. Section B sought data on techniques commonly employed by the banks to restructure bad loans.

The researcher personally administered the questionnaire to facilitate in-depth interviewing of the respondents

3.4 Data Analysis

Content analysis was used in analyzing the in-depth qualitative data that was collected. Descriptive statistics such as the mean and percentages were also used in summarizing the data. Comparative analysis was used to identify differences in techniques used by different categories of banks; local private-owned and state-owned and foreign banks.

The indicator of the level non-performing loans for purposes of this study is the asset quality given by;

$$\text{Asset Quality} = \frac{\text{Non-Performing Loans}}{\text{Total Loans}}$$

CHAPTER FOUR

4.0 DATA ANALYSIS AND INTERPRETATION

The data from the completed questionnaires was summarized and presented in form of tables, percentages and frequencies. Though the questionnaire was distributed to all the banks, 5 banks declined to receive and fill it while 11 accepted but failed to complete the questionnaire ostensibly for reasons such as pressure of work and too many questionnaires circulating from students of various universities.

A total of 27 commercial banks responded representing 63% of the total population. In all the banks, responsible credit remedial managers completed the questionnaire.

Extracts of published accounts of the banks for the period 1999 to 2002 were obtained (Appendices III and V). Various ratios related to quality of loan assets were computed (Appendices IV and VI) covering the same period. The objective was to be able to determine whether there exists a relationship between the bad debts restructuring techniques used by the banks and the level of non-performing loans.

4.1 Ownership of the Commercial Banks

The objective of requesting respondents to indicate the ownership of the banks was to relate the preferred debt restructuring techniques as well as quality of loan assets to ownership of the banks.

Table 4.1.1: Ownership of the banks

Ownership	**No. of Banks**	**Percentage (%)**
State-owned	5	19
Local Private-owned	16	59
Foreign-owned	6	22
Total	**27**	**100**

Source: Research Data

Table 4.1.1 above shows that 19% of the commercial banks that responded were state-owned as compared to 59% which are local private-owned and 22% that are foreign-owned.

Considering the shareholding of the five "state-owned" banks, it is evident that three of them i.e. Kenya Commercial Bank, National Bank of Kenya and Co-operative Bank of Kenya are partly owned by private sector individuals and institutions. Perhaps the proper description therefore is "state-controlled" rather than state-owned. Similarly, many of the "foreign-owned" banks like Barclays Bank and Standard Chartered Bank have floated shares at the Nairobi Stock Exchange. There is therefore an element of local ownership though the banks are largely controlled by the parent company abroad.

4.2 Debt Restructuring Activity

The banks were asked to state what proportion of their NPLs was restructured during the period 1999 to 2002. The results show that impaired loan restructuring activity has been on the increase among the banks. For instance, whereas only 3 banks restructured more that 20% of their NPLs in 1999, the number rose to 9 banks in 2002. Similarly, banks which managed to restructure only 0-5% of their NPLs decreased from 6 in 1999 to 3 in 2002.

Table 4.2.1: Proportion of NPLs Restructured between 1999 & 2002

Year	**0-5%**		**6-10%**		**11-15%**		**16-20%**		**>20%**	
	No. of Banks	**%**	**No. of Banks**	**%**	**No. of Banks**	**%**	**No. of Banks**	**%**	**No. of Banks**	**%**
1999	6	22	5	18	8	30	5	19	3	11
2000	4	15	4	15	7	26	7	26	5	18
2001	3	11	5	18	6	22	6	22	7	26
2002	3	11	4	15	4	15	7	26	9	33
Total	**16**	**15**	**18**	**17**	**25**	**23**	**25**	**23**	**24**	**22**

Source: Research Data

The increasing level of activity in restructuring of non-performing loans is probably due to pressure to report profits against the background of declining good lending opportunities due to economic recession over the last decade and the fact that the banks are becoming increasingly risk averse to new lending. Restructuring debts that are already fully provided for is particularly beneficial to the banks as every shilling recovered from the effort goes straight to improve the bank's bottom line.

Table 4.2.2 below indicates that restructuring effort cuts across the various categories of banks i.e. state-owned, local private-owned and foreign-owned banks.

Table 4.2.2: Debt Restructuring Effort in Relation to Ownership

Year	Category	0-5%		6-10%		11-15%		16-20%		>20%		Total	
		No. of Banks	%	No. of Banks	%	No. of Banks	%	No. of Banks	%	No. of Banks	%	No. of Banks	%
1999	S/owned	2	33	2	40	3	37	3	60	2	67	12	44
	L/owned	3	50	3	60	4	50	2	40	1	33	13	48
	F/owned	1	17	0	0	1	13	0	0	0	0	2	8
2000	S/owned	2	50	2	50	3	43	3	43	2	40	12	44
	L/owned	2	50	2	50	3	43	3	43	2	40	12	44
	F/owned	0	0	0	0	1	14	1	14	1	20	3	12
2001	S/owned	1	33	2	40	2	33	2	33	3	43	10	37
	L/owned	1	33	3	60	3	50	3	50	3	43	13	48
	F/owned	1	34	0	0	1	17	1	17	1	14	4	15
2002	S/owned	1	33	1	25	1	25	3	43	3	33	9	40
	L/owned	2	67	2	50	2	50	3	43	4	44	13	48
	F/owned	0	0	1	25	1	25	1	14	2	23	3	12

Source: Research Data

S/owned – State-owned

L/owned – Local private-owned

F/owned – Foreign-owned

The result above are summarized in table 4.2.3 below

Table 4.2.3: Summary of Restructuring Effort in Relation to Ownership

Year	1999		2000		2001		2002	
	No. of Banks	%	No. of Banks	%	No. of Banks	%	No. of Banks	%
State-owned	12	44	12	44	10	37	9	40
Local private-owned	13	48	12	44	13	48	13	48
Foreign-owned	2	8	3	12	4	15	3	12

On average, 41% of the banks that restructured their bad loans between 1999 and 2002 were state-owned banks, 47% were local private-owned while only 12% were foreign-owned.

Of the 6 commercial banks which restructured 0-5% of their NPLs in 1999, half were local private-owned banks while state-owned and foreign-owned banks constituted 33% and 17% respectively. The comparatives for banks, which achieved over 20% restructuring of NPLs, were 33%, 67% and none for local private-owned, state-owned and foreign-owned banks respectively.

The number of banks which managed to restructure more than 20% of the bad loans increased from 6 in 1999 to 9 in 2002. This shows the growing emphasis on debt restructuring in the industry.State-owned banks comprised only 33%, as compared to 44% for local private–owned and 23% for foreign-owned banks.

Overall, 87% of the banks which restructured 0-5% of the NPLs over the period 1999 to 2002 were state-owned and local private-owned as compared to only 13% for foreign-owned banks. Similarly, 84% of those, which managed to restructure over 20% of their NPLs, were state-owned and local private owned compared to 16% for foreign-owned banks.

The debt restructuring activity is therefore heavily concentrated on the state-owned and local private-owned banks. This reflects the fact that most of the NPLs in the industry are in the books of this category of banks – mainly because of government interference in the lending process and sheer recklessness in credit risk evaluation and management.

4.3 Bad Debt Techniques Employed in Restructuring NPLs

A key objective of the study was to identify the specific bad debts restructuring techniques used by the commercial banks. The banks were required to indicate those restructuring techniques they use from a list provided in the questionnaire. The data obtained from the filled questionnaires are summarized in table 4.3.1 below.

The results indicate that the commercial banks use a combination of techniques in restructuring bad debt exposures. This perhaps results from the fact that different techniques achieve better results under different circumstances and for different types of customers.

Table 4.3.1: Debt Restructuring Techniques Used by the Banks

Technique	**No. of Banks**	**Percentage (%)**
Extended Repayment Period	23	85
Interest waivers	20	74
Interest holidays	18	67
Capital holidays	17	63
Concessions	21	78
Additional facilities	4	15
Conversion	19	70
Refined interest rate and charges	25	93
Total	**27**	**100**

Source: Research Data

93% of the commercial banks which responded to the questionnaire stated that they entice their customers to resume servicing their loan obligations by offering refined interest rates and charges which are usually lower than market rates for similar facilities. This probably shows that many bank customers default in debt servicing because they feel banks overprice loan facilities.

85% of them grant distressed customers longer repayment period to ease short-term liquidity problems and enable them resume debt servicing. This happens to be the second most popular technique with the banks. 74% and 67% of the banks waive accumulated interest arrears and/or offer interest holidays respectively for their distressed customers.

Capital holidays, concessions and conversion appear equally popular with 63%, 78% and 70% respectively of the banks stating they use them to entice bad borrowers to resume loan servicing. Concessions is particularly popular as waiver of accumulated miscellaneous charges, which are in many cases in dispute between the bank and the customer, is usually a welcome and encouraging gesture to the customer.

Few banks i.e. 15% showed willingness to advance further facilities to defaulting customers. This is understandable because, as the saying goes, "once beaten, twice shy". The banks are unwilling to take additional risks on defaulting customers as it may amount to throwing good money after bad money.

