SPECIAL ISSUE

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CENTRAL BANK OF KENYA

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2018

Board of Directors

Mohammed Nyaoga	Chairman
Patrick Njoroge (Dr.)	Governor
Samson Cherutich	Member
Rachel Dzombo (Mrs.)	Member
Nelius W. Kariuki (Mrs.)	Member
Ravi J. Ruparel	Member
Charity S. Kisotu (Mrs.)	Member
Kamau Thugge (Dr.)	Principal Secretary, The National Treasury

Senior Management

Patrick Njoroge (Dr.)	Governor
Sheila M'Mbijjewe (Ms.)	Deputy Governor

Heads of Department

Kennedy Abuga	Director, Governors' Office (Board Secretary)
Rose Detho (Ms.)	Director, Strategic Management Department
William Nyagaka	Director, Internal Audit Department-Transferred to Financial Market Department on 9th May, 2018
Charles Koori	Director, Research Department
Gerald Nyaoma	Director, Bank Supervision Department
Peter Rotich	Director, Finance and IMS Department-Retired on 9th July, 2017
John Birech	Acting Director, Financial Markets Department-Retired on 10th May, 2018
Terry Nganga (Ms.)	Acting Director, Human Resource and Administration Department
Paul Wanyagi	Acting Director, Currency Operations and Branch Administration Department
Mwenda Marete	Acting Director, Banking, National Payments and Risk Management Department
Peter Kigondu	Acting Director, Department of Procurement, Logistics and Supplies
Moses Ngotho	Acting Director, Finance and IMS Department -Appointed on 10th July, 2017
Matilda Onyango (Mrs.)	Acting Director, Internal Audit Department- Appointed 10th May, 2018
Joshua Kimoro	Acting Director, Kenya School of Monetary Studies

Registered office and principal place of business

Central Bank of Kenya Building
Haile Selassie Avenue
P.O. Box 60000–00200, Nairobi, Kenya
Tel: (+254) (020) 2860000

Branches

Mombasa Branch
Central Bank of Kenya Building
Nkurumah Road
P.O. Box 86372–80100, Mombasa

Kisumu Branch
Central Bank of Kenya Building
Jomo Kenyatta Highway
P.O. Box 4–40100, Kisumu

Eldoret Branch
Kiptagich House
Uganda Road
P.O. Box 2710–30100, Eldoret

Currency Centres

Nyeri Currency Centre
Kenya Commercial Bank Building
Kenyatta Street
P.O. Box 840–10100, Nyeri

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

Nakuru Currency Centre
Kenya Commercial Bank Building
George Morara Street
P.O. Box 14094–20100, Nakuru

Subsidiary

Kenya School of Monetary Studies
Off Thika Road
Mathare North Road
P.O. Box 65041–00618, Nairobi

Main Lawyers

Oraro and Co., Advocates
ACK Garden House
1st Ngong Avenue
P.O. Box 51236–00200, Nairobi

Auditor

Deloitte & Touche
Deloitte Place,
Waiyaki Way, Muthangari
P.O. Box 40092–00100, Nairobi
On behalf of:
The Auditor General,
Kenya National Audit Office
Anniversary Towers
P.O. Box 30084–00100, Nairobi

1. Statement of Corporate Governance

The Central Bank of Kenya (the "Bank"/"CBK") 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 ethics in all its operations.

1.1 Board of Directors

The Central Bank of Kenya Act (the "Act") provides that the Board of Directors (the "Board") shall be composed of a Chairperson, a Governor, Principal Secretary to The National Treasury who is a non-voting member and eight Non-Executive Directors. The law requires that the President appoints the Chairman and Governor after the conduct of a competitive process and following the approval of Parliament. Other than the Principal Secretary to The National Treasury who is an ex-officio member, all the Non-Executive Directors of the Board are also appointed by the President with the approval of Parliament. All the Board members are appointed for a term of four (4) years each and are eligible for reappointment provided that no Board member holds office for more than two (2) terms.

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 (2) months and has a formal schedule of agenda items due for deliberations. The Directors are given appropriate and timely information to enable them provide and maintain full and effective direction and control over strategic, financial and operational issues of the Bank. The Board is not involved in the conduct of day-to-day business as this is the responsibility given to the Governor by law. It however, retains responsibility for determining the policies of the Bank.

The Members of the Board (all Kenyans) in the year ended 30th June, 2018 and their attendance and the number of meetings held in the year were as follows:

No.	*Name*	*Position*	*Discipline*	*Date of Appointment/ Retirement*	*Meetings Attended*
1.	Mohammed Nyaoga	Chairman	Lawyer	Appointed–19th June, 2015	11
2.	Patrick Njoroge (Dr.)	Governor	Economist	Appointed–19th June 2015	11
3.	Principal Secretary/The National Treasury	Executive Officer	Economist	Permanent	2
4.	Nelius Kariuki (Mrs.)	Member	Economist	Appointed–4th November, 2016	10
5.	Ravi Ruparel	Member	Financial Sector Expert	Appointed–4th November, 2016	11
6.	Charity Kisotu (Mrs.)	Member	Accountant	Appointed–4th November, 2016	9
7.	Samson Cherutich	Member	Accountant	Appointed–5th December, 2016	11
8.	Rachel Dzombo (Mrs.)	Member	Management Expert	Appointed–5th December, 2016	10

The remuneration paid to the Directors for services rendered during the financial year 2017/2018 is disclosed in Note 27 to 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 Executive Directors are paid a monthly salary and are eligible for staff loans.

1.2 Secretary to the Board

The Board Secretary provides technical and secretarial services as well as corporate governance and logistical support to the Board in order to facilitate efficient policy making interface with policy implementation. The Board Secretary also advises the Board on legal matters. In conjunction with the Chairman, the Board Secretary ensures good and timely information flow among the Board members, the Board Committees and Management. All members of the Board and Management have access to the Board Secretariat services.

