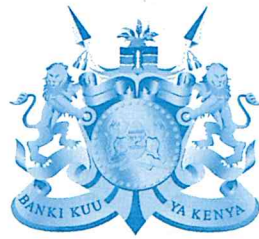


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April 6, 2018

MICROFINANCE BANKING CIRCULAR NO. 1 OF 2018

TO ALL CHIEF EXECUTIVES OF MICROFINANCE BANKS

GUIDANCE NOTE ON IMPLEMENTATION OF INTERNATIONAL FINANCIAL REPORTING STANDARD (IFRS) 9 ON FINANCIAL INSTRUMENTS

1.0 Background

The International Accounting Standards Board has issued the final International Financial Reporting Standard (IFRS) 9, on Financial Instruments. The new standard came into effect from January 2018. IFRS 9 replaced International Accounting Standard (IAS) 39 with regard to making provisions for losses relating to Financial Instruments and assets.

2.0 Legal basis and scope of application

The Guidance Note is issued pursuant to Section 48(2A) (b) of the Microfinance Act, 2006, which mandates the Central Bank of Kenya (CBK) to issue guidelines to be adhered to by institutions in order to maintain a stable and efficient deposit taking microfinance system.

All the institutions are required to comply with IFRS 9 in the preparation of financial statements in line with the guideline issued by the Institute of the Certified Public Accountants of Kenya.

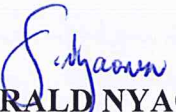
The Guidance Note is issued for purposes of guiding microfinance banks on the implementation of IFRS 9 with regard to regulatory capital. It is further clarified that: -

- i) For purposes of computing capital requirements during the 5-year transition period, institutions will add back IFRS 9 provisions relating to performing facilities/loans outstanding as at December 31, 2017 and those issued in 2018.
- ii) All provisions under the Expected Credit Loss model for facilities/loans issued after 2018 shall not be added back for purposes of computing regulatory capital.
- iii) Additional rows have been included in the quarterly unaudited /audited annual Financial Statements and Other Disclosures template to enable institutions disclose their core and total capital ratios including *adjusted ratios* after the additional expected credit loss provisions have been added back.
- iv) The monthly return on Capital Adequacy has been amended to take into account the CBK Guidance Note on the implementation of IFRS 9.
- v) A new monthly return – IFRS 9 Implementation Transition Return has been developed to help in monitoring provisions over the next five-years relating to facilities/loans that were outstanding and performing as at December 31, 2017 and those issued in 2018 and performing.

3.0 The Purpose of the Circular

The purpose of this Circular therefore is to issue the Guidance Note on the implementation of IFRS 9 for reference by microfinance banks in the computation of regulatory capital.

Yours faithfully,


GERALD NYAOMA
DIRECTOR, BANK SUPERVISION

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