SPECIAL ISSUE

THE KENYA GAZETTE

Published by Authority of the Republic of Kenya

(Registered as a Newspaper at the G.P.O.)

Vol. CXVI—No. 117 **NAIROBI, 30th September, 2014** **Price Sh. 60**

GAZETTE NOTICE NO. 6850

CENTRAL BANK OF KENYA

ANNUAL REPORT AND FINANCIAL STATEMENTSFOR THE YEAR ENDED 30 JUNE, 2014

Board of Directors

Dr Mbui Wagacha	Interim Chairperson
Prof Njuguna Ndung'u	Governor
Dr Kamau Thugge	Principal Secretary, National Treasury
Prof William O. Ogara	
Ms Vivienne Y. Apopo	
Ms Florence K. Muindi	
Mr John G. Msafari	

Senior Management

Prof Njuguna Ndung'u	Governor
Dr Haron Sirima	Deputy Governor
Mr Kennedy K. Abuga	Director – Governors' Office and Board Secretary
Mr Aggrey J. K. Bett	Director – Special Projects up to 2 April 2014
Ms Rose Detho	Director – Strategic Management Department – Appointed on 2 April 2014
Mr Fredrick Pere	Director – Bank Supervision Department
Mr Charles Koori	Director – Research Department
Mr Cassian J. Nyanjwa	Director – Department of Estates, Supplies and Transport
Mr Paul K. Wanyagi	Ag. Director – Currency Operations and Branch Administration Department
Mr Gerald Nyaoma	Director – Financial Markets Department
Mr Peter K. Rotich	Director – Finance & Information Management Systems Department
Mr Mark Lesiit	Director – Banking & Risk Management Department
Ms Mary Waceke	Director – Human Resources and Administration Department
Prof Kinandu Muragu	Executive Director – Kenya School of Monetary Studies
Mr William Nyagaka	Director – Internal Audit Department

Registered office and principal place of business

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Kenya

Kisumu Branch
Central Bank of Kenya Building
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40100 Kisumu
Kenya

Eldoret Branch
Kiptagich House
Uganda Road
P O Box 2710
30100 Eldoret
Kenya

Currency centres

Nyeri Currency Centre
Kenya Commercial Bank Building
Kenyatta Street
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10100 Nyeri
Kenya

Meru Currency Centre
Co-operative Bank Building
Njuri Ncheke Street
P O Box 2171
60200 Meru
Kenya

Nakuru Currency Centre
Central Bank of Kenya Building
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Kenya

Independent Auditor

Pricewater House Coopers
Certified Public Accountants
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Waiyaki Way/ Chiromo Road, Westlands
Kenya

On behalf of:-
Auditor General
Anniversary Towers
P O Box 30084
00100 Nairobi
Kenya

1. Statement of Corporate Governance

The Central Bank of Kenya (the "Bank") is wholly owned by the Government of Kenya. The Bank is established by and derives its authority and accountability from Article 231 of the Constitution of Kenya. The Bank is committed to maintaining the highest standards of integrity, professionalism and business ethics in all its operations.

1.1. Board of Directors

The Central Bank of Kenya Act provides that the Board of Directors shall be composed of a Chairperson, a Governor, the Principal Secretary to the National Treasury, who is a non-voting member and five Non-Executive Directors including the Chairperson. Previously, all the Board members were appointed by the President of the Republic of Kenya. With effect from 2nd May, 2012, the Act was amended and now requires under Sections 11(2A) and 13(1) that the Chairperson of the Board and the Governor of the Bank, respectively, be appointed by the President through a transparent and competitive process and following the approval of Parliament. The current Directors, in line with the provisions of the Act, Section 12 (1C), elected an Interim Chairperson from amongst the members to preside at meetings of the Board until a substantive Chairperson is appointed. Consequently, Dr Mbui Wagacha was on February 11, 2013 elected to preside at meetings of the Board. Other than the Principal Secretary to the Treasury who is ex-officio, all the Non-Executive Directors of the Board are appointed by the President of the Republic of Kenya. All the Board members are appointed for terms of four years each and are eligible for reappointment provided that no Board Member holds office for more than two terms.

There are five Non-Executive Directors namely Dr Mbui Wagacha, Mr John Gerin Msafari, Ms Vivienne Yeda Apopo and Ms Florence Kagendo Muindi who are all serving their first term and Prof William Otiende Ogara who is serving his second term. All the Non-Executive Directors are independent of management and free from any business or other relationship, which could interfere with the exercise of their independent judgement.

The Board meets once every two months and has a formal schedule of agenda items due for deliberations. The Directors are given appropriate and timely information to maintain full and effective control over strategic, financial and operational issues. The Board is not involved in the conduct of day-to-day business as this is the responsibility given to the Governor by the Act. It, however, retains responsibility for determining the policy of the Bank.

The Members of the Board as at 30 June 2014 and their attendance of the 13 meetings held in the year were as follows:

No	Name	Position	Discipline	Date of appointment	Nationality	Meetings attended
1	Dr Mbui Wagacha	Interim Chairperson	Economist	14 March 2011	Kenyan	13
2	Prof Njuguna Ndungu	Governor, Member	Economist	14 March 2011	Kenyan	13
3	Prof William Otiende Ogara	Member	Professional Accountant	14 March 2011	Kenyan	13

No	Name	Position	Discipline	Date of appointment	Nationality	Meetings attended
4	Mr John Gerin Msafari	Member	Business management	1 June 2011	Kenyan	12
5	Ms Vivienne Yeda Apopo	Member	Lawyer and banker	14 March 2011	Kenyan	7
6	Ms Florence Kagendo Muindi	Member	Human Resource	1 June 2011	Kenyan	13
7	Principal Secretary, National Treasury	Executive Officer	Economist	Permanent	Kenyan	3

The remuneration paid to the Directors for services rendered during the financial 2013/2014 is disclosed in Note 29 of the financial statements. The Non-Executive Directors are paid a monthly retainer fee and a sitting allowance for every meeting attended. There were no loans to Non-Executive Directors during the year while the Executive Director is paid a monthly salary and is eligible for staff loans.

1. Statement of Corporate Governance

1.2 Audit Committee

The members of the Audit Committee are Prof William Otiende Ogara (Chairman), Mr John Gerin Msafari, Ms Florence Muindi and Ms Vivienne Yeda Apopo. The members are all Non-Executive Directors having experience in Accounting, Auditing, Economics, Banking, Financial and Business Management and Legal matters. The Committee currently meets once every two months and as necessary. The Terms of Reference for the Audit Committee cover five major areas, namely, Internal Control, Financial Reporting, Risk Management, Internal Audit and External Audit.

The Audit Committee's mandate under **Internal Control** covers evaluation of control culture; the adequacy of the internal control systems and compliance with International Financial Reporting Standards in preparation of financial statements; the overall effectiveness of the internal control and risk management frameworks; and review of the effectiveness of the system for monitoring compliance with laws and regulations.

The mandate relating to **Financial Reporting** requires the Audit Committee to review significant accounting and reporting issues and their impact on the financial reports and ensure current financial risk areas are being managed appropriately. The Committee also ensures the adequacy of the financial reporting process and reviews the Bank's monthly management accounts and annual financial statements before approval by the Board and release.

With regard to **External Audit**, the Audit Committee reviews the external auditor's proposed audit scope, approach and audit deliverables; and review draft financial statements before submission to the External Auditor for audit.

The Committee's mandate on **Internal Audit** covers review of the activities and resources of the Internal Audit function; effectiveness, standing and independence of internal audit function within the Bank; review of the internal audit plan; and follow up of implementation of internal auditor's findings and recommendations. The Audit Committee reports to the Board of Directors on the standing and independence of internal audit function within the Bank; review of the internal audit plan; and follow up of implementation of internal auditor's findings and recommendations. The Audit Committee reports to the Board of Directors on approach and audit deliverables; and review draft accounts before submission to the External Auditors for audit.

The Members of the Audit Committee as at 30 June 2014 and their attendance of the 16 meetings held in the year were as follows:

No	Name	Position	Discipline	Nationality	Meetings attended
1	Prof William Otiende Ogara	Chairman	Professional Accountant	Kenyan	15
2	Mr John Gerin Msafari	Member	Business Management	Kenyan	15
3	Ms Florence Kagendo Muindi	Member	Human Resource	Kenyan	16
4	Ms Vivienne Yeda Apopo	Member	Lawyer and Banker	Kenyan	3

1.3 Monetary Policy Committee (MPC)

Section 4D of the CBK (Amendment) Act 2008 establishes the Monetary Policy Committee. The committee is responsible for formulating monetary policy and is required to meet at least once in two months. Members of the committee are appointed by the Cabinet Secretary for Finance for an initial period of three years each and may be reappointed for another final term of three years.

