APRIL 2015 | ISSUE NO 22

PRIMENEWS

INSIDE

BANK POSTS IMPRESSIVE RESULTS 2014

THE LAUNCH OF PRIME VISA GOLF CARD

WELCOME TO PRIME BANCASSURANCE

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PRIME | WELCOME

MD'S NOTE

PRIMENEWS

The Year Ahead

Welcome to the 22nd issue of Prime News Magazine and the first of 2015. It is that time again: A new year which means new beginnings and the utmost attempts to bring you up to speed on the developments of our bank and the banking industry.

I am very pleased because at a personal level, I have always held the belief that 'communication' is the most important key behind the success of any organization and *Prime News* has always provided the platform to interact with our customers and partners.

2014 was quite a successful year for the bank. Despite prevailing economic environment, Prime Bank had an outstanding year in terms of growth and profitability. Through teamwork we made our dream work as we incorporated technology in our major operations; we unveiled internet and mobile banking system; we partnered with PROPARCO, the French Development Financial institution to provide long term funding to our customers.

To end the year, as a family we gathered to say thank you to our customers at the annual retreat and to celebrate good performance and recognize exemplary service, Prime Bank staff put their best foot forward in celebrating our end year party.

Going forward, technology will of course play a significant part in our operations, and the new year will give us more time to re-work and re-develop our online presence both through our main *www.primebank.co.ke* website, as well as through social media footprints.

Plans are underway to widen our network of Automated Teller Machines (ATMs). We have already opened one at our Eldoret Branch.

We have also adopted a personalized approach with instant response to all our customers' queries at all levels. Our customer care desk is there for you to ensure a smooth banking process. Please write to us on *customercare@primebank.co.ke*

In this edition, read about our exciting partnership with Kenya Golf Union, Junior Golf Foundation and Visa to unveil a Golf Card- first of its kind in Kenya. Take time to go through news making headlines in the banking industry and more about the fall on oil prices.

We have improved our mix of story lengths and styles: You will get longer reads when a story needs to be told, briefer pieces when the point can be made quickly.

Your views on the magazine will always be welcomed and appreciated. Please write to us on *marketing@primebank.co.ke* if you want to share your thoughts and comments.

Enjoy going through this edition of *Prime News*. I wish you all the very best.

Bharat Jani
Managing Director

CONTENTS

Prime Bank Launches Golf Card

Mr. Michael Laxmi, Head of Marketing, holds a dummy of the Visa Golf Card while Ms. Jackline Oyuga, Head of Card Centre, explains how it will work during the inauguration of a program to promote junior golf on 5th December 2014.

By Victor Mukele

Prime Bank in partnership with Kenya Golf Union (KGU), Junior Golf Foundation(JGF) and Visa Inc. have launched Prime Visa Golf Card – the first ever golf card in Kenya.

Prime Visa Golf Gold Card is a co-branded Visa Golf Card specifically designed to enable the bank's customers enjoy a wide range of benefits on and off the course.

The Prime Visa Golf Gold Card will be offered exclusively to golfers. The cardholder will enjoy a no joining fee and a fully paid for annual subscription by the bank.

Speaking during the launch of the card, Vijay Kantaria - Director, Business Development said the new venture is geared towards promoting golf and developing talent amongst the youth,

"Prime Bank will remit the entire Annual Card Subscription Fees to Junior Golf Foundation (JGF) through the Kenya Golf Union (KGU)," said Mr. Kantaria.

Other benefits and features of the Prime Visa Golf Gold Card include: special discounts on purchases of golf merchandise available at selected Golf shops, Golfers Insurance policy available at Prime Bank, and 100% waiver on the joining fees for the card.

"Prime Bank has always been keen on customer service, innovation and promotion of sports. Our products have always added value to our customer's everyday life. We strive to give our customers the best products with highest quality," added Kantaria.

The partnership with KGU will effectively allow golfers privileged access to prestigious golf clubs in the country and discounted green fees.

Cardholders will also access all core Visa card services globally such as card replacement, cash disbursement, lost/stolen card reporting and many more benefits that come with Visa gold Card.

Visa General Manager for East and Southern Africa Mr. Jabu Basopo. said the global payments technology company is focussed on building deeper and more valuable relationships with financial institutions to offer variety of Visa products to their customers.

"We are proud to be part of yet another first in the industry with the launch of the Prime Visa Golf Card in Kenya. As a global payments technology company, we understand the role that innovation plays in growing the market and strive to work with our partners to create new and exciting products that enhance convenience, as well as provide secure and seamless payment options," added Mr.Basopo.

KSH. 2,000

THE AMOUNT PRIME BANK HAS UNDERTAKEN TO REMIT TO JGF AS SUBSCRIPTION FEES FOR CARD HOLDERS

ABOVE: Prime Bank's Director, Business Development,(centre) and Head of Card Centre Jackline Oyuga (right) presents a cheque to JGF Chairman Mr. Ashwin Gidoomal during the launch of the Golf card at Muthaiga Golf Club.

LEFT: Ms. Paula Lanco, Head of Customer Relationship, addressing golfers during the launch of Prime Visa Golf Card.

JGF Chairman Mr. Ashwin Gidoomal said the Foundation has over the years provided junior golfers the opportunity of golfing competitively.

"The foundation has developed a wide range of golfers and we believe that through this partnership, the foundation will be able to place additional funds for new projects designed to train and equip future great golfers," added Mr. Gidoomal.

Inauguration of the program was held on 5th December 2014 at Muthaiga Golf Club as a fundraiser event to raise awareness of the game.

This year, JGF aims to run five fundraiser events around the country. Dubbed The Sports Excellence Corporate Day, in Support of JGF.

JGF Junior membership is open to all junior golfers who are, for the duration of that year, under the age of 19 years and Membership Fees is Ksh 1,000 per annum.

Membership also entitles the junior member to play golf at any of the KGU affiliated club at a minimum green fee of KSh 100 countrywide.

The foundation has developed a wide range of golfers over the years, most notably: Stefan Engell Anderson. Nelson Mudanyi and Greg Snow who are all professional golfers on the international scene.

Adel Balala and Mary Monari are the most recent protégés of the Junior Golf Foundation.

FINANCIAL PERFORMANCE REPORT

Prime Bank Posts Impressive Results As Profit Hits 1.7 Billion

By Victor Mukele

Prime Bank posted a 20 per cent net profit growth in the year ended December 2014 powered by strategic partnerships and innovations that led to improved operational efficiency, higher customer deposits, and loan book growth.

The bank not only performed well but exceeded the entire target fixed under different parameters.

"We are happy to note that during this financial period, the bank's net profit rose to Sh1.73 billion from Sh1.44 billion the year before", as stated by bank's Managing Director Mr. Bharat Jani who attributes the impressive results to the diligent execution of its strategy to become a more customer-centric and efficient bank for the benefit of both customers and partners.