Table 4.3.2 below shows that there is no significant difference in choice of techniques between the various categories of commercial banks.

Table 4.3.2: Restructuring Techniques in Relation to Ownership

Technique	**State-owned**		**Local Private**		**Foreign-owned**	
	No. of Banks	%	**No. of Banks**	%	**No. of Banks**	%
Extended Repayment Period	4	67	15	94	4	67
Interest waivers	3	60	13	81	4	67
Interest holidays	3	60	13	81	2	33
Capital holidays	3	60	11	69	3	50
Concessions	4	67	13	81	4	67
Additional facilities	1	20	2	12	1	17
Conversion	3	60	13	81	4	67
Refined interest rate and charges	5	100	15	94	5	83
Total	**5**	**100**	**16**	**100**	**6**	**100**

Source: Research Data

All (100%) the state-owned banks which responded to the questionnaire offer refined interest rates and charges to loan defaulters. This compares with 94% and 83% in the case of local private-owned and foreign-owned banks. Offering bad borrowers a longer repayment period is equally popular particularly among the local private-owned banks. 94% of the banks give their customers period extensions. This compares with 67% in the case of both state-owned and foreign-owned banks.

81% of the local private-owned banks allow customers to convert short-term facilities to longer term ones and waive accumulated interest. This compares with 60% and 67% in the case of state-owned and foreign-owned banks respectively. Also, whereas 81% of local private-owned banks provide concessions to customers, only 67% of the state-owned and foreign-owned banks do the same.

60% of state-owned banks provide interest and capital holidays to bad borrowers. On the other hand, 81% and only 33% of local private-owned and foreign owned banks respectively provide interest holidays. This compared with 69% and 50% in the case of capital holidays. On the other hand, a low 20% of the state-owned banks offer additional facilities to help defaulters regain their financial health. This compares with an even lower 12% and 17% in the case of local private-owned and foreign-owned banks respectively.

This implies that even where a customer has proved to be a bad borrower, the state-owned banks are more willing to give further facilities than the local private-owned and the foreign-owned banks. This perhaps stems from feelings that the state-owned banks are obligated to help troubled entrepreneurs come out of their "temporary" financial problems.

On the overall, there is no glaring difference on the restructuring techniques used by the various categories of banks.

4.4 Importance of the restructuring techniques

The respondents were asked to rank the various techniques in terms of preference and importance. The aim was to determine which of them is the most preferred among the commercial banks.

Though the choice of technique may be dictated by individual customer and environmental circumstances, on the whole, risk mangers have preferences that are informed by past debt restructuring experiences and company policy. While choosing a particular technique, the risk managers also consider the long-term interests and financial health of the borrower.

Table 4.4.1: Ranking of Debt Restructuring Techniques

Technique	**Very very Important**		Very **Important**		**Important**		**Not Important**	
	No. of Banks	%	**No. of Banks**	%	**No. of Banks**	%	**No. of Banks**	%
Extended Repayment Period	17	63	7	26	3	11	0	0
Interest waivers	14	52	6	22	5	19	2	7
Interest holidays	10	37	10	37	4	15	3	11
Capital holidays	12	44	7	26	5	19	3	11
Concessions	13	49	6	22	6	22	2	7
Additional facilities	0	0	5	19	8	30	14	51
Conversion	12	44	9	34	3	11	3	11
Refined interest rate and charges	20	74	5	19	2	7	0	0

Source: Research Data

Offering refined interest rates and charges turned out to be the most important debt restructuring technique among the commercial banks with 74% of them rating it as very very important. This result underscores the fact that loan pricing has been a highly contentious issue in the Kenyan banking industry. The banks peg their lending rates on the Treasury bill rate, which largely does not reflect the economic fundamentals. Indeed, high interest rates ranks high among the causes of the NPLs phenomenon. Many loan defaulters are willing to resume servicing their loan facilities as long as the pricing is fair.

Coming a very close second to lower interest rates and charges is extension of loan repayment period with 63% of the banks rating it as very very important. On the other extreme, provision of additional loan facilities to defaulting customers was rated by 51% of the banks as not important. This is explained by the fact that granting additional facilities to bad borrowers thus taking more risks is not an attractive proposition.

Weights were used to determine the overall importance of the restructuring techniques to the banks. A "not important" rating was given a score of 1 while "important", "very important" and "very very important" were given ratings of 2, 3 and 4 respectively. These ratings were then weighted against the percentage of banks preferring each technique to come up with overall ratings. The ratings were then ranked from the highest to the lowest and the results are as shown in table 4.4.2 below.

Table 4.4.2: Weighted Importance of Bad Debts Restructuring Techniques

Technique	**Very very Important**	**Very Important**	**Important**	**Not Important**	**Total**
	Unit Score	Unit Score	Unit Score	Unit Score	Unit Score
Refined interest rate and charges	2.96	0.57	0.14	0.00	3.67
Extended Repayment Period	2.52	0.78	0.22	0.00	3.52
Interest waivers	2.08	0.66	0.38	0.00	3.19
Concessions	1.96	0.66	0.44	0.07	3.13
Conversion	1.76	1.02	0.22	0.11	3.11
Capital holidays	1.76	0.78	0.38	0.11	3.03
Interest holidays	1.48	1.11	0.30	0.11	3.00
Additional facilities	0.00	0.57	0.60	0.51	1.68

Source: Research Data

The weighted scores confirm the result that refined interest rates and charges ranks highest in terms of importance followed by extension of repayment period and waiver of accumulated interest. This is followed by offering concessions on accumulated charges, conversion of overdrafts to loans and offering of capital and interest holidays. The least important technique is granting of additional facilities

Table 4.4.3 below indicates the difference in techniques preference between the various categories of banks. The three categories rank refined interest rates and charges the most important with 80% of state-owned banks, 75% of local private-owned banks and 68% of foreign-owned banks rating it very very important.

A clear second favorite for local private-owned banks is extension of repayment period with 69% rating it as very very important. The second most popular technique for foreign-owned banks is concessions with 67% of them rating it very very important. The state-owned banks however appear indifferent between a number of techniques - extended repayment period, waiver of accumulated interest, providing interest and capital holidays and conversion of facilities to long-term loans with 60% of them rating the techniques as very very important.

Interest holidays, capital holidays and conversion of overdrafts to term loans appear generally unpopular to the local private-owned and foreign-owned banks. Less than 50% rated the techniques as very very important. Interest waivers are also quite unpopular with the foreign-owned banks as only 33% rate it very very important. The state-owned banks value highly all the techniques with the exception concessions. More than 50% of these banks rated the techniques very very important.

Whereas all categories of banks rated provision of additional facilities as "not important", the local private-owned banks appear to disapprove the technique more than the other category of banks. 63% of the local private owned banks rated it as not important as compared with 50% and 20% of foreign-owned and state-owned banks respectively.

Overall, there are no significant differences in preferences of techniques between the various categories of banks. Specific techniques like lower interest rates and charges, extension of repayment period and offering concessions are generally very popular for all the banks regardless of ownership.

Table 4.4.3: Ranking of Restructuring Techniques in Relation to Ownership

Technique	Category	Very Very Important		Very Important		Important		Not Important	
		No. of Banks	%	No. of Banks	%	**No. of Banks**	%	**No. of Banks**	%
Extended Repayment Period	S/owned	3	60	2	40	0	0	0	0
	L/owned	11	69	3	19	2	12	0	0
	F/owned	3	50	2	33	1	17	0	0
Interest waivers	S/owned	3	60	1	20	1	20	0	0
	L/owned	9	56	4	25	2	12	1	7
	F/owned	2	33	1	17	2	33	1	17
Interest holidays	S/owned	3	60	2	40	0	0	0	0
	L/owned	6	37	5	31	3	19	2	13
	F/owned	1	17	3	51	1	17	1	17
Capital holidays	S/owned	3	60	2	40	0	0	0	0
	L/owned	7	44	3	19	4	25	1	12
	F/owned	2	33	2	33	1	17	1	17
Concessions	S/owned	2	40	2	40	1	20	0	0
	L/owned	7	44	1	12	5	32	2	12
	F/owned	4	67	2	34	0	0	0	0
Additional facilities	S/owned	0	0	2	40	2	40	1	20
	L/owned	0	0	2	12	4	25	10	63
	F/owned	0	0	1	17	2	33	3	50
Conversion	S/owned	3	60	2	40	0	0	0	0
	L/owned	6	38	6	38	2	12	1	12
	F/owned	3	49	1	17	1	17	1	17
Refined interest rate and charges	S/owned	4	80	1	20	0	0	0	0
	L/owned	12	75	3	19	1	6	0	0
	F/owned	4	68	1	16	1	16	0	0

Source: Research Data

S/owned = state-owned, L/owned = Local Private-owned and F/owned = Foreign-owned

Table 4.4.4 below shows the weighted importance of the techniques for the various categories of banks.