The Members of the MPC as at 30 June 2014 and their attendance of the 6 meetings held in the year were as follows:

No	Name	Position	Discipline	Nationality	Meetings attended
1	Prof Njuguna Ndungu	Chairman	Economist	Kenyan	6
2	Dr Haron Sirima	Vice Chairman	Economist	Kenyan	6
3	Principal Secretary, National Treasury	Member	Economist	Kenyan	6
4	Prof Francis Mwega	Member	Economist	Kenyan	6
5	Prof Terry C Ryan	Member	Economist	Kenyan	6
6	Mrs Sheila Mbijjewe	Member	Finance	Kenyan	6
7	Mrs Farida Abdul	Member	Economist	Kenyan	6
8	Mr Charles Koori	Internal-Member	Economist	Kenyan	6
9	Mr John K. Birech	Internal-Member	Economist	Kenyan	6

1.4 Human Resources Committee

The committee meets once every two months and when need arises to review human resource policies and make suitable recommendations to the Board.

The members of the Human Resources Committee as at 30 June 2014 and their attendance of the 5 meetings held in the year were as follows:

No	Name	Position	Discipline	Nationality	Meetings attended
1	Ms Florence Kagendo Muindi	Chairperson	Human Resource	Kenyan	5
2	Prof William Otiende Ogara	Member	Professional Accountant	Kenyan	5

No	Name	Position	Discipline	Nationality	Meetings attended
3	Mr John Gerin Msafari	Member	Business management	Kenyan	4
4	Ms Vivienne Yeda Apopo	Member	Lawyer and banker	Kenyan	1

There were 4 Special Human Resource Committee meetings held in the year, the attendance of which was as follows:

No	Name	Position	Discipline	Nationality	Meetings attended
1	Ms Florence Kagendo Muindi	Chairperson	Human Resource	Kenyan	4
2	Prof William Otiende Ogara	Member	Professional Accountant	Kenyan	4
3	Mr John Gerin Msafari	Member	Business management	Kenyan	3
4	Ms Vivienne Yeda Apopo	Member	Lawyer and banker	Kenyan	1
5	Dr Mbui Wagacha	In attendance	Economist	Kenyan	2

1.5 Financial Stability and Investment Committee

The committee meets regularly and as and when need arises to review financial stability issues and provide oversight of foreign reserves management and investment policies and make suitable recommendations to the Board.
Members of this committee who served during the year are as follows:

No	Name	Position	Discipline	Nationality	Meetings attended
1	Ms Vivienne Yeda Apopo	Chairperson	Lawyer and Banker	Kenyan	2
2	Prof William Otiende Ogara	Member	Professional Accountant	Kenyan	2
3	Dr Mbui Wagacha	Member	Economist	Kenyan	2

1.6 Management Structure

The Central Bank's Senior Management team is made up of the Governor, the Deputy Governor and the heads of the Bank's various departments as indicated on earlier page. The positions of Governor and Deputy Governor are set out in the CBK Act Cap 491 of the Laws of Kenya. The Senior Management meets regularly to review the overall performance of the Bank.
There are several other management committees, which advise the Governor on specific issues in order to enable him to discharge his responsibilities as the Chief Executive Officer of the Bank.

1.7 Code of Ethics

The Bank is committed to the highest standards of integrity, behaviour and ethics. A formal code of ethics for all employees has been approved by the Board and is fully implemented All employees of the Bank are expected to avoid activities and financial interests which could give rise to conflict of interest with their responsibilities in the Bank. Strict rules of conduct apply to the entire Bank's staff under the staff rules and regulations.

1.8 Internal Controls

Management of the Bank has put in place a series of internal control mechanisms to ensure the reporting of complete and accurate accounting information. Procurement of goods and services is strictly done in accordance with the Public Procurement & Disposal Act, 2005. In all operational areas of the Bank, workflows have been structured in a manner that allows adequate segregation of duties.

1.9 Authorizations

All the expenditure of the Bank must be authorized in accordance with a comprehensive set of Bank policies and procedures. There is a budget and a procurement plan that is prepared and approved by the Board before commencement of the financial year. The Board of Directors receives regular management accounts comparing actual outcomes against budget as a means of monitoring actual financial performance of the Bank.

1.10 Internal Audit and Risk Management

The internal audit function is performed by Internal Audit Department. Risk Management Unit is a separate function under the Banking Department and is responsible for monitoring and providing advice on the Bank's risk management framework. All reports of the Internal Audit Department and Risk Management Unit are availed to the Audit Committee of the Board.

1.11 Transparency

The Bank publishes an Annual Report, Monthly Economic Review, Weekly Releases, Statistical Bulletin and Bi-annual Monetary Policy Statement which explains current monetary policy and also provides the expected monetary policy stance. In addition, the Bank issues policy briefs to the Treasury on both the monetary and fiscal policies. On an annual basis, the financial statements are published in the Kenya Gazette and are also placed in the Bank's website.

2 Financial Performance

The Bank's financial performance is affected by monetary policy undertaken, money supply, interest rates and exchange rate. The Bank's financial performance is presented on page below of these financial statements.

During the financial year ended 30 June 2014, the Bank's net interest income after impairment charge was Shs 4,757 million (2013: Shs 1,912 million). The increase is due to reduction of monetary policy expenses attributed to the stance taken by the Monetary Policy Committee.

The Bank's unrealized foreign exchange gains went up significantly to Shs 14,759 million (2013: Shs 5,623 million) due to increased levels of foreign exchange reserves together with a weakening shilling in the year under review.

Net trading income mainly generated from sale of foreign currency increased to Shs 2,245 million (2013: Shs 1,699 million) due to movements in major foreign currency exchange rates and major government repayments during the year.
Operating expenses increased significantly to Shs 12,177 million (2013: Shs 9,404 million) as a result of the write off of the unamortized portion relating mainly to the cost of currency notes in issue in the year of Shs 1,254 million following a change in the estimated useful lives of the various

currency notes denominations See note 2(t). The cost of currency coins also increased by Shs 780 million in the year to Shs 1,756 million (2013: Shs 976 million). Staff expenses increased by 7% to Shs 3,899 million (2013: Shs 3,645 million).

Currency costs are expected to significantly increase in the next financial year (2014/15) as the Bank plans to issue new generation currency to comply with constitutional requirements.

The outcome of the Bank's operations was a net surplus of Shs 13,504 million (2013 restated: Shs 3,573 million) which has been added to the general reserve fund.

The financial position for the year is set out on page below.

The amendments to *IAS 19 Employee Benefits* effective for the period starting on or after 1 January 2013 have been applied by the Bank for the first time. The revised standard requires that all actuarial gains and losses arising in any given year be recognised immediately in other comprehensive income. The largest impact of the adoption has been an increase in the pension asset relating to unrecognized actuarial gains posted to other comprehensive income as a prior year adjustment. This has led to an increase in 1 July 2013 opening pension asset by Shs 5,141 million. Additional disclosures have been made in the financial statements in accordance with the revised standard in notes 2 and 17 to the financial statements. The retrospective effect of the standard has been incorporated on the financial statements, including the inclusion of a third column in the Statement of Financial Position relating to the restated position at 30 June 2012, in accordance with International Financial Reporting Standard requirements.

The Bank's assets increased to Shs 854,604 million (2013 restated: Shs 595,530 million) fostered by receipts from diaspora, receipt of the $2bn Eurobond in June 2014 and movement in exchange rates in the year.

Liabilities on the other hand increased to Shs 784,212 million (2013: Shs 537,470 million) due to higher liquidity as evidenced by higher deposits from banks and government at Shs 448,800 million (2013: Shs 191,671 million), currency in circulation at Shs 199,966 million (2013: Shs 183,047 million) and IMF at Shs 130,064 million (2013: Shs 118,568 million).

The Directors submit their report together with the audited financial statements for the year ended 30 June 2014, which shows the state of affairs of Central Bank of Kenya (the "Bank").

Incorporation

The Bank is incorporated under Article 231 of the Constitution of Kenya, 2010.

Principal activities

The Bank is established and administered under the Constitution of Kenya, 2010 with the principal object of formulating and implementing monetary policy directed to achieving and maintaining stability in the general level of prices. It is also the responsibility of the Bank to foster liquidity, solvency and proper functioning of a stable market-based financial system. The Bank also acts as banker, advisor and fiscal agent of the Government of Kenya.

Results and dividend

The surplus for the year of Shs 13,504 million (2013 restated: Shs 3,573 million) has been added to the general reserve fund. The Directors do not recommend the payment of a dividend (2013: Nil).

Board of Directors

The Board of Directors who served during the year and up to the date of this report are listed on page above.

Auditors

The Bank is audited by the Auditor General in accordance with Section 12 of the Public Audit Act and the Central Bank of Kenya Act.