Our loans and advances to customers rose steadily by 28 per cent from Sh26.7 billion to Sh34.5 billion.

Our core capital stands at Sh6.7 billion against the statutory requirement of Sh1 billion. The bank's customers' deposits are up by 11 per cent from Sh40.56 billion to Sh44.93 billion. Due to our strict monitoring of credit portfolio, the bank has brought down Non-performing loans and advances to less than 2 per cent of the total lending. The treasury income increased from Sh311 million to Sh338 million, attributable to increased volumes in foreign exchange business.

STATEMENT OF FINANCIAL POSITION

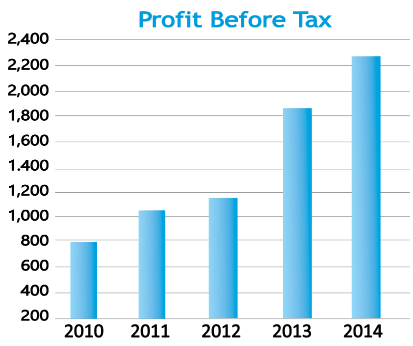
	BANK	BANK
	31st Dec, 2013	31st Dec, 2014
	Audited	Audited
	Shs '000	Shs '000
ASSETS		
Cash (both Local & Foreign)	346,135	434,470
Balances due from Central Bank of Kenya	2,327,762	2,050,965
Kenya Government and other securities held for dealing purposes		
Financial Assets at fair value through profit and loss		
Investment Securities:		
a) Held to Maturity:	13,524,981	12,405,933
a. Kenya Government securities	13,524,981	12,405,933
b. Other securities		
b) Available for sale:	2,755,776	2,786,714
a. Kenya Government securities	1,593,739	1,287,319
b. Other securities	1,162,037	1,499,395
Deposits and balances due from local banking institutions	1,194,491	29,335
Deposits and balances due from banking institutions abroad	963,436	1,004,674
Tax recoverable	-	
Loans and advances to customers (net)	26,751,542	34,481,269
Balances due from banking institutions in the group		
Investments in associates	270,396	329,982
Investments in subsidiary companies		
Investments in joint ventures		
Investment properties		
Property and equipment	554,892	550,712
Prepaid lease rentals		
Intangible assets	98,052	184,000
Deferred tax asset	127,932	137,637
Retirement benefit asset		
Other assets	545,494	521,983
TOTAL ASSETS	**49,460,889**	**54,917,674**
LIABILITIES		
Balances due to Central Bank of Kenya		
Customer deposits	40,562,028	44,939,840
Deposits and balances due to local banking institutions	1,349,473	90,558
Deposits and balances due to foreign banking institutions	1,099,442	1,731,512
Other money market deposits		
Borrowed funds		
Balances due to banking institutions in the group		
Tax payable	202,299	38,587
Dividends payable		
Deferred tax liability		
Retirement benefit liability		
Other liabilities	431,798	382,155
TOTAL LIABILITIES	43,645,040	47,182,652
SHAREHOLDERS' FUNDS		
Paid up /Assigned capital	3,000,000	3,000,000
Share premium/(discount)		
Revaluation reserves	617,784	800,938
Retained earnings/Accumulated losses	2,198,065	3,934,084
Statutory loan loss reserves		
Other Reserves		
Proposed dividends		
Capital grants		
TOTAL SHAREHOLDERS' FUNDS	5,815,849	7,735,022
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS	**49,460,889**	**54,917,674**

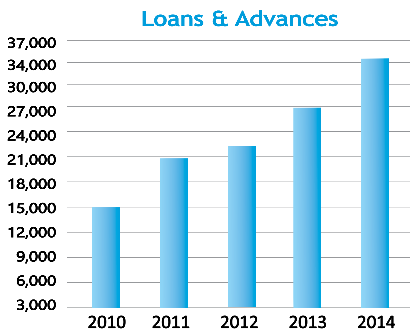
STATEMENT OF COMPREHENSIVE INCOME

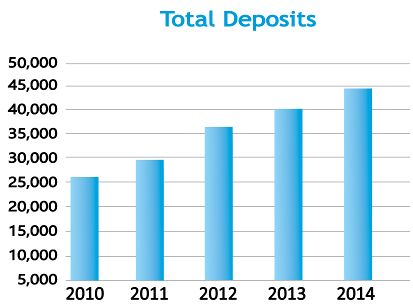
INTEREST INCOME		
Loans and advances	3,357,882	4,184,846
Government securities	1,440,180	1,454,755
Deposits and placements with banking institutions	88,055	60,880
Other Interest Income	113,710	119,515
Total interest income	4,999,827	5,819,996
INTEREST EXPENSE		
Customer deposits	2,488,381	2,815,880
Deposits and placement from banking institutions	14,296	32,302
Other interest expenses		
Total interest expenses	2,502,677	2,848,182
NET INTEREST INCOME/(LOSS)	2,497,150	2,971,814
NON-INTEREST INCOME		
Fees and commissions on loans and advances	104,622	137,148
Other fees and commissions	232,107	275,574
Foreign exchange trading income/(Loss)	311,027	338,209
Dividend Income	28,673	49,378
Other income	228,644	173,245
Total Non-interest income	905,073	973,554
TOTAL OPERATING INCOME	3,402,223	3,945,368
OTHER OPERATING EXPENSES		
Loan loss provision	138,691	100,783
Staff costs	724,468	793,370
Directors' emoluments	64,468	71,613
Rental charges	64,524	75,924
Depreciation charge on property and equipment	81,506	86,505
Amortisation charges	29,766	57,747
Other operating expenses	405,921	461,746
Total Other Operating Expenses	1,509,344	1,647,688
Profit/(loss) before tax and exceptional items	1,892,879	2,297,680
Exceptional items		
Profit/(loss) after exceptional items	1,892,879	2,297,680
Current tax	472,515	571,366
Deferred tax	(20,408)	(9,705)
Profit/(loss) after tax and exceptional items	1,440,772	1,736,019
Other Comprehensive Income		
Gains/(Losses) from translating the financial statements of foreign operations		
Fair value changes in available for sale financial assets	331,769	157,795
Revaluation surplus on Property,plant and equipment		
Share of other comprehensive income of associates	1,907	25,359
Income tax relating to components of other comprehensive income		
Other Comprehensive Income for the year net of tax	333,676	183,154
Total comprehensive income for the year	1,774,448	1,919,173
EARNINGS PER SHARE- BASIC & DILUTED	480.0	578.7
DIVIDEND PER SHARE -DECLARED		