Table 4.4.4: Weighted Importance of the Techniques in Relation to Ownership

Technique	**Category**	**Very very Important**	**Very Important**	**Important**	**Not Important**	**Total**
		Unit Score	Unit Score	Unit Score	Unit Score	Unit Score
Extended Repayment Period	S/owned	2.40	1.20	0.00	0.00	3.60
	L/owned	2.76	0.57	0.24	0.00	3.57
	F/owned	2.00	0.99	0.34	0.00	3.33
Interest waivers	S/owned	2.40	0.60	0.40	0.00	3.40
	L/owned	2.24	0.75	0.24	0.07	3.30
	F/owned	1.32	0.51	0.66	0.17	3.66
Interest holidays	S/owned	2.40	1.20	0.00	0.00	3.60
	L/owned	1.48	0.93	0.38	0.13	2.92
	F/owned	0.68	1.53	0.34	0.17	2.72
Capital holidays	S/owned	2.40	1.20	0.00	0.00	3.60
	L/owned	1.76	0.57	0.50	0.12	2.95
	F/owned	1.32	0.99	0.34	0.17	2.82
Concessions	S/owned	1.60	1.20	0.40	0.00	3.20
	L/owned	1.76	0.36	0.64	0.12	2.88
	F/owned	2.68	1.02	0.00	0.00	3.70
Additional facilities	S/owned	0.00	1.20	0.80	0.20	2.20
	L/owned	0.00	0.36	0.50	0.63	1.49
	F/owned	0.00	0.51	0.66	0.50	1.67
Conversion	S/owned	2.40	1.20	0.00	0.00	3.60
	L/owned	1.52	1.14	0.24	0.12	3.02
	F/owned	1.96	0.51	0.34	0.17	2.98
Refined interest rate and charges	S/owned	3.20	0.60	0.00	0.00	3.80
	L/owned	3.00	0.57	0.12	0.00	6.39
	F/owned	2.72	0.48	0.32	0.00	3.52

Source: Research Data

S/owned = state-owned, L/owned = Local Private-owned and F/owned = Foreign-owned

The results of table 4.4.4 above were summarized in table 4.4.5 below: -

Table 4.4.5: Summary of Weighted Importance of the Techniques in Relation to Ownership

Technique	**State-owned**		**Local Private-owned**		**Foreign-owned**	
	Score	**Ranking**	**Score**	**Ranking**	**Score**	**Ranking**
Refined interest rate and charges	3.80	1	3.69	1	3.52	2
Extended Repayment Period	3.60	2	3.57	2	3.33	3
Interest holidays	3.60	2	2.92	6	2.72	6
Capital holidays	3.60	2	2.95	5	2.82	5
Conversion	3.60	2	3.02	4	2.98	4
Interest waivers	3.40	3	3.30	3	2.66	7
Concessions	3.20	4	2.88	7	3.70	1
Additional facilities	2.20	5	1.49	8	1.67	8

Source: Research Data

The two tables above (4.4.4 and 4.4.5) show that rating of the bad debt restructuring techniques by the various categories of banks is similar, with few variations. The state-owned and local private –owned banks rate refined interest rates as most important while the foreign-owned ones rate concessions as most important with refined interest rates coming a close second. This points to the possibility of differences in the treatment of customer accounts once they default. The foreign-owned banks levy high penalty charges and later convince defaulters to resume servicing their loan accounts by waiving the accumulated charges.

Even among the foreign-owned banks, offering refined interest rates and charges ranks a high second among the techniques.

The state-owned banks rank second the extension of loan repayment period, interest and capital holidays and conversion of overdrafts to longer-term facilities. Waiving of accumulated interest and concessions rank much lower.

There are major similarities in ranking of the techniques between the foreign-owned and local private-owned banks. The only differences between the two appear in the case of refined interest rates, extension of repayment period,, interest waivers and concessions.

4.5 Preferred Restructuring Approach

The respondents were asked to state their preferred approach for restructuring impaired loan assets i.e. between a centralized approach where the government establishes a central agency to which banks may sell their NPLs at a discount and a decentralized approach where individual banks grapple with own NPLs problems in-house.

Table 4.5.1 indicates that 63% of the banks prefer a centralized approach as compared to 37% that prefer a decentralized one.

Table 4.5.1 Preferred Debt Restructuring Approach

Bank Category	**Centralized Approach**		**Decentralized Approach**		**Total**	
	No. of Banks	**%**	**No. of Banks**	**%**	**No. of Banks**	**%**
State-owned	4	80	1	20	5	19
Local private	10	62	6	38	16	59
Foreign-owned	3	50	3	50	6	22
Total	**17**	**63**	**10**	**37**	**27**	**100**

Source: Research Data

80% of the state-owned banks prefer a centralized approach to restructuring impaired loan assets as compared to 50% of the foreign-owned banks and 62% of the local private-owned ones. On the other hand, a higher proportion (50%) of foreign-owned banks prefer a decentralized approach as compared to only 20% and 38% of state-owned and local-private-owned banks.

Whereas the stat-owned and local private-owned banks prefer to offload their bad debts burden to a central agency, the foreign-owned banks appear indifferent between the two restructuring approaches.

The difference in preference, particularly between the foreign-owned and state-owned banks may be explained by differences in availability of bad debt restructuring skills between them. The state-owned banks lack the necessary skills and resources to effectively tackle the huge levels of NPLs in their books and had rather a central agency to do it.

The difference in preference of approach can also be as a result of differences in the kind of collateral backing the bad loans. For a long time, the state-owned and, to some extent, local private-owned banks tended to emphasize on tangible securities like land which later prove difficult to dispose. The more marketable the security backing a loan, the more willing the customer is to renegotiate new terms for the loan in case of repayment difficulties.

4.6 Non-Performing Loans Among Commercial Banks

The lending function still underpins performance in the banking industry despite the fact that the proportion of interest from customers to total interest income declined from 76.3% in 1999 to 66.8% in 2002 (Appendix VI). Total interest income as a percentage of total operating income also declined from 73.9% to 65.6% over the same period. The decline is largely attributable to non-performing loans and banks investing more of their funds in Government securities.

The quality of loan assets has direct bearing on the performance and long-term survival of individual banks. The quality of loan assets was measured by the proportion of non-performing loans to total loans. The proportion declined from 31.6% in 1999 to 27.5% in 2002 (AppendixV) with an average of 30.6% during the period. It is generally acknowledged that non-performing loans hurt liquidity once it exceeds 20% of the total loan book. The above statistics indicate the kind of problems the banks are facing. Many of the banks are already struggling to meet prudential ratios because of non-performing loans. To fund the bad loans, the banks are forced to take expensive deposits, which further hurts their operating performance.

Asset quality i.e. proportion of non-performing loans to total loans was classified as either good (ratio of 0-10%), average (ratio of 10-30%) or poor (ratio over 30%). The lower the ratio, the better for the bank. The objective is to determine the magnitude of the bad debts problem in the industry and identify which category of commercial banks are more affected than the others.

Table 4.6.1 shows the distribution of banks in the three classifications over the period 1999 to 2002.

Table 4.6.1: Distribution of Banks in Relation to Asset Quality Classification

Classification	**Ownership**	**1999**	**2000**	**2001**	**2002**
		% of banks	**% of banks**	**% of banks**	**% of banks**
Good (0-10%)	State-owned	0	0	0	0
	Local Private-owned	15	11	26	41
	Foreign-owned	27	27	27	45
Average (10-30%)	State-owned	0	0	0	0
	Local Private-owned	44	30	44	33
	Foreign-owned	36	36	73	55
Poor (over 30%)	State-owned	100	100	100	100
	Local Private-owned	41	59	30	26
	Foreign-owned	37	37	0	0

Source: Research Data

Table 4.6.1 above shows that all the state-owned commercial banks are beset with poor quality of loan assets. Throughout the period 1999 to 2002, all the state-owned banks had more than 30% of their loan assets non-performing.

The foreign-owned banks have managed to improve the quality of their loan assets over the period 1999 to 2002. By 2001, none of the foreign-owned banks had NPLs to total loans ratio more than 30%.

The local private-owned banks have also gradually improved the quality of their loan assets with the ratio of banks with a ratio more than 30% reducing from 41% to 26%.

Table 4.6.2 below shows the proportion of non-performing loans in relation to ownership of the banks. On average, 49% of total loans among the state-owned banks were non-performing during the period 1999 to 2002. This is quite high and explains the poor operating performance reported by these banks during the period. The proportion peaked at 54.7% in 2000 before declining to 48.2% in 2002.

The local private-owned banks are also badly hit with, on average, 24% of their loan assets non-performing during the period. As in the case of state-owned banks, the proportion peaked at 29.8% in 2000 before declining to 18.7% in 2002.

The proportion of non-performing loans among foreign-owned banks is generally stable averaging 12% over the period 199 to 2002. this largely reflects normal risk expected in any lending situation.

Overall. The industry average during the period was 31%. The proportion peaked at 35.4% in 2000 but declined to 27.5 by 2002. Despite the general improvement in quality of loan assets, the proportion of non-performing loans is considered to high for the long-term health of the industry and the economy.

