A SURVEY ON TRANSPARENCY AND DISCLOSURE OF RISK INFORMATION IN THE KENYAN BANKING INDUSTRY

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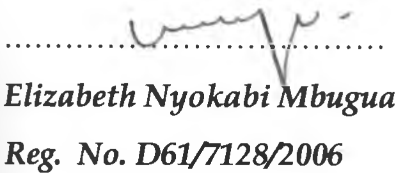
DECLARATION

I hereby declare that the work contained in this project is my original work, and has not previously in its entirety or in part been presented at any other university for a degree. All the references cited in the text have been duly acknowledged.



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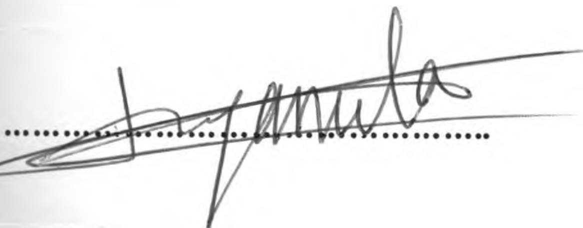

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DEDICATION

To my dad and mum, Evanson Mbugua and Jane Njoki, your love and sacrifice know no boundaries. I will always cherish your unwavering support and guidance all the days of my life.

To my children, Alex Mbugua and Angela Mumbi your love, support and encouragement means the world to me.

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ABSTRACT

The study sought to explore the extent of transparency and disclosure of risk practices in the banking industry in Kenya. Emphasis was on the following research questions; extent to which Kenyan Banks disclose risk information and the factors that influence the disclosure of risk information.

Primary data was collected through questionnaires and distributed to senior managers in the banks operating in Kenya. Data collected was analyzed by use of descriptive statistics and SPSS (12.0) was used for the purpose of the analysis. Results obtained indicate that all banks disclose risk information in the annual audited accounts. However, risk disclosure is still a new concept as only 57% of the banks had been disclosing risk information for a period of over 3 years. Majority of the banks indicated that disclosure of risk information resulted in benefits such as increased management and board credibility, better management of business risks as well as improved corporate governance. The banks ranked credit and liquidity risks as the most important risks that require to be disclosed.

The study's major limitation was the low response rate at 51% considering the size of the banking industry in Kenya. However, on the positive side, the study can be used as the foundation in the extent of disclosure of risk information in the banking industry as well as to other financial sectors in Kenya.

Key words:
Transparency, Disclosure, Risk.

TABLE OF CONTENTS

CHAPTER ONE- INTRODUCTION 1

1.1 Background 1

1.2 Statement of the problem 4

1.3 Research objectives 5

1.4 Importance of the study 5

CHAPTER TWO: LITERATURE REVIEW 7

2.1 Transparency 7

2.2 Disclosure 8

2.3 Regulatory Authorities promoting risk disclosures 10

2.4 Risk 12

2.5 Kenyan Banking Sector 14

2.6 Key Risks faced by banks 15

CHAPTER THREE: RESEARCH METHODOLOGY 23

3.1 Research design 23

3.2 Population of the study 23

3.3 Data collection 23

3.4 Data analysis and presentation 24

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND CONCLUSIONS 25

4.1 Introduction 25

4.2 Risk Disclosure practices 26

4.3 Disclosure of various risks 28

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS................31

5.1 Introduction..31

5.2 Summary of study findings 31

5.3 Conclusions and recommendations...31

5.4 Study Limitations 32

5.51 Suggestions for further study 32

REFERENCES 33

APPENDIX 1: QUESTIONNAIRE..i

APPENDIX II: LIST OF COMMERCIAL BANKS IN KENYA.. vi

CHAPTER ONE- INTRODUCTION

1.1 Background

In the recent years, there have been a number of massive financial losses in the financial sector globally due to inadequate risk management procedures and processes. In seeking to protect the clients' assets, maintaining market stability and protecting the financial market systemic risk, a number of approaches have been taken by regulators to provide confidence to shareholders and other stakeholders. One approach centres on disclosure of reliable and timely risk information to the public to enable users of that information make an accurate assessment of an institution's financial condition, performance and business profile (Basel Committee, 1998).

The Kenyan Banking Sector is regulated by the Central Bank of Kenya. A number of bank failures have taken place in the financial sector leading to loss of public confidence in how information is disseminated. These failures have to a large extent been attributed to inadequate risk management procedures, in particular, credit risks. In conformity with Basle framework which aims at standardizing regulations globally, Kenya has adopted to inculcating a "Risk Management Culture in the Banking Sector, whose bedrock is the proactive detection of threats to Banking Sector stability and prompt corrective action" (Central Bank, 2006).

Risk is a condition in which there exists a possibility of deviation from a desired outcome that is expected or hoped for. Risk management is therefore the process of safeguarding one's or organizations business in terms of assets and income. It involves the identification, assessment, and prioritization of risks followed by coordinated and economical application of resources to minimize, monitor, and control the probability and/or impact of unfortunate events (Gallati, 2003).

The survey sought to provide an overview of the transparency and disclosure practices of Kenyan banks on their risk management processes and procedures. This is in light of calls for more disclosures in the audited accounts of financial institutions internationally

to ensure that depositors and investors are more informed of the risk taking appetite of institutions.

1.1.1 Transparency and Disclosure

Transparency is defined as the public disclosure of reliable and timely information that enables users of that information to make an accurate assessment of a bank's financial condition and performance, business profile, risk profile and risk management (Basel Committee, 1998). The use of market discipline as a complement to bank supervision and regulation has gained greater acceptance globally. It is also widely recognized that effective market discipline depends on market participants' having information about the risks and financial condition of banking organizations. Therefore, attention is being focused increasingly on ways to improve transparency in banking. The accent on market discipline and transparency has been prompted in large part by changes reshaping banking. With consolidation, convergence, globalization, and the rapid pace of financial innovation, more-effective market discipline is a preferred alternative to large-scale expansion of supervision and regulation as a means of limiting risk-taking by large, complex financial institutions with substantial banking activities. These developments are also affecting the types of information needed for evaluating organizations, and thus, changes in disclosure practices are required for maintaining transparency in banking (Federal Reserve System, 2000).

It is important to note that disclosure itself will not create transparency unless it is disclosure of 'useful' information. The Basel Committee states that the fundamentally important qualitative characteristics that will contribute to transparency are: timeliness, comprehensiveness, reliability, relevance, comparability and materiality. Readers will need comprehensive risk information if they are to completely understand the bank's risk profile, although this does not imply that they need all risk information to be disclosed. Immaterial risk information need not be published as, by definition, this is information that would not influence the user's decision (Linsley and Shrives, 2005).

1.1.2 Risk Information

Risk management is the cornerstone of prudential banking practice. Undoubtedly all banks in the present-day volatile environment are facing a large number of risks that may threaten a bank's survival and success (Al-Tamimi and Al-Mazrooei, 2007). In Kenyan Banking Sector the most common risks that financial institutions are exposed to depend on factors such as the size, complexity of business activities, volume etc, however the most common risk includes credit risk (Central Bank of Kenya, 2005). Market participants and supervisors need information about a bank's management strategies and policies for managing and controlling risks. Risk is the major factor in assessing the future performance and condition of a bank and the effectiveness of management. The market participants need qualitative and quantitative information about an institution's risk exposures, including its strategies for managing risk and the effectiveness of those strategies. A bank's risk profile includes the risks inherent in it's on and off balance sheet activities at a point in time and its appetite for risk taking. It also provides information about the stability of an institution's financial position and the sensitivity of its earnings potential to changes in the market conditions. An understanding of the nature and the extent of an institution's risk exposures helps assess whether a bank's return are appropriate for that level of risk it has assumed (Basle committee, 1998).

