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THE MICROFINANCE ACT

CAP. 493C

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Microfinance Act

Cap. 493C

Legislation as at 31 December 2022

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MICROFINANCE ACT

CAP. 493C

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An Act of Parliament to make provision for the licensing, regulation and supervision of microfinance business and for connected purposes

Part I – PRELIMINARY

1. Short title

This Act may be cited as the Microfinance Act.

2. Interpretation

In this Act, unless the context otherwise requires—

“agency” means—

- (a) an institution’s place of business operated within premises or structure owned or occupied by a third party by means of an agreement between the institution and the third party in the provision of deposit-taking microfinance business; or
- (b) an entity contracted by an institution and approved by the Central Bank, or sub-contracted by such entity to provide services of the institution on behalf of the institution, in such manner as may be prescribed by the Central Bank;

“associate”—

- (a) in relation to a natural person, means any person—
 - (i) related to that person by marriage, affinity or consanguinity; or
 - (ii) who is a partner or an employee of that person;
- (b) in relation to a company or other body corporate, means—
 - (i) its holding company or its subsidiary;
 - (ii) a subsidiary of its holding company;
 - (iii) a holding company of its subsidiary; or
 - (iv) any person who controls that company or body corporate, whether alone or with his associates or with other associates of the company or body corporate;

“bank” or “financial institution” have the meanings respectively assigned to them in the Banking Act ([Cap. 488](#));

“branch” means an institution’s place of business, used for the provision of deposit-taking microfinance business in Kenya and directly responsible to the head office of the institution for the conduct of business, and which is situated at a permanent location and address;

“Cabinet Secretary” means the Cabinet Secretary for the time being responsible for matters relating to finance;

“Central Bank” means the Central Bank of Kenya established by the Central Bank of Kenya Act ([Cap. 491](#));

“control” in relation to a company or other body corporate, includes—

- (a) to influence, whether directly or indirectly, the composition of at least half of the Board of directors of the company or other body corporate;
- (b) to hold, directly or indirectly, whether personally or through a holding company or companies or subsidiaries thereof, or in any other way, an aggregate of fifty per centum or more of the voting power of the company or body corporate, whether alone or with associates or with other associates of the company or other body corporate; or
- (c) the ability, in the opinion of the Central Bank, to exercise a dominant influence over the management or policies of the company or other body corporate on the basis of an agreement or by any other means, regardless of the amount of formal ownership or voting rights;

“core capital” means shareholders equity in the form of issued and fully paid-up shares of common stock, plus all disclosed reserves, less goodwill or any other intangible assets;

“current account” means an account maintained by a microfinance bank for and in the name of, or in a name designated by, a customer of the microfinance bank into which money is paid by or for the benefit of such customer and on which cheques and other bills of exchange may be drawn by, and transfers and other banking transactions made on the instructions of, the customer;

“deposit” means a sum of money received or paid on terms under which it shall be repaid, with or without interest or a premium and either on demand or at a time or in circumstances agreed by or on behalf of the person making the payment and the person receiving it, but does not include a sum of money which is paid as—

- (a) an advance or part payment under a contract for the sale, hire or other provision of property or service, where the sum is repayable only if the property or service is not sold, hired or otherwise provided; or
- (b) security for performing a contract;

“Deposit Protection Fund Board” means the Deposit Protection Fund Board established under the Banking Act ([Cap. 488](#));

“deposit-taking business” means deposit-taking microfinance business;

“deposit-taking microfinance business” means microfinance bank business;

“deposit-taking microfinance institution” means a microfinance bank;

“Director” means a member of the Board of Directors referred to in [section 20](#);

“disclosed reserves” include all reserves created or increased through share premiums, retained profits (after deducting all expenses, provisions, taxes and dividends) and general reserves if such disclosed reserves are permanent and unencumbered and thus able to absorb losses;

“Fund” means the Deposit Protection Fund established under the Banking Act ([Cap. 488](#));

“institution” means a microfinance bank licensed under this Act;

“International Accounting Standards” means international accounting standards set by the International Accounting Standards Council of the United Kingdom;

"microfinance bank" means a company which is licensed to carry on microfinance bank business, and includes all branches, marketing units, outlets, offices and any other place of business that may be licensed by the Central Bank of Kenya;

"microfinance bank business" means—

- (a) the accepting from members of the public of money on deposit repayable on demand or at the expiry of a fixed period or after notice;
- (b) the accepting from members of the public of money on current account and payment on and acceptance of cheques;
- (c) the employing of money held on deposit or on current account, or any part of the money, by lending, investment or in any other manner for the account and at the risk of the person so employing the money including the provision of short-term loans to small or micro enterprises or low income households and characterized by the use of collateral substitutes; and
- (d) such other business activity as the Central Bank may prescribe;

"microfinance business" means microfinance bank business;

"non-deposit-taking microfinance business" means non-microfinance bank business;

"non-microfinance bank business" means microfinance business, other than microfinance bank business as defined under this Act;

"officer" means a Director or any other person, of whatever title, who carries out or is empowered to carry out functions relating to the overall direction, in Kenya, of a deposit-taking microfinance institution or takes part in the general management thereof;

"place of business" means any premises, other than the head office, including a branch, sub-branch, satellite branch, agency, outlet, mobile unit, marketing office or such other premises as may be approved by the Central Bank, at which an institution transacts deposit-taking microfinance business and which is open to the public;

"significantly undercapitalized" in relation to an institution, means that the institution holds less than fifty percent of the capital requirements prescribed in [section 11](#);

"undercapitalized institution" means an institution that does not fully comply with the capital requirements prescribed in [section 11](#).

[Act [No. 10 of 2010](#), s. 82, Act [No. 4 of 2012](#), s. 53, Act [No. 41 of 2013](#), s. 2.]

