

GUIDELINE ON CONSOLIDATED SUPERVISION CBK/PG/19

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PART I: PRELIMINARY

1.1 Title - Guideline on Consolidated Supervision

1.2 Authorization

1.2.1 The Guideline is issued under Section 33(4) of the Banking Act, which empowers the Central Bank to issue guidelines, advise and direct business of institutions for the general carrying out of the purposes and provisions of the Banking Act (Cap.488), and Sections 21, 27 and 28 of the Banking Act which place the following requirements upon institutions:

- Section 21 provides that the Central Bank may, at any time, issue directions to an institution requiring it to maintain such books, records or information, in addition to any books, records or information then already maintained by it, as the Central Bank may consider to be necessary.
- Section 27 provides that the Central Bank may require institutions to submit statistical and other returns on a periodic basis in addition to any other returns required by law.
- Section 28 provides that the Central Bank may require any institution to furnish to it, at such time and in such manner as it may direct, such information as the Central Bank may reasonably require for the proper discharge of its functions under the Act. Such information may include information relating to any company which is an associate or a holding company of the institution.

1.3. Application

These Guidelines shall apply to shareholders of institutions, non-operating holding companies, banks, financial institutions, auditors, groups, financial conglomerates and any person referred to under the guidelines or specified by the bank.

1.4. Definitions

Terms used in this Guideline are as defined in the Banking Act and as further defined below:

1.4.1 “the Act” means The Banking Act, Chapter 488, Laws of Kenya;

1.4.2 “Associate” means

- (a) in relation to a company or other body corporate:
 - i. a subsidiary of its non-operating holding company;

- ii. a holding company of its subsidiary;
- iii. any person who controls the company or body corporate whether alone or with his associates or with other associates of it; and

(b) in relation to an individual:

- i. any member of his family. A person shall be deemed to be a member of a family if he is a parent, spouse, brother, sister, child, uncle, aunt, nephew, niece, stepfather, stepmother, stepchild or adopted child of the person concerned, and in case of an adopted child his adopter or adopters.
- ii. any company or other body corporate controlled directly or indirectly, by him whether alone or with his associates.

1.4.3 “Banking group” means a licensed institution and its subsidiaries, non operating holding company and subsidiaries of its non operating holding company.

1.4.4 “Central Bank” means the Central Bank of Kenya established by the Central Bank of Kenya Act;

1.4.5 “Consolidated Supervision” means an overall evaluation of an institution and the group to which it belongs, to ensure that all risk exposures are taken into account, whether the risks arise in the institution itself, or in a significant shareholder, subsidiary or associate of the institution.

1.4.6 “Consolidated Financial Statements” refers to the financial statements of a group in which the assets, liabilities, equity, income, expenses and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

1.4.7 “Control” is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

1.4.8 “Group” refers to a parent and all its subsidiaries and associates.

1.4.9 “Non-operating holding company” means any company, other than an institution, that has approved control of an institution, whose activities are limited to: holding investments in subsidiaries; holding properties used by group members; raising funds to invest in, or to provide support to, subsidiaries; raising funds to conduct its own limited activities; investing funds on behalf of the group; conducting the banking activities required for its own limited functions; and providing administrative, risk management and financial services to support the efficient operation of the group.

1.4.10 “Non-controlling interest” is the equity in a subsidiary not attributable, directly or indirectly, to a parent.

1.4.11 “Significant Shareholder” means, a person other than the Government or a public entity that holds, directly or indirectly or otherwise has a beneficial interest in more than five percent of the share capital of an institution.

1.4.12 “Subsidiary” means an institution having more than half (50%) of its stock owned by another institution or an entity that is controlled by an institution or by a non-operating holding company. A subsidiary of a subsidiary is considered a subsidiary of the ultimate parent institution.

1.4.13 “Parent” means an entity that controls one or more entities.