Table 4.6.2: Non-Performing Loans in Relation to Ownership

Ownership	**1999**	**2000**	**2001**	**2002**
	% of NPLs	**% of NPLs**	**% of NPLs**	**% of NPLs**
State-owned	46.6	54.7	46.8	48.2
Local Private-owned	25.9	29.8	22.5	18.7
Foreign-owned	12.6	11.5	11.0	11.9
Industry Average	31.6	35.4	28.0	27.5

Source: Research Data

The bad debts restructuring effort aims at improving the bank's loan asset quality and operating performance. The data analysis above indicates that there is no significant difference between the techniques used and their importance to the various categories of banks. All categories of banks rate offering of lower interest rates and charges and extension of repayment period highly in their debt restructuring effort. The foreign-owned banks also place a lot of premium on giving customers concessions on charges.

The proportion of non-performing loans has been on the decrease for all categories of banks. This implies that debt-restructuring techniques that address the issue of loan pricing tend to achieve better results with the quality of loan assets improving. As table 4.6.2 above shows, the loan asset quality has tended to gradually improve among the banks regardless of ownership.

This implies that the difference in loan asset quality between the various categories of banks is explained by other factors (e.g. risk assessment techniques and collateral) that contribute to the level of non-performing loans rather than the techniques used in restructuring bad debts.

CHAPTER FIVE

5.0 SUMMARY OF FINDINGS AND CONCLUSIONS, RECOMMENDATIONS, LIMITATIONS OF THE STUDY AND SUGGESTIONS FOR FURTHER RESEARCH

5.1 Summary of Findings and Conclusions

Restructuring of non-performing loans is becoming an increasingly important activity for commercial banks in Kenya with the aim of improving both the loan asset quality and operating performance. This is becoming more important because of the decline in good lending opportunities and increased loan delinquency because of the difficult operating environment facing borrowers.

More than 50% of the commercial banks are small local private-owned outfits. The sector is however dominated by a few major banks, four of which (Barclays Bank of Kenya, Standard Chartered Bank, Kenya Commercial Bank and National Bank of Kenya) constitute more than 50% of the market share in terms of customer deposits and advances.

The problem of bad debts cuts across all categories of banks. The most affected are the state-controlled banks with the proportion of non-performing loans averaging around 50% of gross lending, followed by the local private–owned banks with about 20% of total loans being non-performing. The foreign-owned banks fair much better with only about 12% of gross lending non-performing.

The banks use a combination of techniques to entice defaulting customers to resume servicing their loans. These include offering refined interest rates and charges, extension of repayment period, waiving of accumulated interest, concessions on accumulated charges, interest and capital holidays and conversion of short-term facilities to longer-term ones. The choice of technique will depend on customer and environmental circumstances as will as individual bank policy.

The most important bad debt restructuring techniques is offering of refined interest rates and charges. Both the state-owned and local private-owned banks rated the technique the top most important. The foreign-owned banks however rated it the second most important with offering concessions toping the list. That customers are more convinced to resume servicing debt obligations by reducing interest rates and charges implies they are sensitive loan pricing.

The least preferred debt-restructuring technique is offering of additional facilities to customers in the hope that they will be able to regain their financial health and service both the old and new loan facility. Once a customers defaults, the banks become increasingly risk averse and would not be willing to lend further to the customer as it may amount to "throwing good money after bad money". It is in very exceptional circumstances that the bank would advance more facilities to proven bad borrowers.

There is no significant difference between state-owned, local-private-owned and foreign-owned banks in the choice and preference of restructuring technique. State-owned and local private-owned banks rate offering of lower interest rates and charges as the most bad debt restructuring technique while it is offering of concessions on accumulated charges in the case of foreign-owned banks. Even then, the foreign-owned banks rate offering of lower interest rates and charges the second most important technique. There are many similarities in the rating of the other techniques.

The proportion of non-performing loans to total loans in the industry has been declining. The industry average declined from 31.6% in 1999 to 27.5% in 2002. This may partly be attributable to debt restructuring. Other factors like debt write-off also contribute to the decline. The highest decline was noted among the local private-owned banks.

There is no evident direct relationship between the restructuring techniques used by individual banks and the level of non-performing loans. The banks use similar debt restructuring techniques though the effect on level of non-performing loans appears greater for the foreign-owned and local private-owned banks. This is probably because other factors like credit risk assessment and portfolio management play a greater role in determining the quality of loan portfolio.

A sizeable 63% of the commercial banks prefer a centralized approach to debt restructuring in which the government establishes a central agency to which the banks discount impaired loan exposures. This is as opposed to a decentralized approach where each bank deals with its own bad debt problem. The foreign-owned banks tend to prefer the decentralized approach more than the other two categories of banks.

5.2 Limitations of the study

This research study was carried out against the backdrop of the following limitations:-

There was a lot of unwillingness among the banks to complete the questionnaire. Many credit remedial managers approached to complete it claimed to be too busy. Others complained that there are too many questionnaires from university and college students circulating for completion.

Out of the 43 commercial banks approached only 27 filled the questionnaire. Even then, this was after several trips to their premises by the researcher.

No local research study has been undertaken in the area of debt restructuring. Reference material was therefore limited.

5.3 Recommendations to Policy Makers

The government and commercial banks should urgently address the issue of loan pricing. For a long time, the banks pegged their lending rates on Treasury bill rates, which unfortunately, is largely determined by government appetite for domestic borrowing and not customer circumstances. The risk of default is greater where customers feel the loans are overpriced. In the event of the customer defaulting, the best technique to entice them to resume servicing the facility is reduction in interest rates and charges.

To improve performance and asset quality in the long run, banks should resolve the non-performing loan assets in their books. Appropriate strategies should be put in place to turnaround the bad loans. The choice of technique to be used should take into consideration individual customer circumstances.

The government should speed up the establishment of an impaired loans warehouse. This will give those banks wishing to discount their non-performing loans an avenue for doing so. The state-owned and local private-owned banks particularly prefer the establishment of a central agency to enable them remove non-performing loans from their books and concentrate on core business.

5.4 Suggestions for Further Research

Arising from the findings above, the following suggestions have been made for further research: -

To what extent does restructuring of bad debts underpin the profitability of commercial banks? As it has been noted above, the banks have to restructure their bad debts as a matter of course. Many of the banks badly affected by non-performing loans have been reporting improved performance in the recent past. It is possible that improvement in performance is largely due to recoveries made on restructured accounts rather than organic growth in incomes.

What factors determine the choice of debt restructuring techniques for individual bad debt exposures? Is there a possibility that commercial banks do not take into consideration customer opinions in the choice of restructuring technique? It is also necessary to understand the extent to which choice of techniques affect the customers willingness to resume debt servicing.

What factors inform the commercial banks' choice of restructuring approaches? It is important to understand why the state-owned banks for instance tend to prefer a centralized approach and not the decentralized approach.

As already stated, restructuring of non-performing loans partly explains the improvement is asset quality in the banking industry. Other factors appear to play an even greater role. It is necessary to understand and even rank those factors that determine the quality of loan portfolio among the banks.

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APPENDICES

Appendix I

List Of Commercial Banks As At June 2003

	Bank
1	African Banking Corp. Ltd
2	Akiba Bank Ltd
3	Bank of Baroda (K) Ltd
4	Bank of India
5	Barclays Bank of Kenya Ltd
6	Biashara Bank of Kenya Ltd
7	CFC Bank Ltd
8	Chase Bank (K) Ltd
9	Charterhouse Bank Ltd
10	Citibank N.A Ltd
11	City Finance Bank Ltd
12	Commercial Bank of Africa Ltd
13	Consolidated Bank of Kenya Ltd
14	Co-operative Bank of Kenya Ltd
15	Credit Agricole Indosuez Ltd
16	Credit Bank Ltd
17	Development Bank Ltd
18	Diamond Trust Bank of Kenya Ltd
19	Dubai Bank (K) Ltd
20	Equatorial Commercial Bank Ltd
21	Fidelity Commercial Bank Ltd
22	Fina Bank Ltd
23	First American Bank Ltd
24	Guardian Bank Ltd
25	Giro Commercial Bank Ltd
26	Habib Bank Ltd
27	Habib Bank A.G Zurich Ltd
28	Imperial Bank Ltd
29	Industrial Development Bank Ltd
30	Investment & Mortgages Bank Ltd
31	Kenya Commercial Bank Ltd
32	K-Rep Bank Ltd
33	Middle East Bank (K) Ltd
34	National Bank of Kenya Ltd
35	National Industrial Credit Bank Ltd
36	Paramount-Universal Bank Ltd
37	Prime Bank Ltd
38	Southern Credit Corporation Ltd
39	Stanbic Bank (K) Ltd
40	Standard Chartered Bank (K) Ltd
41	Delphis Bank Ltd
42	Trans-National Bank Ltd
43	Victoria Commercial Bank Ltd

Questionnaire

Please answer the following questions by marking the relevant box with a tick [✓]