3. Application

- (1) Subject to subsection (3), this Act shall apply to—
 - (a) every deposit-taking microfinance business;
 - (b) specified non-deposit-taking microfinance business, in the manner prescribed under subsection (2)(b).
- (2) For the purposes of subsection (1)(b), the Cabinet Secretary may make regulations—
 - (a) specifying the non-deposit-taking microfinance business to which that subsection applies; and
 - (b) prescribing measures for the conduct of the specified business.
- (3) Except as provided in [section 4](#)(1), this Act shall not apply to—
 - (a) a bank, a financial institution or a mortgage finance company licensed under the Banking Act ([Cap. 488](#));

- (b) a building society registered under the Building Societies Act ([Cap. 489](#));
- (c) the Kenya Post Office Savings Bank established under the Kenya Post Office Savings Bank Act (Cap. 493B).

Part II – LICENSING PROVISIONS

4. Qualifications for carrying out deposit-taking microfinance business

- (1) No person shall carry out any deposit-taking microfinance business, hereinafter referred to as “deposit-taking business”, unless such person is—
 - (a) a company registered under the Companies Act (Cap. 486) whose main objective is to carry out such business; or
 - (b) a wholly-owned subsidiary of a bank or a financial institution whose main objective is to carry out such business; and
 - (c) licensed under this Act.
- (2) The provisions of subsection (1) shall not apply to a duly approved agency conducting deposit-taking business on behalf of an institution.
- (3) Where an agency conducts deposit taking business on behalf of an institution in accordance with this Act, the institution shall be liable for the acts of the agency in so far as such acts relate to that business.
- (4) A person who contravenes the provisions of this section commits an offence and shall be liable, on conviction, to a fine not exceeding one hundred thousand shillings, or to imprisonment for a term not exceeding three years, or to both.

[Act [No. 10 of 2010](#), s. 83.]

5. Application for licence

- (1) An application for a licence to carry out deposit-taking business shall be made to the Central Bank, in the prescribed form.
- (2) An application under subsection (1) shall be accompanied by—
 - (a) copy of the memorandum and articles of association or other instrument under which the company is incorporated;
 - (b) a verified official notification of the company’s registered place of business;
 - (c) the prospective place of operation, indicating that of the head office and branches, if any;
 - (d) evidence that the company meets the minimum capital requirements prescribed in the Schedule;
 - (e) the prescribed fee; and
 - (f) a report of a feasibility study undertaken by the company covering the following—
 - (i) objectives of the business;
 - (ii) domestic economic situation;
 - (iii) financial sector environment;
 - (iv) legal framework;
 - (v) risk analysis;

- (vi) economic and financial analysis;
- (vii) organizational structure;
- (viii) proposed management, detailing the professional qualifications, skills and relevant experience in deposit-taking business of the proposed managers;
- (ix) equity and ownership of the business;
- (x) such other requirement as the Central Bank may prescribe.

6. Issuance or renewal of licence

- (1) The Central Bank shall consider every application made under [section 5](#) and may, if satisfied that the applicant meets the requirements of this Act, grant a licence to the applicant upon payment of the prescribed fee.
- (2) The Central Bank may endorse on a licence granted under this section, such conditions as it considers necessary and may, from time to time, add, vary or substitute such conditions.
- (3) A licence issued under this Act shall, unless earlier revoked, be valid up to the 31st day of December of the year in which it is issued and may, on expiry, be renewed on application:

Provided that where an application for its renewal is made, the licence shall be deemed to continue in force until the application is determined.

- (4) An application for the renewal of a licence shall be made to the Central Bank, in the prescribed form and shall be—
 - (a) made within three months of the expiry of the licence:
Provided that a late application may be made upon payment of such penalty as may be prescribed;
 - (b) accompanied by the particulars specified in [section 5\(2\)](#); and
 - (c) be considered in the same manner as an application under [section 5](#).
- (5) Subject to subsection (4) the Central Bank may renew an institution's licence upon payment of the prescribed fee.

7. Categories of deposit-taking business

For the purposes of this Act, the Cabinet Secretary may prescribe categories of deposit-taking business based on geographical, administrative or such other criteria as the Cabinet Secretary may deem necessary.

8. Central Bank's power of inspection

The Central Bank may, under a warrant issued by the High Court, enter any premises and examine the books, accounts or records of any person whom the Central Bank, on reasonable grounds, believes to be carrying out deposit-taking business contrary to the provisions of this Act.

9. Revocation of licence

- (1) The Central Bank may, by notice to the licensee, revoke a licence where—
 - (a) the licensee ceases to carry on deposit-taking business;
 - (b) the institution is wound up, liquidated or otherwise dissolved;
 - (c) the Central Bank is reasonably satisfied that the business of the institution is being conducted in a manner detrimental to the interests of its depositors or customers;

- (d) the institution has been amalgamated with another company or has been sold or its assets or liabilities have been transferred to another company without the approval of the Cabinet Secretary;
 - (e) the licensee has contravened any of the conditions in the licence; or
 - (f) the licensee has contravened any of the provisions of this Act or any regulations made thereunder.
- (2) The Central Bank shall cause the names of institutions whose licences have been revoked to be published in the *Gazette* within seven days of the revocation.

10. Restriction of a licence

- (1) Where it appears to the Central Bank that there are reasonable grounds for the revocation of a licence, but that the circumstances are such as not to justify a revocation, the Central Bank may restrict the licence in accordance with subsection (2).
- (2) A licence may be restricted by imposing—
- (a) a limit on the duration of the licence for a period, not exceeding one year; or
 - (b) such additional conditions for the protection of depositors as the Central Bank may deem necessary.