PART II: STATEMENT OF POLICY

2.1 Purpose

2.1.1 The purpose of this guideline is:

- to establish reporting requirements for institutions with respect to their banking groups, associates, significant shareholders, and subsidiaries.
- to provide the Central Bank with a full understanding of the structure of such institutions and their associates, significant shareholders, and subsidiaries, as well as the business conducted by each entity in the group to which the institution belongs and the risk environment in which they operate in order to satisfy itself that the operations and affairs of such companies or persons are not detrimental to the safety and soundness of the institution concerned and are in compliance with the Act; and
- to ensure that institutions with subsidiaries or otherwise belonging to banking groups adhere to prudential requirements for capital adequacy, liquidity, single borrower limits and restrictions on facilities to insiders on both a consolidated and a solo basis.
- to ensure that the parent institution or non-operating holding company of a banking group maintains an adequate group wide risk management framework that identify, measure, monitor and control risks on a consolidated basis across all entities within the group.

2.2 Scope -This guideline applies to institutions as defined in the Banking Act.

PART III: REPORTING REQUIREMENTS

3.1 Annual Group Information Return

- 3.1.1 Institutions are required to provide the information set out in Part VII as at 31 December of each year with respect to associates, significant shareholders, and subsidiaries not later than 31 March of the following year.

3.2 Scope of consolidated financial statements

- 3.2.1 Consolidated financial statements shall comprise all subsidiaries of the parent institution including those incorporated outside Kenya.
- 3.2.2 Control is presumed to exist when the parent institution, directly or indirectly through subsidiaries, owns more than half of the voting power of an entity unless, in exceptional circumstances, it can be clearly demonstrated that such ownership does not constitute control.

3.3 Consolidation procedures and reporting

- 3.3.1 An institution having any subsidiaries shall submit a copy of the audited consolidated financial statements within three months of the end of the financial year.
- 3.3.2 The consolidated financial statements should be prepared in accordance with the applicable International Financial Reporting Standards and/or standards prescribed by the regulator of the parent entity.
- 3.3.3 The financial statements of the parent institution and its subsidiaries shall be prepared as of the same date. When the end of the reporting period of the parent is different from that of a subsidiary, the subsidiary should prepare, for consolidation purposes, additional financial statements as of the same date as the financial statements of the parent.
- 3.3.4 The consolidated financial statements should include consolidated balance sheet, consolidated statement of profit and loss, statement of cash flow, principal accounting policies and notes on accounts. The group accounts should be prepared using uniform accounting policies for like transactions and other events in similar circumstances. If it is not practicable to do so, that fact should be disclosed together with the proportions of the items in the consolidated financial statements to which the different accounting policies have been applied.

- 3.3.5 An institution having any subsidiaries shall submit to the Central Bank within five days after the end of the every quarter, the following reports on both a solo and consolidated basis:
- a) Return CBK/PR3: Capital to Risk Weighted Assets;
 - b) Return CBK/PR4-3: Advances, bills discounted and other facilities to any person or connected group exceeding 25 Percent of Core Capital;
 - c) Return CBK/PR4-4: Advances, bills discounted and other facilities to staff members, shareholders, directors and their associates;
 - d) Large Exposures;
 - e) Liquidity Ratios;
 - f) Exposures to related parties and
 - g) Lending limits.

3.4 Additional Reporting Requirements

- 3.4.1 The Central Bank shall, if it deems necessary, require an institution to submit a copy of the latest annual audited financial statements of any or all associates, significant shareholders, and subsidiaries, not later than (30th March) of the year following the financial year to which such audited financial statements refer.
- 3.4.2 The Central Bank shall, if it deems necessary require the institution to provide updated information with respect to any or all significant shareholders in the form set out in Second Schedule to the Guideline on Licensing of New Institutions (CBK/PG/01).
- 3.4.3 In addition to the reporting specified in this guideline, the Central Bank may require institutions to submit any information in respect of their associates, significant shareholders and subsidiaries in order that the Central Bank may be satisfied that the operations and affairs of such companies or persons are not detrimental to the safety and soundness of the institution concerned and are in compliance with the Act.
- 3.4.4 The Central Bank may determine which entities are to be included in the consolidation for the purposes of meeting the requirements of this guideline. Further, for supervisory purposes, the Central Bank may require consolidated financial information, including a partial consolidation of the institution and such subsidiaries and associates of the bank within or outside Kenya. The requirements may differ from the consolidation required under International Financial Reporting Standards.