SECTION A: BANK/RESPONDENT PROFILE

1. Name of the Financial Institution______________________________(Optional)

2. Position held in the financial institution_________________________

3. Number of Years of Service

   (i) In the bank 0-5 [ ] 6-10 [ ] 11-15 [ ] 16-20[ ] 20 and above[ ]

   (ii) In that position 0-5 [ ] 6-10 [ ] 11-15 [ ] 16-20[ ] 20 and above[ ]

   (iii) In similar position in other banks

   0-5 [ ] 6-10 [ ] 11-15 [ ] 16-20[ ] 20 and above[ ]

   (iv) In other capacity (please state which)____________________

   0-5 [ ] 6-10 [ ] 11-15 [ ] 16-20[ ] 20 and above[ ]

4. Please indicate the proportion of ownership of the financial institution (please tick as appropriate)

   (a) State-ownership[ ] (b) Local private-ownership[ ] (c) Foreign-ownership[ ]

   (d) other (specify) [ ]_______________________

5. Indicate your bank's level of total assets as at 31st December 2002 (please tick as appropriate)

Total Assets (in Ksh billions)				
0 – 10	**10 – 20**	**20 – 30**	**30 – 40**	**Over 40**
[ ]	[ ]	[ ]	[ ]	[ ]

6. Please indicate the percentage of accounts the bank restructured during the period 1999 to 2002

	Proportion				
	0-5 %	**6-10%**	**11-15%**	**16-20%**	**>20 %**
1999	[ ]	[ ]	[ ]	[ ]	[ ]
2000	[ ]	[ ]	[ ]	[ ]	[ ]
2001	[ ]	[ ]	[ ]	[ ]	[ ]
2002	[ ]	[ ]	[ ]	[ ]	[ ]

SECTION B: TECHNIQUES EMPLOYED IN RESTRUCTURING NON-PERFOMING LOANS

1. Please indicate whether your bank employs the following techniques in restructuring bad debts

Technique	**Yes**	**No**
(a) New repayment schedule (increasing the repayment period of the facility)	[ ]	[ ]
(b) Interest waivers (allowing the customer to pay only outstanding capital amount)	[ ]	[ ]
(c) Interest holidays (allowing the customer to service only capital amount for some time)	[ ]	[ ]
(d) Capital holidays (allowing the customer to pay only interest for some time)	[ ]	[ ]
(e) Concessions (waiver of charges)	[ ]	[ ]
(f) Granting additional facilities	[ ]	[ ]
(g) Conversion (e.g. from Overdraft to term loan)	[ ]	[ ]
(h) Refined interest rate (which is lower than market rate and charges)	[ ]	[ ]
(i) Others (please specify)		
______________________________	[ ]	[ ]
______________________________	[ ]	[ ]

2. Please indicate how important the following bad debt restructuring techniques are to your bank

*(Mark 1 for **not important**, 2 for **important**, 3 for **very important** and 4 for **very very important**)*

Technique	**Importance**
(a) Extension of repayment period	[ ]
(b) Interest waivers	[ ]
(c) Interest holidays	[ ]
(d) Capital holidays	[ ]
(e) Concessions	[ ]
(f) Granting additional facilities	[ ]
(g) Conversion	[ ]
(h) Refined interest rate & charges	[ ]
(i) Others (please specify)	
(i)________________________	[ ]
(ii)________________________	[ ]

3. In your opinion, which is the preferred approach for restructuring bad debts; please tick one.

   (a) Centralized Approach (where the government establishes a central agency to which financial institutions can sell their impaired loan assets) [ ]

   (b) Decentralized Approach (where individual banks deal with their impaired loan assets by establishing dedicated units or subsidiaries (bad bank to restructure them) [ ]

4. Please provide any other information you consider important in the restructuring of bad debts among commercial banks in Kenya

EXTRACT OF PUBLISHED BALANCE SHEETS

Appendix III

	Bank	Total Assets				Provisions				Net Advances				Total Loans				Non-Performing Loans			
		1999	2000	2001	2002	1999	2000	2001	2002	1999	2000	2001	2002	1999	2000	2001	2002	1999	2000	2001	2002
		Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns
1	African Banking Corp. Ltd	2813	2,988	2,961	3,387	90	159	81	61	1,459	1,481	1,299	1,583	1,549	1,640	1,380	1,644	272	383	213	152
2	Akiba Bank Ltd	2,633	2,636	3,268	3,979	121	176	19	260	1,187	1,331	2,168	2,928	1,308	1,507	2,187	3,188	352	532	543	744
3	Bank of Baroda (K) Ltd	3,083	3,309	4,154	4,998	302	222	143	64	1,089	1,119	1,294	1,469	1,391	1,341	1,437	1,533	529	467	362	257
4	Bank of India	2,551	2,547	3,131	4,692	168	47	42	36	865	669	809	1,045	1,033	716	851	1,081	180	86	59	81
5	Barclays Bank of Kenya Ltd	69,292	70,377	73,647	85,914	1,392	2,278	1,961	2,664	37,215	42,241	45,654	50,165	38,607	44,519	47,615	52,829	3,687	4,115	5,950	8,037
6	Biashara Bank of Kenya Ltd	2,025	2,118	2,402	2,587	32	63	21	20	769	816	917	768	801	879	938	788	36	85	24	14
7	CFC Bank Ltd	7,607	9,914	10,412	11,846	234	184	115	158	3,089	5,261	5,299	6,174	3,323	5,445	5,414	6,332	313	179	249	354
8	Chase Bank (K) Ltd	746	821	972	1,156	21	5	6	8	294	385	471	676	315	390	477	684	23	3	2	2
9	Charterhouse Bank Ltd	1,190	1,326	1,907	1,886	8	50	56	80	523	727	665	947	531	777	721	1,027	12	96	129	97
10	Citibank N.A Ltd	14,786	22,259	27,710	30,161	118	246	283	346	6,200	9,796	12,104	11,208	6,318	10,042	12,387	11,554	118	198	296	348
11	City Finance Bank Ltd	-	805	810	814	-	157	97	36	-	473	461	448	-	630	557	484	-	523	394	265
12	Commercial Bank of Africa	11,872	12,783	16,081	16,418	278	525	240	211	4,621	4,492	4,653	5,018	4,899	5,017	4,893	5,229	497	956	544	525
13	Consolidated Bank of Kenya	2,272	2,501	2,946	2,707	2,288	3,224	294	461	650	708	768	1,026	2,938	3,932	1,062	1,487	2,440	3,355	394	712
14	Co-operative Bank of Kenya	24,118	23,588	23,599	28,957	3,082	6,179	4,623	4,699	14,609	13,387	14,801	17,896	17,691	19,566	19,424	22,595	6,130	9,516	7,877	7,679
15	Credit Agricole Indosuez Ltd	4,624	5,732	5,771	4,665	106	277	224	211	2,939	2,855	2,319	1,930	3,045	3,132	2,543	2,141	208	303	255	172
16	Credit Bank Ltd	1,708	1,710	1,561	1,795	79	143	30	27	708	820	654	666	787	963	684	693	159	305	121	139
17	Delphis Bank Ltd	4,387	3,646	2,160	2,245	205	1,028	1,158	1,160	3,057	2,172	1,360	1,012	3,262	3,200	2,518	2,172	1,724	2,909	1,641	1,448
18	Development Bank Ltd	3,771	3,652	3,147	2,610	670	898	366	449	2,574	2,261	1,828	1,387	3,244	3,159	2,194	1,836	1,361	1,588	1,015	751
19	Diamond Trust Bank of Kenya	5,996	5,170	5,516	6,274	340	391	111	84	2,423	1,486	1,826	2,696	2,763	1,877	1,937	2,780	726	758	339	162
20	Dubai Bank (K) Ltd	-	576	820	973	-	73	81	90	-	238	294	317	-	311	375	407	-	90	69	67
21	Equatorial Commercial Bank	1,961	2,234	2,283	2,498	210	288	50	76	1,034	1,055	952	1,028	1,244	1,343	1,002	1,104	352	505	178	148
22	Fidelity Commercial Bank Ltd	996	1,315	1,229	1,169	94	187	100	94	581	754	696	673	675	941	796	767	196	372	298	228
23	Fina Bank Ltd	4,389	4,673	4,642	5,291	339	409	179	169	2,373	2,323	2,690	2,588	2,712	2,732	2,869	2,757	836	796	514	442
24	First American Bank Ltd	5,771	5,675	6,359	5,882	791	907	421	310	3,230	3,028	2,926	2,983	4,021	3,935	3,347	3,293	1,330	1,482	913	841
25	Guardian Bank Ltd	4,419	4,245	4,128	4,011	598	844	488	132	2,821	2,996	2,657	2,317	3,419	3,840	3,145	2,449	1,604	2,283	1,734	1,185
26	Giro Commercial Bank Ltd	6,745	4,068	4,154	4,362	160	131	138	144	2,396	2,583	2,795	2,935	2,556	2,714	2,933	3,079	671	682	851	583
27	Habib Bank Ltd	2,885	2,705	2,910	3,064	190	209	93	75	917	722	699	744	1,107	931	792	819	211	200	106	73
28	Habib Bank A.G Zurich Ltd	3,118	3,113	3,514	3,798	73	78	61	43	690	666	691	698	763	744	752	741	103	92	42	55
29	Imperial Bank Ltd	2,661	3,017	3,645	4,181	162	248	216	227	1,722	1,922	2,385	2,586	1,884	2,170	2,601	2,813	194	286	229	235
30	Industrial Development Bank	1,162	1,722	1,742	1,622	562	725	330	126	1,001	1,102	1,069	1,218	1,563	1,827	1,399	1,344	1,005	1,145	583	567
31	Investment & Mortgages Bank	5,962	6,480	7,100	7,176	(2,733)	380	120	168	6,765	3,685	3,576	3,351	4,032	4,065	3,696	3,519	791	788	462	583
32	Kenya Commercial Bank Ltd	75,260	74,105	64,984	59,755	9,897	12,422	7,216	8,890	44,963	39,103	34,987	29,907	54,860	51,525	42,203	38,797	18,812	21,731	20,684	20,920
33	K-Rep Bank Ltd		963	1,173	1,674	-	9	11	22	-	350	729	1,163	-	359	740	1,185	-	-	5	17
34	Middle East Bank (K) Ltd	4,271	4,143	4,075	4,197	168	302	311	320	1,274	1,229	1,466	1,510	1,442	1,531	1,777	1,830	309	510	300	309
35	National Bank of Kenya Ltd	25,114	23,940	23,305	25,231	15,456	18,791	7,783	9,201	19,115	18,385	18,343	19,391	34,571	37,176	26,126	28,592	23,602	26,102	12,736	14,897
36	National Industrial Credit	7,212	7,442	8,396	9,329	782	850	546	676	4,283	3,940	4,247	4,420	5,065	4,790	4,793	5,096	1,019	1,218	923	947
37	Paramount-Universal Bank	757	1,464	1,537	1,614	(380)	147	154	162	812	807	847	890	432	954	1,002	1,052	82	357	375	394
38	Prime Bank Ltd	2,138	2,752	3,163	3,763	87	140	70	106	1,292	1,446	1,548	1,927	1,379	1,586	1,618	2,033	183	304	98	194
39	Southern Credit Corporation	1,583	1,586	2,905	3,050	189	358	376	395	835	860	1,202	1,262	1,024	1,218	1,578	1,657	439	608	657	690
40	Stanbic Bank (K) Ltd	6,930	7,199	6,503	8,119	1,444	1,059	328	79	3,784	3,295	3,071	2,844	5,228	4,354	3,399	2,923	2,081	1,813	793	316
41	Standard Chartered Bank (K)	44,056	49,388	54,277	61,650	1,317	1,220	371	388	17,821	16,883	14,735	16,660	19,138	18,103	15,106	17,048	2,883	2,693	1,601	1,399
42	Trans-National Bank Ltd	1,374	1,369	1,558	1,746	493	278	207	135	758	810	857	904	1,251	1,088	1,064	1,039	969	717	568	418
43	Victoria Commercial Bank Ltd	3,527	3,021	2,760	3,107	411	339	214	89	1,872	1,662	1,491	1,325	2,283	2,001	1,705	1,414	746	662	460	258
	TOTAL	377,765	395,077	409,316	444,353	39,844	56,646	29,732	33,153	204,610	202,324	204,302	212,683	244,454	258,970	234,035	245,835	77,185	91,793	65,585	67,704