Part III – PROVISIONS RELATING TO GOVERNANCE

11. Minimum capital requirements

- (1) An institution shall maintain the minimum capital requirements set out in the Schedule.
- (2) The Cabinet Secretary may, by order in the *Gazette*, amend the Schedule.

12. Minimum liquid assets

- (1) An institution shall maintain such minimum holding of liquid assets as may be prescribed by the Central Bank.
- (2) For the purposes of this section, “liquid assets” means—
- (a) notes and coins which are legal tender in Kenya;
 - (b) balances held at banks after deducting therefrom any balance owed to those banks;
 - (c) treasury bills and bonds which are freely marketable and re-discountable at the Central Bank; or
 - (d) such other assets as the Central Bank may specify.
- (3) An institution which does not comply with the requirements of subsection (1), within such period as the Central Bank may prescribe, shall be liable to pay, on being called upon to do so by the Central Bank, a penalty interest charge not exceeding one per cent of the amount of the deficiency, for every day during which the offence continues.

13. Place of business

- (1) No person carrying out deposit-taking business shall—
- (a) open a branch or place of business outside Kenya; or

- (b) open or close a branch or place of business in Kenya without the prior approval of the Central Bank.
- (2) A person who contravenes the provisions of this section commits an offence and shall be liable, on conviction, to a fine not exceeding one hundred thousand shillings, or to imprisonment for a term not exceeding three years, or to both.
- (3) The Central Bank may make regulations to prescribe the manner in which approvals shall be granted under this section.

[Act [No. 10 of 2010](#), s. 84.]

14. Prohibited activities

- (1) An institution shall not engage in the following activities—
 - (a) *deleted by Act [No. 41 of 2013](#), s. 3;*
 - (b) *deleted by Act [No. 41 of 2013](#), s. 3;*
 - (c) *deleted by Act [No. 41 of 2013](#), s. 3;*
 - (d) trust operations;
 - (e) investing in enterprise capital;
 - (f) wholesale or retail trade;
 - (g) underwriting or placement of securities;
 - (h) purchasing or otherwise acquiring any land except as may be reasonably necessary for the purpose of expanding the deposit-taking business; or
 - (i) such other activity as the Central Bank may prescribe.
- (2) A person who contravenes the provisions of this section commits an offence and shall be liable, on conviction, to a fine not exceeding one hundred thousand shillings, or to imprisonment for a term not exceeding three years, or to both.

[Act [No. 41 of 2013](#), s. 3.]

15. Declaration of dividends

- (1) No institution shall pay dividends on its shares or make any other form of distribution to its shareholders until all its capitalized expenditure has been written off and provision has been made for bad and doubtful debts in accordance with subsection (2).
- (2) Every institution shall—
 - (a) make provision for bad and doubtful debts before any profit or loss is declared; and
 - (b) ensure that such provision is adequate in accordance with such guidelines as may be prescribed by the Central Bank.
- (3) A person who contravenes the provisions of this section commits an offence and shall be liable, on conviction to a fine not exceeding fifty thousand shillings, or to imprisonment for a term not exceeding two years, or to both.

16. Application for loan or credit facility

- (1) Any person may apply to an institution for a loan or credit facility.
- (2) A person who applies for a loan or credit facility under subsection (1) shall provide evidence of his ability to repay the loan or credit facility.

17. Limit on loans and credit facilities

- (1) No institution shall grant a loan or credit facility to an end-user single borrower or his associates where the loan or credit facility, in the aggregate, exceeds such limit of its core capital as the Central Bank may prescribe.
- (2) No institution shall grant a loan or credit facility against the security of the shares of its deposit-taking business.
- (3) Any person who contravenes the provisions of this section commits an offence and shall be liable, on conviction, to a fine not exceeding fifty thousand shillings, or to imprisonment for a term not exceeding two years, or to both.

[Act [No. 4 of 2012](#), s. 54.]

18. Insider lending

- (1) No institution shall grant a loan or credit facility to its associate, or to an officer or member of staff of the institution, or their associates, in excess of such limits as the Central Bank may, by regulations, prescribe.
- (2) Any person who contravenes the provisions of this section commits an offence and shall be liable, on conviction, to a fine not exceeding one hundred thousand shillings, or to imprisonment for a term not exceeding three years, or to both.

[Act [No. 4 of 2012](#), s. 55.]

19. Limit on shares

- (1) Subject to subsections (2) and (3), no person shall hold, directly or indirectly, or otherwise have a beneficial interest in, more than twenty-five per cent of the shares of an institution.
- (2) A person who holds more than twenty-five per cent of the shares of a deposit-taking business existing at the commencement of this Act, which makes an application for a licence pursuant to [section 49](#), shall—
 - (a) comply with the requirements of subsection (1) within four years of the business being licensed; and
 - (b) present a plan of action for the reduction of the shareholding at the time the application for the initial licence of the business is made.
- (3) The provisions of subsections (1) and (2) shall not apply in the case of—
 - (a) a wholly-owned subsidiary of a bank or a financial institution;
 - (b) any other company which the Cabinet Secretary may, on the recommendation of the Central Bank, specify.
- (4) No person shall transfer, or cause to be transferred, more than ten per cent of the shares of an institution except with the prior approval of the Central Bank.
- (5) Where any share is held by a company or other corporate body, or by a nominee on behalf of another person, the company or other corporate body, or the nominee, as the case may be, shall disclose to the Central Bank the full particulars of the individual person who is the ultimate beneficial owner of the shares.
- (6) A person who contravenes any of the provisions of this section commits an offence and shall be liable, on conviction, to a fine not exceeding fifty thousand shillings, or to imprisonment for a term not exceeding two years, or to both.

[Act [No. 4 of 2012](#), s. 56.]