By order of the Board

K. K. ABUGA
Board Secretary, 2014

The Directors are responsible for the preparation of financial statements for each financial year that give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of the Bank's surplus or deficit. The Directors also ensure that the Bank keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The Directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error. They also accept responsibility for:

(i) Designing, implementing and maintaining internal control necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;

(ii) Selecting and applying appropriate accounting policies; and

(iii) Making accounting estimates and judgments that are reasonable in the circumstances.

The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial position of the Bank at 30 June 2014 and of the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Central Bank of Kenya Act.
Nothing has come to the attention of the Directors to indicate that the Bank and its subsidiary will not remain a going concern for at least twelve months from the date of this statement.
Approved by the Board of Directors and signed on its behalf by:

NJUGUNA NDUNG'U
Governor

WILLIAM O. OGARA
Director

4th September, 2014

REPORT OF THE AUDITOR-GENERAL ON CENTRAL BANK OF KENYA FOR THE YEAR ENDED 30TH JUNE, 2014

REPORT ON THE FINANCIAL STATEMENT

The accompanying financial statements of Central Bank of Kenya set out on pages 11to 47, which comprise the consolidated statement of financial position as at 30th June, 2014, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year the ended and a summary of significant accounting policies and other explanatory information have been audited on my behalf by Pricewaterhouse Coopers, auditors appointed under Section 39 of the Public Audit Act, 2003 and in accordance with the provisions of Article 229 of the Constitution of Kenya. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The Directors are also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on the financial statements based on the audit and report in accordance with the provisions of Section 15 (2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229 (7) of the Constitution of Kenya. The Audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonabless of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion the financial statements present fairly, in all material respects, the financial position of the Bank as at 30th June, 2014, and its financial performance and its cashflows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Central Bank Act, Cap. 491 of the Laws of Kenya.

EDWARD R. O. OUKO
Auditor-General

Nairobi

29th September, 2014

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year ended 30 June 2014 Shs' million	2013 Restated Shs' million
Interest income	4	5,828	5,904
Interest expense	5	(1,069)	(4,037)
Net interest income		4,759	1,867
(Increase)/decrease in loan impairment	15	(2)	45
Net interest income after loan impairment (charge)/credit		4,757	1,912
Fees and commission income	2(q)	3,000	3,000
Net trading income	6	2,245	1,699
Other income	7	803	798
Operating income		10,805	7,409
Operating expenses	8	(12,177)	(9,404)
Operating deficit before unrealised gains/(losses)		(1,372)	(1,995)
Unrealized gains and losses:			
Foreign exchange gain		14,759	5,623
Fair value gain/(loss) on financial assets held for trading		117	(55)

	Notes	Year ended 30 June 2014 Shs' million	2013 Restated Shs' million
Surplus for the year		13,504	3,573
Other comprehensive income			
Items that will not subsequently be reclassified to profit or loss			
Actuarial (loss)/gains in retirement benefit asset	17	(1,126)	2,983
Adjustment to revaluation reserve	18	(46)	-
Total comprehensive income for the year		12,332	6,556

The notes below are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	As at 30 June 2014 Shs' million	As at 30 June 2013 Restated Shs' million	As at 30 June 2012 Restated Shs' million
Assets				
Balances due from banking institutions	10	681,397	450,693	395,283
Advances to banks	14	50	351	9,973
Funds held with International Monetary Fund (IMF)	13(a)	692	2,694	2,200
Loans and advances	15	2,654	2,645	3,560
Financial assets at fair value through profit or loss	11	78,190	77,929	42,678
Investments securities – Available-for-sale	12	6	6	-
Other assets	16	3,366	4,119	2,557
Property and equipment	18	13,813	12,052	11,651
Intangible assets	19	639	973	1,272
Retirement benefit asset	17	7,659	8,108	4,430
Due from Government of Kenya	20	66,138	35,960	38,131
Total assets		854,604	595,530	511,735
Liabilities				
Currency in circulation	21	199,966	183,047	159,216
Deposits from banks and government	22	448,800	191,671	160,642
Due to International Monetary Fund (IMF)	13(b)	130,064	118,568	101,868
Investments by banks	23	-	41,589	35,673
Other liabilities	24	5,382	2,595	1,332
Total liabilities		784,212	537,470	458,731
Equity and reserves				
Share capital	25	5,000	5,000	5,000
General reserve fund		56,539	44,161	37,605
Revaluation reserve		8,853	8,899	8,899
Proposed dividend		-	-	1,500
Total equity		70,392	58,060	53,004
Total equity and liabilities		854,604	595,530	511,735

The financial statements below were authorised for issue by the Board of Directors on 4th September, 2014 and signed on its behalf by.

NJUGUNA NDUNG'U
Governor

WILLIAM O. OGARA
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital Shs' million	General reserve fund Shs' million	Revaluation reserve Shs' million	Proposed dividend Shs' million	Total Shs' million
Balance at 1 July 2012 as previously reported		5,000	35,368	8,899	1,500	50,767
Restatements on adoption of IAS 19 Revised	17	-	2,237	-	-	2,237

	Notes	Share capital Shs' million	General reserve fund Shs' million	Revaluation reserve Shs' million	Proposed dividend Shs' million	Total Shs' million
As restated on 1 July 2012		5,000	37,605	8,899	1,500	53,004
Surplus for the year		-	3,573	-	-	3,573
Other comprehensive income:						
Actuarial gains in retirement benefit asset		-	2,983	-	-	2,983
Total comprehensive income for the year		-	6,556	-	-	6,556
Transactions with owners						
Dividends paid		-	-	-	(1,500)	(1,500)
Restated balance as at 30 June 2013		5,000	44,161	8,899	-	58,060

Note:

– *The revaluation reserve relates to unrealized gains on valuation of land and buildings that will not be recycled into profit or loss.*

– *The share capital and proposed dividend reserve have been described in note 2 (m) and 2(n) respectively.*

The notes below are an integral part of these financial statements.

	Notes	Share capital Shs' million	General reserve fund Shs' million	Revaluation reserve Shs' million	Total Shs' million
Balance at 1 July 2013 as previously reported		5,000	39,020	8,899	52,919
Restatements on adoption of IAS 19 Revised	17	-	5,141	-	5,141
As restated on 1 July 2013		5,000	44,161	8,899	58,060
Surplus for the year		-	13,504	-	13,504
Adjustment to revaluation reserve	18	-		(46)	(46)
Other comprehensive income:					
Actuarial losses in retirement benefit asset		-	(1,126)	-	(1,126)
Total comprehensive income for the year		-	12,378	(46)	12,332
Restated balance as at 30 June 2014		5,000	56,539	8,853	70,392

Note:

– *The revaluation reserve relates to unrealized gains on valuation of land and buildings that will not be recycled into profit or loss.*

– *The share capital and proposed dividend reserve have been described in note 2 (m) and 2(n) respectively.*

The notes on pages below are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended 30 June 2014 Shs' million	2013 Shs' million
Net cash generated from operating activities	26	219,937	67,200
Cash flows from investing activities			
Purchase of property plant and equipment	18	(2,792)	(1,230)
Purchase of intangible assets	19	(9)	(46)
Proceeds from disposal of property and equipment		30	11
Net sale/(purchase) of financial assets			
- held for trading		12,126	(32,344)
- held to maturity		(2,251)	(7,331)
- available-for-sale		-	(6)
- funds held with International Monetary Fund (IMF)		2,002	(494)
Net cash from/(used in) investing activities		9,106	(41,440)
Cash flows from financing activities			
Proceeds from International Monetary Fund (IMF)		11,496	16,700
Dividends paid		-	(1,500)
Net cash from financing activities		11,496	15,200
Increase in cash and cash equivalents		240,539	40,960
Cash and cash equivalents at start of year		408,426	367,466
Cash and cash equivalents at end of year	27	648,965	408,426

The notes below are an integral part of these financial statements.

Notes

1 General information

Central Bank of Kenya (the "Bank") is established by and derives its authority and accountability from the Central Bank of Kenya Act Cap 491 of the Laws of Kenya (the "CBK Act"). The Bank is wholly owned by the Government of Kenya and is domiciled in Kenya. The Bank acts as banker, advisor and agent of the Government of Kenya.

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(a) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (Shs), rounded to the nearest million.

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Bank

IAS 19, 'Employee benefits' was amended in June 2011. The amendments to IAS 19 effective for periods starting on or after 1 January 2013 have been applied by the Bank for the first time. The revised standard requires that all actuarial gains and losses arising in any given year be recognised immediately in Other Comprehensive Income. Previously actuarial gains and losses outside the 10% corridor were deferred and amortised over the expected working life of employees.

