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June 2, 2023

BANKING CIRCULAR NO. 3 OF 2023

TO ALL CHIEF EXECUTIVES OF COMMERCIAL BANKS, MORTGAGE FINANCE COMPANIES AND MICROFINANCE BANKS

IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS) 9 ON FINANCIAL INSTRUMENTS: END OF FIVE-YEAR TRANSITION PERIOD

1.0 Background

International Financial Reporting Standards (IFRS) 9 on Financial Instruments came into effect from January 2018. IFRS 9 replaced International Account Standards (IAS) 39 methodology used to compute impairment provisions for losses relating to financial instruments and assets.

Consequently, in April 2018, the Central Bank of Kenya issued a Guidance Note on the implementation of IFRS 9 by Commercial Banks, Mortgage Finance Companies and Microfinance Banks. The guidance note provided the institutions with a five-year transition period beginning January 2018 to fully comply with IFRS 9 on computation of regulatory capital.

During the five-year transition period, the institutions were allowed to add back IFRS 9 provisions relating to performing loans outstanding as of December 31, 2017, and those issued in 2018 over a 5-year transition period. The transition period was to enable these institutions to assess the impact on capital adequacy ratios and build-up capital gradually.

2.0 Impact of the transition period

During the transition period, provisions added back to retained earnings for purpose of computation of the regulatory capital and the impact on capital was as follows: -

Year	Provisions added back in Ksh. billions	Percentage impact on core capital
2018	28.34	4.9
2019	17.73	2.8
2020	16.47	2.4
2021	6.29	0.8
2022	4.17	0.5

3.0 Amendments to the reporting templates

CBK revised various reporting templates to guide institutions in reporting compliance with IFRS 9 and CBK Guidance Note during the five-year transition period. Following the end of the five-year transition period, CBK has revised the capital adequacy return, quarterly unaudited financial statements and other disclosures, annual audited financial statements and other disclosures and the return to track losses to be added back for purposes of computing regulatory capital as follows;

- a) Under the quarterly (un)audited Financial Statements and Disclosures (PR10), Adjusted Core Capital/Total Deposit Liabilities*, Adjusted Core Capital/Total Risk Weighted Assets* and Adjusted Total Capital/Total Risk Weighted Assets* are no longer applicable and have been removed.
- b) Under the capital adequacy return (PR3) Capital to Total Risk Weighted Assets, the added column headed 'Adjusted where applicable in line with CBK's Guidance on IFRS 9' has been removed as it is no longer applicable.
- c) Return no.CK/IFRS 9/01 on the Movement in Performing Loans and Provisions Added Back has been removed and will no longer be filled in by the institutions.
- d) On Microfinance Banks (MFBs), CBK/MFR 13-3, (un)audited Quarterly Disclosures, Adjusted Core Capital/Total Deposit Liabilities*, Adjusted Core Capital/Total Risk Weighted Assets* and Adjusted Total Capital/Total Risk Weighted Assets* are no longer applicable and have been removed.
- e) In the MFB return on Capital to Total Risk Weighted Assets, the added column headed 'Adjusted where applicable in line with CBK's Guidance on IFRS 9' has been removed as it is no longer applicable.

4.0 Purpose of the circular

The purpose of the circular is to advise on the lapse of IFRS 9 transition period for Commercial Banks, Mortgage Finance Companies and Microfinance Banks. The amendments to reporting templates are attached for information.

Yours faithfully



MATU MUGO
DEPUTY DIRECTOR, BANK SUPERVISION

Attachments

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