20. Management of institutions

- (1) Every institution shall be managed by a Board of Directors consisting of not less than five Directors.
- (2) A person shall be qualified for appointment as a Director if such person—
 - (a) is approved by the Central Bank for that purpose; and
 - (b) is not disqualified from holding office as such under this Act.
- (3) The Board of Directors shall elect a non-executive Chairperson from amongst their number.
- (4) The Board of Directors may, in writing, delegate, any of the powers to the Board to any Director or to any other officer of the institution.

21. Disqualifications of Directors

A person shall not be qualified to hold office as a Director if such person—

- (a) is a minor or is under a legal disability;
- (b) has been convicted of an offence involving theft, fraud, forgery, causing financial loss or perjury;
- (c) has been removed from an office of trust on account of misconduct, abuse of office, corruption or incompetence in the immediately preceding ten years;
- (d) is an auditor of a company licensed to conduct deposit-taking business;
- (e) was a director or senior officer of an institution that has been liquidated or is under liquidation or statutory management under any written law dealing with banking, insurance, investment or other financial services:

Provided that such a director or senior officer shall not be disqualified unless the Central Bank forms a reasonable opinion that such a director or senior officer may have, directly or indirectly through commission or omission, contributed to the collapse of the financial entity;

- (f) has contravened the provisions of any law designed for the protection of members of the public against financial loss due to the dishonesty or incompetence of, or malpractices by, persons engaged in the provision of banking, insurance, investment or other financial services;
- (g) has taken part in any business practices that, in the opinion of the Central Bank, were fraudulent, prejudicial or otherwise improper or which otherwise discredited his methods of conducting business; or
- (h) has taken part in or been associated with such other business practices as would, or has otherwise conducted himself in such manner as to cast doubt on his competence and soundness of judgment.

[Act [No. 4 of 2012](#), s. 57.]

22. Disqualifications of officers

- (1) A person shall not be an officer of an institution, or, if already in office, shall be disqualified and shall not thereafter be eligible to hold office in any institution for a period of ten years, if such person is—
 - (a) an undischarged bankrupt or enters into a composition or scheme of arrangement with his creditors;
 - (b) convicted of an offence involving fraud or dishonesty; or
 - (c) removed from office under the provisions of this Act.

- (2) Any person who continues to act as an officer after being disqualified under this section commits an offence.

22A. Assessment of officers

- (1) Notwithstanding any other provision of this Act, the Central Bank may, from time to time, where it deems it necessary to do so, carry out an assessment of the professional and moral suitability of a person managing or controlling an institution.
- (2) An assessment under this section shall be in accordance with such criteria as may be prescribed.
- (3) Where, upon an assessment under this section, the Central Bank is satisfied as to the professional and moral suitability of the person managing or controlling an institution, it shall so certify in writing to the institution.
- (4) A person who, upon an assessment under this section, is not certified by the Central Bank as fit and proper to manage or control an institution, shall be deemed to be disqualified from holding office and shall cease to hold office.

[Act [No. 4 of 2012](#), s. 58.]

23. Financial year

The financial year of an institution shall be the period of twelve months ending on the 31st day of December in each year.

24. Form of accounts

- (1) All entries in any books of accounts and all accounts kept by an institution shall be recorded in the English language and in the system of numerals employed in government accounts.
- (2) An institution shall keep accounts and records which—
 - (a) show a true and fair state of affairs;
 - (b) explain all transactions and financial positions to enable the Central Bank determine whether the institution has complied with the provisions of this Act.

25. Accounts to be denominated in shillings

The accounts and other financial records of an institution shall be denominated in Kenya shillings and shall comply with the requirements of—

- (a) the Companies Act (Cap. 486);
- (b) international accounting standards; and
- (c) such other requirements as the Central Bank may prescribe.

26. Submission of accounts to the Central Bank

- (1) An institution shall, not later than three months after the end of each financial year, submit to the Central Bank—
 - (a) an audited balance sheet, showing its assets and liabilities;
 - (b) an audited profit and loss account; and
 - (c) a copy of the auditor's report.
- (2) Any person who contravenes the provisions of this section commits an offence.

27. Disclosures in financial statements

The financial statements of an institution shall disclose—

- (a) the persons, if any, who hold more than twenty-five per cent of the total shares of the institution;
- (b) any advance or credit facility exceeding such limit of its core capital as may be prescribed by the Central Bank; and
- (c) any lending to insiders.

28. Appointment of internal auditor

- (1) Every institution shall appoint an internal auditor who shall report to the Board of Directors on the financial matters of the institution.
- (2) No person shall be appointed as an internal auditor under this section unless the person holds such professional qualifications in accounting and has such experience in deposit-taking microfinance business, as may be prescribed.

29. Appointment of external auditor

- (1) An institution shall, in each year, appoint an external auditor who shall be a person qualified under [section 30](#) and approved for appointment as such by the Central Bank.
- (2) The external auditor shall audit the accounts of the institution and shall make a report on the annual balance sheet and profit and loss account to be submitted to the Central Bank.
- (3) An institution shall not remove or change its external auditor except with the prior approval of the Central Bank.
- (4) An external auditor shall make a report to the Board of Directors identifying key concerns with respect to the financial condition of the business.
- (5) An external auditor shall, not less than four months after the end of each financial year, submit an audit report to the Central Bank, on the financial condition of the business.
- (6) An external auditor's reports submitted under subsection (5) shall contain information on the—
 - (a) solvency of the business;
 - (b) any violation of prudential standards or a condition imposed on the licence; and
 - (c) any other contravention of this Act.
- (7) The Central Bank may require an external auditor to undertake the following duties in addition to those provided under subsection (2)—
 - (a) to submit such additional information in relation to his audit as the Central Bank may consider necessary;
 - (b) to carry out any other special investigation; and
 - (c) to submit a report on any of the matters referred to in paragraphs (a) and (b) above,and the institution concerned shall remunerate the auditor in respect of the discharge by him of all or any of such additional duties.