PART IV: PRUDENTIAL REQUIREMENTS

4.1 Capital Adequacy

- 4.1.1 When the Central Bank determines that an institution has insufficient capital to shield against the risks arising from its group relationships, pursuant to Section 18 of the Act and the Capital Adequacy Guideline, the Central Bank shall require higher minimum capital ratios for the institution.
- 4.1.2 Members of the banking group are required to maintain the capital adequacy ratios prescribed by their respective regulators and ensure minimum capital requirements are complied with on a solo and consolidated basis. In case of any shortfall in the capital adequacy ratio of any of the subsidiaries, the parent should maintain capital in addition to its own regulatory requirements to cover the shortfall.
- 4.1.3 **Large Exposures:** - As a prudential measure aimed at better risk management and avoidance of concentration of credit risks, the institutions in a banking group should, in addition to adherence to prudential limits on solo basis, also adhere to Single and Group borrower exposure limits on a consolidated basis.
- 4.1.4 **Liquidity Ratios:** - The existing liquidity requirements applicable to institutions on a solo basis are extended to the banking group as well. If the related entities in the group are banking institutions, liquidity position will be monitored on a consolidated basis after netting out intra-group transactions and exposures. If the related entities in the banking group are heterogeneous comprising non-banking entities, compliance would be restricted to the banking entities on a consolidated basis. In respect of non-banking financial entities within bank groups, each should comply with its solo liquidity requirements.
- 4.1.5 **Market Risk Exposure:** - Institutions should ensure that potential risk of loss arising from price risk, interest rate risk or foreign exchange rate fluctuations to the institution's capital base are within group tolerance level and prudential limits. The limits applicable to institution on a solo basis such as the foreign exchange risk exposure (net open forex exposure), single currency and intra-day foreign exchange exposure, are also extended to the banking group.
- 4.1.6 **Cross Border Visits:** - CBK may from time to time where it deems necessary and in coordination with the host supervisor, visit the foreign offices / operations of a member of the banking group. The location and frequency will be determined by the risk profile and systemic importance of the foreign operations.

4.2 Other Prudential Standards

- 4.2.1 If an institution with subsidiaries exceeds the single borrower limits and restrictions on facilities to insiders on a consolidated basis, the Central Bank shall in recognition of the risks and pursuant to Section 18 of the Act and the Capital Adequacy Guideline prescribe such higher capital adequacy requirements for that institution as may be required to ensure compliance with the prudential limits on a consolidated basis.
- 4.2.2 External auditors of consolidated financial statements shall be subject to rotation requirements to safeguard independence and objectivity.

4.2.2.1 External auditor rotation

- a) An external auditor shall not audit the consolidated accounts of a group for more than six (6) consecutive years.
- b) An external auditor that has audited the consolidated accounts of a group for six (6) consecutive years may be reappointed only after a lapse of three (3) years from the last audit engagement.
- c) Notwithstanding paragraph 4.2.2.1(a) above, an external auditor shall not audit the consolidated accounts of a group for more than six (6) years within any nine (9) year period.

4.2.2.2 Audit Partner and/or Manager Rotation

- a) A registered public accounting firm shall ensure that the lead audit partner (having primary responsibility for the audit of the consolidated accounts of a group), or the audit partner responsible for reviewing the audit and the audit manager or officer leading the audit team, do not perform audit services for the group for more than three (3) years.
- b) The lead and reviewing audit partners and/or audit manager who have been rotated off the audit of the group may resume the role only after a lapse of three (3) years from the last audit engagement with the group.
- c) For the purposes of paragraphs 4.2.2.2 (a) and (b), any period of service and the applicable cooling-off period shall continue to apply to the individual lead audit partner, reviewing audit partner, audit manager or officer, notwithstanding transfer to or employment with another external auditor.