1.1.3 The Banking Industry in Kenya

The Banking Sector comprised 43 commercial banks as at 31st December 2008. The branch network stood at (887) an increase by 20% in a span of one year and a wide ATM coverage across the country. The 43 commercial banks are licensed and regulated under the Banking Act, Cap 488 and Prudential Regulations. Out of the 43 banks, 31 are locally owned and 12 are foreign owned. The financial institutions are classified into three peer groups comprising; Large, Medium and Small in terms of net assets. Out of the 43 banking institutions, 13 were in the large peer group with each registering aggregate net assets of over shs.15 billion. The medium peer group comprised 16 institutions with each registering net assets ranging between shs.5 billion and shs.15 billion, while institutions with less than shs.5 billion net assets were 14 in number. The report indicates that 31 per

cent of the institutions were in the large peer group accounting for 83 per cent of the total net assets, 83 per cent of net advances, 84 per cent of customer deposits, 81 per cent of capital reserves and 92 per cent of profits in the banking sector (Central Bank. 2008).

To better manage risks Central Bank of Kenya issued guidelines in line with best international practices on minimum requirements for risk management systems and frameworks in 2005 (Central Bank of Kenya, 2007). The Central Bank of Kenya also in a bid to enhance market discipline in the banking and financial sector issued a guideline CBK/PG/10 on Publication of Financial Statements and other disclosures. Although the guideline does not specifically require banks to disclose risk information, however as a custodian of public funds, banking institutions have the responsibility to safeguard their integrity and credibility in order to maintain public confidence. It is under these considerations that institutions are required to periodically publish their financial statements in order to avail timely information to all stakeholders. This would also encourage institutions to enhance prudent management of their affairs and exercise self-regulation (Central Bank of Kenya, 2006).

1.2 Statement of the problem

Both regulators and financial institutions have recognized the benefits of enhanced public disclosure of risk information. Banks are increasingly disclosing risk practices to external entities; shareholders, regulators, analysts, lenders and credit rating agencies primarily through audited reports. While there is no single global regulatory standard for risk reporting, the Bank for International Settlement and International Accounting Standard Boards have actively promoted risk disclosures by global financial institutions. Kenya has adopted International Accounting Standards and Basle 1 framework which requires risk disclosures by financial entities.

In the local scene Kenyan bank failures have in a big part been attributed to inadequate risk management procedures, in particular, credit risks. A clear demonstration of this is the level of gross non-performing loans of the Kenyan banking sector that stands at Kshs.62b (Central Bank of Kenya, 2008). Further since 1984 to 1996 there have been 29

bank failures in Kenya and the main cause has been high incidence of non performing loans. Some of the banks that have been closed include; Rural Urban Credit & Finance Co. Ltd, Trade Bank Ltd, Exchange Bank Ltd, Meridian BIAO (K) Ltd, Trust Bank amongst others. These closures have had an adverse impact on the financial sector stability and public confidence in the Banking System (Central Bank of Kenya, 1997).

The research sought to examine the transparency and disclosure of risk information in the Kenyan Banking Sector. A number of un-published studies have been conducted in the Kenyan Banking Sector that include: A survey of the impact of operational losses on profitability of Commercial Banks (Bosire, 2006), Retail marketing strategies adopted by Commercial Banks in Kenya (Mukule, 2006), A survey of Corporate Governance Practices in Kenya (Linyiru, 2006) and Foreign Exchange Risk Management Practices by Foreign owned Commercial Banks (Omagwa, 2005). However, no recent literature had analyzed transparency and disclosure of risk information in the Kenyan Banking Industry to the researcher's knowledge. The research was intended as a first step to fill such a gap.

1.3 Research Objectives

1.3.1 General Objectives

The study sought to assess the extent of transparency and disclosure of risk information in the Kenyan Banking Sector.

1.3.2 Specific Objectives

The study was guided by the following specific objectives:

I. To determine the extent to which Kenyan Banks disclose risk information.
II. To determine the factors that influence transparency and disclosure of risk information.

1.4 Importance of the study

The study is of significance to the following stakeholders;

1.4.1 **Top Management of the Banks -** The study would aid in sensitizing the top management about compliance to global standards as recommended by Basel Committee, International Accounting Standards Board and Central Bank of Kenya.

1.4.2 **Employees of the banks –** On the basis of the study employees would gain knowledge on the extent of the disclosure of risk information by their institutions and how well their banks comply with them.

1.4.3 **Supervisory organizations -** The study would be important as it will illuminate how well Kenyan banks have adopted internationally accepted practices in their organizations and conform to risk management guidelines issued in 2005 by Central Bank of Kenya.

1.4.4 **Other organizations -** The study would also be important to other organizations especially in the financial sector as they will be in a position to learn how they can improve their transparency and disclosure principles.

1.4.5 **Academics** - Researchers and other students would find this study useful especially in replicating the findings to other industries.

CHAPTER TWO: LITERATURE REVIEW

2.1 Transparency

Transparency is essential for sound and effective corporate governance, it is difficult for shareholders, other stakeholders and market participants to effectively monitor and properly hold accountable the board of directors and senior management when there is a lack of transparency (Basel Committee, 1998). Empirical evidence suggests that improved disclosure has a material impact on the cost of capital. Greater disclosure and timely reporting is said to reduce the cost of equity through lower transaction costs, reduced error in earnings forecasts, or higher demand for a company's securities (Euromoney Institutional Investor, 2001).

Another commonly cited benefit of greater corporate disclosure is that, by mitigating information asymmetry, it reduces the magnitude of periodic surprises about a firm's performance and makes its stock price less volatile (Lang and Lundholm, 1999). As such, strengthened corporate governance and reporting practices, and the improved credibility of financial information that would result, may not eliminate business failure in totality, but could provide the "red flag" signal to the stakeholders especially to the regulators. Hence, in line with past studies, the level of transparency (through better disclosure and timely reporting) is considered a result of good governance practices which in turn can help to reduce information asymmetry between corporate governance outsiders and corporate insiders, and between institutional shareholders and minority shareholders (Haat and Mahenthiran, 2008).

As for the relation between transparency and performance, with increased voluntary disclosure and more timely reporting (therefore greater transparency) Loh (2002) found that firms may gain numerous benefits, including a better managed company, increased management credibility, more long-term investors, greater analyst following, improved access to capital and lower cost of capital, and the realisation of a company's true underlying value. Hence, based on this argument, it is expected that firms with a higher level of disclosure and greater timeliness in reporting will gain better market performance *(Loh, L.C. 2002)*.

Cordella and Yeyeti (1997) suggest that increased market discipline through improved transparency would lead to a more stable private banking system. The intuition is that in the absence of disclosure, depositors and other creditors assume that banks will choose riskier positions and that the debt (deposits) will be priced accordingly. The solution then is for a bank to take riskier options. In contrast, with full disclosure—that is, with its risk known—the bank can take less-risky options. By enhancing market discipline, more effective disclosure could produce a more stable banking system (Cordella and Yeyeti, 1997). In response to recent corporate governance scandals, governments have responded by adopting a number of regulatory changes. One component of these changes has been increased disclosure requirements. For example, Sarbanes-Oxley Act (sox) on corporate governance adopted by the United States in response to Enron, Worldcom, and other public governance failures, requires detailed reporting of off-balance sheet financing and special purpose entities. Additionally, sox increased the penalties to executives for misreporting. The link between governance and transparency is clear in the public's (and regulators') perceptions; transparency was increased for the purpose of improving governance (Hemalin and Weibasch, 2007).