The largest impact of the adoption has been an increase in the pension asset relating to unrecognized actuarial gains posted to Other Comprehensive Income as a prior year adjustment. This has led to increase in 1 July 2013 opening reserves by Shs 5,141 million. Additional disclosures have been made in the financial statements in accordance with the revised standard in note 17 to the financial statements. The retrospective effect of the standard has been incorporated on the financial statements, including the inclusion of a third column in the statement of financial position relating to the restated position at 30 June 2012, in accordance with IFRS requirements.

IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The application of IFRS 13 has resulted in enhanced fair value disclosures in the financial statements and has impacted the disclosures under note 29.

IFRS 10, 'Consolidated financial statements' - is a new standard that replaces the consolidation requirements in SIC-12 Consolidation — Special Purpose Entities and IAS 27 Consolidated and Separate Financial Statements. The standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company and provides additional guidance to assist in the determination of control where this is difficult to assess.

The revised definition of control focuses on the need to have both power and variable returns before control is present. The Bank has only one subsidiary, Kenya School of Monetary Studies, for which it has 99% ownership. The Directors are satisfied that ownership of the entity meets the revised definition of control.

There are no other IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on 1 July 2013 that would be expected to have a material impact on the Bank.

(ii) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2013, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except the following:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. Issued in November 2009 and October 2011, it replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Directors are yet to assess IFRS 9's full impact and intend to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015.

Amendments to IAS 32 titled Offsetting Financial Assets and Financial Liabilities (issued in December 2011) – The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32, mainly by clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. They are effective for annual periods beginning on or after 1 January 2014, with retrospective application.

Amendments to IAS 36 titled Recoverable Amount Disclosures for Non-Financial Assets (issued in May 2013) – The amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. They are effective for annual periods beginning on or after 1 January 2014. Amendments to IAS 39 titled Novation of Derivatives and Continuation of Hedge Accounting (issued in June 2013) – The amendments permit the continuation of hedge accounting in a situation where the counterparty to a derivative designated as a hedging instrument is replaced by a new central counterparty (known as 'novation of derivatives'), as a consequence of laws or regulations, if specific conditions are met. They are effective for annual periods beginning on or after 1 January 2014.

Amendments to IFRS 10, IFRS 12 and IAS 27 titled Investment Entities (issued in October 2012) – The amendments define "investment entities" and provide them an exemption from the consolidation of subsidiaries; instead, an investment entity is required to measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 / IAS 39 (the exception does not apply to subsidiaries that provide services relating to the investment entity's investment activities). An investment entity is required to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements, and additional disclosures are introduced. The amendments are effective for annual periods beginning on or after 1 January 2014, retrospectively with some transitional provisions. The Directors do not anticipate any effect on the Bank's financial statements as the Bank is not an investment entity.

IFRIC 21 Levies (issued in May 2013) – The interpretation provides guidance on when to recognise a liability for a levy imposed by a government. The obligating event for the recognition of a liability is the activity that triggers the payment of the levy in accordance with the relevant legislation. It also provides guidance on recognition of a liability to pay levies: the liability is recognised either progressively if the obligating event occurs over a period of time, or when the minimum threshold is reached if an obligation is triggered on reaching that minimum threshold. The interpretation is effective for annual periods beginning on or after 1 January 2014

(b) Consolidation

Kenya School of Monetary Studies is a subsidiary to the Bank. The Bank has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank.

The group uses the acquisition method to account for business combinations The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date.

The excess of the aggregate of the consideration transferred and the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the
Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss Inter-company transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Bank.

(c) Functional currency and translation of foreign currencies

i. Functional and presentation currency

Items included in the financial are measured using the currency of the primary economic environment in which the Bank operates (the "Functional Currency"). The financial statements are presented in Kenya Shillings ("Shs") which is the Bank's Functional Currency

ii. Transactions and balances

Foreign currency transactions are translated into the Functional Currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. All foreign exchange gains and losses are presented in profit or loss within 'foreign exchange gains/(losses)'

(d) Sale and repurchase agreements

Securities sold subject to repurchase agreements ("repos") are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in investments by banks.

Securities purchased under agreements to resell ("reverse repos") are recorded as advances to banks. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

The Bank from time to time mops up money from the financial market ("repos") or injects money into the market ("reverse repos") with maturities of 4-7 days. The Bank engages in these transactions with commercial banks only. These have been disclosed in the financial statements as 'advances to banks' and 'investments by banks'.

(e) Financial assets and liabilities

i. Financial assets

The Bank classifies its financial assets in the following categories. financial assets at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale financial assets. The Directors determine the classification of its financial assets at initial recognition. The Bank uses trade date accounting for regular way contracts when recording financial asset transactions.

Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Bank designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed and can only be applied when the following conditions are met:

- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise or
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis or
- the financial assets consist of debt host and embedded derivatives that must be separated.

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to profit or loss. Gains and losses arising from changes in fair value are included directly in profit or loss and are reported as 'fair value loss on financial assets held for trading '. Interest income and expense and dividend income and expenses on financial assets held for trading are included in 'interest income' and 'interest expense' respectively.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest method.

The Bank operates a staff loans scheme for its employees for the provision of facilities such as house and car loans. The loans are granted to staff at an interest rate of 3% per annum which is generally below the prevailing market interest rates. Loans issued at non market rates are initially measured at fair value (by discounting the related cash flows using market rates of interest) and subsequently carried at amortised cost. The difference between the fair value of the loans and the carrying amount at inception is treated as a long term employee benefit and is accounted for as a deferred cost. The resulting loan adjustment account is released to interest income over the loan period in line with the unwinding of the discount, while the deferred cost is expensed to staff costs as the services are rendered to the Bank over the period of the loan.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period. Available-for-sale financial assets are measured at fair value. Gains or losses arising from fair value remeasurements are included in other comprehensive income.

ii. Financial liabilities

The Bank's holding in financial liabilities represents mainly deposits from banks and government and other liabilities. Such financial liabilities are initially recognised at fair value and subsequently measured at amortised cost.

Cash Reserve Ratio are statutory deposits taken from commercial banks and non-bank financial institutions for liquidity management as part of monetary policies in accordance with the Kenyan Banking Act and are interest free.

iii. Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial instruments is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes from Bloomberg.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indicators that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

iv. De-recognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

v. Classes of financial instruments

Category (as defined by IAS 39)		Class (as determined by the Bank)		2014	2013
				Shs' million	Shs' million
Financial assets	Financial assets at fair value through profit or loss	Held for trading	World Bank Reserve Asset Management Programme (RAMP) financial assets	25,989	26,263
			Fixed income securities	52,136	51,608
		Designated at initial recognition	Gold holdings	65	58
	Loans and receivables	Current, special projects and clearing accounts		264,198	55,200
		Funds held with IMF		692	2,694
		Advances to banks		50	351
		Net advances to staff and banks under liquidation		2,654	2,645
		Items in the course of collection (under 'other assets')		70	154
		Due from Government	Government loan	28,900	28,960
			Overdraft facility to Government	37,238	7,000
	Available-for-sale	Investment securities	SWIFT shares	6	6
	Held to maturity	Investment in debt securities	Term deposits	417,199	395,493
Financial liabilities	Financial liabilities at amortised cost	Deposits from banks	Term auction deposits	-	30,983
			Cash reserve ratio and current account deposits	137,289	113,647
			Repurchase agreements	-	10,606
		Deposits from Government institutions		311,511	78,024
		Due to IMF		130,064	118,568

vi. Impairment of financial assets

a. Loans and receivables

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on loans carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. A loan is normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount, and for a collateralised loan, after taking into account any value of the security which has been realised.

b. Available for sale financial assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

If any such evidence exists for available-for-sale financial assets, impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

vii. Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(f) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(g) Property and equipment

Land and buildings comprise mainly branches and offices. All equipment used by the Bank is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Land and buildings are stated at valuation less accumulated depreciation. Valuations are carried out every three years.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other repair and maintenance costs are charged to profit or loss during the financial period in which they are incurred.
Freehold land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Leasehold land	Over the period of the lease
Buildings	20 years
Motor vehicles	4 years
Furniture and equipment	5 - 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.
Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in 'other income' in profit or loss. When revalued assets are sold, the amounts included in other reserves are transferred to the general reserve.

(h) Intangible assets

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

i. it is technically feasible to complete the software product so that it will be available for use;
ii. management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and

iii. the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 5 years.

(i) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Employee benefits

The Bank operates a defined benefit and defined contribution pension schemes. The schemes are funded through payments to trustee-administered funds on a monthly basis.

On the defined contribution scheme, the Bank pays fixed contributions to the scheme. The payments are charged to the profit or loss in the year to which they relate. The Bank has no further payment obligation once the contributions have been paid.