1.3 Audit Committee

The members of the Audit Committee in the year ended 30th June, 2018 were Mr. Samson K. Cherutich (Chairman), Mr. Ravi J. Ruparel, Mrs. Charity S. Kisotu, Mrs. Nelius W. Kariuki and Mrs. Rachel Dzombo. The members are all Non-Executive Directors with experience in Accounting, Auditing, Financial and Management. The Committee meets once every two (2) months and as necessary. The Terms of Reference of the Audit Committee cover five (5) major areas, namely; Internal Control System, Financial Reporting and Related Reporting Practices, External and Internal Audits. The audit committee ensures the integrity of the financial statements prior to the review and approval by the Board. This is achieved by reviewing the accounting policies, financial reporting and regulatory compliant practices of the Bank. The committee reviews report on the findings of internal and external auditors and manages corrective actions in response to the findings. The committee meets every two (2) months and at least once per annum with the external auditors without senior staff of the Bank being present. Each year the committee reviews and approves the overall scope and plan for the internal audit activities. The committee aligns the risk management processes and internal audit activities and ensures that the Bank has a solid risk management system in place in terms of people, systems, policies, controls and reporting. The risk responsibility is to approve risk policies that guide the risk parameters and tolerance. Thereafter to monitor the compliance with the policies limits and programs. The Committee Members' positions, disciplines and number of meetings attended for the year ended 30th June, 2018 were as follows:

No.	*Name*	*Position*	*Discipline*	*Meetings Attended*
1.	Samson Cherutich	Chairman	Accountant	11
2.	Ravi Ruparel	Member	Financial Sector Expert	10
3.	Mrs. Charity Kisotu	Member	Accountant	10
4.	Mrs. Nelius Kariuki	Member	Economist	8
5.	Mrs. Rachel Dzombo*	Member	Management Expert	7

* Mrs. Rachel Dzombo Joined the Audit Committee of the Board on 18th December, 2017.

1.4 Human Resources Committee (HRC)

The members of the HR Committee in the year ended 30th June, 2018 were Mrs Nelius Kariuki, Mr Samson Cherutich, Mrs Charity Kisotu, Mrs Rachel Dzombo and Mr Ravi Ruparel. The members are all Non-Executive Directors with experience in Accounting, Management and Business. The Human Resources Committee of the Board approves the HR policies and reviews procedures and ensures that they are aligned to the Bank strategy. This covers succession plans, employee compensation structures, training and development, evaluation and career management and finally discipline and grievance processes. The goal is to ensure that the staff of the Bank are adequately remunerated and recognized in order to motivate and retain staff of the highest calibre. The members of the Human Resources Committee in the year ended 30th June, 2018 and their attendance of the meetings held in the year were as follows:

No.	*Name*	*Position*	*Discipline*	*Meetings attended*
1.	Mrs. Nelius Kariuki	Chairperson	Economist	7
2.	Samson Cherutich	Member	Accountant	8
3.	Mrs. Charity Kisotu	Member	Accountant	8
4.	Mrs. Rachel Dzombo	Member	Management Expert	8
5.	Ravi Ruparel*	Member	Financial Sector Expert	3

*Note** Mr. Ravi Ruparel joined Human Resource Committee of the Board on 22nd May, 2018.The meetings also include a Special Human Resource Committee of the Board held on 28th September, 2017.

1.5 Monetary Policy Committee (MPC)

Section 4D of the Central Bank of Kenya (Amendment) Act 2008 establishes the Monetary Policy Committee (MPC). The MPC is responsible for formulating monetary policy and is required to meet at least once every two (2) months. The MPC comprises of the Governor who is the Chairman, the Deputy Governor who is the Deputy Chairperson, two (2) members appointed by the Governor from the Bank, four (4) external members appointed by the Cabinet Secretary for the National Treasury, and the Principal Secretary for the National Treasury or his Representative. External members of the MPC are appointed for an initial period of three (3) years each, and may be reappointed for another final term of three (3) years. The quorum for MPC meetings is five (5) members, one of whom must be the Chairman or Deputy Chairperson. During the FY2017/18, the MPC formulated monetary policy aimed at achieving and maintaining overall inflation within the target range of 2.5 to 7.5 percent. The period was characterized by sustained macroeconomic stability in spite of the spillover effects of the drought conditions witnessed in the first half of 2017, uncertainties with regard to the prolonged elections period, and the impact of interest rate caps on the economy. Overall month-on-month inflation fell to 4.3 percent in June 2018 from 9.2 percent in June 2017 largely due to a decline in food prices following improved weather conditions, and the impact of Government measures to mitigate the adverse effects of the drought on the prices of key food items. The 12-month and 3-month non-food-non-fuel inflation measures remained stable below 5 percent during the period, suggesting that demand-driven inflationary pressures in the economy were muted. Stability in the foreign exchange market minimized the threat of imported inflation. Risks to the global economy persisted during the period particularly with regard to U.S economic and trade policies, the post-Brexit resolution and the pace of normalization of monetary policy in the advanced economies. Nevertheless, the foreign exchange market remained stable in the period supported by a narrowing in the current account deficit and improved confidence in the economy. The current account deficit narrowed to 5.8 percent of Gross Domestic Product in the 12 months to June 2018 from 6.7 percent in 2017 reflecting strong growth in diaspora remittances, improved inflows from tea and horticultural exports due to favorable weather conditions, and improved receipts from tourism. Lower imports of food and SGR-related equipment during the period offset the increase in the petroleum products import bill due to higher international oil prices. CBK's foreign exchange reserves, which stood at USD 8,643.5 million (or 5.8 months of import cover) at the end of June 2018, continued to provide an adequate buffer against short-term shocks. The Precautionary arrangements with the IMF provided an additional buffer against short-term shocks during the period. After every MPC Meeting, the Governor held meetings with Chief Executive Officers of banks to discuss the background to the MPC decisions and to obtain feedback from the market. Additionally, the Governor held press conferences with the media to brief them on the background of the MPC decisions and developments in the financial sector and the economy. The forums continued to improve the public's understanding of monetary policy decisions.

