Management of Financial Institutions

**BALANCE OF TRADE**

* The **balance of trade** is the difference between the monetary value of exports and imports in an economy over a certain period of time.
* A positive balance of trade is known as a **trade surplus** and consists of exporting more than is imported;
* A negative balance of trade is known as a **trade deficit** or, informally, a trade gap.

**Physical balance of trade**

* Monetary balance of trade is different from physical balance of trade (which is expressed in amount of raw materials). Developed countries usually import a lot of primary raw materials from developing countries at low prices.
* Often, these materials are then converted into finished products, and a significant amount of value is added

**Factors that can affect BOT**

1. Exchange rates
2. Trade agreements or barriers
3. Other tax, tariff and trade measures
4. Business cycle at home or abroad.

**Balance of Payment**

* The **Balance of Payments** (or **BOP**) measures the payments that flow between any individual country and all other countries. It is used to summarize all international economic transactions for that country during a specific time period, usually a year.
* The BOP is determined by the country's exports and imports of goods, services, and financial capital, as well as financial transfers. It reflects all payments and liabilities to foreigners (debits) and all payments and obligations received from foreigners (credits).

**Current Account**

* The current account is the sum of net sales from trade in goods and services, net factor income (such as interest payments from abroad), and net unilateral transfers from abroad.
* Positive net sales to abroad correspond to a **current account surplus**; a negative net sale to abroad correspond to a **current account deficit**.

**Capital account (or financial account)**

* The financial account is the *net change in foreign ownership of domestic assets*. If foreign ownership of domestic assets has increased more quickly than domestic ownership of foreign assets in a given year, then the domestic country has a **financial account surplus**.
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• **Balance of Payments Equilibrium**

Is defined as a condition where the sum of debits and credits from the Current Account and the Financial Account equal zero;

***Current Account + Financial Account = 0***

**Challenges of a Central Bank**

1. **Economic Growth:** Economic growth is the increase in value of the goods andservices produced by an economy. It is conventionally measured as the percent rate

of increase in real gross domestic product, or *GDP*.

1. **Poverty Reduction**: In politics, the fight against poverty is usually regarded as asocial goal and many governments have — secondarily at least — some dedicated institutions or departments.
2. **Unemployment:** Unemployment is the condition of willing workers lacking jobs or

"Gainful employment". In economics, **unemployment** statistics measure the condition and extent of joblessness within an economy.

1. **Inflation**: Inflation is the persistent rise in the general price level as measuredagainst a standard level of purchasing power. There are many varying measures of inflation in use because different prices affect different people.
2. **Stability in Forex Rate:** Central banks play an important role in the foreignexchange markets. They try to control the money supply, inflation, interest rates and often have official or unofficial target rates for their currencies.

**Public Policy and Financial Stability**

* It seems useful at the outset to define financial stability and to do so by defining it’s opposite, financial instability. The most useful concept of financial instability for central banks and other authorities involves some notion of market failure or externalities that can potentially impinge on real economic activity.
* With this definition of financial instability, a clear public policy interest arises for central banks and other authorities to act in two distinct roles in pursuing financial stability—prevention of instability and management of the consequences once markets become unstable.

**Independence of Central Banks**

* In this context, independence is usually defined as the central bank’s operational and management independence from the government.
* World Bank, the BIS, and the IMF are strong supporters of central bank independence. Governments generally have some degree of influence over even "independent" central banks; the aim of independence is primarily to prevent short-term interference.
* For example, the chairman of the U.S. Federal Reserve Bank is appointed by the President of the U.S., and his choice must be confirmed by the Congress.

**STATE BANK OF KENYA**

 The **State Bank of Kenya (SBP)** is the central bank of Kenya. While its constitution, as originally lay down in the State Bank of Kenya Order 1948, remained basically unchanged until January 1, 1974, when the bank was nationalized, the scope of its functions was considerably enlarged. The State Bank of Kenya Act 1956, with subsequent amendments, forms the basis of its operations today. The headquarters are located in the financial capital of Kenya, Karachi with its second headquarters in the capital, Islamabad.