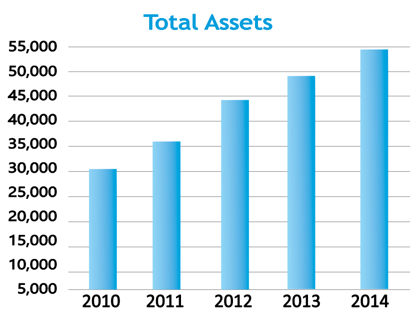
OTHER DISCLOSURES

NON-PERFORMING LOANS AND ADVANCES		
(a) Gross Non-performing loans and advances	704,349	665,673
(b) Less: Interest in Suspense	204,915	204,072
(c) Total Non-Performing Loans and Advances (a-b)	499,434	461,601
(d) Less: Loan Loss Provision	451,903	374,552
(e) Net Non-Performing Loans and Advances(c-d)	47,531	87,049
(f) Discounted Value of Securities	47,531	87,049
(g) Net NPLs Exposure (e-f)	-	-
INSIDER LOANS AND ADVANCES		
(a) Directors, Shareholders and Associates	1,167,978	1,440,078
(b) Employees	232,958	189,758
(c) Total Insider Loans and Advances and other facilities	1,400,936	1,629,836
OFF-BALANCE SHEET ITEMS		
(a) Letters of credit,guarantees, acceptances	3,788,664	4,437,778
(b) Forwards, swaps and options	9,103,145	16,165,716
(c) Other contingent liabilities		-
(d) Total Contingent Liabilities	12,891,809	20,603,494
CAPITAL STRENGTH		
(a) Core capital	4,951,234	6,722,219
(b) Minimum Statutory Capital	1,000,000	1,000,000
(c) Excess/(Dificiency)(a-b)	3,951,234	5,722,219
(d) Supplementary Capital		
(e) Total Capital (a+d)	4,951,234	6,722,219
(f) Total risk weighted assets	26,914,309	40,099,676
(g) Core Capital/Total deposits Liabilities	12.2%	14.9%
(h) Minimum statutory Ratio	8.0%	10.5%
(I) Excess/(Deficiency) (g-h)	4.2%	4.4%
(j) Core Capital / total risk weighted assets	18.4%	16.8%
(k) Minimum Statutory Ratio	8.0%	10.5%
(l) Excess (Deficiency) (j-k)	10.4%	6.3%
(m) Total Capital/total risk weighted assets	18.4%	16.8%
(n) Minimum statutory Ratio	12.0%	14.5%
(o) Excess/(Deficiency) (m-n)	6.4%	2.3%
LIQUIDITY		
(a) Liquidity Ratio	42.4%	37.5%
(b) Minimum Statutory Ratio	20.0%	20.0%
(c) Excess (Deficiency) (a-b)	22.4%	17.5%









EXPANSION

By Mr. Satish Khiroya, General Manager Prime Merchant Insurance Agency

Welcome to Prime Bancassurance

Prime Bank has partnered with selected insurance companies to provide our existing and potential customers with insurance products through Prime Merchant Insurance Agency.

Prime Merchant Insurance Agency brings you a package of services to fulfill your needs. It will gear towards providing insurance products to our customers through our extensive branch network.

Prime Merchant Insurance Agency aims to provide our customers with reduced costs in terms of competitive premiums on insurance products and prompt claims settlement in times of need. The agency will also offer our clients a one stop shop for the best products in the market and various options to choose from.

The term Bancassurance is a combination of two words "banc" and "assurance" which refers to banks selling insurance products.

This is an arrangement in which a bank and an insurance company form a partnership so that the insurance company can sell its products to the bank's client base. This partnership arrangement can be profitable for both companies.

Bancassurance remains prohibited in a number of countries. However, the global trend has been towards the liberalization of banking laws. China recently allowed banks to buy insurers and vice versa, stimulating the Bancassurance product and some major global insurers in China have seen the Bancassurance product greatly expand sales to individuals across several product lines. The banks acts as agents of the insurance companies to sell more policies. Bancassurance is an efficient distribution channel with higher productivity and lower costs than traditional distribution channel. Banks have set up insurance agencies within their infrastructure for this service.

BANCASSURANCE REFERS TO THE INTEGRATED BUSINESS OF OFFERING CORE BANKING SERVICES AND PRODUCTS TOGETHER WITH INSURANCE

Banks play the role of an agent for the insurance companies and sell the insurance policies on their behalf.

Bancassurance encompasses a variety of business models.

Integrated models
Where the Bancassurance activity is closely tied to the banking business.

Specialist Bancassurance Model
Advice-based models (where there is less integration and the distribution is based on using professional insurance advisers to sell to the clients of the bank).

BANK	INSURANCE COMPANY	CUSTOMERS
Can earn more profit by selling new products from the existing strong organization's resources and structure.	Can reach to more customers through banking network.	Can get better Value Products.
The broadening of its product range makes the bank more attractive and can reinforce customer satisfaction and therefore customer loyalty will increase.	Varieties of products reduce the risk and increase the opportunities.	Save time while they get all financial services through single window or "One Stop Shop."
One-stop shop model optimizes the use of the network and increases the profitability of the existing branch network.	The insurance company often benefits from the trustworthy image and reliability that people are more likely to attribute to banks;	
Increases the fee Income, strengthen long term client relationship and reduces competitive pressures.	An insurance company can establish itself more quickly in a new market, using a local bank's existing network.	
	Leverage on bank customer relationship, higher "hit rate" and therefore lower acquisition cost.	