Transparency in banking is a measure of the degree to which the stakeholders—equity holders, debt holders, and other counterparties—as well as securities analysts and rating agencies are able to assess an institution's current financial condition, prospects for future earnings, and risk. That assessment depends, in turn, on the extent and quality of disclosure, which refers to the public release of information on individual institutions about their financial condition and performance, the current value and collectability of assets, and the value and cash flow requirements associated with liabilities, as well as information on risk exposures, risk-management processes, control procedures, and business strategies (Federal Reserve System, 2000).

2.2 Disclosure

External financial disclosure is defined as any financial information, quantitative or qualitative, that is deliberately released by the firm through formal or informal channels (Gibbins et al., 1990; Lev, 1992). It is also reasonable to expect some conflict of interest to exist between managers and other outside parties since each party attempts to maximize

their own interests (Healy and Palepu, 1993). Comprising both financial and non-financial components, the annual report of a company has been the chief means of conveying useful information for rational investment, credit and other decisions over the years. Of late, however, in the wake of major corporate scandals and fraudulent accounting practices exemplified notably by the infamous Enron and WorldCom scandals, there has been an increased demand for more disclosures, particularly in the non-financial segment of the annual report (Cole and Jones, 2005).

The literature on information disclosure has primarily focused on insider trading and market liquidity, spillover effects (proprietary information), and private information production incentives in addressing this question. From the insider trading and market liquidity literature, the general result is that information disclosure is good. Fishman and Hagerty (1992) show that insider trading can discourage "outside" investors to become informed at a cost, so that it follows that disclosure of insider information can benefit market participants (Fishman and Hagerty 1992). A study conducted by Linsley and Shrives (2006) examined the relationship between company size and level of risk and the extent of risk disclosure. Their findings suggest that there is a positive correlation between size and disclosure but no correlation between level of risk and risk disclosure. Hence, Linsley and Shrives (2006) concluded that stakeholders are not given enough information by higher risk companies (Linsley and Shrives, 2006).

Beretta and Bozzolan 2004 examined the quality of risk disclosure of 85 Italian Stock Exchange companies by focusing on the Management, Discussion and Analysis (MDA) section of the audited accounts. Even though they identified 75 different risk items being disclosed in the MDA, they found that companies in general avoid communicating the expected impact in quantitative terms of these risks and the economic direction of the firms. The firms are also reluctant to indicate whether the future risks disclosed will impact them, either positively or negatively. They are more inclined to report past and present risks. They also tested the company size and industry in relation to risk

disclosure but failed to conclusively prove the association between these variables. Hence, they concluded that the two variables have no influence on the extent of disclosure (Beretta and Bozzolan 2004).

An exploratory study on risk management disclosure in Malaysian annual reports of 100 selected companies revealed that risk management disclosure is being practiced by Malaysian companies. Of the risk types being disclosed, the most reported was strategic risk followed by operation risk and empowerment risk (Amran and Hassan, 2009). A study conducted on the interaction between compulsory and voluntary disclosure in Saudi Arabian corporate annual reports revealed no clear pattern of relationships to exist between mandatory disclosure and the different types of voluntary disclosure in the different industrial sectors. The non-correlation between these groups of disclosure may suggest low co-ordination between the board of directors and the management in writing parts of the annual report (Al-Razeen and Karbhari, 2004). The essence of any bank is that it is a risk taking enterprise and therefore, as a part of good corporate governance, it is expected that relevant risk-related information will be released to the marketplace. However, there is insufficient disclosure of risk information by banks (Linsley and Shrives, 2005).

2.3 Regulatory Authorities promoting risk disclosures

There are a number of regulatory authorities both locally and internationally that have been at the fore front in spearheading increased transparency and disclosure of risk information for public use:

2.3.1 Bank of International Settlement (BIS)

The Bank of International Settlement (BIS), founded in 1930, is one of the entities that regulate the international banking system, through the issue of regulations, which are not directly binding, and codes of good practice in the areas of banking, investment, insurance, etc. Therefore BIS, is an important forum for debate for central banks, authorities and other entities. The bank has been at the forefront in promoting improved

public disclosures both in quantitative and qualitative information that will allow bank counterparties and other financial market participants to make informed decisions regarding bank's risk management practices and financial strength. In this regard a paper was issued through the Basel committee on Banking Supervision in 1998 entitled Enhancing Bank Transparency. The paper discusses the significance of disclosure and transparency within the context of market discipline and banking supervision (Basle committee, 1998).

2.3.2 International Accounting Standards Board

International Accounting Standards Board (IASB) is an international body that provides guidelines internationally to its members on accounting principles. The Institute of Certified Public Accountants of Kenya (ICPAK) has adopted the International Accounting standards. ICPAK ensures that the form and content of a reporting entity's financial statements and other forms of presentation are acceptable and comply with International Reporting Standards. International Accounting Standard No.7 of financial institutions' requires disclosures on Risk Management Frameworks. This disclosure requirement became effective in January 2007. The (IASB) believes that users of financial statements need information about an entity's exposure to risks and how those risks are managed. Greater transparency regarding those risks allows users to make informed judgments' about risk and return (International Accounting Standards Board, 2006).

2.3.3 Central Bank of Kenya

The Central Bank of Kenya is responsible for supervision of banks to ensure compliance with the Banking Act and Prudential Guidelines. The bank has also been at the forefront in promoting sound risk management practices to banks. In this respect the bank issued risk management guidelines to banks in 2005 (Central Bank of Kenya, 2005). The Central Bank of Kenya in a bid to enhance market discipline in the banking and financial sector also issued a guideline CBK/PG/10 on Publication of Financial Statements and other disclosures. It is under these considerations that institutions are required to periodically publish their financial statements in order to avail timely information to all stakeholders.

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This would also encourage institutions to enhance prudent management of their affairs and exercise self- regulation (Central Bank of Kenya, 2006).

2.4 Risk

Risk is the probability of an adverse occurrence multiplied by the impact of that adverse occurrence. Risks can come from uncertainty in financial markets, project failures, legal liabilities, credit risk, accidents, natural causes and disasters as well as deliberate attacks from an adversary. Risk Management is the application of risk analysis to strategic, systems, human and organizational problems in order to improve performance. By recognizing, understanding and managing risks, more risks can be assumed and performance increased (Mainelli, 2002). Risk disclosure is a focal issue of corporate communication especially since various scandals have revealed shortcomings in companies' financial disclosure (Beretta and Bozzolan, 2004).

Risk management refers to the methods and processes used by organizations to manage risks (or seize opportunities) related to the achievement of their objectives. A risk management framework typically involves a few processes. Firstly, there is the careful identification, measurement, and assessment of risk types and contingencies that a company might face. Secondly, it involves the formulation of a response model or strategic action to tackle the risks (both threats and opportunities). This includes determining capacity for bearing risk, risk reduction or mitigation procedures and other strategies to benefit from the impact of the potential risk. Finally, it requires the monitoring and checking of the implementation of all the actions planned as proposed by the response model (Lajili and Zeghal, 2005). By identifying and proactively addressing risks and opportunities, the company protects and creates value for their stakeholders, including owners, employees, customers, regulators, and society overall. Such risk management has been mandated to be disclosed by the accounting standard boards in some developed countries. However, risk management disclosure is still very much voluntary in many parts of the world (Amran and Hassan, 2009).