The MPC held six (6) meetings in the year ended June 30, 2018, and attendance was as follows:

No.	*Name*	*Position*	*Discipline*	*Meetings Attended*
1.	Patrick Njoroge (Dr.).	Chairman	Economist	6
2.	Ms. Sheila M'Mbijjewe	Deputy Chairperson	Finance/ Accountancy	6
3.	Musa Kathanje	Representative of the Principal Secretary, The National Treasury	Economist	6
4.	Charles Koori	Member (Internal)	Economist	6
5.	John Birech	Member (Internal)	Economist	5
6.	William Nyagaka*	Member (Internal)	Finance/ Accountancy	1

* *Mr. Nyagaka replaced Mr. Birech in May 2018, following his retirement from the CBK.*

1.6 Management Structure

The positions of Governor and Deputy Governor are set out in the CBK Act Cap. 491 of the Laws of Kenya. The Governor and the Deputy Governor constitute the Central Bank's Senior Management and meet regularly with the Heads of the Bank's various departments indicated on page 1, to review the overall performance of the Bank.

There are several other Management Committees, which advise the Governor on specific issues to enable him 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 embedded in the *Staff Rules and Regulations* and *the Employment Act 2007* apply to the entire Bank's staff.

1.8 Internal Controls

The Management of the Bank has put in place a system 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, 2015.* 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 the Bank policies and procedures. There is an annual Budget approved by the Board and a Procurement Plan approved by the Senior Management 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 and risk oversight is performed by Internal Audit Department. The department is responsible for monitoring and providing advice on the Bank's risk and audit framework. All reports of 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 Statements. In addition, the Bank issues policy briefs to The National Treasury on both the Monetary and Fiscal policies. On an annual basis, the Financial Statements of the Bank 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 the Monetary Policy stance undertaken, interest rates and exchange rate changes. The Bank's financial performance is presented on the pages below of these financial statements. During financial year ended 30th June, 2018, the Bank recorded a net deficit of KSh. 4,280m compared to a net surplus of KSh. 17,050m in financial year ended 30 June, 2017. The deficit is included as part of the General Reserve Fund. During the Financial year ended 30th June 2018 the Bank operating surplus before unrealized gains (losses) was KSh. 16,101m (2017: KSh. 9,917m). Interest income of KSh. 20,097m (2017: KSh 14,441m) rose due to the higher interest rates on US Dollar denominated reserves instruments plus higher reserve levels. As a result of a stronger Kenya Shillings to US Dollar an unrealized foreign exchange loss of KSh. 18,690m (2017: gain KSh. 8,516m) were noted as at 30th June 2018, and a fair value loss on financial assets held for trading of KSh. 2,073m (2017: KSh. 871m). In addition, an actuarial loss of KSh. 2,629m (2017: KSh. 512m) was also incurred. This loss was offset by a revaluation gain on land and buildings of KSh. 3,011m. This valuation is performed every 3 years in line with the Bank's Fixed assets management policy. The Bank assets increased to KSh. 1,083,892m (2017: KSh. 975,623m) mainly attributed to the Euro Bond proceeds of USD 2 billion (KSh. 202b) moderated by repayments of syndicated loans. The Government overdraft facility closed higher of KSh. 56,849m (KSh. 2017: Nil). Following a revaluation of fixed asset, the Bank assets increased by KSh. 3,011m. Liabilities increased to KSh. 954,129m (2017: KSh. 841,580m) as a result of an increase in deposit from banks and government largely attributed to a lower bank reserves repo holding and higher government overdraft position at the year end.

Directors' Report

The Directors submit their report together with the audited Financial Statements for the year ended 30th June, 2018, which shows performance of the Bank during the period and the state of affairs of Central Bank of Kenya (the "Bank"/"CBK") as at the year end.

Incorporation

The Bank is incorporated by 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 Surplus

The deficit for the year of KSh. 4,280 million (2017: KSh.17,050 million surplus) has been included as part of the General Reserve Fund. The Directors recommend a transfer of KSh. 800m to the Consolidated Fund from the General Reserve Fund (2017: Nil).

Board of Directors

The members of the Board of Directors who served during the year and up to the date of this report are listed on page 1.

Auditor

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

Kennedy Abuga,
Board Secretary,
4th September, 2018

Statement of Directors' Responsibilities

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 financial performance. 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 as at 30th June, 2018 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*. This financial statements were prepared on a going concern basis, taking cognizance of certain unique aspects relating to the bank's ability to create, distribute and destroy local currency, its role as a lender of last resort, its responsibilities in the areas of price and financial stability, and its relationship with the Kenyan government concerning foreign exchange transactions.

Approved by the Board of Directors and signed on its behalf by:

Chairman, Board of Directors
Mr. Mohammed Nyaoga
4th September, 2018

Governor
Dr. Patrick Njoroge
4th September, 2018

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON CENTRAL BANK OF KENYA FOR THE YEAR ENDED 30TH JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Central Bank of Kenya set out below, which comprise the consolidated statement of financial position as at 30 June 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by Deloitte and Touche, auditors appointed under Section 23 of the Public Audit Act, 2015 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.

In my opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Central Bank of Kenya as at 30 June 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs) and comply with the Central Bank of Kenya Act, Cap 491 of the Laws of Kenya.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). My responsibilities under those standards are further described in the Auditor-General's Responsibilities for the audit of financial statements section of my report. I am independent of the Bank in accordance with the International Ethics Standard Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with other ethical requirements that are relevant to the audit of financial statement in Kenya. I have fulfilled other ethical responsibilities in accordance with these requirements, and IESB Code. I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that, in my professional judgment, are of most significance in the audit of the financial statements. There were no Key Audit Matters to report in the year under review.