- (8) If the external auditor of an institution, in the course of the performance of his duties under this Act, is satisfied that—
- (a) there has been a serious breach of or non-compliance with the provisions of this Act, the Central Bank of Kenya Act or the regulations, guidelines or other matters prescribed by the Central Bank;
 - (b) a criminal offence involving fraud or other dishonesty has been committed by the institution or any of its officers or employees;
 - (c) losses have been incurred which reduce the core capital of the institution by fifty per cent or more;
 - (d) serious irregularities have occurred which may jeopardize the security of depositors or creditors of the institution; or
 - (e) he is unable to confirm that the claims of depositors and creditors of the institution are capable of being met out of the assets of the institution,
- he shall immediately report the matter to the Central Bank.
- (9) The Central Bank may arrange trilateral meetings with an institution and its auditor from time to time, to discuss matters relevant to the Central Bank's supervisory responsibilities which have arisen in the course of the statutory audit of the institution including relevant aspects of the institution's business, its accounting and control system and its annual accounts.
- (10) If an external auditor of an institution fails to comply with the requirements of this Act, the Central Bank may remove him from office and appoint another person in his place.[Act [No. 41 of 2013](#), s. 4.]

30. Qualifications of an external auditor

A person shall be qualified for appointment as an external auditor of an institution if that person—

- (a) is qualified as an auditor under the Companies Act (Cap. 486); and
- (b) is not—
 - (i) an officer or employee of the institution;
 - (ii) a partner of an officer or employee of the institution;
 - (iii) an employer or employee of an officer or employee of the institution;
 - (iv) officer or employee of an associate of the institution;
 - (v) a partner or an employer of a person who regularly performs the duties of secretary or book-keeper for the institution; or
 - (vi) a firm or member of a firm of auditors of which any partner or employee falls within the categories enumerated in this section.

31. Exhibition and publication of audited accounts

- (1) An institution shall exhibit, throughout the year, in a conspicuous position in every office and branch, a copy of its last audited financial statements and shall, within four months of the end of each financial year, cause a copy of the balance sheet and profit and loss account for that year to be published in a national newspaper, in such form as the Central Bank may prescribe.
- (2) An institution that does not comply with the provisions of this section shall be liable to pay to the Central Bank such penalty, not being less than one hundred thousand shillings, as may be prescribed.

32. Rectification of audited accounts

Where the Central Bank is satisfied that the audited accounts of an institution do not comply with the requirements of this Act or that the audited accounts contain information that may be misleading or are not published in the specified form, the Central Bank may require the institution to—

- (a) amend the audited accounts to comply with the Act;
- (b) correct the misleading information;
- (c) re-publish the amended audited accounts;
- (d) submit to the Central Bank further documents or information relating to any document or information.

33. Collection and furnishing of information by the Central Bank

- (1) The Central Bank shall collect such data and other information as may be necessary to enable it maintain supervision and surveillance of the affairs of an institution and its agencies and the protection of depositors and, for that purpose, the Central Bank may require an institution and its agencies to submit statistical and other returns on a periodic basis in addition to any other returns required by law.
- (2) The Central Bank may require any institution and its agencies to furnish it with such information as it may reasonably require for the proper discharge of its functions under this Act.
- (3) The information required to be furnished under subsection (2) may include information relating to any company which is an affiliate, an associate or a holding company of the institution and its agencies required to furnish information under that subsection.
- (4) The Cabinet Secretary may require the Central Bank or an institution and its agencies to furnish to the Cabinet Secretary, at such time and in such manner the Cabinet Secretary may direct, such information as the Cabinet Secretary may require for the proper discharge of his functions under this Act. [Act [No. 10 of 2010](#), s. 85.]

34. Publication of information

- (1) Subject to subsection (2), the Cabinet Secretary may publish in the *Gazette*, in whole or in part, any information furnished to him or to the Central Bank under this Act.
- (2) No information shall be published under subsection (1) if it would disclose the financial affairs of any person, except with the prior consent, in writing, of that person.
- (3) Except as provided in this Act, no person shall disclose or publish any information which comes into his possession as a result of the performance of his duties under this Act.
- (3A) The Deposit Protection Fund Board, institutions licensed under this Act and institutions licensed under the Banking Act ([Cap. 488](#)) shall, in the ordinary course of business and in such manner and to such extent as the Cabinet Secretary may, in regulations, prescribe, exchange such information on performing and non performing loans as may, from time to time, be specified by the Central Bank in regulation.
- (4) The Central Bank institutions licensed under this Act and institutions licensed under the Banking Act ([Cap. 488](#)) may, in the ordinary course of business, in such manner and to such extent as the Cabinet Secretary may, in regulations, prescribe, exchange such other information as is reasonably required for the proper discharge of their functions.
- (5) Without prejudice to the provisions of subsection (4), regulations under that subsection may provide for the establishment and operation of credit reference bureaus for the purpose of collecting prescribed credit information on clients of institutions licensed under this Act and institutions licensed under the Banking Act ([Cap. 488](#)), and disseminating the information

among such institutions for use in the ordinary course of business, subject to such conditions or limitations as may be prescribed.

- (6) Notwithstanding the provisions of this section, the Central Bank may disclose any information referred to in subsection (3) to the Deposit Protection Fund Board, any monetary authority or financial regulatory authority, fiscal or tax agency, fraud investigations agency within or outside Kenya, where such information is reasonably required for the proper discharge of the functions of the Central Bank or the requesting Deposit Protection Fund Board, monetary authority or financial regulatory authority, fiscal or tax agency, fraud investigations agency:

Provided that the sharing of information with institutions outside Kenya shall only apply where there is a reciprocal arrangement.