Undoubtedly all banks in the present-day volatile environment are facing a large number of risks such as credit risk, liquidity risk, foreign exchange risk, market risk and interest

rate risk, among others – risks which may threaten a bank's survival and success. In other words, banking is a business of risk. For this reason, efficient risk management is absolutely required. Carey (2001) indicates in this regard that risk management is more important in the financial sector than in other parts of the economy. The purpose of financial institutions is to maximize revenues and offer the most value to shareholders by offering a variety of financial services, and especially by administering risks (Al-Tamimi and Al-Mazrooei, 2007). The Cardbury Committee described risk management as the process by which executive management, under board supervision, identifies the risk arising from business and establishes the priorities for control and particular objectives. In the committees view, risk management should be systematic and embedded in the company's procedures and culture and should not be adhoc and occasional (Cadbury Code, 1992).

International Financial Reporting Standards (IFRS 4) on Insurance contracts defines financial risk as the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices rate, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. The Board also requires that for every type of risk arising from financial instruments, an entity shall disclose firstly; the exposures to risk and how they arise, secondly; its objectives, policies and processes for managing the risk, thirdly the methods used to measure the risk, and fourthly any changes in the first or second from the previous period (International Accounting Standards Board, 2006). The risks to which banks are exposed and the techniques that banks use to identify, measure, monitor and control those risks are important factors market participants consider in their assessment of an institution. Several key banking risks are considered: credit risk, market risk, interest rate risk and equity risk in the banking book and operational risk. Also included are disclosures relating to credit risk mitigation and asset securitization, both of which alter the risk profile of the institution (Basel Committee, 2004).

2.5 Kenyan Banking Sector

The Banking Sector is composed of the Central Bank of Kenya, as the regulatory authority and the regulated; Commercial Banks, Non-Bank Financial Institutions and Forex Bureaus. The locally owned financial institutions comprised 3 banks with significant government shareholding (Consolidated Bank of Kenya, Development Bank of Kenya Ltd and National Bank of Kenya), and 28 privately owned commercial banks. The foreign owned financial institutions comprised 8 locally incorporated foreign banks and 4 branches of foreign incorporated banks. Of the 43 private banking institutions in the sector, 71% are locally owned and the remaining 29% are foreign owned.

Bank Supervision Department (BSD) is mandated to promote and maintain the safety, soundness and integrity of the banking system. This responsibility is undertaken through the implementation of policies and standards that are in line with international best practice for bank supervision and regulation (Central Bank of Kenya, 2008). Despite relatively good accounting disclosure and the use of International Financial Reporting Standards across the sector, risk management processes tend to be in the development phase in most of Kenya's banks. Risk management has been improving in recent years and many aspects of these improvements were codified in the 2006 Prudential Guidelines issued by Central Bank which required all banks, as a minimum, to have the following committees in place: a board audit committee, a board credit committee, an asset and liability committee, a risk management committee and an executive committee (Fitch Ratings, 2008). The Central Bank of Kenya issued Risk Management guidelines in 2005 for the purpose of providing guidelines to all financial institutions on minimum requirements for risk management systems and frameworks. These guidelines were issued in line with international best practices and required the banks to set up independent risk management functions. It was noted that the types and degrees of risks an organization faces may be exposed to depend upon factors such as size, complexity, business activities, volumes etc. (Central Bank of Kenya, 2005).

Risk taking is an inherent element of banking and, indeed, profits are in part the reward for successful risk taking in business. On the other hand, excessive risk can lead to losses in the institution. The Risk Management Guidelines outlined the minimum coverage and elements of a comprehensive risk management programme. The guideline requires the risk management programme of each financial institution should to at least contain a number of elements. Firstly; it should have an active board and senior management oversight, secondly; adequate policies and procedures and limits and thirdly; adequate risk monitoring and management information systems (MIS) and adequate internal controls. The Central Bank expected the adoption of these guidelines to translate to effective identification, measurement, control and monitoring of all risks affecting institutions. The guidelines covered the most common risks in financial institutions as highlighted as under; (Central Bank of Kenya, 2005)

2.6 Key Risks faced by Banks

The following are the key risks faced by banks;

2.6.1 Strategic Risk

Strategic Risk is the current and prospective impact on earnings or capital rising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. This risk is the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals and the quality of implementation. The resources needed to carry out business strategies are both tangible and intangible. They include communication channels, operating systems, delivering networks, and managerial capacities and capabilities. In strategic management, the organization's internal characteristics must be evaluated against the impact of economic, technological, competitive, regulatory, and other environmental changes (Central Bank of Kenya, 2005).

2.6.2 Credit Risk

Credit Risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the bank or if an obligor otherwise fails to perform as agreed. The largest source of credit risk is loans. However, credit risk exists throughout other activities of the bank both on and off the balance sheet. An effective and sound credit risk management is therefore important to the stability of any local financial institution. Overall, the management of this risk requires the development of an appropriate credit risk culture and environment. A sound credit extension process, maintaining appropriate credit administration, measurement and monitoring process and ensuring adequate credit controls, enhances this (Central Bank of Kenya, 2005).

To be able to prudently value loans and to determine appropriate allowances, it is particularly important that banks have a system in place, whether established by the institution itself or by the supervisor, to reliably classify all loans on the basis of risk. A credit risk classification system may include categories or designations that refer to varying degrees of credit deterioration, such as substandard loans, doubtful loans, and irrecoverable loans. A classification system typically takes into account the borrower's current financial condition and paying capacity, the current value and realizability of collateral, and other factors that affect the prospects for collection of principal and interest. Accounting and valuation processes must be complemented by effective internal controls commensurate with the size, nature and complexity of the bank's lending operations. The board of directors has ultimate oversight responsibility for establishing and maintaining a system of effective internal controls that, among other things, should ensure that lending transactions are promptly recorded, loan documentation is complete, internal loan review procedures are effective and an appropriate management information system is in place. Credit risk management encompasses more than appropriate accounting practices (Basel Committee, 1999).

2.6.3 Liquidity Risk

Liquidity Risk is the current or prospective risk to earnings and capital arising from a bank's inability to meet its liabilities when they fall due without incurring unacceptable losses. It arises when the cushion provided by the liquid assets are not sufficient to meet its obligations. Liquidity risk may not be seen in isolation, because it is often triggered by consequences of other financial risks such as credit risk, market risk etc and similarly, liquidity problems may have significant implications on the whole financial system. Liquidity risk management involves not only analyzing bank's on and off balance sheet positions to forecast future cash flows but also how the funding requirements could be met. The latter involves identifying the funding market to which the bank has access, understanding the nature of those markets, evaluating the bank's current and future use of the market and monitoring signs of confidence erosion (Central Bank of Kenya, 2005).

The fundamental role of banks in the maturity transformation of short-term deposits into long-term loans makes banks inherently vulnerable to liquidity risk, both of an institution-specific nature and that which affects markets as a whole. Virtually every financial transaction or commitment has implications for a bank's liquidity. Effective liquidity risk management helps ensure a bank's ability to meet cash flow obligations, which are uncertain as they are affected by external events and other agents' behavior. Liquidity risk management is of paramount importance because a liquidity shortfall at a single institution can have system-wide repercussions. Financial market developments in the past decade have increased the complexity of liquidity risk and its management. A bank should establish a robust liquidity risk management framework that ensures it maintains sufficient liquidity, including a cushion of unencumbered, high quality liquid assets, to withstand a range of stress events, including those involving the loss or impairment of both unsecured and secured funding sources (Basel Committee, 2008).