Other Matters

1. Board Members

The Central Bank Act Cap 491 of 2014, Part IV – Management, Section 11(1) (d) provides that there shall be eight (8) other non-executive directors of the Board. During the year under review, the Bank had in place five (5) non-executive directors transacting business on behalf of the Bank.

2. Deputy Governors

The Central Bank of Kenya Act Cap 491 Section 13B (1) states that "There shall be two Deputy Governors who shall be appointed by the President through a transparent and competitive process and with the approval of Parliament". During the year under review, only one Deputy Governor was in place.

Report on Compliance with Lawfulness and Effectiveness

As required by Article 229(6) of the Constitution, I confirm that, nothing has come to my attention to cause me believe that public money has not been applied lawfully and in an effective way.

Report on Effectiveness of Internal Controls

As required by Section 7 (1) (a) of the Public Audit Act, 2015, I confirm that nothing has come to my attention to cause me to believe that internal controls were not operating in an effective way.

Other Information

The Directors are responsible for the other information, which comprises the statement of corporate governance, directors' report and the statement of Directors' responsibilities. The other information does not include the financial statements and my auditor's report thereon.

My opinion on the consolidated financial statements does not cover the other information and I do not express any form of assurance or conclusion thereon.

In connection with the audit of the consolidated financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or the knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work performed on the other information that was obtained prior to the date of the audit report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRSs), and for such internal control as management determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Banks's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the applicable basis of accounting unless the management either intends to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statement to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor-General Responsibilities for the Audit of the Financial Statements

The audit objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provision of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 of the Constitution of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when they exist. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISSAIs, the auditor exercises professional judgment and maintains professional skepticism throughout the audit. The auditor also:

- Identifies and assesses the risk of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting material misstatements resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit 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;
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- Concludes on the appropriateness of the Directors use of the going concern basis of accounting and, based on the audit evidence obtained, concludes whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify the opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;
- Evaluates the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- Obtains sufficient appropriate audit evidence regarding the consolidated financial information of the entity or business activities within the Bank to express an opinion on the consolidated financial statements. The auditor is responsible for the direction, supervision and performance of the audit. I remain responsible for the audit opinion;
- Communicates with directors among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

FCPA Edward R.O. Ouko
Auditor-General
Nairobi
26th September, 2018

Consolidated Statement of Comprehensive Income

	Notes	Year ended 30 June 2018 KSh' million	2017 KSh' million
Interest income	4	20,097	14,441
Interest expense	5	(881)	(1,718)
Net interest income		19,216	12,723
(Increase)/decrease in loan impairment	15	(35)	24
Net interest income		19,181	12,747
Fees and commission income	2(s)	3,000	3,000
Net trading income	6	4,245	4,193
Other income	7	646	1,114
Operating income		27,072	21,054
Operating expenses	8	(10,971)	(11,137)
Operating surplus before unrealised (losses)/gains		16,101	9,917
Unrealized gains and losses:			
Foreign exchange (loss)/gain		(18,690)	8,516
Fair value loss on financial assets held for trading		(2,073)	(871)
(Deficit)/surplus for the year		(4,662)	17,562
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial loss in retirement benefit asset	17	(2,629)	(512)
Land and building valuation gain	18	3,011	-
Total comprehensive (loss)/income for the year		(4,280)	17,050

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

Consolidated Statement of Financial Position

	Notes	30 June 2018 KSh' million	30 June 2017 KSh' million
Assets			
Balances due from banking institutions	10	522,987	735,548
Funds held with International Monetary Fund (IMF)	13(a)	2,012	1,877
Securities & advances to banks	14	38,503	34,870
Loans and advances	15	2,585	2,575
Financial assets at fair value through profit or loss	11	400,404	134,777
Investments securities – Available-for-sale	12	9	9
Other assets	16	3,302	10,566
Property and equipment	18	27,153	22,703
Intangible assets	19	165	52
Retirement benefit asset	17	6,584	8,197
Due from Government of Kenya	20	80,188	24,449
Total assets		1,083,892	975,623
Currency in circulation	21	262,439	253,787
Deposits from banks and government	22	584,287	470,109
Due to International Monetary Fund (IMF)	13(b)	100,284	115,125
Other liabilities	23	7,119	2,559
Total liabilities		954,129	841,580
Equity and reserves			
Share capital	24(a)	5,000	5,000
General reserve fund	24(b)	106,162	114,253
Revaluation reserve	24(c)	17,801	14,790

Consolidated fund	24(d)	800	-
Total equity		129,763	134,043
Total equity and liabilities		1,083,892	975,623

The financial statements herein were authorised for issue by the Board of Directors on 4th September, 2018 and signed on its behalf by:

Chairman of the Board
Mr. Mohammed Nyaoga

Governor
Patrick Njoroge (Dr.)

Consolidated Statement of Changes in Equity

	Notes	Share Capital Shs' million	General Reserve Fund Shs' million	Revaluation reserve Shs' million	Consolidated Fund Shs' million	Total Shs' million
Year ended 30 June 2017						
Balance as at 1 July 2016		5,000	97,203	14,790	-	116,993
Surplus for the year		-	17,562	-	-	17,562
Actuarial loss in retirement benefit asset	17	-	(512)	-	-	(512)
Total comprehensive Income for the year		-	17,050	-	-	17,050
Balance as at 30 June 2017		5,000	114,253	14,790	-	134,043

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	Consolidated fund Shs' million	Total Shs' million
Year ended 30 June 2018						
Balance as at 1 July 2017		5,000	114,253	14,790	-	134,043
Deficit for the year		-	(4,662)	-	-	(4,662)
Actuarial loss on retirement benefit Asset	17	-	(2,629)	-	-	(2,629)
Land and building valuation gain	18	-	-	3,011	-	3,011
Total comprehensive (loss)/income for the year		-	(7,291)	3,011	-	(4,280)
Transactions with owners recorded directly in equity						
Transfer to consolidated fund	24(d)	-	(800)	-	800	-
Balance as at 30 June 2018		**5,000**	**106,162**	**17,801**	**800**	**129,763**