ASSET QUALITY RATIOS

Appendix IV

	Bank	Non-Performing Loans to Total Loans				Net Advances to Total Assets				Provisions Held to Non-Performing Loans			
		1999	2000	2001	2002	1999	2000	2001	2002	1999	2000	2001	2002
		%age	%age	%age	%age	%age	%age	%age	%age	%age	%age	%age	%age
1	African Banking Corp. Ltd	18	23	15	9	51.9	49.6	43.9	46.7	33.1	41.5	38.0	40.1
2	Akiba Bank Ltd	26.9	35.3	24.8	23.3	45.1	50.5	66.3	73.6	34.4	33.1	3.5	34.9
3	Bank of Baroda (K) Ltd	38.0	34.8	25.2	16.8	35.3	33.8	31.2	29.4	57.1	47.5	39.5	24.9
4	Bank of India	17.4	12.0	6.9	7.5	33.9	26.3	25.8	22.3	93.3	54.7	71.2	44.4
5	Barclays Bank of Kenya Ltd	9.6	9.2	12.5	15.2	53.7	60.0	62.0	58.4	37.8	55.4	33.0	33.1
6	Biashara Bank of Kenya Ltd	4.5	9.7	2.6	1.8	38.0	38.5	38.2	29.7	88.9	74.1	87.5	142.9
7	CFC Bank Ltd	9.4	3.3	4.6	5.6	40.6	53.1	50.9	52.1	74.8	102.8	46.2	44.6
8	Chase Bank (K) Ltd	7.3	0.8	0.4	0.3	39.4	46.9	48.5	58.5	91.3	166.7	300.0	400.0
9	Charterhouse Bank Ltd	2.3	12.4	17.9	9.4	43.9	54.8	34.9	50.2	66.7	52.1	43.4	82.5
10	Citibank N.A Ltd	1.9	2.0	2.4	3.0	41.9	44.0	43.7	37.2	100.0	124.2	95.6	99.4
11	City Finance Bank Ltd	-	83.0	70.7	54.8	-	58.8	56.9	55.0	-	30.0	24.5	13.6
12	Commercial Bank of Africa	10.1	19.1	11.1	10.0	38.9	35.1	28.9	30.6	55.9	54.9	44.1	40.2
13	Consolidated Bank of Kenya	83.0	85.3	37.1	47.9	28.6	28.3	26.1	37.9	93.8	96.1	74.6	64.7
14	Co-operative Bank of Kenya	34.7	48.6	40.6	34.0	60.6	56.8	62.7	61.8	50.3	64.9	58.7	61.2
15	Credit Agricole Indosuez Ltd	6.8	9.7	10.0	8.0	63.6	49.8	40.2	41.4	51.0	91.4	87.8	122.7
16	Credit Bank Ltd	20.2	31.7	17.7	20.1	41.5	48.0	41.9	37.1	49.7	46.9	24.8	19.4
17	Delphis Bank Ltd	52.9	90.9	65.2	66.7	69.7	59.6	63.0	45.1	11.9	35.3	70.6	80.1
18	Development Bank Ltd	42.0	50.3	46.3	40.9	68.3	61.9	58.1	53.1	49.2	56.5	36.1	59.8
19	Diamond Trust Bank of Kenya	26.3	40.4	17.5	5.8	40.4	28.7	33.1	43.0	46.8	51.6	32.7	51.9
20	Dubai Bank (K) Ltd	-	28.9	18.4	16.5	-	41.3	35.9	32.6	-	81.1	117.4	134.3
21	Equatorial Commercial Bank	28.3	37.6	17.8	13.4	52.7	47.2	41.7	41.2	59.7	57.0	28.1	51.4
22	Fidelity Commercial Bank Ltd	29.0	39.5	37.4	29.7	58.3	57.3	56.6	57.6	48.0	50.3	33.6	41.2
23	Fina Bank Ltd	30.8	29.1	17.9	16.0	54.1	49.7	57.9	48.9	40.6	51.4	34.8	38.2
24	First American Bank Ltd	33.1	37.7	27.3	25.5	56.0	53.4	46.0	50.7	59.5	61.2	46.1	36.9
25	Guardian Bank Ltd	46.9	59.5	55.1	48.4	63.8	70.6	64.4	57.8	37.3	37.0	28.1	11.1
26	Giro Commercial Bank Ltd	26.3	25.1	29.0	18.9	35.5	63.5	67.3	67.3	23.8	19.2	16.2	24.8
27	Habib Bank Ltd	19.1	21.5	13.4	8.9	31.8	26.7	24.0	24.3	90.0	104.5	87.7	102.7
28	Habib Bank A.G Zurich Ltd	13.5	12.4	5.6	7.4	22.1	21.4	19.7	18.4	70.9	84.8	144.0	78.2
29	Imperial Bank Ltd	10.3	13.2	8.8	8.4	64.7	63.7	65.4	61.9	83.5	86.7	94.3	96.6
30	Industrial Development Bank	64.3	62.7	41.7	42.2	86.1	64.0	61.4	75.1	55.9	63.3	56.6	22.2
31	Investment & Mortgages Bank	19.6	19.4	12.5	16.6	113.5	56.9	50.4	46.7	(345.5)	48.2	26.0	28.8
32	Kenya Commercial Bank Ltd	34.3	42.2	49.0	53.9	59.7	52.8	53.8	50.0	52.6	57.2	34.9	42.5
33	K-Rep Bank Ltd	-	-	0.7	1.4	-	-	62.1	69.5	-	-	220.0	129.4
34	Middle East Bank (K) Ltd	21.4	33.3	16.9	16.9	29.8	29.7	36.0	36.0	54.4	59.2	103.7	103.7
35	National Bank of Kenya Ltd	68.3	70.2	48.7	52.1	76.1	76.8	78.7	76.9	65.5	72.0	61.1	61.8
36	National Industrial Credit	20.1	25.4	19.3	18.6	59.4	52.9	50.6	47.4	76.7	69.8	59.2	71.4
37	Paramount-Universal Bank	19.0	37.4	37.4	37.4	107.3	55.1	55.1	55.1	(463.4)	41.2	41.2	41.2
38	Prime Bank Ltd	13.3	19.2	6.1	9.5	60.4	52.5	48.9	51.2	47.5	46.1	71.4	54.6
39	Southern Credit Corporation	42.9	49.9	41.6	41.6	52.7	54.2	41.4	41.4	43.1	58.9	57.2	57.2
40	Stanbic Bank (K) Ltd	39.8	41.6	23.3	10.8	54.6	45.8	47.2	35.0	69.4	58.4	41.4	25.0
41	Standard Chartered Bank (K)	15.1	14.9	10.6	8.2	40.5	34.2	27.1	27.0	45.7	45.3	23.2	27.7
42	Trans-National Bank Ltd	77.5	65.9	53.4	40.2	55.2	59.2	55.0	51.8	50.9	38.8	36.4	32.3
43	Victoria Commercial Bank	32.7	33.1	27.0	18.2	53.1	55.0	54.0	42.6	55.1	51.2	46.5	34.5
	TOTAL	**31.6**	**35.4**	**28.0**	**27.5**	**54.2**	**51.21**	**49.91**	**47.9**	**51.6**	**61.7**	**45.3**	**49.0**