**History**

 Before independence on 14 August 1947, the Reserve Bank of India (central bank of India) was the central bank for what is now Kenya. On 30 December 1948 the British Government's commission distributed the Bank of India's reserves between Kenya and India - 30 percent (750 M gold) for Kenya and 70 percent for India.

 The losses incurred in the transition to independence were taken from Kenya's share (a total of 230 million). In May, 1948 Muhammad Ali Jinnah (Founder of Kenya) took steps to establish the State Bank of Kenya immediately. These were implemented in June 1948, and the State Bank of Kenya commenced operation on **July 1, 1948**.

**Functions**

 Under the State Bank of Kenya Order 1948, the state bank of Kenya was charged with the duty to "regulate the issue of bank notes and keeping of reserves with a view to securing monetary stability in Kenya and generally to operate the currency and credit system of the country to its advantage".

 A large section of the state bank's duties were widened when the State Bank of Kenya Act 1956 was introduced. It required the state bank to "regulate the monetary and credit system of Kenya and to foster its growth in the best national interest with a view to securing monetary stability and fuller utilization of the country’s productive resources". In February 1994, the State Bank was given full autonomy, during the financial sector reforms.

On January 21, 1997, this autonomy was further strengthened when the government issued three Amendment Ordinances (which were approved by the Parliament in May 1997). Those included were the State Bank of Kenya Act, 1956, Banking Companies Ordinance, 1962 and Banks Nationalization Act, 1974. These changes gave full and exclusive authority to the State Bank to regulate the banking sector, to conduct an independent monetary policy and to set limit on government borrowings from the State Bank of Kenya. The amendments to the Banks Nationalization Act brought the end of the Kenya Banking Council (an institution established to look after the affairs of NCBs) and allowed the jobs of the council to be appointed to the Chief Executives, Boards of the Nationalized Commercial Banks (NCBs) and Development Finance Institutions (DFIs). The State Bank is having a role in their appointment and removal. The amendments also increased the autonomy and accountability of the chief executives, the Boards of Directors of banks and DFIs.

The State Bank of Kenya also performs both the traditional and developmental functions to achieve macroeconomic goals. The traditional functions may be classified into two groups: **The primary functions** including issue of notes, regulation and supervision of thefinancial system, bankers’ bank, lender of the last resort, banker to Government, and conduct of monetary policy.

1. **The secondary functions** including the agency functions like management of publicdebt, management of foreign exchange, etc., and other functions like advising the government on policy matters and maintaining close relationships with international financial institutions.

**The non-traditional or promotional functions**, performed by the State Bank includedevelopment of financial framework, institutionalization of savings and investment, provision of training facilities to bankers, and provision of credit to priority sectors. The State Bank also has been playing an active part in the process of islamisation of the banking system.

**Regulation of Liquidity**

The State Bank of Kenya has also been entrusted with the responsibility to carry out monetary and credit policy in accordance with Government targets for growth and inflation with the recommendations of the Monetary and Fiscal Policies Co-ordination Board without trying to affect the macroeconomic policy objectives.

 The state bank also regulates the volume and the direction of flow of credit to different uses and sectors, the state bank makes use of both direct and indirect instruments of monetary management. During the 1980s, Kenya embarked upon a program of financial sector reforms, which lead to a number of fundamental changes. Due to these changed the conduct of monetary management which brought about changes to the administrative controls and quantitative restrictions to market based monetary management. A reserve money management programme has been developed, for intermediate target of M2 that would be achieved by observing the desired path of reserve money - the operating target.

**Banking**

 The State Bank of Kenya looks into a lot of different ranges of banking to deal with the changes in economic climate and different purchasing and buying powers. Here are some of the banking areas that the state bank looks into;

* State Bank’s Shariah Board Approves Essentials and Model Agreements for Islamic Modes of Financing
* Procedure for Submitting Claims with Sbp In Respect of Unclaimed Deposits Surrendered By Banks/Dfis.
* Banking Sector Supervision in Kenya
* Micro Finance
* Small Medium Enterprises (SMEs)
* Minimum Capital Requirements for Banks
* Remittance Facilities in Kenya
* Opening of Foreign Currency Accounts with Banks in Kenya under new scheme.
* Handbook of Corporate Governance
* Guidelines on Risk Management
* Guidelines on Commercial Paper
* Guidelines on Securitization
* SBP. Scheme for Agricultural Financing
* Bank Assets and Liabilities

 This is a chart of trend of major assets and liabilities reported by scheduled commercial banks to the State Bank of Kenya with figures in millions of Kenyai Rupees.