The defined benefit plan defines an amount of pension benefit that an employee will receive on retirement, dependent on age, years of service and compensation.

The assets of the scheme are held by the Bank in an independent trustee administered fund. The asset recognised in the statement of financial position in respect of the defined benefit pension scheme is the fair value of the scheme's assets less the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated annually by an independent actuary using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated cash outflows using interest rates of Kenya treasury bonds that have terms to maturity approximating to the terms of the related pension liability

See note 2 (a) (i) on adoption of *IAS 19 Employee benefits (Revised).*

The Bank and all its employees contribute to the National Social Security Fund, which is a defined contribution scheme.

A defined contribution scheme is a retirement benefit plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Bank's contributions to the defined contribution scheme are charged to the profit or loss account in the year in which they fall due.

The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

(k) Income tax

Section 7 of the Income Tax Act exempts the Bank from any taxation imposed by law in respect of income or profits. This exemption includes stamp duty in respect of instruments executed by or on behalf of the Bank.

(l) Provisions

Provisions are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation at a rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(m) Share capital

Ordinary shares are classified as 'share capital' in equity.

(n) Dividend payable

The Central Bank of Kenya Act (Cap 491) allows the Bank to retain at least 10% of realized income after taking into account expenses. In addition to this, the Board of Directors in the year 2007 set a policy that all dividends shall be net of unrealized income and other revaluations gains in addition to the retention allowed by the Act.

Dividends on ordinary shares are charged to equity in the period in which they are declared.

(o) Leases

Bank as lessee

The leases entered into by the Bank are primarily operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

Bank as lessor

The group leases certain property and equipment where it does not transfer substantially all the risks and benefits of ownership of the assets. The operating leases generate rental income which is recorded in the profit or loss on a straight-line basis over the period of the lease.

(p) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised in profit or loss using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability on initial recognition. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument, and any revisions to these estimates are recognised in the income statement. The calculation includes amounts paid or received that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

(q) **Fee and commission income**

Fees and commissions are generally recognised on an accrual basis when the service has been provided.

The Bank earns from the Government a commission of 1.5% of amounts raised through its agency role in the issuance of Treasury bills and bonds. The annual commission income is limited to Shs 3 billion as per the agreement between the Bank and Treasury effective 1 July 2007. In addition, the Bank earns commissions from other debt instruments issued to meet funding requirements of State Corporations.

(r) **Commitments on behalf of the Kenya Government and National Treasury**

The Bank issues Treasury Bonds and Bills on behalf of the National Treasury. Commitments arising on such transactions on behalf of Kenya Government and National Treasury are not included in these financial statements as the Bank is involved in such transactions only as agent.

(s) **Currency in circulation**

Notes and coins in circulation are measured at cost. Currency in circulation represents the nominal value of all bank notes and coins held by the public and commercial banks.

(t) **Currency printing and minting costs**

The cost of unissued bank note stocks is recognised in the statement of financial position as deferred currency costs under 'other assets'.

The estimate of the useful lives of various bank notes denominations was changed in the year. The useful life of the various bank note denominations was previously estimated as follows:

Shs 1,000	2 years
Shs 500	2 years
Shs 200	2 years
All other denominations	1 year

Bank note costs are now charged to profit or loss in the year in which the bank notes are issued. The impact of the change in estimate has been the write-off of Shs 1,254 million relating to un-armotised costs of bank notes in issue at 30 June 2014.

There has been no change in accounting for coin minting costs which are charged to profit or loss when delivered and the significant risks and rewards of ownership are transferred to the Bank.

(u) **Loan due from the Government of Kenya**

The loan due from the Government of Kenya arose from overdrawn accounts which were converted to a loan with effect from 1 July 1997 after an amendment to the Central Bank of Kenya Act to limit the Bank's lending to Government of Kenya to 5% of Government of Kenya audited revenue.

On 24 July 2007, a deed of guarantee was signed between the Government of Kenya and Central Bank of Kenya in which the Government agreed to repay the loan at Shs 1.1 billion per annum over 32 years at 3% interest per annum. The security held is lien over cash balances, stock, treasury bonds and such other government securities as are specified in Section 46(5) of the Central Bank of Kenya Act.

The loan due from the Government of Kenya is categorised as a loan and receivables and is measured at amortised cost.

(v) **Funds held at/ due to International Monetary Fund (IMF)**

Kenya has been a member of the International Monetary Fund (IMF) since 1966. The Bank is the designated depository for the IMF's holdings of Kenya's currency. IMF currency holdings are held in the No. 1 and No. 2 Accounts, which are deposit accounts of the IMF with the Bank.

Borrowings from and repayments to the IMF are denominated in Special Drawing Rights (SDRs). The SDR balances in IMF accounts are translated into Shillings at the prevailing exchange rates and any unrealized gains or losses are accounted for in accordance with accounting policy on foreign currencies.

On a custodial basis, the Bank holds a non-negotiable, non-interest bearing and encashable on demand security issued by the Treasury in favour of the IMF in its capacity as the IMF's depository. The security issued is in part payment of Kenya's quota of IMF shares.

(w) **Comparatives**

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

3 **Critical accounting estimates and judgements in applying accounting policies**

(a) Critical estimates in applying the entity's accounting policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

*i. **Post-retirement benefits***

Post-retirement benefits are long term liabilities whose value can only be estimated using assumptions about developments over a long period. The Bank has employed actuarial advice in arriving at the figures in the financial statements (Note 18 which includes assumptions). The Board of Directors considers the assumptions used by the actuary in their calculations to be appropriate for this purpose.

ii. Loans and advances

Critical estimates are made by the management in determining the recoverable amount of impaired loans and receivables.

iii. Fair value of financial assets

The fair value of financial instruments that are not traded in an active market and off market loans are determined by using valuation techniques.

iv. Property and equipment

Land and buildings are carried at fair value; representing open market value determined periodically by internal professional valuers.

(b) Critical judgements in applying the entity's accounting policies

In the process of applying the Bank's accounting policies, management has made judgements in determining:

- the classification of financial assets and leases
- whether assets are impaired.

		2014 Shs' million	2013 Shs' million
4	**Interest income**		
	Financial assets - held to maturity	1,353	1,150
	Loans and advances	4,116	4,479
	Financial assets - held for trading	359	275
		5,828	5,904
	Interest income from loans and advances comprises:		
	Loan due from Government	858	892
	Government overdraft	2,263	2,960
	Staff loans	255	113
	Reverse repos	506	368
	Local commercial banks overnight loans	71	6
	Foreign commercial banks overnight loans	25	29
	Other interest income	138	111
		4,116	4,479
5	**Interest expense**		
	Interest on monetary policy issues – investments by banks	1,029	4,033
	Interest paid to IMF	40	4
		1,069	4,037
6	**Net trading income**		
	Net gain on sale of foreign exchange currencies	2,182	1,772
	Net loss on held for trading financial assets trading	63	(73)
		2,245	1,699
7	**Other income**		
	Licence fees from commercial banks and foreign exchange bureaux	220	218
	Penalties from commercial banks and foreign exchange bureaux	21	17
	Rent income	2	2
	Kenya School of Monetary Studies operating income - hospitality services and tuition fee	467	416
	Gain on disposal of property and equipment	30	11
	Miscellaneous income	63	134
		803	798

8 Operating expenses

	2014 Shs' million	2013 Shs' million
Employee benefits (Note 9)	3,899	3,645
Currency production expenses	4,665	2,396
Property maintenance and utility expenses	1,129	903
Depreciation (Note 18)	985	823
Amortisation (Note 19)	343	345
Provision for impairment loss on other assets (Note 16)	21	153
Auditors' remuneration	6	6
Loss on financial assets at fair value through profit or loss	-	16
Transport and travelling	189	178
Office expenses	195	190
Postal service expense	112	136
Legal and professional fees	42	112
Other administrative expenses	591	501
	12,177	9,404

9 Employee benefits

Wages and salaries	3,833	3,483
Medical expenses	195	168
Other staff costs	391	447
Directors' emoluments (Note 28)	45	68
Net credit on retirement benefit obligations (defined benefit) (Note 17)	(565)	(521)
	3,899	3,645

10 Balances due from banking institutions

Foreign denominated term deposits	380,956	347,206
Accrued interest on term deposits	225	143
Current accounts	50,343	31,995
Special project accounts	199,586	13,240
Domestic foreign currency cheque clearing	14,088	9,945
Repss clearing and regional central banks	181	20
Included in cash and cash equivalents (note 27)	645,379	402,549
Foreign denominated term deposits	36,016	48,141
Accrued interest on term deposits	2	3
	681,397	450,693

All balances due from banking institutions are recoverable within one year.

Amounts included in cash and cash equivalents have a maturity of three months or less.

