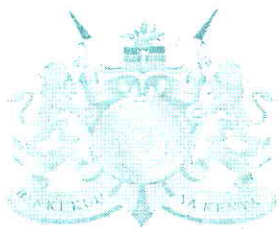


**BANKI
KUU YA
KENYA**



**CENTRAL
BANK OF
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16th November 2016

BANKING CIRCULAR NO. 7 OF 2016

**TO: ALL CHIEF EXECUTIVES OF COMMERCIAL BANKS AND MORTGAGE
FINANCE COMPANIES**

ISSUANCE OF GUIDANCE NOTE ON INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP)

1.0 Background

ICAAP is a capital management approach which enables institutions to determine the level of capital that is adequate to support the nature and scope of institutions' risks. With a comprehensive ICAAP, institutions are better placed to set internal capital targets that are consistent with their business plans, risk profile and operating environment.

On 9th August 2016, the Central Bank of Kenya (CBK) issued a draft Guidance Note on Internal Capital Adequacy Assessment Process (ICAAP) for the banking sector to review and comment. The exposure period ended on 9th September 2016 and CBK considered all comments received from banks and members of the public.

2.0 Legal Basis and scope of application

The Guidance Note is issued pursuant to Section 33(4) of the Banking Act, which grants CBK authority to issue guidance to institutions for maintenance of a stable and efficient banking and financial system, as supplemented by Clause 4.4 of *CBK's Prudential Guideline on Capital Adequacy (CBK/PG/03)*.

The Guidance Note applies to commercial banks and mortgage finance companies. It sets out the general rules that will govern an institution's ICAAP, its key features and disclosure requirements. The Guidance Note has benefited from experiences in other countries as well as input from the banking industry.

The Guidance Note is issued for purposes of guiding institutions in developing or revising their ICAAP documents and making regulatory submissions required under the Banking Act and CBK Prudential Guideline on Capital Adequacy.

3.0 The Purpose of the Circular

CBK has finalised the Guidance Note taking into account the comments received during the exposure period. The purpose of this Circular therefore is to issue the Guidance Note for reference by commercial banks and mortgage finance companies in preparing or revising their ICAAP documents. Commercial banks and mortgage finance companies are required to submit their 2016 ICAAP Documents to CBK by 30th April 2017.

Yours faithfully,



GERALD NYAOMA
DIRECTOR, BANK SUPERVISION

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