2.6.4 Interest Rate Risk

Interest Rate Risk is the current or prospective risk to earnings and capital arising from adverse movements in interest rates. Excessive interest rates risk can pose a significant threat to a financial institution's earnings and capital base. Changes in interest rates can affect a financial institution's earnings by changing its interest income and the level of other interest - sensitive income and operating expenses. Changes in interest rates thus can have adverse effects both on a financial institution's earnings, capital and its economic value. The goal of interest rate risk is to maintain a financial institution's interest rate risk within self imposed parameters over a wide range of possible changes in interest rates. Managing interest rate risk is a fundamental component in the safe and sound management of all institutions. In involves prudently managing mismatch positions in order to control, within set parameters, the impact of changes in interest rates on the institution. Significant factors in managing the risk include the frequency, volatility and direction of rate changes, the slope of the interest rate yield curve, the size of the interest-sensitive position and the basis for repricing at rollover dates (Central Bank of Kenya, 2005).

2.6.5 Price Risk

Price Risk is the risk that a financial institution may experience loss due to unfavorable movements in market prices. It arises from the volatility of positions taken in four fundamental economic markets; interest - sensitive debt securities, equities, currencies and commodities. The volatility of each of these markets exposes banks to fluctuations in the price or value of on and off-balance sheet marketable financial instruments. Price risk results from changes in the prices of equity instruments, commodities and other instruments. The potential for loss arises from the process of revaluing equity or investment positions in shilling terms. Therefore institutions are required to formulate a sound price risk management framework that must encompass; board and senior management oversight, policies, procedures and limits, risk identification and

measurement, monitoring and management information systems and internal controls (Central Bank of Kenya, 2005).

There is a wide range of market-based price risk management instruments available: traded on organized futures and options exchanges or the over-the-counter market; incorporated into the pricing formulas of physical trade transactions; or encapsulated in financing deals. None of these instruments fundamentally alters the risky character of the marketplace, but they empower those active in the market to man oeuvre a way through these risks, considerably improving the certainty of receiving or paying certain prices six months, one year or even three years in the future. Futures and options are the building blocks: the use of futures locks in a fixed price for some time in the future; the use of options guarantees a minimum or maximum price while still allowing the possibility to benefit from price improvements. These building blocks can be combined and modified in many ways in order to create a risk management product that fits best with user's requirements (Youssef, 2007)

2.6.6 Foreign Exchange Rate Risk

Foreign Exchange Rate Risk is the current or prospective risk to earnings arising from adverse movements in currency exchange rates. The potential for loss arises from the process of revaluing foreign currency positions in shillings. All financial institutions should formulate a sound foreign exchange risk management framework. Managing foreign exchange risk is a fundamental component in the safe and sound management of all institutions that have exposures in foreign currencies. It involves prudently managing foreign currency positions in order to control, within set parameters, the impact of changes in exchange rates on the financial position of the institution. The frequency and direction of rate changes, the extent of the foreign currency exposure and the ability of counterparts to honour their obligations to the institution are significant factors in foreign exchange risk management. Although the particulars of foreign exchange risk management will differ among institutions depending upon the nature and complexity of

their foreign exchange activities, a comprehensive foreign exchange risk management programme requires establishing and implementing sound and prudent foreign exchange risk management policies; and developing and implementing appropriate and effective foreign exchange risk management and control procedures (Central Bank of Kenya, 2005).

2.6.7 Operational Risk

Operational Risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is the risk of loss from the potential that inadequate information systems; technology failures, breaches in internal controls, fraud, unforeseen catastrophes, or other operational problems may result in unexpected losses (Central Bank of Kenya, 2005). In the past, banks relied almost exclusively upon internal control mechanisms within business lines, supplemented by the audit function, to manage operational risk. While these remain important, recently there has been an emergence of specific structures and processes aimed at managing operational risk. In this regard, an increasing number of organizations have concluded that an operational risk management programme provides for bank safety and soundness, and are therefore making progress in addressing operational risk as a distinct class of risk similar to their treatment of credit and market risk (Basel Committee, 2003).

The Basel Committee has provided guidelines for a developing and an appropriate risk management environment. Firstly; it has recommended that the board of directors should be aware of the major aspects of the bank's operational risks as a distinct risk category that should be managed, and it should approve and periodically review the bank's operational risk management framework. Secondly; the framework should provide a firm-wide definition of operational risk and lay down the principles of how operational risk is to be identified, assessed, monitored, and controlled/mitigated. Thirdly; the board of directors should ensure that the bank's operational risk management framework is subject to effective and comprehensive internal audit by operationally independent, appropriately trained and competent staff. The internal audit function should not be

directly responsible for operational risk management. Fourthly; senior management should have responsibility for implementing the operational risk management framework approved by the board of directors. The framework should be consistently implemented throughout the whole banking organization, and all levels of staff should understand their responsibilities with respect to operational risk management. Senior management should also have responsibility for developing policies, processes and procedures for managing operational risk in all of the bank's material products, activities, processes and systems. Finally; Banks should identify and assess the operational risk inherent in all material products, activities, processes and systems. Banks should also ensure that before new products, activities, processes and systems are introduced or undertaken, the operational risk inherent in them is subject to adequate assessment procedures. Banks should implement a process to regularly monitor operational risk profiles and material exposures to losses. There should be regular reporting of pertinent information to senior management and the board of directors that supports the proactive management of operational risk (Basel Committee, 2003).

2.6.8 Reputational Risk

Reputational risk is the potential that negative publicity regarding an institution's business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions. This risk may result from a financial institution's failure to effectively manage any or all of the other risk types. Reputation risk also involves external perception. Thus reputation risk is where the actions of a business damage its reputation, to the extent that it may lose sales or customers, or where the actions of a financial institution damage its reputation to the extent that they lose business or offer to bear or share losses suffered by their customers. Many management teams have been criticized for the way they handled a crisis - not because their strategy was ill conceived or clumsily implemented, but because they failed to tell the outside world what the strategy was (Central Bank of Kenya, 2005).

Corporate leadership teams are the guardians of an organization's stability and financial well-being. The growth of profits and protection of assets are always prominent concerns. Yet, while numerous factors posing a potential risk to a company's equilibrium are routinely evaluated and addressed accordingly, one critical threat is too often overlooked: the company's reputation. Unless the key elements of reputational risk are identified, prioritized and monitored, an enterprise is not fully protected against the impact of potential negative events and issues. Reputational distress can be the result (Resnick, 2006).

2.6.9 Regulatory Risk

Regulatory risk is the risk of non-compliance with regulatory guidelines. Regulatory risk is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with, laws, rules, regulations, prescribed practice, or ethical standards issued by the regulator from time to time. Regulatory risk also arises in situations where laws or rules governing certain banks products or activities of the bank's clients may be ambiguous or untested. Regulatory risk exposes an institution to fines, civil money penalties, payments of damages, and the violation of contracts. It can lead to diminished reputation, reduced franchise value, limited business opportunities, reduced expansion potential and an inability to enforce contracts. The institution should implement a system to ensure that deficiencies identified are promptly managed and meaningful corrective action implemented. Training programs should be effective and the necessary resources provided to ensure compliance. Management should show preparedness towards anticipation of regulatory risk and be able to respond well to changes of a market, technological or regulatory nature (Central Bank of Kenya, 2005).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Research design

The study utilized a survey research design for data collection in order to gather information on the extent of transparency and disclosures in the banking industry on risk management. The method used in the study to analyze risk disclosure was content analysis. It was chosen since the study focused on the extent and not the quality of the risk disclosures. Content analysis is also the most common and widely used method in assessing disclosure (Haniffa and Cooke, 2002 and Linsley and Shrives, 2005). Weber (1990) defines content analysis as a research method that uses a set of procedures to make valid inferences from text. Weber added that the rule of this inferential process varies based on the interest of the investigator.