EXTRACT OF PUBLISHED PROFIT & LOSS STATEMENTS

Appendix V

	Bank	Total Interest Income				Interest from Customers				Interest from Gov. Securities & Placement				Non-Interest Income				Provision Charge			
		1999	2000	2001	2002	1999	2000	2001	2002	1999	2000	2001	2002	1999	2000	2001	2002	1999	2000	2001	2002
		Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns	Sh'Mns
1	African Banking Corp. Ltd	357	364	359	286	289	284	267	176	68	80	92	110	92	94	111	101	58	83	79	26
2	Akiba Bank Ltd	312	276	335	389	231	222	244	351	81	54	91	38	68	97	69	68	55	54	(42)	50
3	Bank of Baroda (K) Ltd	399	378	428	477	217	196	194	192	182	182	234	285	58	57	67	76	5	1	7	13
4	Bank of India	364	324	335	361	171	147	123	134	193	177	212	227	71	78	81	94	8	14	2	16
5	Barclays Bank of Kenya Ltd	8,202	8,749	8,129	7,773	5,463	6,544	6,375	5,827	2,739	2,205	1,754	1,946	4,297	4,205	4,491	5,105	440	1,641	1,047	1,513
6	Biashara Bank of Kenya Ltd	275	277	293	283	159	169	160	143	116	108	133	140	41	48	35	39	8	26	4	(1)
7	CFC Bank Ltd	845	1,040	1,153	954	625	813	947	753	220	227	206	201	602	781	941	1,066	(1)	63	170	67
8	Chase Bank (K) Ltd	93	113	117	124	76	87	83	92	17	26	34	32	16	23	18	34	8	8	1	2
9	Charterhouse Bank Ltd	138	215	250	282	111	181	195	249	27	34	55	33	15	23	30	35	3	18	33	38
10	Citibank N.A Ltd	1,191	1,924	1,977	1,959	871	1,026	1,099	904	320	898	878	1,055	636	389	491	911	14	86	71	67
11	City Finance Bank Ltd	-	35	46	57	-	12	27	42	-	23	19	15	-	10	14	18	-	126	73	19
12	Commercial Bank of Africa	1,411	1,431	1,441	1,290	858	815	688	565	553	616	753	725	649	715	451	498	65	140	(17)	41
13	Consolidated Bank of Kenya	161	155	182	235	106	104	102	152	55	51	80	83	129	110	193	472	(1)	(12)	20	167
14	Co-operative Bank of Kenya	3,129	2,708	2,271	2,217	2,919	2,438	2,069	1,870	210	270	202	347	960	1,009	1,098	1,839	445	1,884	847	411
15	Credit Agricole Indosuez Ltd	504	631	540	375	364	399	297	194	140	232	243	181	148	169	127	126	7	138	(24)	(23)
16	Credit Bank Ltd	215	200	213	186	133	129	134	99	82	71	79	87	24	29	26	30	-	4	7	
17	Delphis Bank Ltd	693	404	357	72	655	350	319	40	38	54	38	32	91	103	38	9	55	604	445	100
18	Development Bank Ltd	482	414	393	292	409	364	310	208	73	50	83	84	128	194	133	154	85	176	93	99
19	Diamond Trust Bank of Kenya	884	773	553	549	610	460	226	312	274	313	327	237	89	123	74	98	49	28	(10)	(1)
20	Dubai Bank (K) Ltd	-	26	35	41	-	20	27	33	-	6	8	8	-	9	11	15	-	1	2	2
21	Equatorial Commercial Bank	314	275	281	240	222	183	171	150	92	92	110	90	41	56	48	74	85	56	56	25
22	Fidelity Commercial Bank Ltd	177	197	195	176	156	169	176	149	21	28	19	27	15	27	18	18	8	46	30	19
23	Fina Bank Ltd	761	663	625	633	503	606	464	468	258	57	161	165	39	53	66	77	86	58	57	96
24	First American Bank Ltd	649	695	658	566	487	455	398	429	162	240	260	137	250	217	213	178	88	165	75	20
25	Guardian Bank Ltd	602	524	453	381	527	421	357	292	75	103	96	89	56	59	64	68	22	26	32	38
26	Giro Commercial Bank Ltd	590	557	574	591	485	519	535	551	105	38	39	40	48	58	60	62	88	60	62	64
27	Habib Bank Ltd	335	364	354	325	151	162	129	125	184	202	225	200	58	63	63	51	(1)	15	(15)	2
28	Habib Bank A.G Zurich Ltd	318	364	375	386	127	129	133	137	191	235	242	249	46	56	58	59	-	10	10	11
29	Imperial Bank Ltd	523	546	615	681	454	476	552	631	69	70	63	50	50	68	81	111	67	92	69	46
30	Industrial Development Bank	170	150	129	121	131	115	99	99	39	35	30	22	113	113	35	13	39	58	144	14
31	Investment & Mortgages Bank	827	759	688	621	663	594	537	447	164	165	151	174	64	90	94	104	134	97	64	42
32	Kenya Commercial Bank Ltd	10,445	8,780	6,609	4,735	8,717	6,693	5,004	3,290	1,728	2,087	1,605	1,445	3,266	4,931	4,693	4,229	5,114	4,359	2,772	4,877
33	K-Rep Bank Ltd	-	127	170	246	-	80	118	17	-	47	52	229	-	19	36	57	-	4	2	11
34	Middle East Bank (K) Ltd	409	351	362	372	250	208	214	221	159	143	147	152	43	84	87	89	20	4	4	4
35	National Bank of Kenya Ltd	2,843	2,102	2,128	3,326	2,743	2,050	2,100	3,317	100	52	28	9	1,268	946	1,303	1,218	2,742	1,569	1,187	1,419
36	National Industrial Credit Bank	1,315	1,152	1,028	981	1,192	971	787	742	123	181	241	239	103	126	105	138	228	113	70	88
37	Paramount-Universal Bank Ltd	237	139	143	147	192	122	126	129	45	17	18	18	29	28	29	30	8	20	21	21
38	Prime Bank Ltd	318	321	368	410	298	290	300	326	20	31	68	84	54	69	92	112	11	26	41	44
39	Southern Credit Corporation	290	217	224	230	252	180	185	191	38	37	38	39	43	62	64	66	53	32	33	34
40	Stanbic Bank (K) Ltd	689	695	585	501	506	429	343	240	183	266	242	261	195	112	157	216	11	311	146	(92)
41	Standard Chartered Bank (K)	4,620	4,943	5,381	5,171	2,800	2,451	2,075	1,801	1,820	2,492	3,306	3,370	2,307	2,520	2,488	2,586	326	240	186	122
42	Trans-National Bank Ltd	177	116	122	127	165	102	100	98	12	14	22	29	219	218	237	256	254	56	53	49
43	Victoria Commercial Bank Ltd	438	368	304	237	338	276	215	140	100	92	89	97	55	56	51	63	41	65	56	43
	TOTAL	**46,702**	**44,842**	**41,775**	**39,407**	**35,626**	**32,441**	**29,003**	**26,326**	**11,076**	**12,401**	**12,772**	**13,082**	**16,476**	**18,297**	**18,639**	**20,663**	**10,727**	**12,565**	**7,962**	**9,603**