Open architecture models

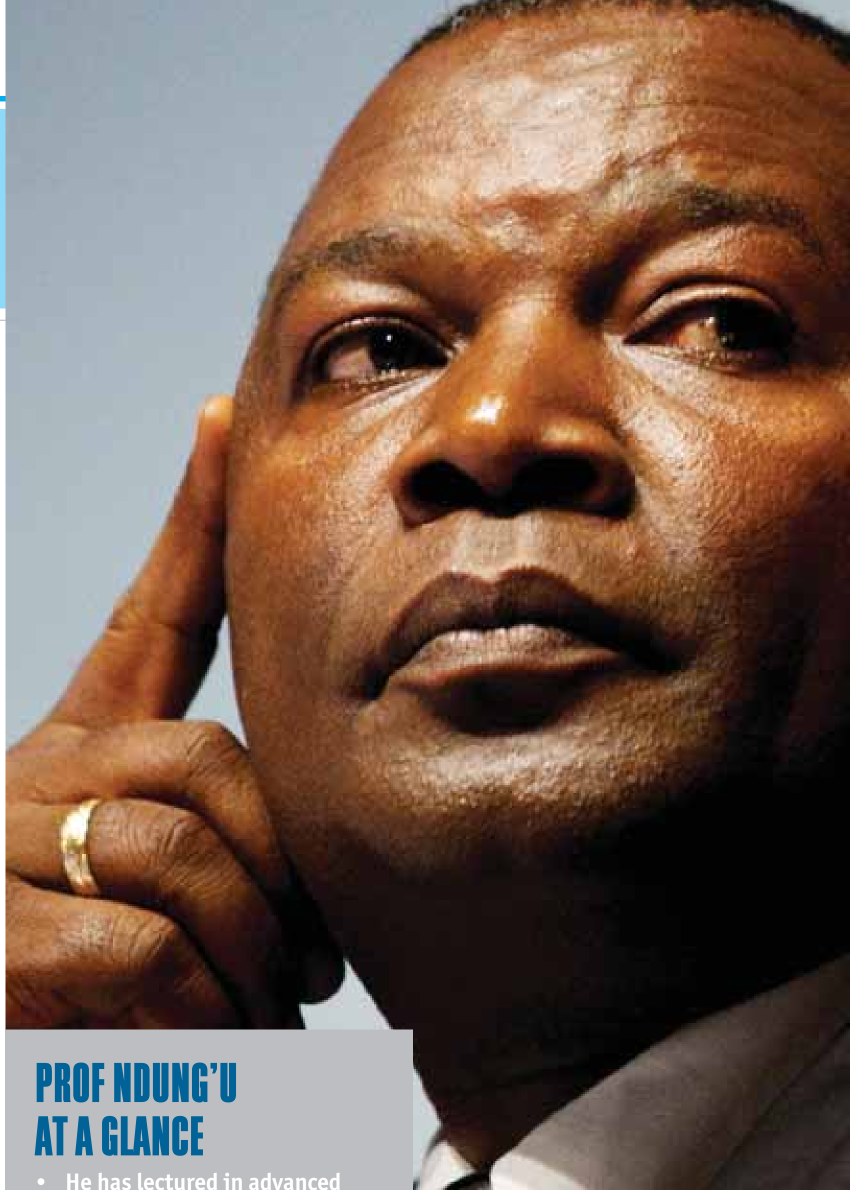
The business model tends to impact all aspects of the Bancassurance activities including the company structure, sales and marketing, product design, and sales remuneration.

In many countries, the choice of a business model is influenced by regulatory constraints (the type of products that banks are allowed to sell, or the nature of the relationship between banks and insurance companies).

Banks accommodate both categories of customers' i.e. the classes and the masses. Insurers then can take advantage of this by marketing relevant products through these distribution channels. Simple products for the masses, and more sophisticated ones for the classes.

Banks have a significant competitive advantage over other distribution channels. Banks can fulfill many customer needs, covering the full range of products from liquidity to lending and investing. Moreover, compared to insurance companies, banks benefit from the visibility and convenience of their branch network, the trust that most clients have in their bank and its brand as well as the more frequent interaction with the client than in case of traditional insurance channels.

Banks are structurally well positioned as they offer opportunities for early customer acquisition and maintaining customer relationships. These factors will likely contribute to the growth of Bancassurance.



Curtain Falls on Prof Ndung'u's Tenure at CBK

By Victor Mukele

Last year Emerging Markets named Professor Njuguna Ndung'u the sub-Saharan Africa Central Bank Governor of the Year.

The UK-based financial news agency recognised his efforts in stabilising the shilling, taming inflation and introducing innovation in the market since he was re-appointed in 2011.

In recognizing Prof Ndung'u's efforts, Emerging markets noted that political risks to Kenya's economy remains significant, but the CBK has maintained a steady focus on tackling inflation and keeping the currency stable, even during the 2013 elections.

March 4th marked the end of eight year tenure of Prof Ndung'u at the helm of CBK charged with formulating the country's financial and monetary policy.

During his tenure, Prof Ndung'u made several achievements: the introduction of the Monetary Policy Committee (MPC) in 2008, the operationalisation of the Central Bank Rate and the review of the monetary policy framework in 2011.

CBK has managed to keep inflation and interest rates down, while at the same time having a strong exchange rate. Kenya had a hard time in terms of growth during and after the post-election violence and suffered some effects of the global financial crisis of 2007-8, coupled with severe drought, the eurozone crisis and the Arab Spring, but the monetary policy has generally been well managed.

The economy's performance, especially under Prof Ndung'u's first term, taking into account the post-election violence and global recession, was relatively good and achieved largely due to the sustenance of macroeconomic stability; a product of his effective conduct of monetary policy.

Prof Ndung'u has been credited for captaining innovations by the CBK to support financial inclusion initiatives. The introduction of mobile and agent banking, Islamic banking, and licensing of deposit-taking microfinance in-

PROF NDUNG'U AT A GLANCE

- He has lectured in advanced economic theory and econometrics at the University of Nairobi
- Worked as the Regional Programme Specialist for the Eastern and Southern Africa Regional Office, Nairobi of the International Development Research Centre(IDRC), Canada
- He has also worked at the Kenya Institute for Public Policy Research and Analysis (KIPPRA) as a Principal Analyst/ Researcher and Head of the Macroeconomic and Economic Modelling Division.

stitutions (MFIs) and credit reference bureaus (CRBs) has won CBK a lot of praises. It is through his efforts that Kenya has been globally recognised as a model in financial inclusion, earning CBK a place as a non-G20 member of the Global Partnership for Financial Inclusion.

In an interview with the *Daily Nation*, the outgoing Governor pointed out that since CBK allowed Safaricom to launch M-Pesa, millions of Kenyans have gained access to banking services through their mobile phones. The same has been the case with Airtel Money and other mobile money transfer services.

Under Prof Ndung'u's watch, CBK also put in place laws that have enabled players in the banking sector to share customer credit information with CRBs. This has helped Kenyans build a credit history, a crucial requisite for accessing loans.

Prior to his appointment as Governor of the Central Bank of Kenya, Prof Ndung'u was the Director of Training at the African Economic Research Consortium. He has lectured in advanced economic theory and econometrics at the University of Nairobi, where he earned the title of "Associate Professor of Economics".

He also worked as the Regional Programme Specialist for the Eastern and Southern Africa Regional Office, Nairobi, of the International Development Research Centre(IDRC), Canada; and at the Kenya Institute for Public Policy Research and Analysis (KIPPRA) as a Principal Analyst/Researcher and Head of the Macroeconomic and Economic Modelling Division.

—Additional reporting by various Internet agencies

KBRR Revised to Pave Way for Low Cost of Loans

By Victor Mukele

The Central Bank of Kenya (CBK) has cut the reference rate that commercial banks will now use to price their loans for the next six months.

In its policy meeting, CBK revised the Kenya Bank's Reference Rate (KBRR) to 8.54 per cent from 9.13 per cent effective from 14 January 2015 until its next review in July.

KBRR CAME IN TO REPLACE THE BASE LENDING RATE (BLR) THAT BANKS USED TO PRICE THEIR LOANS PREVIOUSLY

This was the first revision since KBRR was introduced in July last year for use by commercial banks to price loan products.

KBRR came in to replace the Base Lending Rate (BLR) that banks used to price their loans previously. The BLR used to vary from one bank to the other and there was a transparency gap such that clients could not tell which bank is offering better rates than the other.