11 Financial assets at fair value through profit or loss

	2014 Shs' million	2013 Shs' million
a. Designated at initial recognition		
Gold holdings	65	58

Movements in gold holdings are due to mark to market movements.

b. Held for trading		
Fixed income securities	52,136	51,608
Fixed income securities under World Bank RAMP	25,989	26,263
	78,125	77,871
	78,190	77,929

12 Investments securities – Available-for-sale

Unlisted equity securities	6	6

	2014 Shs' million	2013 Shs' million
At start of year	6	-
Additions	-	6
At end of year	6	6

The fair value of the investment in unlisted company is estimated as being equivalent to the purchase price.

13 Funds held at/ due to International Monetary Fund (IMF)

		2014 SDR million	2014 Shs' million	2013 SDR million	2013 Shs' million
(a)	**Assets**				
	IMF balances (SDR asset account)	5	692	16	2,694
(b)	**Liabilities**				
	International Monetary Fund Account No. 1	19	2,661	19	2,531
	International Monetary Fund Account No. 2	-	2	-	1
	International Monetary Fund – PRGF Account	683	92,308	634	82,493
	IMF-SDR Allocation account	260	35,093	260	33,543
		962	130,064	913	118,568

The National Treasury is the Government of Kenya's Fiscal Agent. Commitments arising on transactions between IMF, Kenya Government and National Treasury are not included in these financial statements as the Bank is not the Government's fiscal agent.

Kenya's quota in IMF of SDR 271.4 million (2013: SDR 271.4 million) and allocations of SDR 258.3 million (2013: 258.3 million) are not included in the financial statements of the Bank as these are booked in the National Treasury with the Government fiscal agent.

14 Advances to banks

	2014 Shs' million	2013 Shs' million
Treasury bonds discounted	38	333
Treasury bills discounted	11	8
Accrued interest	1	10
	50	351

All advances to banks are recoverable within one year.

15 Loans and advances

	2014	2013
Due from banks under liquidation	3,656	3,656
Advances to employees	2,678	2,667
	6,334	6,323
Allowance for impairment	(3,680)	(3,678)
Net advances	2,654	2,645
Movement in the loan impairment allowance is as follows:		
At start of year	3,678	3,723
Increase/ (decrease) in impairment allowance	2	(45)
At end of year	3,680	3,678

In exceptional circumstances, as allowed by Section 36 of the Act, the Bank may act as the "lender of last resort" to financial institutions in difficulty. Commercial banks did not utilise this facility in the year under review (2013: Nil). The overnight lending attracts an interest at the CBR rate plus a margin determined by the Bank.

16 Other assets

	2014 Shs' million	2013 Shs' million
Prepayments	688	115
Deferred currency expenses	2,250	3,477

	2014 Shs' million	2013 Shs' million
Sundry debtors	5,218	5,212
Items in the course of collection	70	154
	8,226	8,958
Provision for impairment	(4,860)	(4,839)
	3,366	4,119

All other assets balances are recoverable within one year.

Movement in the impairment allowance is as follows:		
At start of year	4,839	4,686
Increase in impairment allowance	21	153
At end of year	4,860	4,839

17 Retirement benefit asset

	2014 Shs' million	2013 Restated Shs' million	2012 Restated Shs' million
Present value of funded obligations	17,006	13,065	12,673
Fair value of plan assets	(24,665)	(21,173)	(17,103)
Asset in the statement of financial position	(7,659)	(8,108)	(4,430)
Movements in the net defined benefit asset are as follows:			
At start of year	8,108	4,430	1,897
Net income/(expense) recognised in profit or loss	565	521	(45)
Actuarial (loss)/gain recognized in other comprehensive income	(1,126)	2,983	2,213
Employer contributions	112	174	365
At end of year	7,659	8,108	4,430
Movements in the plan assets are as follows:			
At start of year	21,173	17,103	15,872
Return on scheme assets	2,858	2,358	1,492
Actuarial gain	1,192	2,087	565
Employer contributions (Note 9)	112	174	365
Employee contributions	55	60	-
Benefits expenses paid	(667)	(428)	(467)
Adjustment for previous year values	(58)	(181)	(724)
At end of year	24,665	21,173	17,103
Movements in the plan benefit obligation are as follows:			
At start of year	13,065	12,673	12,137
Current service cost net of employees' contributions	457	311	565
Interest cost	1,779	1,707	1,072
Employee contributions	55	60	-
Actuarial loss/(gain)	2,318	(1,258)	(1,259)
Past service cost	-	-	625
Benefits paid	(668)	(428)	(467)
At end of year	17,006	13,065	12,673

	2014 Shs' million	2013 Restated Shs' million	2012 Restated Shs' million
The amounts recognised in profit or loss are as follows:			
Current service costs	457	311	565
Interest costs	1,779	1,707	1,071
Return on plan assets	(2,858)	(2,358)	(1,492)
Past service costs	-	-	625
Adjustments for previous year's values	57	(181)	(724)
Total (credit)/expenses included in employee benefits	(565)	(521)	45

The principal actuarial assumptions at the reporting date were:

Discount rate (p.a.)	12.9%	13.7%	12.5%
Salary increase (p.a.)	10.9%	11.7%	10.5%
Expected return on plan assets (p.a.)	12.9%	13.7%	12.5%
Future pension increases	3.0%	3.0%	3.0%

Plan assets are distributed as follows:

	2014	2013	2012
Quoted shares	40%	39%	32%
Investment in properties	11%	13%	16%
Government of Kenya Treasury bills and bonds	30%	27%	43%
Commercial paper and corporate bonds	6%	6%	7%
Offshore investments	9%	8%	-
Fixed and term deposits	3%	7%	3%
	100%	100%	100%

Retirement benefit asset	2013 Shs' million	2012 Shs' million
As previously stated	2,967	2,193
Prior year adjustment	5,141	2,237
Restated asset	8,108	4,430

18 Property and equipment

Year ended 30 June 2013	Freehold land and Buildings Shs' million	Leasehold land and buildings Shs' million	Work in progress Shs' million	Motor Vehicles Shs' million	Furniture and Equipment Shs' million	Total Shs' million
Cost or valuation						
At start of year	6,042	1,805	1,194	310	5,638	14,989
Additions	-	-	819	63	348	1,230
Disposals	-	-	-	(21)	(2)	(23)
At end of the year	6,042	1,805	2,013	352	5,984	16,196
Accumulated depreciation						
At start of year	19	6	-	180	3,133	3,338
Adjustments	-	-	-	2	4	6
Charge for the year	303	33	-	50	437	823
On disposal	-	-	-	(21)	(2)	(23)
At end of the year	322	39	-	211	3,572	4,144
Net carrying value	5,720	1,766	2,013	141	2,412	12,052
Year ended 30 June 2014						
Cost or valuation						
At start of year	6,042	1,805	2,013	352	5,984	16,196
Adjustment to revaluation reserve	(46)	-	-	-	-	(46)
Additions	-	-	2,373	71	348	2,792
Disposals	-	-	-	(35)	(4)	(39)
At end of year	5,996	1,805	4,386	388	6,328	18,903
Accumulated depreciation						
At start of year	322	39	-	211	3,572	4,144
Charge for the year	304	35	-	66	580	985

Year ended 30 June 2014	Freehold land and Buildings Shs' million	Leasehold land and buildings Shs' million	Work in progress Shs' million	Motor Vehicles Shs' million	Furniture and Equipment Shs' million	Total Shs' million
Cost or valuation						
On disposal	-	-	-	(35)	(4)	(39)
At end of the year	626	74	-	242	4,148	5,090
Net carrying value	5,370	1,731	4,386	146	2,180	13,813

Land and buildings were revalued by internal professional valuers in 2012 on an open market basis and the revaluation has been included in the revaluation reserve. The next valuation is due in 2015 in accordance with the Bank's policy.

Land and buildings are included in the level 2 of the fair valuation hierarchy (that is, the fair value is based on inputs other than quoted prices that are observable).The methods and significant assumptions applied in arriving at the revalued amounts are as follows:

- The Bank's residential properties are all owner-occupied. In carrying out the valuation, the Bank has assumed that the prospective rental income to be generated by the property based on the going rentals for similar properties within the same location.
- The Bank has taken into account comparables values of similar properties (plot, construction standards, design, (lay out), size, location, – current sale prices of vacant plots and those developed) to derive the market prices. These were obtained from market transactions of comparable properties.

Included in land and buildings is land in Kisumu and Mombasa valued at Shs. 486 million, for which the bank is in the final stage of registration of titles. All the necessary documentation to facilitate the titles preparation has been completed and the leases are awaiting signature. The Bank is in possession and occupies all the properties. The Directors expect this process to be completed in the next 12 months from the date of these financial statements.