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

Consolidated Statement of Cash Flow

	Notes	Year ended 30 June 2018 KSh' million	2017 KSh' million
Net cash generated from operating activities	25	74,117	39,820
Cash flow from investing activities			
Purchase of property and equipment	18	(2,314)	(1,273)
Purchase of intangible assets	19	(136)	(24)
Proceeds from disposal of property and equipment		8	3
Net (purchase)/sale of financial assets			
- Fair value through profit or loss		(242,204)	(10,464)
- Held to maturity		176,751	150,515
- Securities & advances to Banks		1,686	(8,508)
- Funds held with International Monetary Fund (IMF)		(135)	46

Net cash (used in)/generated from investing activities		(66,344)	130,295
Cash flows from financing activities			
Repayments to the International Monetary Fund (IMF)		(14,841)	(7,313)
Net cash used in financing activities		(14,841)	(7,313)
(Decrease)/increase in cash and cash equivalents		(7,068)	162,802
Cash and cash equivalents at start of year		584,395	421,593
Cash and cash equivalents at end of year	26	577,327	584,395

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

1. General information

Central Bank of Kenya (the "Bank"/"CBK") 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)[1]. 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 (KShs), rounded to the nearest million.

Changes in accounting policy and disclosures

(b) Adoption of new and revised International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC)

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

Annual Improvements to IFRSs 2014-2016 Cycle

The Bank has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Bank. IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal Bank that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Bank's consolidated financial statements as none of the Bank's interests in these entities are classified, or included in a disposal Bank that is classified, as held for sale.

ii) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30th June, 2018.*

New and Amendments to standards	*Effective for annual periods beginning on or after*
IFRS 16 Leases	1st January 2019
IFRS 9 Financial Instruments	1st January 2018
IFRS 15 Revenue from contracts with customers	1st January 2018
Amendments to IAS 7 Disclosure Initiative	1st January 2018
IFRIC 22 Foreign Currency Transactions and Advance Consideration	1st January 2018, with earlier application permitted
Annual Improvements to IFRS Standards 2014-2016 Cycle	Effective for annual periods beginning on or after 1st January 2018

iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2018

IFRS 16 Leases

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.The directors of the Bank anticipate that the application of IFRS 16 in the future may have a significant impact on amounts reported in respect of the Bank's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed by the Bank.

1 'The disclosure on the accounting standards put here include only the standards applicable to the Bank'.

IFRS 9, Financial Instruments

On 29 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. The standard is effective for annual period beginning on or after 1 January 2018 with retrospective application permitted if, and only if, it is possible without the use of hindsight. The bank will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement including impairment changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in retained earnings and reserves as at 1 January 2018.The new classification and measurement and impairment requirements will be applied by adjusting our Balance Sheet on 1 January 2018, the date of initial application, with no restatement of comparative period financial information. The Directors of the Bank are assessing the impact of the application of IFRS 9. It is not practical to provide a reasonable estimate of this effect until a detailed review has been completed.

Classification and measurement

IFRS 9 introduces a principles-based approach to the classification of financial assets. Debt instruments, including hybrid contracts, are measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortized cost based on the nature of the cash flows of the assets and an entity's business model. These categories replace the existing IAS 39 classifications of FVTPL, available for sale (AFS), loans and receivables, and held-to-maturity. Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss. For financial liabilities, most of the pre-existing requirements for classification and measurement previously included in IAS 39 were carried forward unchanged into IFRS 9 other than the provisions relating to the recognition of changes in own credit risk for financial liabilities designated at fair value through profit or loss, as permitted by IFRS 9.

Impairment

Impairment Overall Comparison of the New Impairment Model and the Current Model

IFRS 9 introduces a new, single impairment model for financial assets that requires the recognition of expected credit losses (ECL) rather than incurred losses as applied under the current standard. Currently, impairment losses are recognized if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after initial recognition of the asset and that loss event has a detrimental impact on the estimated future cash flows of the asset that can be reliably estimated. If there is no objective evidence of impairment for an individual financial asset, that financial asset is included in a Bank of assets with similar credit risk characteristics and collectively assessed for impairment losses incurred but not yet identified. Under IFRS 9, ECLs will be recognized in profit or loss before a loss event has occurred, which could result in earlier recognition of credit losses compared to the current model. Under the current standard, incurred losses are measured by incorporating reasonable and supportable information about past events and current conditions. Under IFRS 9, the ECL model, which is forward-looking, in addition requires that forecasts of future events and economic conditions be used when determining significant increases in credit risk and when measuring expected losses. Forward-looking macroeconomic factors such as unemployment rates, inflation rates, interest rates, exchange rates, domestic borrowing, credit to private sector and gross domestic product will be incorporated into the risk parameters. Estimating forward-looking information will require significant judgment and must be consistent with the forward-looking information used by the Bank for other purposes, such as forecasting and budgeting.

Scope

Under IFRS 9, the same impairment model is applied to all financial assets, except for financial assets classified or designated as at FVTPL and equity securities designated as at FVOCI, which are not subject to impairment assessment. The scope of the IFRS 9 expected credit loss impairment model includes amortized cost financial assets, debt securities classified as at FVOCI, and off balance sheet loan commitments and financial guarantees which were previously provided for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37). The above-mentioned reclassifications into or out of these categories under IFRS 9 and items that previously fell under the IAS 37 framework were considered in determining the scope of our application of the new expected credit loss impairment model.

Measurement of Expected Credit Losses

ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument. The measurement of ECLs will be based primarily on the product of the instrument's probability of default (PD), loss given default (LGD), and exposure at default (EAD).