3.2 Population of the study

The population for this study was derived from all the forty three (43) banks in Kenya under the regulatory supervision of the Central Bank of Kenya. These banks are categorized into three (3) tiers based on their core capital, as large, medium and small banks categories. The criterion of using core capital as a measure of size of the institutions was justified on the premise that most banks could have been unwilling to divulge information on other parameters due to competition. This being a census, no sampling was required. The target respondents were the risk managers of these institutions. However in cases where there were no risk managers any other senior manager responsible for risk was targeted.

3.3 Data collection

The study relied on primary data which was collected by way of questions within the disclosure categories using closed and open ended questions. The questions were aimed at obtaining content data for statistical analysis.

The questionnaire was divided into three parts. Part A was designed to collect the respondents' general information. Part B and C were designed to collect data on the level of risk management and disclosure practices of the institution. Part B intended to establish the existence of disclosure practices of risk in institutions. Part C sought to establish the benefits of transparency arising from disclosure of information to shareholders and other stakeholders.

The questionnaire was administered by the researcher personally to the head of risk and any questions that were not clear to the respondent were clarified immediately. Where it was not possible to obtain an appointment, self administered method was used where an email was sent to the respondents and a telephone contact provided to enable clarification on any unclear questions in the questionnaire.

3.4 Data analysis and presentation

Data collected through the questionnaires was edited for accuracy, uniformity, consistency, and completeness and arranged to enable coding and cross tabulation before final analysis. Coding and cross tabulation of data was undertaken to enable the responses to be statistically analyzed. Descriptive statistics were used to analyze the data. These were used to analyze the extent of disclosure practices. Descriptive statistics was also used to rank the benefits identified in disclosure of information to shareholders and other stakeholders and the importance attached to various risks. Measures of central tendency (mean) and dispersion (standard deviation) were used to achieve these objectives. This was achieved by use of Microsoft Excel and SPSS (version 12.0) programs.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND CONCLUSIONS

4.1 Introduction

This chapter discusses the study findings. The data analysis was guided by two objectives: one, the extent to which Kenyan Banks disclosed risk information and two, the factors that influenced transparency and disclosure of risk information. From the initial target population of forty three banks operating in Kenya, twenty two responded. This represented a response rate of fifty one (51) percent.

4.1.1 Organizational profile of the target respondents

The target banks were categorized using the core capital and the number of employees to represent the size of the organization as well as on the ownership structure as to whether the institution is locally incorporated or a multinational bank. The results for core capital of the banks are represented in Table 4.1.1.

Table 4.1.1 Banks' Core Capital

Capital (Shs)	Frequency	Percent (%)
Less than 5 Billion	17	77
Between 5 and 15 Billion	1	5
Above 15 Billion	4	18
Total	**22**	**100**

Source: Research Data

The results indicate that 77% (17 out of 21) of the banks that responded to the study had a core capital of less than five billion while 5% (1) of the banks had core capital of between 5 and 15 billion. Only 18% (4) of the banks had a core capital exceeding 15 billion.

Table 4.1.2 summarizes findings on the number of employees in the banks that responded.

Table 4.1.2 Number of Employees

Number of Employees	Frequency	Percent
Below 100	8	36
Between 100 and 500	9	41
Between 500 and 1000	1	5
Above 1000	4	18
Total	**22**	**100**

Source: Research Data

From the Table 4.1.2, it can be noted that 4 banks (18%) had more than 1000 employees.

Results on ownership structure for the respondent banks are summarized in Table 4.1.3.

Table 4.1.3 Ownership Structure

Ownership Structure	Frequency	Percent
Local	17	77
Multinational	5	23
Total	**22**	**100**

Source: Research Data

Results indicate that of the twenty two banks that responded, 17 (77%) were locally incorporated in Kenya while 5 (23%) were multinationals. 5 of the banks were listed in the Nairobi Stock Exchange while the other 17 banks were privately owned.

4.2 Risk Disclosure Practices

The study sought to identify whether banks disclosed risks information in the audited accounts. If they had, they were expected to list the risks disclosed in the accounts and the duration they had been disclosing these risks. The findings are summarized in Tables 4.2.1, 4.2.2 and 4.2.3.

Table 4.2.1 summarizes results as to whether banks disclose risk information in the audited annual accounts.

Table 4.2.1 Disclosed risk information in the annual accounts

Response	Frequency	Percent
Yes	21	100
No	0	0
Total	**21**	**100**

Source: Research Data

From the responses obtained, 100% of the banks disclosed risk information in the audited accounts. The high disclosure rate can be explained by the International Standard No.07 that became effective in January 2007 requiring all financial institutions to make disclosures on risk management frameworks.

Table 4.2.2 summarizes how long the banks have been disclosing risk information in the audited accounts.

4.2.2 Table Period of disclosure of risk information

No. of years	Frequency	Percent
Less than 1 year	1	5
Between 1 and 2 years	2	10
Between 2 and 3 years	6	29
Over 3 years	12	57
Total	**21**	**100**

Source: Research Data

Results indicate that 57% (12) of the banks had been disclosing risks in the audited accounts for a period of over three years, 29% (6) had been doing so for a period ranging between 2-3 years while 10%(2) had been disclosing for a period between 1 and 2 years.

Thus the disclosure of risk information seems to be a relatively recent concept in the banking industry in Kenya. Size does not appear to be a factor in the disclosure period. One bank with a core capital above Shs.15 billion has been disclosing risk information for a period between 1 and 2 years while another bank with the same capital structure had been doing so for a period ranging between 2-3 years.

Table 4.2.3 summarizes whether banks had dedicated risk functions.

4.2.3 Table Dedicated Risk Functions in the organization

Response	Frequency	Percent
Yes	18	82
No	4	18
Total	**22**	**100**

Source: Research Data

Its worthwhile to note that of banks that did not have dedicated risk functions three (3) were locally incorporated banks having core capital less than five (5) billion and one (1) locally incorporated subsidiary of a multinational bank operating world wide. Three (3) of these banks' had the number of employees below one hundred (100). The other bank had the number of employees being between one hundred (100) and five (500) hundred. The findings also indicated that three banks with capital over Shs.10b had dedicated risk functions having20, 60 and 360 employees respectively. This implies that risk practices are more advanced in tier 1 banks compared to other banks. Two of these banks were multinational banks. All the other banks indicated that the employees in the risk function ranged from none to 10 employees.

4.3 The disclosure of various risks

The study sought to investigate the risks institution considers important in disclosure.

4.3.1 Level of importance of disclosure of various risks by the institution

Respondents to the study were asked to indicate the various risks the institution considered important. The variables were ranked on a likert scale with "Very Important"

scoring 5 points while "Not Important" scoring 1 point. These were coded and analyzed. Results are summarized in Table 4.3.1

Table 4.3.1 Disclosure of various risks

Type of risk	Mean	Standard Deviation
Credit Risk	5.0	0.22
Strategic Risk	4.2	0.81
Liquidity Risk	4.8	0.51
Interest rate risk	4.1	1.01
Foreign Exchange risk	4.1	0.94
Operational Risk	3.9	1.26
Reputational Risk	3.8	1.30
Compliance Risk	4.6	0.59
Regulatory Risk	4.6	0.75

Source: Research Data

The risk with the highest mean score was credit risk (5.0) while the lowest mean score (3.8) was attained for reputational risk. From the results obtained, most of the banks responded that credit is the most important risk that requires to be disclosed. The standard deviation computed from the responses is high with reputational risk having the highest at 1.30 followed by operational risk at 1.26 and interest rate at 1.01. High standard deviation values indicate a lack of uniformity/consistency in the importance of risks by various banks. This also indicates that the risks with a high standard deviation are not often disclosed in the audited accounts.