19 Intangible assets

	Software Shs' million	Work-in-Progress Shs' million	Total Shs' million
Year ended 30 June 2013			
Cost			
At start of year	1,572	-	1,572
Additions	46	-	46
At end of year	1,618	-	1,618
Accumulated amortisation			
At start of year	300	-	300
Amortisation for the year	345	-	345
At end of year	645	-	645
Net carrying value	973	-	973
Year ended 30 June 2014			
Cost			
At start of year	1,618	-	1,618
Additions	-	9	9
At end of year	1,618	9	1,627
Accumulated amortisation			
At start of year	645	-	645
Amortisation for year	343	-	343
At end of year	988	-	988
Net carrying value	630	9	639

20 Due from Government of Kenya

	2014 Shs' million	2013 Shs' million
Overdraft	37,238	7,000
Loan	28,900	28,960
	66,138	35,960

Section 46(3) of the Central Bank of Kenya Act sets the limit of the Government of Kenya's overdraft facility at the Bank at 5% of the Gross Recurrent Revenue as reported in the latest Government of Kenya audited financial statements. The limit stands at Shs 39,123 million (2013: Shs 34,187 million) based on the Government financial statements for 2013/2012 (2013: 2012/2011), which are the latest audited financial statements at the date of approval of these financial statements.

21 Currency in circulation

	2014 Shs' million	2013 Shs' million
Kenya bank notes	193,640	177,488
Kenya coins	6,326	5,553
Commemorative coins	-	6
	199,966	183,047
Movement in the account was:		
At start of year	183,047	159,216
Deposits by banks	(458,585)	(403,689)
Withdrawals by banks	475,504	427,520
At end of year	199,966	183,047

22 Deposits from banks and government

	2014	2013
Local commercial banks clearing accounts and cash ratio reserve	123,766	104,366
Local banks foreign exchange settlement accounts	13,476	9,248
External banks foreign exchange settlement accounts	47	33
Other public entities and project accounts	207,836	19,954
Government of Kenya	103,675	58,070
	448,800	191,671

23 Investment by banks

	2014	2013
Term auction deposits	-	30,983
Repos sold to commercial banks	-	10,606
	-	41,589

24 Other liabilities

	2014	2013
Impersonal accounts	1,654	248
Sundry creditors	1,559	926
Bonds pending payables	1,331	620
Refundable deposits	682	677
Leave accrual	118	76
Gratuity to staff members	38	48
	5,382	2,595

25 Share capital

	Authorised share capital Shs' million	Ordinary shares Shs' Million
Balance at 1 July 2012, 30 June 2013 and 30 June 2014	5,000	5,000

Ownership of the entire share capital is vested in the Cabinet Secretary to the National Treasury.

26 Cash generated from operations

	2014 Shs' million	2013 Shs' million
Reconciliation of net surplus to cash flows from operations		
Surplus for the year	13,504	3,573
Adjustments for:		
Depreciation (Note 18)	985	823
Amortisation (Note 19)	343	345
Gain on disposal of property and equipment	(30)	(11)
Net credit on defined benefit asset (Note 9)	(565)	(521)

	2014 Shs' million	2013 Shs' million
Employer contributions on the defined benefit asset (Note 17)	(112)	-
Changes in working capital:		
Loans and advances	(9)	915
Other assets	753	(1,562)
Due from Government of Kenya	(30,178)	2,171
Currency in circulation	16,919	23,831
Deposits	257,129	31,029
Other liabilities	2,787	691
Investments by banks	(41,589)	5,916
	219,937	67,200

27 Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include:

	2014 Shs' million	2013 Shs' million
Balances due from banking institutions (note 10)	645,379	402,549
Financial assets - held for trading	3,536	5,526
Advances to banks (Note 14)	50	351
	648,965	408,426

28 Related party transactions

In the course of its operations, the Bank enters into transactions with related parties, which include the Government of Kenya, the ultimate owner of the Bank, and the Deposit Protection Fund Board (a corporation established by law as a deposit insurance scheme to provide cover for depositors and act as a liquidator of failed member institutions. It is managed by a Board comprising the Governor of the Central Bank of Kenya as the Chairman).

The main transactions include ordinary banking facilities to government ministries included in Note 22 and lending to Government of Kenya included in Note 20.

(i) Loans

The Bank extends loan facilities to the Governor and the Deputy Governor and other key management personnel. The advances are at preferential rates of interest determined by the Bank.

Loans to executive Directors	2014 Shs' million	2013 Shs' million
At start of year	13	6
Loans advanced during the year	-	11
Loan repayments	(5)	(4)
At end of year	8	13
Loans to key management personnel		
At start of year	77	87
Loans advanced during the year	17	20
Loan repayments	(23)	(30)
At end of year	71	77

(ii) Directors' emoluments:

Fees to non-executive Directors	15	15
Other remuneration to Executive Director/(s)	30	53
	45	68

(iii) Remuneration to senior management	196	172
(iv) Post–employment pension to senior management	10	11
(v) Government of Kenya		
Due from Government of Kenya (Note 20)	66,138	35,960

Transactions entered into with the Government include:

(i) Banking services;
(ii) Management of issue and redemption of securities at a commission; and
(iii) Foreign currency denominated debt settlement and other remittances at a fee.

(vi) Deposit Protection Fund Board

The Bank has a close working relationship with the Deposit Protection Fund Board, an entity incorporated under the Banking Act, and provides it with staff and office accommodation. Certain costs incurred on behalf of the Deposit Protection Fund Board are fully reimbursed to the Bank.

The balance outstanding from the Deposit Protection Fund Board and included in other assets as at year end was Shs 18.9 million (2013: Shs 20 million).

(vii) Kenya School of Monetary Studies

The Kenya School of Monetary Studies is a registered legal entity wholly owned by the Bank and has been consolidated in these financial statements.

29 Financial risk management objectives and policies

The Bank's activities expose it to a variety of financial risks, including credit risk and the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Bank's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

Risk management is carried out by the Financial Markets Department under policies approved by the Board of Directors. Other organs that monitor the assessment and management of risks within the Bank include: Board Audit Committee, Internal Audit Department and Risk Management Unit.

(a) Strategy in using financial instruments

The Bank holds foreign exchange reserves for the purposes of servicing official foreign debt, paying non-government debt and Central Bank of Kenya expenditures abroad, and occasional intervention in the foreign exchange market to smoothen exchange rate volatilities. The Bank can only intervene in the foreign exchange market when there are sharp exchange rate movements which are likely to destabilize the financial market.

Governed by the Bank's reserve management policy of safe investment, liquidity and return, respectively, the Bank, with a prudent approach, subjects its foreign exchange reserves to investments in international markets.

In this framework, almost all the financial risks to which the Bank is exposed arise while fulfilling its duties of managing foreign exchange reserves and rendering certain banking services to the banking sector and the Government of the Republic of Kenya.

The Bank is exposed to credit, market and liquidity risks due to the aforementioned operations. The financial risks that arise during the management of foreign exchange reserves are the outcome of an investment choice. Nevertheless, the Bank endeavours to minimize such risks by managing them with a conservative approach.

Foreign exchange reserves are managed by observing the investment criteria defined in the Bank's Guidelines on Foreign Exchange Reserves Management.

(b) Risks facing the Bank

The following are the main types of risks that the Bank is exposed to in the course of executing its operations:

- Financial risks include:
  - Credit risk
  - Market risk:
    - Interest risk
    - Foreign currency exchange risk
  - Liquidity risk
- Non-financial risks include:
  - Operational risk
  - Human resource risk
  - Legal risk
  - Reputation risk

i. Credit risk

Credit risk arises from investment securities, balances due from banking institutions, funds held with IMF, loans and advances as well as other assets. The Bank has no significant concentrations of credit risk except for the lending to the Government of Kenya.

Management of the credit risk is through the choice of depository banks. The Bank's choice of depository banks is confined to top international banks that meet the set eligibility criteria of financial soundness on long-term credit rating (A), short-term credit rating (AA), composite rating and capital adequacy.

The amount that best represents the Group's maximum exposure to credit risk is per the statement of financial position.

The Bank does not grade the credit quality of these assets. None of the balances have had their terms renegotiated. Management monitors the credit exposure of staff on a continuous basis, taking into account their financial position, past experience and other factors. Provisions of Shs 104 million (2013: Shs 83 million) have been recorded due to impaired balances to related parties.

The following amounts in loans and advances and other assets are neither past due nor impaired or individually impaired. All other financial instruments operate within their contractual terms.