- (7) No duty, to which the Central Bank, the Deposit Protection Fund Board, a credit reference bureau, an institution licensed under this Act or the Banking Act or their respective officers may be subject, shall be breached by reason of the disclosure, in good faith, of any information under subsection (3A), to or by, as the case be—

- (a) the Central Bank;
- (b) the Deposit Protection Fund Board;
- (c) an institution licensed under this Act or the Banking Act ([Cap. 488](#));
- (d) a credit reference bureau established under subsection (5);
- (e) any person carrying out an inspection under [section 35](#); or
- (f) any person, authority, agency or entity referred to in subsection (6) or any other person or authority which may be authorized under any written law or otherwise to share information,

in the course of the performance of their duties and no action shall lie against the Central Bank, the Deposit Protection Fund Board, a credit this Act or reference bureau, an institution licensed under this Act or the Banking Act ([Cap. 488](#)) or any of its officers on account of such disclosure.

[Act [No. 8 of 2009](#), s. 72, Act [No. 4 of 2012](#), s. 59, Act [No. 41 of 2013](#), s. 5.]

Part IV – SUPERVISION BY CENTRAL BANK

35. Inspection of institutions

- (1) The Central Bank may, at any time, and shall, if so directed by the Cabinet Secretary, cause an inspection of an institution and its agencies to be made by any person authorized by the Central Bank in writing.
- (2) When an inspection is made, the institution concerned or agency and every officer or employee thereof shall produce and make available to the person making the inspection, all the books, accounts, records and other documents of the deposit-taking business and such correspondence, statements and information relating to the business as the person making the inspection may require, within such period as he may direct in writing.
- (3) A person who fails to produce any books, accounts, records, documents, correspondence, statements or other information required under subsection (2), within the period specified in the relevant direction, commits an offence.
- (4) The person making the inspection shall make and submit a report to the Central Bank, and the report shall state, in detail, whether or not there is—
 - (a) any breach or contravention of this Act and any regulations made thereunder;
 - (b) any irregularity in the manner of conduct of the inspected institution;
 - (c) any mismanagement of the institution; and

- (d) any other matter relating to the institution not consistent with sound business practice. [Act [No. 10 of 2010](#), s. 86.]

36. Periodic returns

- (1) The Central Bank may require an institution to furnish it with periodic reports of its business operations in such form as the Central Bank may prescribe.
- (2) The periodic reports referred to in subsection (1) shall include information on—
- (a) compliance by the institution with the prescribed capital requirements;
 - (b) the composition and quality of assets and liabilities;
 - (c) the quality of its earning assets;
 - (d) the adequacy and performance of its management;
 - (e) any other matter which, in the opinion of the Central Bank, is relevant to the discharge of its supervisory role under this Act.

36A. Powers upon audit or inspection report

Where an external auditor's report, under [section 29\(8\)](#) or an inspection report under this Part reveals that an institution conducts its business in a manner contrary to the provisions of this Act, regulations or guidelines issued thereunder or in any manner detrimental to or not in the best interests of its depositors or members of the public, or that an institution is undercapitalized, the Central Bank shall take any of the following actions—

- (a) restrict, suspend or prohibit the payment of dividends by the institution;
- (b) prohibit the conversion of any profits of the institution into capital;
- (c) direct the suspension or removal of any officer involved in such conduct from the service of the institution;
- (d) require the institution to reconstitute its board of directors;
- (e) withhold branch or other corporate approval with respect to such institution;
- (f) undertake more frequent inspection of that institution;
- (g) order the institution to submit to the Central Bank, within forty-five days, a capital restoration plan to restore the institution to capital adequacy as prescribed in [section 11](#) or in the case of issues unrelated to capital such as violations of law, a plan to resolve all deficiencies to the satisfaction of the Central Bank;
- (h) prohibit the institution from awarding any bonuses, or increments in salary, emoluments and other benefits of all directors and officers of the institution;
- (i) at the expense of an institution, appoint a person suitably qualified and competent in the opinion of the Central Bank to advise and assist the institution in designing and implementing the capital restoration plan or other corrective action plan and the person appointed shall regularly report to the Central Bank on the progress of the plan;
- (j) impose restrictions on growth of assets or liabilities of the institution as it deems fit;
- (k) restrict the rate of interest on savings and time deposits payable by the institution to such rates as the Central Bank shall determine; or
- (l) order the institution to do any or take such other actions as the Central Bank may deem necessary to rectify a capital deficiency or other weaknesses.[Act [No. 41 of 2013](#), s. 6.]