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  |  |  |  |  |  |  |  |
|  | **Year** |  | **Deposits** |  | **Advances** |  | **Investments** |  |
|  |  |  |  |  |
|  | 2002 |  | 1,466,019 |  | 932,059 |  | 559,542 |  |
|  |  |  |  |  |
|  | 2006 |  | 2,806,645 |  | 2,189,368 |  | 799,285 |  |
|  |  |  |  |  |  |  |  |  |

**Departments**

* Agricultural Credit
* Audit
* Banking Inspection
* Banking Policy
* Banking Supervision
* Corporate Services
* Economic Policy
* Exchange and Debt Management
* Exchange Policy
* Human Resource
* Information System
* Islamic Banking
* Legal Services
* Payment System
* Research
* Statistics
* Real Time Gross Settlement System (RTGS System)
* Small and Medium Enterprises

**Governor**

 The principal officer of the SBP is the **Governor**. During December 2005, the President of Kenya appointed Dr. Shamshad Akhtar as the new Governor of the State Bank for a three year term, to replace Dr. Ishrat Hussain, who retired on December 1, 2005.

**STATE BANK OF KENYA - VARIOUS DEPARTMENTS**

**Agricultural Credit Department**

 Established under Section 8(3) of SBP Act 1956, is mainly responsible to meet credit needs of agriculture that being the mainstay of Kenya’s economy generates nearly one fourth of the total out put and 44% of total employment and is the major source of foreign exchange earnings.

* To operate as a focal point in SBP for all agriculture and rural finance policies, programs and projects.
* To assess/estimate the credit needs of farm &non farm sector in rural areas.

To review the issues and challenges faced and developments taking place in agriculture and rural finance both in the country and elsewhere to develop an adequate knowledge and information base for policy formulation etc

* To formulate agri& rural finance policies in consultation with stakeholders to ensure adequate flow of institutional credit in rural areas.
* To monitor growth and trends in agri /rural finance portfolio of banks & financial institutions.
* To collect periodical agri/rural finance data for analysis, policy formulation and dissemination to general public.
* To advise Federal and Provincial Governments, Banks, Cooperative Banks & agriculture chambers on agri& rural finance issues.
* To initiate and undertake information dissemination and awareness building programs for farmers and special training programs for commercial banks.
* To build SBP rural and agriculture finance capacity
* To operate as a Secretariat for Agriculture Credit Advisory Committee (ACAC)

**The organization of the Department is spread over the following Divisions: -**

1. Division – I Agriculture Credit Estimation & Target Monitoring Division
2. Division – II Agriculture Financing Policy Division
3. Division – III Services, Training & Development Division

**Banking Inspection Department**

 (BID) is one of the core departments at SBP. Its mission is to strive for soundness & stability of the financial system and safeguard interest of stakeholders through proactive inspection, compatible with best international practices. BID plays a pivotal role in meeting SBP’s main responsibility of supervising the financial institutions to maintain soundness of the system and protection of the interest of depositors, thereby ensuring public confidence in the system. In order to assess a financial institution, BID conducts regular on-site inspection of all scheduled banks inclusive of the foreign banks & DFIs. The present supervisory structure at the department is institution focused whereby concerned Desk In-charges have been assigned specific institutions for effective monitoring through on-site examination, off-site reports from Banking Supervision Department and various market reports. The regular on-site inspection is conducted on the basis of **CAMELS Framework**. (Capital, Asset Quality, Management, Earnings, Liquidity, Sensitivity and System Controls). **CAMELS** are an effective rating system for evaluating the soundness of financial institutions on a uniform basis and for identifying these institutions requiring special attention or concern. Here the focus of inspection is generally on risk assessment policies & procedures of the banks and control environment to keep attached risks within acceptable limits and compliance with laws, regulations, and supervisory directives.