	Neither past due nor impaired 2014 Shs' million	Individually impaired 2014 Shs' million	Neither past due nor impaired 2013 Shs' million	Individually impaired 2013 Shs' million
Advances to employees	2,654	24	2,646	22
Due from banks under liquidation (Note 15)	-	3,656	-	3,656
Sundry debtors	3,366	4,860	4,004	4,839
	6,020	8, 540	6,650	8,517
Allowance for impairment				
- other assets (Note 16)	-	(4,860)	-	(4,839)
- loans and advances (Note 15)	-	(3,680)	-	(3,678)
	-	(8,540)	-	(8,517)
	6,020	-	6,650	-

There were no past due but not impaired balances as at 30 June 2014 (2013: Nil).

ii. Market risk

The Bank takes on exposure to market risks, which is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

Market risks arising from trading and non-trading activities are concentrated in Bank Treasury and are monitored by management through guidelines from the Foreign Reserves Investments Committee (FRIC) with oversight from the Financial Stability Committee.

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with commercial banks or the market.

Non-trading portfolios primarily arise from the interest rate management of the Bank's investments and monetary policy assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's held-to-maturity and World Bank RAMP financial assets.

Interest rate risk

The Bank's interest rate risk arises from interest bearing investments, loans and advances to commercial banks and investments by banks. Borrowings issued at variable rates expose the Bank to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates expose the Bank to fair value interest rate risk.

The tables below summarise the Bank's financial assets and liabilities and analyses them into the earlier of contractual maturity or repricing.

As at 30 June 2014	1 – 3 months Shs' million	3-12 months Shs' million	1 - 5 years Shs' million	Over 5 years Shs' million	Non-interest Bearing Shs' million	Total Shs' million
Assets						
Balances due from banking institutions	381,181	29,680	-	-	270,536	681,397
Advances to banks	50	-	-	-	-	50
Financial assets at fair value through profit or loss	3,536	48,596	-	25,961	97	78,190
Funds held with International Monetary Fund (IMF)	-	-	-	-	692	692
Investments securities – Available-for-sale	-	-	-	-	6	6
Loans and advances	22	87	653	1,892	-	2,654
Other assets	-	-	-	-	448	448
Due from Government of Kenya	-	38,348	4,440	23,350	-	66,138
Total financial assets	384,789	116,711	5,093	51,203	271,779	829,575
Liabilities						
Deposits from banks and government	-	-	-	-	448,800	448,800
Due to International Monetary Fund (IMF)	-	-	-	-	130,064	130,064
Other liabilities	-	-	-	-	5,382	5,382
Total financial liabilities	-	-	-	-	584,246	584,246
Interest sensitivity gap	384,789	116,711	5,093	51,203	(312,467)	245,329

As at 30 June 2013	1 – 3 months Shs' million	3-12 months Shs' million	1 - 5 years Shs' million	Over 5 years Shs' million	Non-interest Bearing Shs' million	Total Shs' million
Assets						
Balances due from banking institutions	347,349	42,471	-	-	60,873	450,693
Advances to banks	351	-	-	-	-	351
Financial assets at fair value through profit or loss	5,526	12,602	33,581	25,623	597	77,929
Funds held with International Monetary Fund (IMF)	-	-	-	-	2,694	2,694
Investments securities – Available-for-sale	-	-	-	-	6	6
Loans and advances	2	37	824	1,782	-	2,645
Other assets	-	-	-	-	527	527
Due from Government of Kenya	-	8,110	4,440	23,410	-	35,960
Total financial assets	353,228	63,220	38,845	50,815	64,697	570,805
Liabilities						
Deposits from banks and government	-	-	-	-	191,671	191,671
Due to International Monetary Fund (IMF)	-	-	-	-	118,568	118,568
Investments by banks	41,589	-	-	-	-	41,589
Other liabilities	-	-	-	-	2,595	2,595
Total financial liabilities	41,589	-	-	-	312,834	354,423
Interest sensitivity gap	311,639	63,220	38,845	50,815	(248,137)	216,382

As at 30 June 2014, an increase/decrease of 10 basis points would have resulted in a decrease/increase in surplus of Shs 762 million (2013: Shs 700 million).

Foreign currency exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Foreign Reserves Investments Committee (FRIC) sets limits on the level of exposure by currency which is monitored daily

The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 30 June 2014. Included in the table are the Bank's financial instruments categorised by currency:

As at 30 June 2014	USD Shs' million	GBP Shs' million	EUR Shs' million	SDR Shs' million	Others Shs 'million	Total Shs' million
Assets						
Balances due from banking institutions	476,823	99,833	53,589	-	51,152	681,397
Financial assets at fair value through profit or loss	78,190	-	-	-	-	78,190
Funds held with International Monetary Fund (IMF)	-	-	-	692	-	692
Total financial assets	555,013	99,833	53,589	692	51,152	760,279
Liabilities						
Due to International Monetary Fund (IMF)	-	-	-	130,064	-	130,064
Deposits from banks and government	207,337	1,207	1,576	-	160	210,280
Total financial liabilities	207,337	1,207	1,576	130,064	160	340,344
Net position	347,676	98,626	52,013	(129,372)	50,992	419,935

As at 30 June 2013	USD Shs' million	GBP Shs' million	EUR Shs' million	SDR Shs' million	Others Shs 'million	Total Shs' million
Assets						
Balances due from banking institutions	310,089	83,280	33,693	-	23,631	450,693
Financial assets at fair value through profit or loss	77,929	-	-	-	-	77,929
Funds held with International Monetary Fund (IMF)	-	-	-	2,694	-	2,694
Total financial assets	388,018	83,280	33,693	2,694	23,631	531,316

	USD Shs' million	GBP Shs' million	EUR Shs' million	SDR Shs' million	Others Shs 'million	Total Shs' million
Liabilities						
Due to International Monetary Fund (IMF)	-	-	-	118,568	-	118,568
Deposits from banks and government	8,195	1,161	1,189	-	-	10,545
Total financial liabilities	8,195	1,161	1,189	118,568	-	129,113
Net position	379,823	82,119	32,504	(115,874)	23,631	402,203

As at 30 June 2014, if the shilling had weakened/strengthened by 5% against the major currencies with all other variables held constant, the impact on the Bank's surplus would have been:

- USD Shs 27,328 million (2013: Shs 18,991 million)
- Euro Shs 2,601 million (2013: Shs 1,625 million)
- British Pound Shs 4,931 million (2013: Shs 4,106 million)
- SDR Shs 6,469 million (2013: Shs 5,794 million)

iii. Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Treasury maintains flexibility in funding by maintaining availability under committed credit lines.

Management monitors rolling forecasts of the Bank's liquidity reserve on the basis of expected cash flow.

The table below analyses the Bank's financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table below are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	On demand Shs' million	1 – 3 months Shs' million	3-12 months Shs' million	1 - 5 years Shs' million	Over 5 years Shs' million	Total Shs' million
As at 30 June 2014						
Currency in circulation	-	-	-	-	199,966	199,966
Deposits from banks and government	437,587	11,213	-	-	-	448,800
Due to International Monetary Fund (IMF)	-	-	-	-	130,064	130,064
Other liabilities	-	-	5,382	-	-	5,382
Total financial liabilities	437,587	11,213	5,382	-	330,030	784,212
As at 30 June 2013						
Currency in circulation	-	-	-	-	183,047	183,047
Deposits from banks and government	178,259	-	13,412	-	-	191,671
Due to International Monetary Fund (IMF)	-	-	-	-	118,568	118,568
Investments by banks	-	41,589	-	-	-	41,589
Other liabilities	-	-	2,595	-	-	2,595
Total financial liabilities	178,259	41,589	16,007	-	301,615	537,470

Fair value of financial instruments

IFRS 7 specifies a fair value hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Bloomberg).
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

	Level 1 Shs' million	Level 2 Shs' million	Level 3 Shs' million	Total Shs' million
As at 30 June 2014:				
Financial assets at fair value	**78,125**	**65**	**-**	**78,190**
Investment securities – Available-for-sale	**-**	**-**	**6**	**6**

	Level 1 Shs' million	Level 2 Shs' million	Level 3 Shs' million	Total Shs' million
Total assets	**78,125**	**65**	**6**	**78,196**
As at 30 June 2013:				
Financial assets at fair value	**77,871**	**58**	**-**	**77,929**
Investment securities – Available-for-sale	**-**	**-**	**6**	**6**
Total assets	**77,871**	**58**	**6**	**77,935**

Changes in level 3 instrument are disclosed in Note 12 to the financial statements.

30 Contingent liabilities and commitments

The Bank is party to various legal proceedings. Based on legal advice, the Directors believe that no loss will arise from these legal proceedings. Appropriate provisions have been made where a liability is considered probable.

At 30 June 2014, the Bank did not have capital commitments (2013: Nil) in respect of property and equipment purchases.

Operating lease commitments – Bank as lessee

	2014 Shs' million	2013 Shs' million
Not later than 1 year	-	16
Later than 1 year and not later than 5 years	40	40
	40	**56**

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