The ECL model contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

- **Stage 1** - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.
- **Stage 2** - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses based on the Central Bank of Kenya and banks policy on curing of loans.
- **Stage 3** - When one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred, the financial asset is considered credit-impaired and is migrated to Stage 3, and an allowance equal to lifetime expected losses continues to be recorded or the financial asset is written off.

Interest income is calculated on the gross carrying amount of the financial assets in Stages 1 and 2 and on the net carrying amount of the financial assets in Stage 3.

Definition of Default

IFRS 9 does not define default but requires the definition to be consistent with the definition used for internal credit risk management purposes. However, IFRS 9 contains a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due. Under IFRS 9, the Bank will consider a financial asset as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred or when contractual payments are 90 days past due. The Bank's write-off policy under IAS 39 is not expected to be materially different under IFRS 9.

Hedge Accounting

IFRS 9 introduces a new general hedge accounting model that better aligns hedge accounting with risk management activities. However, the current hedge accounting requirements under IAS 39 may continue to be applied until the IASB finalizes its macro hedge accounting project. The IFRS 9 Hedge accounting requirements will not have any significant impact on the bank as the bank does not apply hedge accounting. The directors of the bank are assessing the impact of the application of IFRS 9 in the future. The adoption of this standard may have an impact on the Bank's consolidated financial statements in future periods.

IFRS 15, Revenue from Contracts with Customers

In May 2015, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

Amendments to IAS 7 Disclosure Initiative

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific format to disclose financing activities. However, an entity may fulfil the disclosure objective by providing a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities. The amendments apply prospectively for annual periods beginning on or after 1 January 2018 with early application permitted. The directors of the Bank do not anticipate that the application of these amendments will have a material impact on the Bank's consolidated financial statements.

IFRIC 22 Foreign Currency Transactions and Advance Consideration

IFRIC 22 addresses how to determine the 'date of transaction' for the purpose of determining the exchange rate to use on initial recognition of an asset, expense or income, when consideration for that item has been paid or received in advance in a foreign currency which resulted in the recognition of a non-monetary asset or non-monetary liability (for example, a non-refundable deposit or deferred revenue). The Interpretation specifies that the date of transaction is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the Interpretation requires an entity to determine the date of transaction for each payment or receipt of advance consideration. The Interpretation is effective for annual periods beginning on or after 1st January, 2018 with earlier application permitted. The Directors of the Company do not anticipate that the application of these amendments will have a material impact on the financial statements. The Directors do not intend to early apply the standard and intend to use the full retrospective method upon adoption.

Annual Improvements to IFRSs 2014 – 2016 Cycle

The Annual Improvements to IFRSs 2014 – 2016 Cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IFRS 1 deletes certain short-term exemptions because the reporting period to which the exemptions applied have already passed. As such, these exemptions are no longer applicable. The Directors of the Bank do not anticipate that the application of these amendments will have any impact on the financial statements. The amendments to IAS 28 clarify that the option for a venture capital organisation and other similar entities to measure investments in associates and joint ventures at FVTPL is available separately for each associate or joint venture, and that election should be made at initial recognition of the associate or joint venture. In respect of the option for an entity that is not an investment entity (IE) to retain the fair value measurement applied by its associates and joint ventures that are IEs when applying the equity method, the amendments make a similar clarification that this choice is available for each IE associate or IE joint venture. The amendments apply retrospectively with earlier application permitted. The Directors of the Bank do not anticipate that the application of these amendments will have a material impact on the financial statements. The Directors do not intend to early apply the standard and intend to use the full retrospective method upon adoption.

iv) Early adoption of standards

The Bank did not early-adopt any new or amended standards in the period.

(c) Accounting for currency expenses

The cost of unissued bank note stocks is recognised in the statement of financial position as deferred currency costs under 'other assets'. Bank note costs are charged to profit or loss in the year in which the bank notes are issued. Coin minting costs are charged to profit or loss when issued to the public. The cost of new currency coins not yet issued is recognised as inventory within 'other assets' consistent with the accounting for the cost of unissued bank note stocks.

(d) Consolidation

Kenya School of Monetary Studies is wholly owned by 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 Bank'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.

(e) 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 ("KSh.") 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)'.

(f) 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'.

(g) 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 them within twelve (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 re-measurements 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 policy 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 de-recognition). 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)		2018 KSh' million	2017 KSh' million
Financial assets	Financial assets at fair value through profit or loss	Held for trading	World Bank Reserve Asset Management Programme (RAMP) financial assets	30,600	31,789
			Fixed income securities	369,733	102,915
		Designated at initial recognition	Gold holdings	71	73
	Loans and receivables	Advances to banks		38,503	34,870
		Funds with IMF		2,012	1,877
		Net advances to staff and banks under liquidation		2,585	2,575
		Other assets (classified as financial assets)		5,897	12,536
		Due from Government	Government loan	23,339	24,449
			Overdraft facility to Government	56,849	-
		Balances due from banking institutions	Foreign denominated Term deposits	522,987	735,548
	Available-for-sale	Investment securities	SWIFT shares	9	9
Financial liabilities	Financial liabilities at amortised cost	Deposits from banks	Cash reserve ratio and current account deposits	217,357	209,792
		Due to IMF		100,284	115,125
		Other liabilities		7,119	2,559
		Deposits from Government institutions		366,930	253,787

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.

(h) 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.

(i) 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:

Asset classification	Useful life	Depreciation rate
Leasehold land	Over the period of the lease	
Buildings	20 years	5%
Motor vehicles	4 years	20%
Furniture and equipment	5 - 10 years	10-20%

No depreciation is charged on work in progress and assets held in clearing accounts. Depreciation of property and equipment is made from date of placement to use and it ceases when the asset is obsolete, classified as held for sale, fully depreciated or derecognized as per policy.

(j) 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. Computer software under installation and not yet place in use is held in software clearing account and not amortized until commissioned.

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.

(k) 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.

(l) 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.