4.3.2 Benefits of transparency though disclosure of risk information.

The respondents were asked state the benefits of transparency through disclosure of risk information. The benefits of transparency were ranked on a likert scale with the "strongly Agree" scoring 5 points and the "Strongly Disagree" scoring 1 points. These were analyzed by computing mean scores and standard deviation. The results are indicated in Table 4.3.2

Table 4.3.2 Benefits of transparency through disclosure of risk information

Benefits of transparency	Mean	Standard Deviation
Increased management and board credibility	4.7	0.46
Better managed institution	4.6	0.50
More long term investors/shareholders	4.0	1.21
Better company stock price	3.5	1.44
Greater access to capital	3.6	1.50
Self regulation resulting in increased market discipline	4.4	0.79
Better management of business risks	4.7	0.57
Increased public confidence	4.4	0.85
Improved corporate governance	4.7	0.48
Improved performance	4.2	0.91
A more stable banking environment	4.5	0.60

Source: Research Data

Results from table 4.3.2 indicate that the most benefits arising from disclosure of risk information to shareholders and the public were increased management and board credibility, better management of business risks and improved corporate governance as they all attained the highest mean score of 4.7. A better company stock price and greater access to capital had a mean score of 3.5 and 3.6 respectively. Additionally, high standard deviation values indicate a lack of uniformity and consistency in the benefits of disclosure of risk information to shareholders and the public.

Thus from the findings, conclusions can be made that a better stock price and greater access to capital are the factors that least influence the level of disclosure of risk information.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the summary of the study findings, conclusions and recommendations arising thereof. The chapter concludes with limitations to the study, and suggestions for further study.

5.2 Summary of the study findings

The study utilized the exploratory study design where the objectives were to find answers to two questions namely; establish the extent to which Kenyan Banks disclosed risk information? To determine the factors that influenced transparency and disclosure of risk information. To achieve these objectives, the 43 banks were used as the study population.

The findings of the study indicate that all banks disclosed risk information in the annual audited accounts irrespective of size and ownership structure. The big banks with a core capital of Shs.10b and above had dedicated risk functions resourced with a staff complement ranging from 20 to 360, while banks with a lower capital base had staff ranging from none to a maximum of 10. This indicates that bigger banks put more resources in management of business risks than smaller banks. The findings also indicate that some of the major benefits that influence disclosure of risk information are increased board credibility, better management of business risks and improved corporate governance.

5.3 Conclusions and recommendations

The research findings indicate that extent of disclosure of risk information in all organizations is very high. This is as a result of International Accounting Standard No.7

that requires all financial institutions to disclose risk management practices in the audited accounts. However, risk disclosure is still a new concept in the Kenyan Banking Industry as 57% of the banks indicated they had been disclosing risk information in the accounts for a period of over 3 years while the rest were between 1 to 3 years. Additionally 82% of the banks responded that they had dedicated risk functions while 18% had no dedicated risk functions. The respondents indicated that the two most important risks that require to be disclosed were credit and liquidity risk.

5.4 Study limitations

The major limitation encountered was the low response rate (51%) given that the banking industry in Kenya is quite small with only 43 banks. Most of the banks approached for information cited strict confidentiality on provision of sensitive information and thus could not divulge information which could be beneficial to the competitors. Thus it's possible that the results of the study could have been greatly representative of the banking industry in Kenya if the response rate had been higher, if not 100%.

5.5 Suggestions for further study

The study has set the ground work for research into the disclosure of risk information as tool of corporate governance to bring stability in the financial sector. Similar research should be replicated in other financial sectors and industries both in the public and private domain as the results will greatly enhance corporate governance.

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APPENDIX 1: QUESTIONNAIRE

This questionnaire is designed to collect data on the extent to which banking institutions in Kenya disclose risk information in their audited accounts. Collected data shall be used for academic purposes only, and thus shall be treated with strict confidence.

Your participation in facilitating this study is highly appreciated.

PART A: GENERAL INFORMATION

1. Name of the Institution..

2. Title of the Respondent..

3. Core capital of the Institution (Please tick appropriately)

    Tier 1: Above Kshs 10 billion [ ]

    Tier 2: Between Kshs 5 billion and Kshs 10 billion [ ]

    Tier 3: Less than Kshs 5 billion [ ]

4. How many people does your institution employ?

    Below 100 [ ]

    Between 100 and 500 [ ]

    Between 500 and 1000 [ ]

    Above 1000 [ ]

5. Is the institution;

A locally incorporated bank, with headquarter based in Kenya? [ ]

A locally incorporated subsidiary of a multinational bank operating world wide? [ ]

6. Is the institution listed at the Nairobi Stock Exchange?

Yes [ ] No [ ]

PART B: RISK MANAGEMENT OVERVIEW

7. Does your organization disclose risks facing the institution in the annual audited accounts?

Yes [ ] No [ ]

If yes please list risks disclosed in the accounts

....

....

....

8. Does your organization have a dedicated risk function?

Yes [ ] No [ ]

Please list the number of personnel in the function

....

....

....

9. Rank the following risks in the order of importance to the organization from a scale of 1 to 10 (1 being the most important and 10 the least)

Strategic Risk [ ]
Credit Risk [ ]
Liquidity Risk [ ]
Interest Rate risk [ ]
Foreign Exchange risk [ ]
Price Risk [ ]
Operational Risk [ ]
Reputational Risk [ ]
Compliance Risk [ ]
Regulatory Risk [ ]

10. Does your organization allocate the same resources to the various risks facing the organization?

Yes [ ] No [ ]

If no please list the three risks that receive the highest resources in the organization in order of importance.

....

....

....

11. For how many years has your organization been disclosing risk in the audited accounts?

Less than 1 year [ ]
Between 1 and 2 years [ ]
Between 2 and 3 years [ ]
Over 3 years [ ]

12. Please indicate the risks the institution considers important in disclosure by ticking (√) appropriately in the space provided below.

	Level of importance of disclosure of various risks by the institution.	**Not Important**	**Least Important**	**Important**	**Fairly Important**	**Very Important**
1	Credit risk	[ ]	[ ]	[ ]	[ ]	[ ]
2	Strategic risk	[ ]	[ ]	[ ]	[ ]	[ ]
3	Liquidity risk	[ ]	[ ]	[ ]	[ ]	[ ]
4	Interest rate risk.	[ ]	[ ]	[ ]	[ ]	[ ]
5	Foreign Exchange risk.	[ ]	[ ]	[ ]	[ ]	[ ]
6	Operational risk.	[ ]	[ ]	[ ]	[ ]	[ ]
7	Reputational risk.	[ ]	[ ]	[ ]	[ ]	[ ]
8	Compliance risk.	[ ]	[ ]	[ ]	[ ]	[ ]
9	Regulatory risk.	[ ]	[ ]	[ ]	[ ]	[ ]

PART C: THE BENEFITS OF TRANSPARENCY THROUGH DISCLOSURE OF RISK INFORMATION

13. Does disclosure of risk information to the public make the institution more transparent?

Yes [ ]   No [ ]

14. Please indicate the benefits of transparency through disclosure of risk information by ticking (√) appropriately in the space provided below.