OTHER ASSET QUALITY RELATED RATIOS

Appendix VI

	Bank	Interest Income from Cutomers to Total Interest Income				Interest Income From Gov. Securities & Placements to Total Interest Income				Total Interest Income to Total Operating Income				Provision Charge to Interest Income from Customers			
		1999	2000	2001	2002	1999	2000	2001	2002	1999	2000	2001	2002	1999	2000	2001	2002
		%age	%age	%age	%age	%age	%age	%age	%age	%age	%age	%age	%age	%age	%age	%age	%age
1	African Banking Corp. Ltd	81.0	78.0	74.4	61.5	19.0	22.0	25.6	38.5	79.5	79.5	76.4	73.9	20.1	29.2	29.6	14.8
2	Akiba Bank Ltd	74.0	80.4	72.8	90.2	26.0	19.6	27.2	9.8	82.1	74.0	82.9	85.1	23.8	24.3	(17.2)	14.2
3	Bank of Baroda (K) Ltd	54.4	51.9	45.4	40.3	45.6	48.1	54.6	59.7	87.3	86.9	86.5	86.3	2.3	0.5	3.6	6.8
4	Bank of India	47.0	45.4	36.7	37.1	53.0	54.6	63.3	62.9	83.7	80.6	80.5	79.3	4.7	9.5	1.6	11.9
5	Barclays Bank of Kenya Ltd	66.6	74.8	78.4	75.0	33.4	25.2	21.6	25.0	65.6	67.5	64.4	60.4	8.1	25.1	16.4	26.0
6	Biashara Bank of Kenya Ltd	57.8	61.0	54.6	50.5	42.2	39.0	45.4	49.5	87.0	85.2	89.3	87.9	5.0	15.4	2.5	(0.7)
7	CFC Bank Ltd	74.0	78.2	82.1	78.9	26.0	21.8	17.9	21.1	58.4	57.1	55.1	47.2	(0.2)	7.7	18.0	8.9
8	Chase Bank (K) Ltd	81.7	77.0	70.9	74.2	18.3	23.0	29.1	25.8	85.3	83.1	86.7	78.5	10.5	9.2	1.2	2.2
9	Charterhouse Bank Ltd	80.4	84.2	78.0	88.3	19.6	15.8	22.0	11.7	90.2	90.3	89.3	89.0	2.7	9.9	16.9	15.3
10	Citibank N.A Ltd	73.1	53.3	55.6	46.1	26.9	46.7	44.4	53.9	65.2	83.2	80.1	68.3	1.6	8.4	6.5	7.4
11	City Finance Bank Ltd	-	34.3	58.7	73.7	-	65.7	41.3	26.3	-	77.8	76.7	76.0	-	1,050.0	268.5	45.2
12	Commercial Bank of Africa	60.8	57.0	47.7	43.8	39.2	43.0	52.3	56.2	68.5	66.7	76.2	72.1	7.6	17.2	(2.5)	7.3
13	Consolidated Bank of Kenya	65.8	67.1	56.0	64.7	34.2	32.9	44.0	35.3	55.5	58.5	48.5	33.2	(0.9)	(11.5)	19.6	109.9
14	Co-operative Bank of Kenya	93.3	90.0	91.1	84.3	6.7	10.0	8.9	15.7	76.5	72.9	67.4	54.7	15.2	77.3	40.9	22.0
15	Credit Agricole Indosuez Ltd	72.2	63.2	55.0	51.7	27.8	36.8	45.0	48.3	77.3	78.9	81.0	74.9	1.9	34.6	(8.1)	(11.9)
16	Credit Bank Ltd	61.9	64.5	62.9	53.2	38.1	35.5	37.1	46.8	90.0	87.3	89.1	86.1	-	3.1	5.2	-
17	Delphis Bank Ltd	94.5	86.6	89.4	55.6	5.5	13.4	10.6	44.4	88.4	79.7	90.4	88.9	8.4	172.6	139.5	250.0
18	Development Bank Ltd	84.9	87.9	78.9	71.2	15.1	12.1	21.1	28.8	79.0	68.1	74.7	65.5	20.8	48.4	30.0	47.6
19	Diamond Trust Bank of Kenya	69.0	59.5	40.9	56.8	31.0	40.5	59.1	43.2	90.9	86.3	88.2	84.9	8.0	6.1	(4.4)	(0.3)
20	Dubai Bank (K) Ltd	-	76.9	77.1	80.5	-	23.1	22.9	19.5	-	74.3	76.1	73.2	-	5.0	7.4	6.1
21	Equatorial Commercial Bank	70.7	66.5	60.9	62.5	29.3	33.5	39.1	37.5	88.5	83.1	85.4	76.4	38.3	30.6	32.7	16.7
22	Fidelity Commercial Bank Ltd	88.1	85.8	90.3	84.7	11.9	14.2	9.7	15.3	92.2	87.9	91.5	90.7	5.1	27.2	17.0	12.8
23	Fina Bank Ltd	66.1	91.4	74.2	73.9	33.9	8.6	25.8	26.1	95.1	92.6	90.4	89.2	17.1	9.6	12.3	20.5
24	First American Bank Ltd	75.0	65.5	60.5	75.8	25.0	34.5	39.5	24.2	72.2	76.2	75.5	76.1	18.1	36.3	18.8	4.7
25	Guardian Bank Ltd	87.5	80.3	78.8	76.6	12.5	19.7	21.2	23.4	91.5	89.9	87.7	84.9	4.2	6.2	9.0	13.0
26	Giro Commercial Bank Ltd	82.2	93.2	93.2	93.2	17.8	6.8	6.8	6.8	92.5	90.6	90.6	90.6	18.1	11.6	11.6	11.6
27	Habib Bank Ltd	45.1	44.5	36.4	38.5	54.9	55.5	63.6	61.5	85.2	85.2	84.9	86.4	(0.7)	9.3	(11.6)	1.6
28	Habib Bank A.G Zurich Ltd	39.9	35.4	35.4	35.4	60.1	64.6	64.6	64.6	87.4	86.7	86.7	86.7	-	7.8	7.8	7.8
29	Imperial Bank Ltd	86.8	87.2	89.8	92.7	13.2	12.8	10.2	7.3	91.3	88.9	88.4	86.0	14.8	19.3	12.5	7.3
30	Industrial Development Bank	77.1	76.7	76.7	81.8	22.9	23.3	23.3	18.2	60.1	57.0	78.7	90.3	29.8	50.4	145.5	14.1
31	Investment & Mortgages Bank	80.2	78.3	78.1	72.0	19.8	21.7	21.9	28.0	92.8	89.4	88.0	85.7	20.2	16.3	11.9	9.4
32	Kenya Commercial Bank Ltd	83.5	76.2	75.7	69.5	16.5	23.8	24.3	30.5	76.2	64.0	58.5	52.8	58.7	65.1	55.4	148.2
33	K-Rep Bank Ltd	-	63.0	69.4	6.9	-	37.0	30.6	93.1	-	87.0	82.5	81.2	-	5.0	1.7	64.7
34	Middle East Bank (K) Ltd	61.1	59.3	59.3	59.3	38.9	40.7	40.7	40.7	90.5	80.7	80.7	80.7	8.0	1.9	1.9	1.9
35	National Bank of Kenya Ltd	96.5	97.5	98.7	99.7	3.5	2.5	1.3	0.3	69.2	69.0	62.0	73.2	100.0	76.5	56.5	42.8
36	National Industrial Credit	90.6	84.3	76.6	75.6	9.4	15.7	23.4	24.4	92.7	90.1	90.7	87.7	19.1	11.6	8.9	11.9
37	Paramount-Universal Bank	81.0	87.8	87.8	87.8	19.0	12.2	12.2	12.2	89.1	83.2	83.2	83.2	4.2	16.4	16.4	16.4
38	Prime Bank Ltd	93.7	90.3	81.5	79.5	6.3	9.7	18.5	20.5	85.5	82.3	80.0	78.5	3.7	9.0	13.7	13.5
39	Southern Credit Corporation	86.9	82.9	82.9	82.9	13.1	17.1	17.1	17.1	87.1	77.8	77.8	77.8	21.0	17.8	17.8	17.8
40	Stanbic Bank (K) Ltd	73.4	61.7	58.6	47.9	26.6	38.3	41.4	52.1	77.9	86.1	78.8	69.9	2.2	72.5	42.6	(38.3)
41	Standard Chartered Bank (K)	60.6	49.6	38.6	34.8	39.4	50.4	61.4	65.2	66.7	66.2	68.4	66.7	11.6	9.8	9.0	6.8
42	Trans-National Bank Ltd	93.2	87.9	82.3	77.2	6.8	12.1	17.7	22.8	44.7	34.7	33.9	33.2	153.9	54.9	52.5	50.0
43	Victoria Commercial Bank Ltd	77.2	75.0	70.7	59.1	22.8	25.0	29.3	40.9	88.8	86.8	85.6	79.0	12.1	23.6	26.0	30.7
	TOTAL	**76.3**	**72.3**	**69.4**	**66.8**	**23.7**	**27.7**	**30.6**	**33.2**	**73.9**	**71.0**	**69.1**	**65.6**	**30.1**	**38.7**	**27.5**	**36.5**