37. Power of Central Bank to intervene in management

- (1) The Central Bank may, in accordance with this section, intervene in the affairs of an institution where—
 - (a) the institution has contravened the provisions of this Act or the conditions upon which its licence was granted;
 - (b) the business of the institution is being conducted in a manner detrimental to the interests of its depositors or creditors;
 - (c) the institution has failed to maintain the prescribed minimum core capital;
 - (d) the institution has insufficient assets to cover its liabilities;
 - (e) if the institution is significantly undercapitalized; or
 - (f) if an institution fails to submit a capital restoration plan or a plan to resolve all deficiencies as directed under section 36B or to add more capital and the institution fails, refuses or neglects to comply with the order or to implement a plan of correction.
- (2) The Central Bank shall, before intervening in the affairs of an institution under subsection (1), issue the institution with a notice specifying the defaults noted in the conduct of the business and require the institution to take remedial action within such reasonable period as may be specified in the notice in order to comply with this Act.
- (3) Where an institution does not comply with the notice issued under subsection (2), the Central Bank may—
 - (a) direct the institution to take such steps as the Central Bank may consider necessary to rectify the default;
 - (b) prohibit the receipt of any fresh deposits or limit lending operations;
 - (c) remove any officer or employee of an institution who, in the opinion of the Central Bank, has caused or contributed to any contravention of any provision of this Act or any regulations or guidelines made thereunder, or to any deterioration in the financial stability of the institution, or has been guilty of conduct detrimental to the interests of depositors or other creditors of the institution;
 - (d) prohibit any declaration of dividends;
 - (e) impose on any member of the management responsible for the default such penalty as may be prescribed; or
 - (f) close the institution and revoke its licence;
 - (g) impose any restriction or condition it may consider necessary on any arrangement between the institution and its agencies; or
 - (h) direct the institution to terminate any agency arrangement.
- (4) Where the Central Bank intervenes in the management of an institution, it may—
 - (a) appoint a person to manage the affairs of the institution and to exercise all the powers of the institution to the exclusion of the Board of Directors, including the use of the corporate seal of the institution;
 - (b) appoint a competent person familiar with deposit-taking business to its Board of Directors, to hold office as a Director for a period not exceeding twelve months, who shall not be removed from office except with the prior approval of the Central Bank;

- (c) by notice in the *Gazette*, revoke or cancel any existing power of attorney, mandate, appointment or other authority by an institution in favour of any officer or employee or any other person; and
- (d) enter into an agreement with the board of directors of an institution requiring the institution to rectify its deficiencies within three months:

Provided that in the case of reckless or fraudulent conduct, the Central Bank shall have discretion to enter into an agreement based on its judgment as to the efficacy of such an approach.

- (5) A person appointed to manage an institution under this section shall hold Office for a period not exceeding six months but the High Court may, on the application of the Central Bank, extend such period as it may deem necessary. [Act [No. 10 of 2010](#), s. 87, Act [No. 41 of 2013](#), s. 7.]

Part V – PROTECTION OF DEPOSITS

38. Liquidation of an institution by the Central Bank

- (1) Where an institution becomes insolvent, the Central Bank may appoint the Deposit Protection Fund Board to be a liquidator of the institution and the appointment shall have the same effect as the appointment of a liquidator by the High Court under the provisions of the Companies Act (Cap. 486).
- (2) Any reference in the Companies Act (Cap. 486) to the “relevant date” and “commencement of the winding-up” shall be deemed to be a reference to the date on which the Deposit Protection Fund Board is appointed as liquidator.
- (3) An institution shall be deemed to be insolvent where—
 - (a) it is unable to pay its debts within the meaning of the Companies Act (Cap. 486);
 - (b) a winding-up order is made against the institution or a resolution of creditors to voluntarily wind up the business is passed under the Companies Act (Cap. 486);
 - (c) the institution is unable to pay sums due and payable to its depositors; or
 - (d) the Central Bank determines that the value of the assets of an institution is less than the amount of its liabilities.
- (4) In exercising its functions under this section, the Deposit Protection Fund Board shall be subject to the supervision of the High Court which may, upon the application of an interested party, or where the High Court deems it fit, appoint a committee of inspection which shall have the same powers as a committee of inspection appointed under the Companies Act (Cap. 486).
- (5) No person shall be appointed a receiver or manager of an institution without the prior approval of the High Court.
- (6) The High Court shall not grant an approval under subsection (5) unless the Central Bank certifies that it does not intend to exercise its powers under this section.
- (7) Where a receiver or a manager of an institution has been appointed and a manager or liquidator is appointed under the provisions of this Part, the powers of the receiver or manager may only be exercised to the extent authorized by the Central Bank or the High Court.

39. Contributions to the Deposit Protection Fund

- (1) All institutions shall contribute to the Deposit Protection Fund.
- (2) An institution shall pay into the Deposit Protection Fund, such annual amount and at such times as the Deposit Protection Fund Board may prescribe.

- (3) Notwithstanding subsection (2), where it appears to the Deposit Protection Fund Board that the affairs of an institution are being conducted in a manner detrimental to the interests of the deposit-taking business or of the depositors of the institution, the Deposit Protection Fund Board may increase the contributions of that institution beyond the prescribed maximum.
- (4) An institution that does not contribute to the Deposit Protection Fund within the period prescribed under subsection (2) shall be liable to pay to the Fund a penalty interest charge, not exceeding one-half per cent of the unpaid amount, for every day during which the amount remains unpaid.
- (5) The Deposit Protection Fund Board shall cause a list of all institutions whose deposits are protected to be published in the *Gazette* annually.

40. Protection of deposits

- (1) The Deposit Protection Fund Board shall, by order in the *Gazette*, determine the amount of the balance to be maintained by a customer of an institution, as a protected deposit.
- (2) A customer of an institution may, upon the institution becoming insolvent, lodge a claim with the Deposit Protection Fund Board, in such form as the Deposit Protection Fund Board may approve, for payment to the customer out of the Fund of any protected deposit which the customer would, but for the insolvency, have been paid had the customer demanded payment from the insolvent institution.
- (3) The Deposit Protection Fund Board may, before paying any claim lodged under subsection (2), require the claimant to furnish such documentary proof as may be proper to show that the customer is entitled to payment out of the Fund.
- (4) The Deposit Protection Fund Board may decline to make any payment under this section to a person who in its opinion, had any responsibility for or may have profited directly or indirectly from the circumstances leading to the institution becoming insolvent.
- (5) The Deposit Protection Fund Board may require the Central Bank to carry out an inspection to ascertain the type, number and value of the protected deposits of any institution and the information obtained pursuant to the inspection shall, be made available to the Deposit Protection Fund Board.
- (6) Upon payment of a protected deposit, the Deposit Protection Fund Board shall be entitled to receive from an institution or its liquidator, an amount equal to the insolvency payment paid by the Fund on account of its subrogation to the claims of any customer or depositor.