	Benefits of transparency	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
1	Increased management and board credibility.	[ ]	[ ]	[ ]	[ ]	[ ]
2	Better managed institution.	[ ]	[ ]	[ ]	[ ]	[ ]
3	More long term investors/shareholders.	[ ]	[ ]	[ ]	[ ]	[ ]
4	Better company stock price	[ ]	[ ]	[ ]	[ ]	[ ]
5	Greater access to capital.	[ ]	[ ]	[ ]	[ ]	[ ]
6	Self regulation resulting in increased market discipline.	[ ]	[ ]	[ ]	[ ]	[ ]
7	Better management of business risks.	[ ]	[ ]	[ ]	[ ]	[ ]
8	Increased public confidence.	[ ]	[ ]	[ ]	[ ]	[ ]
9	Improved corporate governance.	[ ]	[ ]	[ ]	[ ]	[ ]
10	Improved performance	[ ]	[ ]	[ ]	[ ]	[ ]
11	A more stable banking environment	[ ]	[ ]	[ ]	[ ]	[ ]

------------------THANK YOU FOR YOUR CONTRIBUTION ------------------

APPENDIX II

BANKING SECTOR MARKET SHARE REPORT (NET ASSETS, NET ADVANCES, DEPOSITS, CAPITAL & PROFITS), AS AT DECEMBER 2008

kshs.(m)

	INSTITUTION	TOTAL NET ASSETS	MARKET SHARE (%)	NET ADVANCES	MARKET SHARE (%)	CUSTOMER DEPOSITS	MARKET SHARE (%)	CAPITAL & RESERVES	MARKET SHARE (%)	PRE-TAX PROFITS	MARKET SHARE (%)
	Banks										
	Large (Assets above 15 billion)										
1	Kenya Commercial Bank Ltd	174,712	15.09%	79,343	12.98%	109,845	12.93%	20,058	12.46%	5,394	12.65%
2	Barclays Bank of Kenya Ltd	168,786	14.58%	108,086	17.68%	126,408	14.88%	20,463	12.71%	8,016	18.80%
3	Standard Chartered Bank Ltd	99,140	8.56%	43,299	7.08%	76,898	9.05%	11,390	7.08%	4,709	11.05%
4	Co-operative Bank of Kenya	83,897	7.25%	53,263	8.71%	65,869	7.75%	13,933	8.66%	3,337	7.83%
5	CFC Stanbic Bank Kenya	83,166	7.18%	44,205	7.23%	61,529	7.24%	7,118	4.42%	1,313	3.08%
6	Equity Bank Limited	77,136	6.66%	40,858	6.68%	48,977	5.77%	19,660	12.22%	4,757	11.16%
7	Commercial Bank of Africa	50,110	4.33%	26,309	4.30%	41,715	4.91%	4,949	3.07%	1,694	3.97%
8	Citibank, N.A.	47,535	4.11%	18,154	2.97%	31,192	3.67%	9,190	5.71%	3,353	7.86%
9	National Industrial Credit Bank	42,704	3.69%	29,955	4.90%	35,238	4.15%	5,529	3.44%	1,474	3.46%
10	National Bank of Kenya Ltd	42,696	3.69%	8,950	1.46%	34,278	4.04%	6,208	3.86%	1,797	4.21%
11	Diamond trust	41,592	3.59%	25,460	4.16%	32,689	3.85%	5,334	3.31%	1,305	3.06%
12	Investment & Mortgages Bank	36,656	3.17%	25,887	4.23%	28,355	3.34%	5,188	3.22%	1,620	3.80%
13	Prime Bank Limited	19,945	1.72%	9,426	1.54%	15,662	1.84%	3,075	1.91%	460	1.08%
14	Bank of Baroda	18,361	1.59%	8,938	1.46%	15,165	1.79%	1,910	1.19%	633	1.48%
		986,435	85.20%	**522,132**	85.39%	**723,820**	85.21%	**134,006**	83.27%	**39,861**	93.50%
	medium(above 5 billion and below 15 billion)										
15	Imperial Bank Limited	13,432	1.16%	8,276	1.35%	10,414	1.23%	1,912	1.19%	673	1.58%
16	Bank of Africa Ltd	12,304	1.06%	6,856	1.12%	8,701	1.02%	1,662	1.03%	93	0.22%
17	Bank of India	12,049	1.04%	4,448	0.73%	10,211	1.20%	1,690	1.05%	609	1.43%
18	Ecobank	10,499	0.91%	5,126	0.84%	8,341	0.98%	1,743	1.08%	67	0.16%
19	Family Bank	10,410	0.90%	5,890	0.96%	7,404	0.87%	1,557	0.97%	531	1.24%
20	Chase Bank Limited	10,300	0.89%	5,139	0.84%	7,147	0.84%	845	0.53%	247	0.58%
21	Fina Bank Limited	9,865	0.85%	6,190	1.01%	8,113	0.96%	1,171	0.73%	82	0.19%
22	K-REP BANK	8,184	0.71%	5,935	0.97%	4,502	0.53%	1,129	0.70%	-472	-1.11%
23	African Banking Corporation	6,584	0.57%	3,550	0.58%	5,365	0.63%	968	0.60%	224	0.53%
24	Habib AG Zurich	6,557	0.57%	2,182	0.36%	5,373	0.63%	774	0.48%	242	0.57%
25	Development Bank of Kenya	6,520	0.56%	3,439	0.56%	2,231	0.26%	1,229	0.76%	171	0.40%
26	Giro Commercial Bank	5,938	0.51%	3,411	0.56%	5,127	0.60%	608	0.38%	126	0.29%
27	Guardian Bank	5,558	0.48%	3,553	0.58%	4,586	0.54%	835	0.52%	44	0.10%
28	Southern Credit Banking Corp.	5,171	0.45%	2,655	0.43%	4,106	0.48%	483	0.30%	6	0.01%
29	Gulf African Bank	5,000	0.43%	1,932	0.32%	3,249	0.38%	1,273	0.79%	-382	-0.90%
		128,372	11.09%	**68,581**	11.22%	**94,869**	11.17%	**17,879**	11.11%	**2,260**	5.30%
	small below shs. 5billion										
30	Consolidated Bank of Kenya	4,657	0.40%	2,751	0.45%	3,279	0.39%	846	0.53%	85	0.20%
31	Habib Bank Limited	4,491	0.39%	988	0.16%	3,024	0.36%	620	0.39%	146	0.34%
32	Victoria Commercial Bank Ltd	4,460	0.39%	2,778	0.45%	3,582	0.42%	763	0.47%	170	0.40%
33	Equatorial Commercial Bank	4,410	0.38%	2,307	0.38%	3,668	0.43%	676	0.42%	-8	-0.02%
34	Fidelity Commercial Bank	4,329	0.37%	2,787	0.46%	3,778	0.44%	424	0.26%	73	0.17%
35	Credit Bank Limited	3,637	0.31%	1,810	0.30%	2,774	0.33%	666	0.41%	79	0.19%
36	Transnational Bank Limited	3,388	0.29%	1,458	0.24%	1,891	0.22%	1,235	0.77%	121	0.28%
37	Middle East Bank of Kenya	3,297	0.28%	1,651	0.27%	2,021	0.24%	877	0.54%	30	0.07%
38	First Community Bank	3,180	0.27%	868	0.14%	2,091	0.25%	775	0.48%	-307	-0.72%
39	Paramount-Universal Bank	2,646	0.23%	1,268	0.21%	2,109	0.25%	492	0.31%	51	0.12%
40	Oriental Commercial Bank	2,289	0.20%	958	0.16%	1,314	0.15%	944	0.59%	68	0.16%
41	Dubai Bank Limited	1,639	0.14%	957	0.16%	1,032	0.12%	411	0.26%	7	0.02%
42	City Finance Bank	538	0.05%	193	0.03%	164	0.02%	323	0.20%	-3	-0.01%
43	Charterhouse Bank Limited *	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
		42,961	3.71%	**20,773**	3.40%	**30,727**	3.62%	**9,053**	5.63%	**512**	1.20%
	Grand Total	**1,157,769**	100.00%	**611,486**	0.00%	**849,417**	100.00%	**160,938**	100.00%	**42,633**	100.00%