PART V: REMEDIAL MEASURES AND ADMINISTRATIVE SANCTIONS

5.1 Remedial measures

If an institution fails to comply with this guideline, the Central Bank may pursue any or all corrective sanctions and or actions as provided for under the Act.

5.2 Administrative sanctions

In addition to the use of Remedial measures noted in 5.1 above, the Central Bank may pursue any or all of the following administrative sanctions against an institution, its board of directors and its officers:

- a) Prohibition from engaging in any further foreign exchange activities;
- b) Prohibition from declaring or paying dividends;
- c) Prohibition from establishing new branches, subsidiaries, agents or introducing new products;
- d) Prohibition from engaging in new activities or from expanding existing activities;
- e) Suspension of access to Central Bank credit facilities;
- f) Suspension of lending, investment, and credit granting operations;
- g) Prohibition from acquiring, through purchase or lease, additional fixed assets;
- h) Prohibition from accepting further deposits or other lines of credit;
- i) Prohibition from declaring or paying bonuses, salary incentives, severance packages, management fees or other discretionary compensation to directors or officers.
- j) Limit the range of activities the consolidated group may conduct and the locations in which such activities can be conducted (including the closing of foreign offices). If it is determined that;
 - i. The safety and soundness of the bank and banking group is compromised because the activities expose the bank or banking group to excessive risk and/or are not properly managed;
 - ii. The supervision by other supervisors is not adequate relative to the risk the activities present.
 - iii. The exercise of effective supervision on a consolidated basis is hindered.

PART VI: EFFECTIVE DATE

6.1 Effective date: The effective date of this Guideline shall be January 1, 2027.

6.2 Transition provisions

- a) For purposes of Paragraph 4.2.2.1 (a), the six (6) consecutive year tenure of an external auditor shall commence from the effective date of this Guideline.
- b) For purposes of Paragraph 4.2.2.1 (b), the nine (9) year period shall commence from the effective date of this Guideline.

- c) For purposes of Paragraph 4.2.2.2 (a), the three (3) year tenure of the audit partner/manager or officer shall commence from the effective date of this Guideline.

6.3 Supersedence – This guideline supersedes and replaces Prudential Guideline on Consolidated Supervision, CBK/PG/19 of 1st January 2013.

Enquires

Enquiries on any aspect of these Guidelines should be referred to:

The Director,
Bank Supervision Department
Central Bank of Kenya
P.O. Box 60000-00200

Nairobi

TEL. 2860000

e-mail: *fin@centralbank.go.ke*

Part VII: FORM CBK-PR19-1

Annual Information Report

Subsidiaries, Associates, and Significant Shareholders

INSTITUTION:

Pursuant to section 28 of the Banking Act and the Guideline on Consolidated Supervision (CBK/PG/19), each financial institution is required to submit by March 31 each year the following information as at December 31 of the preceding year:

1. A chart or series of charts which shows the relationship between the financial institution and its subsidiary companies, associates, and significant shareholders, together with a brief outline of the nature of business, types of products or range of services and locations of principal places of business for each such company or person.
2. A list of significant shareholders, directors and officers for each subsidiary, associate, and significant shareholders of the institution.
3. The name and contact details of the authority or body responsible for regulation and supervision, if applicable, of each subsidiary, associate and significant shareholder of the institution.
4. Findings from the latest regulatory reports from both banking and non banking institutions and the implementation status.
5. Any enforcement action from regulators.
6. The name and contact details of the external auditors for each subsidiary, associate and significant shareholder of the institution.
7. A chart of the group management structure, if applicable, which clearly indicates the way in which senior management responsibilities (including the names and job titles) are allocated.