41. Rights of Board on insolvency

Whenever an institution is closed or becomes insolvent, the Deposit Protection Fund Board shall be entitled to receive any notice or other document required to be sent to a creditor of the institution, and a duly authorized representative of the Deposit Protection Fund Board shall be entitled to attend any meeting of creditors of the institution.

42. Right of assignment

- (1) A liquidator may assign the assets or liabilities of an institution or of a customer under this Act, or the Companies Act (Cap. 486) or under any other written law to third parties for the benefit of the creditors and depositors of the institution under liquidation.
- (2) The right of assignment conferred by this section shall override all other rights and interests of parties under contracts of employment, leases, charges, mortgages or any other agreements the institution may have entered into before going into liquidation.

Part VI – MISCELLANEOUS PROVISIONS

43. Declaration of holidays

Where the Cabinet Secretary considers that it is in the public interest that all institutions, or a particular institution should remain closed on a day which is not a public holiday, the Cabinet Secretary may, by notice in the *Gazette*, declare that day to be a holiday for all institutions or for the particular institution, and all institutions or the particular institution shall remain closed on that day.

44. Orders by the High Court

- (1) The High Court may, on application made *ex parte* by the Central Bank or a manager or liquidator appointed by the Central Bank, if it considers it to be in the interests of the depositors of an institution, make an order—
 - (a) prohibiting the institution from carrying on business; or
 - (b) staying the commencement or continuance of any action or any proceedings against the institution for a specified period of time on such terms and conditions as the High Court considers reasonable and may extend the specified period up to a total of six months from the beginning of the stay.
- (2) Where an order is made under subsection (1)(a), a licence granted under this Act shall be deemed to be suspended.

45. Restriction on use of words “deposit-taking microfinance business”

- (1) No person shall use the word “deposit-taking microfinance business” or any of its derivatives or any other words indicating the transaction of deposit-taking business or the equivalent, in the name, description or title under which it transacts business in Kenya or make any representation that the person transacts deposit-taking business unless such person is licensed under this Act.
- (2) Where a company registered under the Companies Act (Cap. 486) as a microfinance bank fails to acquire a licence to operate under this Act within a period of one year from the date of such registration, the company shall forthwith cease the use of the words “microfinance bank” in its name.
- (3) Any person who contravenes the provisions of this section commits an offence.

[Act [No. 4 of 2012](#), s. 60, Act [No. 41 of 2013](#), s. 8.]

46. Default by officers or employees

Any officer or employee of an institution who fails to—

- (a) take all reasonable steps to secure the compliance of the institution with this Act;
- (b) take all reasonable steps to secure the accuracy and correctness of any statement submitted under this Act; or
- (c) supply any information required under this Act to the Cabinet Secretary or to the Central Bank,

commits an offence and shall be liable, on conviction, to a fine not exceeding one hundred thousand shillings, or to imprisonment for a term not exceeding three years, or to both.

47. General penalty

A person who commits an offence under this Act for which no penalty is stipulated shall be liable, on conviction, to a fine not exceeding one hundred thousand shillings, or to imprisonment for a term not exceeding one year, or to both.

48. Regulations

- (1) The Central Bank may, with the approval of the Cabinet Secretary, make regulations for prescribing anything which under this Act may be prescribed by the Central Bank.
- (2) Subject to this Act, the Cabinet Secretary may, on the recommendation of the Central Bank, make regulations generally for the better carrying out of the provisions of this Act.
- (2A) The Central Bank may issue directions and guidelines to institutions generally for the better carrying out of their functions, and in particular, with respect to—
 - (a) the standards to be adhered to in the conduct of their business in Kenya or in countries where their branches or subsidiaries are located;
 - (b) guidelines to be adhered to by institutions in order to maintain a stable and efficient deposit taking microfinance system.
- (3) Without prejudice to the generality of subsection (2), the Cabinet Secretary may, in regulations, prescribe penalties to be paid by institutions which fail or refuse to comply with any directions of the Central Bank under this Act, which shall not exceed one million shillings in the case of an institution, or one hundred thousand shillings in the case of a natural person, and may prescribe additional penalties not exceeding ten thousand shillings in each case for each day or part thereof during which such failure or refusal continues.

[Act [No. 8 of 2009](#), s. 73.]

49. [Spent]

50. [Spent]

51. [Spent]

52. False advertising

- (1) Any entity, institution or other person who issues any advertisement, brochure, circular or other document inviting any person to make a deposit which—
 - (a) falsely represents that the entity, institution or person is authorized to accept deposits or is otherwise licensed under the provisions of this Act; or
 - (b) is issued contrary to any direction given by the Central Bank under the provisions of subsection (2),commits an offence.
- (2) The Central Bank may, at any time, direct an institution to withdraw, amend or refrain from issuing any document to which subsection (1) applies.

[Act [No. 4 of 2012](#), s. 61.]

SCHEDULE [s. 11]**MINIMUM CAPITAL REQUIREMENTS**

Every institution shall, at all times, maintain minimum capital ratios indicated below or such other ratios as may be determined by the Central Bank—

- (a) a core capital of not less than ten per cent of total risk-adjusted assets plus risk adjusted off balance sheet items as may be determined by the Central Bank;
- (b) a core capital of not less than eight per cent of its total deposit liabilities;
- (c) a total capital of not less than twelve per cent of its total risk-adjusted assets plus risk-adjusted off balance sheet items as may be determined by the Central Bank;
- (d)
 - (i) a core capital of at least sixty million Kenya shillings; or
 - (ii) in the case of a deposit-taking business of a category prescribed for the purposes of this subparagraph under section 7, a core capital of at least twenty million Kenya shillings.