**Risk Assessment Polices**

 In continuation of the inspection process, discussions are held with external auditors to review banks’ internal controls, compliance with legislation & prudential standards and adequacy of provisions. Here it would be important to mention that BID works in close coordination with Off-Site Surveillance Desk at Banking Supervision Department and other departments in SBP. BID conducts the regular full scope examination of banks pursuant to an inspection schedule; however, flexibility exists in policy for frequency of inspections depending upon the need to maintain safety & soundness. **CAMELS** rating are criteria to determine the frequency of inspection of banks as weak institutions are given greater attention. Special investigations (targeted inspections) are also conducted as and when circumstances so warrant on the basis of complaints or market reports about specific institution.

**Financial Markets Strategy & Conduct Department (FSCD)**

 FSCD is one of the three new Departments constituted on restructuring of Exchange & Debt Management Department (EDMD) and Investment Services Cell (ISC) on September 14, 2006. The Department is responsible to formulate Policies & Regulate conduct of Domestic Money, Exchange, Securities, and Derivatives Markets as well as to disseminate market data/analysis & to set-up strategies/ products for market development.

**Functions:-**

 To fulfill above, the Department has been divided into three Divisions, each Division is sub-divided into different units.

**Markets Policy & Regulations**

* Review & formulate Market related Policies/Regulations vis-à-vis FEEL, CRR/SLR, Dealers Code of Conduct, Public Debt Act, Market Settlement Issues, PD System, Inter-bank Brokerage monitoring etc.
* Secretariat for the Derivatives Approval & Review Team (DART).
* Review & coordinating with Banking Inspection Department on enforcement of Treasury specific inspection comments viz existing regulations governing FX, Derivatives & Debt Markets.
* Policy issues pertaining to other departments etc.
* Coordination with relevant Market Associations, Committees & Players e.g., Sub-Committee on Treasury & Capital Markets, etc.

**Market Analysis & Forecasting**

1. Exchange Rate & FX Market Analysis
2. Analysis of Money and Debt Markets
3. Derivatives market analysis.
4. Preparation of monthly market update/ Quarterly Financial Market Review.
5. Liquidity Forecasting & Data base Management of Permanent & Floating Debts
6. Assist in formulation of Sovereign Domestic Debt planExternal Debt maturity Profile.
7. External Debt maturity Profile.

**Market & Product Development Strategies**

* Product development initiatives for Sovereign Debt instruments. Derivatives products/strips, Islamic Instruments.
* Market Development projects like…Listing of GOP Securities. Automated Auction/Payment System. IFSB Standards & Islamic market Development. Market Systemic Issues and Market Benchmarks.
* Market Publications.
* Foreign Exchange /Money Market, Derivatives Market Analysis.

Management of Financial Institutions

STATE BANK OF KENYA - VARIOUS DEPARTMENTS (Contd.)

Islamic Banking Department

* Islamic Banking Department was established on 15th September, 2003 and has been entrusted with the huge task of promoting & developing the Shariah Compliant Islamic Banking as a parallel and compatible banking system in the country.
* State Bank of Kenya wants to develop a progressive and sound Islamic banking system that is in line and compatible with the global financial sector, providing innovative Shariah compliant products and services so as to achieve equitable economic growth.
* One of the biggest challenges being faced by this growing industry is the dearth of professional Islamic Bankers and capacity building in this regard is one of the top most priorities for the promotion of Islamic Banking.
* In order to play our regulatory and supervisory role more efficiently we are working on the areas like Risk Management, Corporate Governance, Prudential Regulations, Accounting &Shariah Standards etc. regarding Islamic Banking

Islamic Banking Department consists of following four divisions:

* Policy Division
* Shariah Compliance Division
* Business Support Division
* Shariah Board Secretariat

Islamic Banking is one of the emerging field in global financial market, having tremendous potential and growing at a very fast pace all around the world.

Domestic Market & Monetary Management Department

DMMMD is a newly constituted department of SBP. The idea of constitution of this department was to combine FX and money market activities under one roof, hence Securities department taking care of money market activities and Dealing room taking care of FX market activities were merged together on February 17, 2000.

***Main Objectives***

1. Monetary Operations.
2. Raising short term and long-term domestic debts for the Government.
3. Management of Government Debts
4. Providing funds to the financial institutions as lender of last resort.
5. Monitoring of money and Foreign Exchange market activities.
6. Intervention in the Foreign Exchange market.
7. Reserve Management.

