

Governor

**BANKI
KUU YA
KENYA**



**CENTRAL
BANK OF
KENYA**

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September 13, 2016

BANKING CIRCULAR NO. 4 OF 2016

TO ALL CHIEF EXECUTIVES OF COMMERCIAL BANKS AND MORTGAGE FINANCE COMPANIES

THE BANKING (AMENDMENT) ACT, 2016

Further to the notification from the Central Bank of Kenya (CBK), dated August 31, 2016, the Banking (Amendment) Act, 2016, will commence on September 14, 2016. With this in mind, CBK draws your attention to the following:

1. For purposes of section 33B of this Act, the base rate is the Central Bank Rate (CBR). This is in line with Section 36(4) of the Central Bank of Kenya Act which requires that; *"The Bank shall publish the lowest rate of interest it charges on loans to banks and microfinance banks, and that rate shall be known as the Central Bank Rate"*.
2. For purposes of section 33B (1) (a) which sets the maximum interest rate chargeable for a credit facility *"at no more than four percent, the base rate set and published by the CBK"*, the cap will be set at four percentage points above the CBR.
3. The interest rates indicated in the Banking (Amendment) Act, 2016, will apply on an annual basis.
4. For monitoring purposes, institutions should complete and return the attached documents to CBK within 5 working days after the end of the month. Accordingly, the first returns for end September 2016, should be submitted to CBK by October 7, 2016.
5. Section 31A on the disclosure on loans states that *"A bank or financial institution shall, before granting a loan to a borrower disclose all the charges and terms relating to the loan."* Accordingly, institutions should submit to the CBK by September 30, 2016, copies of their policies that will ensure full disclosure of all charges and terms for loans to borrowers.

As you are aware, further reforms are needed to improve the operations of the credit market. In this regard, the CBK will put in place additional measures to enhance cost of credit, disclosures, strengthen the credit information sharing mechanism and improve interbank liquidity management. These reforms will also enhance the transmission of monetary policy.

A handwritten signature in green ink that reads 'Patrick Njoroge'.

Dr. Patrick Njoroge