To remedy the gap, CBK set up a new common reference rate for all banks which is the Kenya Banks' Reference Rate (KBRR).

Since the rollout of the KBRR framework, the average lending rate for the banking sector has been on a downward trend, declining from 16.9 per cent in July 2014 to 15.9 percent in November.

The Central Bank Rate (CBR) meant to guide commercial banks to review their lending rates based on prevailing macro-economic conditions, has largely been overlooked leading to the high cost of borrowing.

The KBRR which tracks the CBR as well as the weighted two-months moving average of the 91-day Treasury Bill

January's Monetary Policy Committee (MPC) meeting will mark the first review of the KBRR, which is set to be changing bi-annually.

The regulator had termed the introduction of the KBRR as the dawn of an era ushering low cost of loans.

— *Additional reporting by various Internet agencies*

CBK Retains CBR at 8.5 Per Cent

By Victor Mukele

Central Bank of Kenya has retained its benchmark lending rate at 8.5 per cent for the tenth session in a row. CBK's Monetary Policy Committee (MPC) noted that the country's overall inflation has continued to decline in the months of November and December 2014 and remained within the government target of 5 per cent.

MPC further observed that overall month-on-month inflation declined from 6.09 per cent in November 2014 to 6.02 per cent in December 2014, reflecting on the significant declines in the prices of fuel and electricity.

"These declines were partly offset by a rise in the food index during the period. This indicates that there was no significant demand driven inflationary pressure or threat to the economy," said the Central Bank of Kenya (CBK).

Despite the global strengthening of the US Dollar and the pressure on the shilling, the committee said the shilling has maintained its stable trend while strengthening against major world and regional currencies. The Kenya Shilling continues to be supported by resilient foreign exchange inflows through diaspora remittances and purchase of equity by foreign investors.

The shilling has been depreciating against the dollar since October 2013 and fell by 4.6 percent in 2014. Mid January it was quoted around 91.40, down from 90.62 at the start of the year. The CBK's level of usable foreign exchange reserves rose to USD7,224.19 million (equivalent to 4.65 months of import cover) as at 26th February 2015, helped by the proceeds from the re-opened, Sovereign Bond in December, which the CBK said was massively oversubscribed.

Cabinet Secretary Treasury, Mr. Henry Rotich.

OVERALL MONTH-ON-MONTH INFLATION DECLINED FROM 6.09 PER CENT IN NOVEMBER 2014 TO 6.02 PER CENT IN DECEMBER 2014

Confidence in Kenya's economy remains strong, the CBK said, citing its market perception survey from December that shows private sector firms expect a stable inflation and an exchange rate along with stronger growth in 2015.

In the third quarter of 2014, Kenya's Gross Domestic Product contracted by 3.32 percent from the second quarter for annual growth of 5.5 percent, helped by an expansion of the finance and insurance sector along with a strong performance of the construction, wholesale and retail trade, information and communication, and agriculture and forestry sectors.

CBK said it would continue to monitor key macroeconomic aggregates and any emergent risks from the external and domestic economies that may impact on price stability in order to continue to anchor inflationary expectations.

The MPC met early January to review market developments and the outcomes of its previous monetary policy decisions.

Section 36 (4) of the Central Bank of Kenya Act stipulates that the Central Bank shall publish the lowest rate of interest it charges on loans to banks and that rate shall be known as the Central Bank Rate (CBR).

—Additional reporting by various Internet agencies

Capital Buffers Boost Financial Stability - CBK

By Victor Mukele

Central Bank of Kenya (CBK) says the introduction of capital buffers in 2013 has helped promote financial stability in the banking sector by cushioning banks in tough times.

In 2013, the CBK raised capital requirements for commercial banks in a bid to cushion the lenders from potential turmoil in the local and global financial system.

In the new guidelines, the CBK gave the banks 18 months to raise their capital buffers by up to 2.5 percent of their deposits to improve their stability in times of losses and economic stress.

"This brought the core and total capital ratios to 10.5 percent and 14.5 percent respectively, which every bank must maintain at all times," CBK said in a statement.

A capital buffer refers to additional capital above the minimum regulatory capital ratios set by regulators. Capital buffers are meant to cushion banks against any form of shocks affecting their operations and earnings.

They enable banks to continue lending even in difficult times since the buffers are used to absorb any resultant losses without necessarily breaching the minimum regulatory capital ratios.

According to CBK, these buffers have enabled the banks to absorb additional loan loss provisions required for the slight increase in non-performing loans registered in 2014.

Kenya's banking sector has expanded rapidly in the past decade pushing some of the banks to operate within thin capital margins while others have started regional operations.

The CBK maintains that the buffer should be made up of high quality capital, which should comprise mainly of common equity, premium reserves and retained earnings.

Central Banks have been pushing for more capital requirements and stringent financial reporting standards following the 2008 global financial crisis to bolster stability of the sector.

CBK said one of the key lessons from the 2007-2009 global financial crises was that there was a need for bank regulators to ensure that banks are appropriately and adequately capitalized in order to withstand shocks from adverse developments.

Among the post crisis capital management reforms introduced by the Global Standard Setting Bodies, Basel Committee for Banking Supervision and Financial Stability Board, were the introduction of capital buffers.

Based on the Basel pronouncements on capital buffers, the CBK introduced in 2013 a capital conservation buffer of 2.5 percent above the minimum regulatory core and total capital ratios of 8 percent and 12 percent respectively, which became effective in January.

—Additional reporting by various Internet agencies

Why Oil Price Fall a Double Edged Sword for Kenya

As oil prices remain at rock bottom, consumers should brace for happier times, especially for those bills with fuel components

By Victor Mukele

Oil prices have been on an all time low in the past few months, hitting their lowest levels of below USD 50 per barrel since the mid-June last year's high of USD115 per barrel. This in turn has sent economic and political shockwaves around the world.

The decline in the crude oil prices can be attributed to a number of factors. Saudi Arabia's decision to reduce its crude oil prices without cutting production in an apparent strategy to maintain or increase its market share by offering lower prices rather than cutting production to keep the oil price high, has been sighted as on core driving factor. Other producers in the region under the Organization of the Petroleum Exporting Countries (OPEC) umbrella have also followed suit and offered discounts on their crude oil in order to maintain their market share.

Higher supply in the United States of America and a slowing demand because of worries about global economic slowdown are the underlying causes.

The plunge in crude oil prices in the short run is a big score for Kenya which currently depends on imports for all of its oil consumption. Oil contributes a significant 20 per cent of the overall imports bill. With lower crude oil prices, import bill decreases.

In the short-term, while producers are crying, consumers are laughing all the way to fuel stations as consumers will continue to enjoy lower prices of fuel.

The Energy Regulatory Commission (ERC) in January 2015 announced sharp cuts in pump prices of petrol, diesel and kerosene (paraffin); the lowest drop in costs over the past 48 months.

