

BANKI
KUU YA
KENYA



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BANKING CIRCULAR NO. 11 OF 2020

TO ALL CHIEF EXECUTIVES OF COMMERCIAL BANKS AND MORTGAGE FINANCE COMPANIES

INTERNAL CAPITAL ADEQUACY ASSESSMENT PROCESS (ICAAP) BY COMMERCIAL BANKS AND MORTGAGE FINANCE COMPANIES DURING THE COVID-19 PANDEMIC

The banking sector has played a critical role in supporting the Kenyan economy during the coronavirus (COVID-19) pandemic. Specifically, the sector has ensured continuity of operations, provision of credit and relief to borrowers by restructuring their loans. All these measures would affect the financial position of commercial banks and mortgage finance companies and warrant careful consideration of how to address their impact in the near term.

The duration and extent of the pandemic remains uncertain and it is critical that these institutions remain resilient by strengthening their balance sheets through additional capital and adequate liquidity. A stronger balance sheet will mitigate the expected adverse impact on profitability primarily through increased provisioning for non-performing loans. Further, resilient banks will be in a good position to support the post-pandemic economic recovery.

As you are aware, an important framework in building the resilience of the banking sector is the Internal Capital Adequacy Assessment Process (ICAAP). Through ICAAP, institutions assess and maintain, on an ongoing basis, capital that they consider adequate to cover the risks to which they are or might be exposed. This framework has so far been a critical element in building the resilience of the sector.

Against this backdrop, the Central Bank of Kenya (CBK) is requiring all commercial banks and mortgage finance companies to:

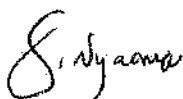
- i) re-submit by **October 31, 2020**, their board approved ICAAP documents for 2020. These documents should take into account:
 - a. The impact of the pandemic and mitigating measures taken by the institution.

- b. Measures taken and proposed to strengthen the balance sheet and maintain adequate capital and liquidity.
 - c. Any proposed distribution of 2020 profits.
- ii) discuss the re-submitted ICAAP documents for 2020 with CBK prior to making decisions on distribution of 2020 profits.

For further enquiries, please do not hesitate to contact:

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Yours faithfully,


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