The asset recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognised past-service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Past-service costs are recognised immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

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

A defined contribution plan 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.

(m) 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.

(n) 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.

(o) Surplus funds

The Central Bank of Kenya Act (Cap 491) allows the Bank to retain at least 10% or any other amounts as the board, in consultation with the minister, may determine, off the net annual profit (surplus) of the bank after allowing for the expenses of operations and after provision has been made for bad and doubtful debts, depreciation in assets, contributions to staff benefit funds, and such other contingencies and accounting provisions as the Bank deems appropriate.

(p) Share capital

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

(q) 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 income statement on a straight-line basis over the period of the lease.

Bank as lessor

The group leases certain property, plant 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 income statement on a straight-line basis over the period of the lease.

(r) 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.

(s) 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 of Kenya 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 Sh.3 billion as per the agreement between the Bank and The National Treasury effective 1 July 2007. In addition, the Bank earns commissions from other debt instruments issued to meet funding requirements of State Corporations.

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

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

(u) Currency in circulation

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

(v) Inventories

The Bank's inventory is comprised of new currency notes issued. Inventories are stated at the sum of the production costs. Cost is determined using the first-in, first-out (FIFO) method.

Bank notes printing expenses and coin minting costs for each denomination which include ordering, printing, minting, freight, insurance and handling costs are initially deferred. Based on the currency issued into circulation, the respective proportional actual costs incurred are released to the profit or loss from the deferred costs account. The deferred amount is recognised as prepayment and represents un-issued bank notes and coins stock.

(w) 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 1.11 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.

(x) 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 en cashable 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.

(y) 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

(i) 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.

(a) 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 17 which includes assumptions). The Board of Directors considers the assumptions used by the actuary in their calculations to be appropriate for this purpose.

(b) Loans and advances

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

(c) 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.

(d) Property and equipment

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

(ii) 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.

4 Interest income

	2018 KSh' million	2017 KSh' million
Financial assets - held to maturity	8,284	7,070
Loans and advances	7,875	6,040
Financial assets at fair value through profit or loss	3,938	1,331
	20,097	14,441
Interest income from loans and advances comprises:		
Due from Government of Kenya – loan	725	759
Due from Government of Kenya - overdraft	2,494	1,270
Staff loans and advances	191	150
Advances to banks	3,055	3,411
Local commercial banks overnight loans	-	8
Other interest income	1,410	442
	7,875	6,040

5 Interest expense

Interest on monetary policy issues – investments by banks	452	1,445
Interest paid to IMF	429	273
	881	1,718

6 Net trading income

Net gain on sale of foreign exchange currencies	4,547	4,298
Net loss on held for trading financial assets	(302)	(105)
	4,245	4,193

7 Other income

Licence fees from commercial banks and foreign exchange bureau	271	292
Penalties from commercial banks and foreign exchange bureau	21	30
Rent income from Thomas De La Rue Kenya Limited	2	2
Kenya School of Monetary Studies operating income - hospitality services and tuition fee	330	379
Gain on disposal of property and equipment	6	1
Miscellaneous income	16	410
	646	1,114

8 Operating expenses

	2018 KSh' million	2017 KSh' million
Employee benefits (Note 9)	3,429	3,468
Currency production expenses	2,028	2,352
Property maintenance and utility expenses	1,361	1,135
Depreciation (Note 18)	873	1,016
Amortisation (Note 19)	23	116
Provision for impairment loss on other assets (Note 16)	15	18
Auditor's remuneration	11	10
Transport and travelling	146	168
Office expenses	274	313
Postal service expense	190	165
Legal and professional fees	437	374
Other administrative expenses including KSMS	2,184	2,002
	10,971	11,137

9 Employee benefits

Wages and salaries	3,769	3,663
Medical expenses	285	286
Other staff costs	223	300
Directors' emoluments (Note 27(ii))	69	51
Net income relating to the retirement benefit asset (Note 17)	(917)	(832)
	3,429	3,468

10 Balances due from banking institutions

Current accounts	29,877	25,184
Foreign currency denominated term deposits(cash & cash equivalents)	450,641	489,877
Accrued interest on term deposits	1,148	1,561
Special project accounts	17,328	21,180
Domestic foreign currency cheque clearing	23,831	20,827
Repos clearing and regional central banks	162	168
Cash and cash equivalents (note 26)	522,987	558,797
Foreign currency denominated term deposits (Long term)	-	176,751
	522,987	735,548

Special project accounts relate to amounts received by the Government of Kenya (or its ministries) for specific projects or purposes. An equal and corresponding liability is recorded and disclosed under "Deposits from banks and government (note 22)". The movement in the year is mainly attributable to the proceeds from sponsors of various government projects. This has corresponding effect on the growth of foreign reserves during the year.

11 Financial assets at fair value through profit or loss

	2018 Shs' million	2017 Shs' million
a. Designated at initial recognition		
Gold holdings	71	73
Movements in gold holdings are due to mark to market movements.		
b. Held for trading		
Fixed income securities	369,733	102,915
Fixed income securities under World Bank RAMP	30,600	31,789
	400,333	134,704
	400,404	134,777

12 Investments securities – Available-for-sale

Unlisted equity securities	9	9
At start of year	9	9
Additions	-	-
At end of year	9	9

"Unlisted equity securities" relate to the Bank's investment in shares of the Society for Worldwide Interbank Financial Telecommunication (SWIFT) which member is owned co-operative with its headquarters in Belgium. The Bank held 24 (2017: 24) SWIFT shares at 30 June 2018.