Lower oil prices are expected to help reduce the cost of living in Kenya. Decline in oil prices translates directly into a drop in the consumer price inflation with indirect impact like lower food prices because of cheaper transport costs.

Many businesses would benefit from lower petrol prices at the pump and while it is expected that these businesses will retain part of the gains, the rest will get passed on downstream and will help lower inflation. A lower inflation rate would most likely serve as a cue for the Central Bank of Kenya (CBK) to reduce interest rates, a move that could boost economic growth.

According to the Economist, there is one group of countries that gains unambiguously: the most dependent on agriculture. Kenya is one of the countries where agriculture accounts for 25 per cent of GDP. In Kenya, where the bulk of farming is subsistence and small-scale, energy is needed to transport farm

OIL EXPLORATION IS CAPITAL-INTENSIVE, WITH LARGE CHUNKS OF MONEY SPENT WITH THE HOPE OF STRIKING COMMERCIALLY VIABLE OIL AT THE RISK OF INCURRING LOSSES WHERE NONE IS FOUND

produce to the markets. Energy is also needed to transform the raw farm produce into finished products, which again require energy to transport to the market.

In the long term, the picture is not all that rosy especially coinciding with the fact that Kenya's status is about to change from an oil consuming country to an oil producing country. Despite the fact that Kenya has discovered crude oil, it can only produce it at a profit.

The World Bank has warned that the declining crude oil prices are not good for countries undertaking exploration activities. In its Global Economic Prospects report for January 2015, World Bank observes that lower crude oil prices could discourage more investments in exploration.

A drop in oil prices reduces the profit margin of investment in our oil resources, raising concerns for the oil sector investors in the country. This would affect the likelihood of their further investment in oil extraction in the country.

Tullow Oil recently announced that it would be scaling down its exploration budget this year. "In light of current oil and gas sector challenges including the commodity price environment, we are reviewing our capital expenditure and our cost base to ensure that Tullow is well-positioned for future success. In 2015, we will be focusing our capital spend on producing and development assets" says a statement by Tullow Oil in November last year.

In January, the British company said it will write off USD2.2 billion (Sh200 billion) of its exploration business in Ethiopia, Mauritania and Norway as a result of the plunge in crude oil prices. Although the London-listed energy firm spared Kenya from its sharp exploration budget cuts, it is considering laying off some of its staff to cut costs.

Oil imports account for about a quarter of Kenya's total imports and with oil prices declining in the region of 20 per cent, this will offer some breathing to the import bill with positive ripple effects.

Finance Act 2014 Reintroduces Capital Gains Tax

By Mr. Charles Maloba, Head of Custodial Services at Prime Bank

Kenya's Finance Act 2014, has amended sections of the Constitution relating to taxes and their applications, covering Income Tax, Value Added Tax, Customs and Excise and Taxation of Extractive Industries.

The law has seen the re-introduction of Capital Gains Tax (CGT) which was suspended in the mid 1980s to attract both foreign and local investment in the capital markets and real estate.

The law which came into effect from January 1, 2015 is geared to tap into the thriving real estate industry by introducing a 5 per cent Capital Gain Tax.

Capital gains are the profits that an investor realizes when he or she sells the capital asset for a price that is higher than the purchase price.

The reintroduction of the CGT is as a result of robust growth in the stock market, real estate sector, and extractive industries in Kenya. The Nairobi Securities Exchange (NSE) is ranked second best performing stock exchange in Africa while the values of property in Nairobi have increased and are attracting international investors. Mineral and oil and gas deposit have been discovered over the past five years.

THE NEW LAW COMES WITH SOME RELIEF TO CERTAIN SECTORS OF THE ECONOMY

Sellers of stocks through the NSE will be charged five per cent of any profit they make while Investors will be allowed to deduct the cost of acquiring, developing and maintaining the assets before the tax is assessed.

The new law comes with some relief to certain sectors of the economy with employees now enjoying tax free expenditures on vacations in a move aimed at encouraging domestic tourism. Airlines are also going to benefit with Value Added Tax on aeroplanes being exempted. This is expected to lower air fares in the long run.

The power and energy sector is also seeing better days ahead with the new Act exempting VAT on solar equipment which is expected to see a jump in the manufacture and use of solar power. This will in turn lead to reduced prices of electricity.

Investors will be willing to comply with the new tax, as it may be termed fair compared to a country like Tanzania, the region's second-biggest economy, which charges Capital Gains Tax at 20 per cent for foreign-owned firms and 10 per cent for residents.

Liquidity Management in Financial Markets

By Mr. Ganesh Krishnamurthy, Head of Treasury at Prime Bank

Liquid is defined as something which is neither solid nor gas. It is that which conforms to the shape of the vessel containing it. Water is the best example of a liquid. However, in finance liquidity has a very different meaning.

Liquidity in simple words means the amount of money circulating and available to all participants in the financial markets. Participants include individuals, corporate entities, financial institutions and the government.

The most fundamental concept of economics; Demand and Supply of money determine the liquidity in the system. The Central Bank of Kenya (CBK) has the power to increase or decrease the liquidity in the financial markets using various policy tools.

So in a sense we can imagine that the liquid tap is housed within the CBK. If the level of liquidity in the financial system drops, CBK has the power to loosen the tap a little and allow more money to gush into the system.

Perhaps it is this similarity that led to the term liquidity getting associated with money supply.

So, what affects liquidity?

1. The borrowings of the government to fund the deficit that arises when its income falls short of expenses. Apparently, the government is the biggest borrower in Kenya.
2. Borrowings by the corporate sector to fund capital expenditures and short-term credit or working capital needs.
3. The level of free float available within financial institutions for investment.

What are the variables affected by liquidity?

Commodities that are not available easily tend to become costly. Money is no exception to this. If the CBK prefers to reduce liquidity from the financial system, the same is reflected by increase in interest rates.

Put simply, the loans become costlier. At the other end, borrowers will have to pay more to raise money.

If there is ample liquidity in the financial system, investors and speculators find it easy to raise money. This ensures that the asset prices rise.

Hence periods of low interest rates, with ample liquidity in the financial system, create a good environment for price rise across asset classes, such as equities, commodities and real estate.

But if this continues unabated, it gives rise to unfettered inflation which can cause hardships for citizens across the social strata. Very high inflation is debilitating and hence CBK needs to step in to regulate inflation by reducing liquidity.

But when liquidity is reduced, the speculators find it difficult to hold on to their positions due to non availability of money and buyers. This causes asset prices to fall.

Therefore the CBK has to walk a tight rope to ensure that neither inflation shoots up nor conditions of very tight liquidity arise, that result into slow economic growth.

Thus the CBK acts like a speed

Continued on Page 18

Africa on the Verge of a New Era of Economic Growth and Development

By Moses Karanja

There are signs that Africa could be on the verge of a new era of economic growth and development. Growth from 2000 to 2010 averaged over 5 per cent per annum. Even while the financial crisis hammered the economies of the West, average growth across the continent managed to stay firmly in positive territory.