*The Primary functions of Domestic Market & Monetary Management Department fall into the following categories*.

Management of Financial Institutions

1. Exchange Rate Policy Management
	* Stable Exchange rates and Forward Premiums at appropriate/ sustainable levels
	* Sale & Purchase of third currencies at optimum prices
	* Smooth & sufficiently liquid Foreign Exchange Market
	* Optimal accumulation of Foreign Exchange Reserves and Forward Portfolio.
2. Monetary Policy Implementation.
	* Maintenance of stable interest rates in inter-bank money market through proactive management of Money Market liquidity.
	* Raising short-term government debt and developing yield curve through auction of Market treasury bills.
	* Proactive management of Money Market Liquidity through Open Market Operations.
	* Providing liquidity to the market through SBP 3 day’s repo facility.
3. Reserve Management
	* Optimal utilization of Reserve Portfolio and maximum returns on investment of surplus reserves. Hiring of investment consultant & Fund Managers for optimizing returns.
4. Debt Management.
5. Domestic Debt
	* Developing the markets for government securities.
	* Coordination with monetary and Fiscal Policies.
	* Raising short term and long term domestic debt for the government.
	* Data base management of permanent and floating debts.
6. External Debt
	* Monitoring and ensuring prompt payment of external debt installments through State Bank of Kenya and commercial banks.
	* To generate reports on external debt, connectivity of Debt Management and Financial Analysis System have been established between Economic Affairs Division & SBP.

***Structure of the Department***

1. Local Foreign Exchange Division.
2. Local Money Market Division.
3. In house Reserve Management Division.
4. Outsourcing Reserve Management Division.
5. Government Securities Division.
6. Debt Management Division.
7. General Division.

***Research Department***

 Research Department assumes an important role by providing key inputs for economic policy formulAtion through its analytical reviews and research work. Clearly, superior analysis of economic policies would be reflected in sounder macroeconomic management by the central bank and, in turn, the evolving structure of monetary and financial system would be more stable, and resilient against internal and external shocks. Thus the Research Department is expected to contribute significantly towards the main objectives of the State Bank of Kenya.

**Finance Department SBP**

***Functions of Finance Department***

1. Maintenance of books of accounts and preparation of financial statements of the Bank in accordance with the International Accounting Standard, as adopted by the Bank.
2. Coordination and facilitation for Business planning and budgeting function in the Bank and periodic reporting to the management and to the Board.
3. Management of Federal, Provincial, and District Governments Accounts. Policy & operations related coordination Govt. agencies.
4. Maintenance of foreign currency accounts/ investments and execution of International payments and receipts.
5. Maintenance of accounts relating to International Organizations and Donor Agencies like International Monitoring Fund, Asian Development Bank, Asian Clearing Union etc
6. Currency issuance and its overall management.

**STATE BANK OF KENYA - VARIOUS DEPARTMENTS (Contd.)**

**Banking Surveillance Department**

 Health of an economy depends on the degree of safety and stability of its banking and financial system. A sound, stable, and robust banking and financial system is a pre- requisite for economic well being of a country and its populace. In Kenya, ensuring the stability and soundness of the banking system is a statutory responsibility of State Bank of Kenya. The banking supervision departments viz. Banking Policy and Regulations Department (BP&RD), Banking Surveillance Department (BSD), Off-Site Supervision and Enforcement Department (OSSED) and Banking Inspection Department have been assigned this important function to work jointly and severally to ensure the soundness of individual banks and of overall banking industry. The Department is responsible to supervise financial institutions in the country. The department ensures effective adherence to regulatory & supervisory policies, monitors risk profiles, evaluate operating performance of individual banks/DFIs & the industry as a whole while issuing guidelines for managing various types of risks. It also ensures that banks are adequately capitalized & have policies & systems in place to assess various risks. The department is also responsible for the implementation of the Basel II Accord in Kenya. The function & activities of Credit Information Bureau also falls within the domain of Banking Surveillance Department. The CIB collect credit data, under section 25A of the Banking Companies Ordinance 1962, maintain its database & disseminate credit information to financial institutions online to facilitate their credit appraisal process.