According to a report by Cicero group – a London based Communications Agency – titled Curve Balls: Global Political Risks in 2015 and beyond, Africa's weak financial system and the regional impact of Ebola were identified as two challenges to the continent attracting the level investment needed to get Africa motoring.

Africa's underdeveloped financial system is undoubtedly an impediment to faster growth. While the US and Europe has seen what can happen when a financial sector gets too big, one that is too small is also problematic. Africa's is small in both absolute and relative terms compared to other regions.

While a developed financial sector is a necessary condition it is not sufficient. Shocks can have a chilling effect on investment. The human tragedy of Ebola shows that while economies have become increasingly attractive to intra-regional and global investment, they are also vulnerable to its rapid withdrawal.

The United Nations Economic Commission for Africa (UNECA) predicts that, in 2015, Ebola will reduce total African GDP by 0.15 per cent.

While this is small at the level of the whole continent, the effect in West Africa is significant, particularly in the hardest hit countries like Sierra Leone, Liberia and Guinea.

For Sierra Leone, 2014 growth projections were revised from a staggering 11.3 per cent to 4.0 per cent as a result of Ebola; in Liberia growth was revised down from 5.9 per cent to 2.2 per cent; and in Guinea from 4.5 per cent to 0.5 per cent. With investment in local businesses and infrastructure falling, it will take time for these countries to recover.

Despite the challenges, the continent remains optimistic for the future. While many have focused on the clear shift of the economic centre of gravity to the East, there is colossal economic potential in Africa that can be unlocked too.

— Mr. Karanja is a research analyst at Tafiti Group

Liquidity Management in Financial Markets

Continued from Page 17

governor that is often attached to a car to regulate its speed. Such a car cannot speed up beyond a prescribed limit. The governor along with a good chauffeur would thus ensure that the car neither goes too fast nor goes too slow. That is how the speed of the economy too has to be maintained.

Hope you have understood the concept of liquidity. In our next edition, look out for interesting facts on how Banks manage their liquidity and the tools provided by Central Bank of Kenya to maintain equilibrium.

Capital Centre and Industrial Area Host Clients as Banu Salyani Retires

By Victor Mukele

Prime Bank hosted customers of Capital and Industrial Area branches to a farewell cocktail party that was held at Haveli Restaurant in Capital centre. As it has always been our tradition to thank our customers in style for their continued support and partnership, the bank's management led staff of the two branches in hosting customers to a sumptuous dinner and interaction sessions.

In line with our clarion call of putting our customers first, the cocktail event provided an opportunity for the bank to reiterate its commitment to them.

At the same event, we bade farewell to Ms. Banu Salyani who retired as Manager of Capital Centre Branch.

The event marked the end of a 15 year illustrious career and ushered in a new era of endless possibilities for Ms. Salyani, who retired as a Branch Manager to take up the role of Relationship Manager. All present at the event gathered to bid farewell to the lady who had been an important partner in Prime Bank's growth journey with gifts, hugs and best wishes. Most of the guests doubled up as her clients in the two branches.

In her farewell speech, Ms. Banu thanked the staff of capital Centre for their support and the cordial relationship which propelled the growth of the branch.

Managing Director Bharat Jani said Ms. Banu has been instrumental in the bank's growth in terms of customer base in the branches she managed." Your experience in financial market has helped the bank through the journey of automation, moving from the traditional banking to better meet the growing complex needs of the customers," he added.

Ms. Banu will continue to be a member of Prime Bank family and will play a role of Relationship Manager for corporate customers at both Industrial Area and Capital Centre branches.

FEATURE

ANNUAL RETREAT

Pomp and Color at Prime Bank Annual Retreat

By Victor Mukele

Pomp and color characterized the 12th Prime Bank Annual Retreat and Gala Night as its associates and clients were treated to a three day retreat in Ukunda Mombasa. The Leisure Lodge Resort Ukunda provided the scenic setting for the retreat.

As is the norm, the retreat brought together over 100 clients from across the 17 branches countrywide. The occasion also accorded an opportunity for our associates, customers and staff to interact in less formal setting at the hospitable five-star resort.

The retreat was tremendously successful

and set the standard at which other related events will be held.

Those in attendance were treated to an impressive performance by a popular dance group followed by dance to golden oldies and a blend of new age hits as the excitement in the air was palpable.

An extraordinary moment during the celebrations was when the guests braced the sunny afternoon of the second day of the retreat to team up the tag of war contest pitting men against women.

Despite the scorching sun which literally turned the place into an oven, both sides stood their ground. However, it was the ladies team which carried the day when they tactically pulled their opponents towards the finish line.

Golfers were not left behind as they took their trade to the most beautiful golf course in East Africa for a tournament. Others decided to enjoy the relaxed weekend on the sunny beaches of the coast.

Making his closing remarks, at the culmination of the three days of the retreat, Managing Director Mr. Bharat Jani said the retreat was the bank's highlight event, an occasion for the Bank to express gratitude to its clients for their continued support "We appreciate you as our customers and we know that our success as a bank solely lies on your success as our partners. That is why we always put you first!," added Mr. Jani.

The retreat was a momentous weekend for the Bank's associates and customers.

THE RETREAT WAS TREMENDOUSLY SUCCESSFUL AND SET THE STANDARD AT WHICH OTHER RELATED EVENTS WILL BE HELD

Prime Bank Ends the Year in Style

By Victor Mukele

When it comes to celebrating our achievements at the end of the year; and recognizing and reward the efforts of employees for the year, no one does it better than us.

The Bank hosted its end year party at the Hospital Hill School ground on 20th December 2014.

The bash saw staff look back on the year as those who had excelled in the year were awarded while those who were exemplary in their work were promoted.

The bank's Executive Director Mr. Amar Kantaria took the opportunity to announce that the Board of Directors had promoted Mr. Bharat Jani to the position of Managing Director.

Zahid Khan (Industrial Area Branch), Jane Mungai (Riverside Branch), and Vishal Kantaria (Hurligham Branch) were promoted to the position of Chief Managers while Jackline Oyuga (Card Centre), Josephine Macharia (HR), and Sabina Manji (Clearing) were promoted as Senior Managers.

Mr. Jani thanked the staff for their hard work and challenged them to do even better in 2015. He also took the opportunity to thank the Board of Directors for the appointment.

To bid 2014 a good-bye, staff led by Mr. Amar, Mr.Jani, and GM Mr. Jagannathan sealed off the day with amazing dance moves to their favorite tunes.

THE BASH SAW STAFF LOOK BACK ON THE YEAR AS THOSE WHO HAD EXCELLED IN THE YEAR WERE AWARDED WHILE THOSE WHO WERE EXEMPLARY IN THEIR WORK WERE PROMOTED

FEATURE

ANNUAL PERFORMANCE AWARDS

BEST PERFORMERS AWARDED AT ANNUAL PARTY

1. Riverside Branch Manager Pragna Vaya (left) and Chief Manager Jane Mungai (centre) receive a cash prize from ED Amar Kantaria for crossing half a billion mark in profits.
2. Best Branch second runner up Nakuru Branch.
3. Best Department, second runner up IT Department.
4. Mr. Magnus Shikutwa receives a memento from ED Amar Kantaria in recognition of his relentless service and loyalty to the bank. Mr. Shikutwa has worked for Prime Bank for 20 years.
5. Best Department, winners, Accounts Department.
6. Best Branch first runner up Hurlingham Branch.
7. Best Branch 2014, Kisumu Branch
8. Best Department, first runner up, Clearing Department.
9. Director, Business Development, Mr. Vijay Kantaria with Gigiri branch who were feted for performing well in the first year of operation.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SIGONA GOLF TOURNAMENT

Mr.Ronak Popat follows his chip from the bunker during the tournament.

PRIME BANK DIWALI GOLF TOURNAMENT AT SIGONA

On Saturday 22nd November 2014 over 150 golfers took to the green at the Sigona Golf Club to take part in the 10th edition of the annual Prime Bank Diwali Golf Tournament. At the end of the one-day golf event, David Mukuria emerged the overall winner after posting a total of 39 points. Speaking after the tournament, Prime Bank Managing Director Mr. Bharat Jani commended the large turnout for the tournament and re-assured the golfers of sponsorship for the 2015 edition.

Some of the players at the 10th Annual Prime Bank Diwali Golf Tournament.

Mr. Nishith Patel (centre), Chairman Sigona Golf Club 2014 presents an appreciation plaque to Prime Bank staff led by Managing Director Mr. Bharat Jani (second right), Mr. Michael Laxmi (right),Shan Dan (second left) and Mr. Charles Maloba (left).

EVENTS CORNER

HR TRAINING

Senior Manager (HR) Josephine Macharia (standing) with Director, Business Development Mr. Vijay Kantaria (seated, next to Josephine) taking staff through the training on customer relation held on 14th February 2015.

VISA CARD TRAINING

On 10th January 2015, Card Centre held a training for new staff on Visa cards. Head of Card Centre Mrs. Jackline Oyuga took the staff through the various cards offered by the Bank.

THANK YOU ELDORET BRANCH

Mr. Stephen Kemboi Chumo (right) Eldoret Branch customer successfully repaid his loan at the branch. Mr. Chumo thanked the Chief Manager Mr. Ajith Panicker and Manager Mr. George Aloo.

MANAGER'S MEETING

The last managers meeting of the year was held on 6th December 2014. The theme of the meeting was: Opportunities are equal for all but the difference is that a positive person gives results and a negative person gives reasons.

EVENTS CORNER

PRIME BANK/ JGF GOLF DAY

Gurdit Bhachu,one of the junior golfers who took part in the Prime Bank/Junior Golf Foundation Golf Day tees off at the Muthaiga Golf Club on 28th March 2015.

VISA GOLF CARD

Mr. Ashwin Gidoomal Chairman Junior Golf Foundation receives a cheque from Ms. Jackline Oyuga, Head of Card Centre in support of the foundation.

COCKTAIL FOR CAPITAL CENTRE AND INDUSTRIAL AREA BRANCHES

Capital Centre Branch staff at Haveli Restaurant prepare to welcome clients for the cocktail and dinner party that was held on 10th October 2014.

STAFF TRAINING

Mr. A.R Jagannathan, General Manager, taking staff through bank operations during training session held on 10th January 2015.

NOTICEBOARD

"Productivity is never an accident but is always the result of a commitment to excellence,intelligent planning and focused effort"
– Paul J. Meyer

"Put your heart, mind, and soul into even your smallest acts. This is the secret of success."
– Swami Sivananda

Three men were laying bricks. The first was asked: "What are you doing?" He answered: "Laying some bricks." The second man was asked: "What are you working for?" He answered: "Five dollars a day." The third man was asked: "What are you doing?" He answered: "I am helping to build a great cathedral." Which man are you?
– Charles M. Schwab

"LUCKY is one who gets the opportunity BRILLIANT is one who creates the opportunity WINNER is the one who grabs the opportunity!"
– Anonymous

"Action without vision is only passing time, vision without action is merely day dreaming, but VISION with ACTION can change the world."
– Nelson Mandela

Extended Business Hours

Capital Centre
Weekdays: 9.30 a.m. – 5.00 p.m.
Saturday: 10.30 a.m. – 3.00 p.m.
Sunday: 10.30 a.m. – 1.00 p.m.
Telephone: +254 20 552 1901
Mobile: 0728 604 399/0733 600 530

Kamukunji Branch
Weekdays: 9.00 a.m. – 4.00 p.m.
Saturday: 9.00 a.m. – 2.00 p.m.
Telephone: +254 20 806 8522/3
Mobile: 0729 110 891

Parklands Branch
Weekdays: 9.30 a.m. – 7.00 p.m.
Saturday: 9.30 a.m. – 4.00 p.m.
Sunday: 10.30 a.m. – 2.00 p.m.
Telephone: +254 20 375 3791/374 9733
Mobile: 0724 253 287/0733 611 446

Nyali, Mombasa
Weekdays: 09.00 a.m. – 05.00 p.m.
Saturday: 10.30 a.m. – 03.00 p.m.
Sunday: 10.30 a.m. – 01.00 p.m.
Telephone: +254 41 470 678/470 679
Mobile: 0789 393 815

Eldoret
Weekdays: 09.30 a.m. – 05.00 p.m.
Saturday: 10.30 a.m. – 03.00 p.m.
Sunday: 10.00 a.m. – 01.00 p.m.
Telephone: +254 53 203 2476/ 203 2488/203 2532
Mobile: 0703 791 988/0717

BANKING ON GROUP STRENGTH

INTEGRATED TECHNOLOGY

RAPID GROWTH

OUR BRANCH NETWORK

17
KENYA

1
MALAWI

1
ZAMBIA

1
MOZAMBIQUE

1
BOTSWANA

Our Vision

With integrity, quality and exceptional service we aim to be the financial service provider of first choice.

Our Mission

- To efficiently increase value for our customers, shareholders, employees and communities.
- To provide the highest level of customer service, satisfaction and personalized financial solutions through knowledgeable team members, efficient teamwork and technological advancements while striving for innovative and creative ways to improve procedures and implement products.
- To always be mindful of the fact that our greatest assets is the trust and loyalty of our customers and that our future depends upon our reputation for honesty and fairness.

Comments and feedback to:

Email: customercare@primebank.co.ke

Call: +254 20 420 3294/122/178

Prime Bank

PUTTING YOU FIRST