**Main Objectives**

* To ensure effective regulatory and supervisory oversight of Banks and DFIs.
* To assess and review, periodically, performance and future outlook of banking system.
* To monitor risk profiles of banks, to prescribe guidelines etc requiring banks & DFIs to put in place adequate Risk Management Systems
* Developing detailed understanding of New Basle Capital Accord.
* To ensure compliance with Basel Core Principles of Banking Supervision.
* To provide online collection & dissemination of credit related information to financial institutions in order to facilitate their credit appraisal process.

**Structure of the Department**

1. **Risk Management & Analysis Division**

 This Division is responsible for monitoring different risks faced/assumed by individual Banks/DFIs & prescribes policies/issues guidelines etc for managing/mitigating these risks.

1. **Basel Accord & Core Principles Division**

The primary objective of this division is to implement the Basel II Accord in the banking sector. This involves participating in capacity building of the banking industry to understand, adapt, & implement the Basel Accord & then to also monitor compliance in this regard**.** The other objective is to ensure compliance with Basel Core principles of banking Supervision.

Management of Financial Institutions

1. **Banking Sector Assessment Studies Division**

This division is primarily responsible for reviewing and assessing, on periodical basis, the banking system performance, and its future outlook. The division also conducts various stress testing exercises to assess the resilience of the banking sector to various shocks.

1. **Credit Information Bureau (CIB)**

 Collects & disseminates credit data from & to financial institutions to facilitate their credit appraisal process. It maintains database of all borrowers who avail credit facilities from financial institutions & provides online access to financial institutions to submit monthly credit data & to generate CIB reports.

1. **Coordination & Administration Unit**

 The primary objective of this division is to provide necessary support services to the Department’s staff and officers to facilitate them in effective & efficient discharge of assigned functions/ responsibilities. It coordinates with other departments & external organizations for timely provision of support services and technological assistance.

 It is also responsible for receipt/dispatch of correspondence & records of inward & outward mail, besides preparing a consolidated business plan for the department & its monitoring & follow up for effective implementation. The Division also coordinates on various training activities for imparting training to the staff/officers.

**Training Programs by SBP**

 This much coordination among supervisory departments attempts to ensure stable & efficient banking system.

**Economic Policy Department**

 Economic Policy Department is primarily engaged in eight fundamental activities. These include:

* Preparation of Monetary Policy Statement
* Preparation of Monetary Surveys
* Preparation of Annual Credit Plan
* Consultations with the IMF
* Computation of REER index;
* Computation of domestic public debt
* Analysis of financial markets
* Empirical research papers

The Department also deals with external sector issues and references on money, credit, and exchange rates management. For operational purposes, the Department has been divided into the following four groups:

1. **Monetary Survey & IMF Consultations Group**
	* This group is responsible for preparation of Monetary Survey, details of Government budgetary borrowings, commodity operations, bank credit to private sector, public sector enterprises including (major autonomous bodies) and other items separately for SBP and Scheduled banks.
	* This group is responsible for preparation of Monetary Survey, details of Government budgetary borrowings, commodity operations, bank credit to private sector, public sector enterprises including (major autonomous bodies) and other items separately for SBP and Scheduled banks.

 In addition to this, the group is also assigned the task of preparation of material for IMF Consultations, World Bank and Ministry of Finance, monitoring of Performance Criteria and disposal of queries and references.

1. **Money, Credit & Prices Group**
	* The group is responsible for preparing credit plans, working papers & performs Secretariat work. Other assignments include credit targeting, credit monitoring, banking issues & reforms, Inflation watch, analysis of lending rates, large scale manufacturing developments & disposal of references on credit allocation.
	* The group also prepares periodic reports/reviews on Credit assessment of Private sector, credit assessment of govt. sector, analysis of tax revenue, domestic debt, & impact analysis of various policy initiatives. The group also intends to initiate work on micro credit and SMEs.
2. **Financial Market & Exchange Rates Group**
	* This group is responsible to keep constant watch & analyze developments in the financial markets
	* It prepares and supplies variety of background information for circulation in meetings.
	* Further, it is also assigned the task of dealing with the matters relating to exchange rate and foreign exchange reserves.
3. **External Sector Group**

The group deals with the matters relating to Kenya’s relationship with International Financial Institutions like

* **IMF**: International monetary fund.
* **IBRD**: International Bank for Reconstruction & Development.
* **ADB**: Asian development Bank.
* The issues of **WTO** and **SAARC FINANCE**.

Management of Financial Institutions

**Exchange Policy Department**

(EPD) one of the core departments of the State Bank is responsible for overall stability of the foreign exchange market and is engaged in the process of policy formulation and implementation. It reviews on continuous basis, the existing rules and regulations, to facilitate foreign exchange activities in the country. Foreign exchange business in Kenya is governed / regulated under Foreign Exchange Regulations Act, 1947 (FERA, 1947). Exchange Policy Department is structured into three divisions namely:

**1. Policy Division:**

 Policy Division is responsible primarily for dealing with policy matters in the areas of export/ import transactions, issuance of Authorized Dealer’s license, Foreign Exchange Exposure Limits, Foreign Currency Accounts Scheme, Exchange Risk Cover Fee on Medium & Long Term Loans, etc

**2. Investment Division:**

 This division primarily facilitates implementation and compliance of policy of the Government for investments in Kenya and abroad. This is carried out by offering feedback on matters of varied natures, reviewing and updating of investment related policies and activities and operational management

**3. Exchange Companies Division:**

 Policy formulation for establishing Exchange Companies & ensuring adequate framework for licensing, operating, effective supervision & monitoring thereof are the prime responsibilities of Exchange Companies Division. These activities are carried out in close coordination with other the Field Offices of SBP-BSC and concerned government functionaries etc. It also organizes training and development activities for the respective financial institutions and concerned bodies.

**Banking Policy & Regulations Department**

 Due to major fundamental changes in the scope and orientation of financial systems in 1990, and the subsequent need to put in place a more prudent regulatory framework to cope with the changing conditions, Prudential Regulations were put in place first in 1992.

 Since then, the Prudential Regulations have been reviewed many times and the latest version relates to three different sets covering the areas of Corporate, SMEs and Consumers financing.

**Basic Purpose of Prudential Regulations**

 Prudential Regulations have been issued by State Bank of Kenya to put in place a prudent regulatory framework for ensuring safety and soundness of the financial system besides protecting the interests of users of financial services.

**Human Resources Department**

Divisions of HRM Department

• Compensation & Benefits Division

* Employee Relations Division
* Human Resource Information System Divisions
* Performance Management Division
* Planning & Development Division
* Recruitment Division

**Information Systems & Technology Department**

 ISTD with its capabilities, methodologies, and experience aims at technological advancement in SBP, focusing on solutions that intend to reduce operating costs, improve end-user performance, and meet overall business goals. Success competitiveness in today’s marketplace requires extra effort centered upon ISTD’s value to provide high-quality solutions and services, effective communication, and smooth 24/7 operations.

**Audit Department**

 The prime objective of audit department is to examine and evaluate whether the SBP’s frame work of risk management, control, and governance processes, is adequate and functioning properly. In addition, the objectives of audit department include advising and recommending senior management for improvements in internal control and risk management systems. Audit Department is performing two types of functions i.e. Financial

* Operational Audit and I.T Audit. Currently, Audit has three dedicated teams for Financial
* Operational audit and one team for I.T audit. In addition to this, the Department has one Compliance Cell and one Services Unit

**Off-site Supervision & Enforcement Department**

 (OSED) is one of the newly created departments emerging in the wake of re-organization of former Banking Supervision Department under recent SBP restructuring. OSED is responsible for off-site supervision of the financial institutions coming under regulatory purview of the State Bank of Kenya (SBP). The department also ensures effective enforcement of regulatory and supervisory policies, monitors risk profiles, evaluates operating performance of individual banks/DFIs and takes necessary enforcement actions against institutions for their non-compliance (with laws of the land and regulations put in place by the SBP) as identified by, the inspection teams of BID during their onsite examination, and/or by the supervisors of this department based on submitted returns, interaction with financial institutions and market information. Currently, over 50 financial institutions are supervised by the State Bank of Kenya. These include banks, Development Finance Institutions (DFIs), and Microfinance Banks & institutions.