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

	2018 SDR million	2018 Shs' million	2017 SDR million	2017 Shs' million
(a) Assets				
IMF balances (SDR asset account)	15	2,012	13	1,877
(b) Liabilities				
International Monetary Fund Account No. 1	20	2,841	20	2,786
International Monetary Fund Account No. 2	-	13	-	12
International Monetary Fund – PRGF Account	427	60,605	520	74,916
IMF - SDR Allocation account	260	36,825	260	37,411
	707	100,284	800	115,125

The National Treasury is the Government of Kenya's Fiscal Agent. Commitments arising on transactions between IMF, Kenya Government and the 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 542.8 million (2017: SDR 271.4 million) are not included in the financial statements of the Bank as these are booked in the National Treasury with the Government of Kenya's Fiscal Agent and allocations of SDR 260 million (2017: 260 million) are included in the financial statements of the Bank as custodian.

14 Securities and advances to banks

	2018 KSh' million	2017 KSh' million
Treasury bonds discounted	9,470	10,918
Treasury bills discounted	28	36
Accrued interest bonds discounted	277	316
Repo treasury bills(Injection)	19,400	14,641
Accrued interest repo	43	22
Liquidity support framework	7,765	7,530
Due from Commercial banks	1,520	1,407
	38,503	34,870

As at 30 June 2018

Advances to banks analysis	Maturity period 1-3 months KSh' million	3-12 months KSh' million	Over 1 year KSh' million	Total KSh' million
Treasury bills discounted	15	6	7	28
Treasury bonds discounted	176	941	8,353	9,470
Accrued interest bonds discounted	-	277	-	277
Repo treasury bills & bonds (Injection)	19,400	-	-	19,400
Accrued interest repo	43	-	-	43
Due from commercial banks	1,520	-	-	1,520
Liquidity support framework	7,765	-	-	7,765
	28,919	1,224	8,360	38,503
As at 30th June, 2017				
Treasury bills discounted	-	36	-	36
Treasury bonds discounted	-	1,560	9,358	10,918
Accrued interest bonds discounted	-	316	-	316
Repo treasury bills & bonds (Injection)	14,641	-	-	14,641
Accrued interest repo	22	-	-	22
Due from commercial banks	1,407	-	-	1,407
Liquidity support framework	7,530	-	-	7,530
	23,600	1,912	9,358	34,870

15 Loans and advances

	2018 Shs' million	2017 Shs' million
Due from banks under liquidation	3,400	3,400
Advances to employees	2,688	2,643
	6,088	6,043
Allowance for impairment	(3,503)	(3,468)
Net advances	2,585	2,575
Movement in the loan impairment allowance is as follows:		
At start of year	3,468	3,747
Increase/(decrease) in impairment allowance	35	(24)
Recoveries collected in the year	-	(255)
At end of year	3,503	3,468

16 Other assets

Prepayments	12	319
Impersonal accounts	-	6,598
Deferred currency expenses	1,799	2,401
Sundry debtors-including KSMS debtors	5,897	5,938
Items in the course of collection	498	181
Uncleared effects	25	43
	8,231	15,480
Provision for impairment	(4,929)	(4,914)

	3,302	10,566

All other assets balances are recoverable within one year.

Movement in the impairment allowance is as follows:		
At start of year	4,914	4,896
Increase in impairment allowance	15	18
At end of year	4,929	4,914

17 Retirement benefit asset

	2018 Shs' million	2017 Shs' million
Present value of funded obligations	14,551	13,440
Fair value of plan assets	(30,279)	(28,464)
Net overfunding in funded plan	(15,728)	(15,024)
Limit on defined benefit asset	9,144	6,827
Asset in the statement of financial position	(6,584)	(8,197)
Movements in the net defined benefit asset recognised are as follows:		
At start of year	8,197	7,776
Net income recognised in the income statement	917	832
Net expense recognized in other comprehensive income (OCI)	(2,629)	(512)
Employer contributions	99	101
At end of year	6,584	8,197
Movements in the plan assets are as follows:		
At start of year	28,464	27,161
Expected return on scheme assets	3,886	3,544
Actuarial (loss)/gain	-	-
Employer contributions	99	101
Employee contributions	50	51
Benefits expenses paid	(1,165)	(983)
Adjustment for previous year values	(1,055)	(1,410)
At end of year	30,279	28,464
Movements in the plan benefit obligation are as follows:		
At start of year	13,440	17,623
Current service cost net of employees' contributions	215	193
Interest cost	1,805	2,286
Employee contributions	50	50
Actuarial loss due to experience	(559)	(3,078)
Actuarial loss due to change in assumptions	765	(2,651)
Benefits paid	(1,165)	(983)
At end of year	14,551	13,440

The principal actuarial assumptions at the reporting date were:	2018	2017
Discount rate (p.a.)	13.3%	13.9%
Salary increase (p.a.)	7.0%	7.0%
Expected return on plan assets (p.a.)	-	12.9%
Future pension increases	3.0%	3.0%

Five year summary	2018 Shs' million	2017 Shs' million	2016 Shs' million	2015 Shs' million	2014 Shs' million
Fair value of plan assets	30,279	28,464	27,161	27,156	24,665
Present value of funded obligations	(14,551)	(13,440)	(17,623)	(17,820)	(17,006)
Adjustment to retirement benefit asset*	(9,144)	(6,827)	(1,762)	(4,668)	-
Net retirement benefit asset	6,584	8,197	7,776	4,668	7,659

Plan assets are distributed as follows:

	2018 Shs' million	%	2017 Shs' million	%
Quoted shares	8,529	28.2%	7,977	28%
Investment properties	6,552	21.6%	6,336	22.3%
Government of Kenya treasury bills and bonds	11,488	37.9%	9,963	35.0%
Commercial paper and corporate bonds	1,226	4.1%	1,608	5.6%
Offshore investments	1,100	3.6%	208	0.7%
Fixed and term deposits	748	2.5%	2,055	7.2%
Net current assets	634	2.1%	317	1.1%
Fixed Assets	2	0%	-	-
	30,279	100%	28,464	100%

Sensitivity of principal actuarial assumptions:

If the discount rate is 1% higher (lower), the present value of funded obligations would decrease by Shs 15,955 million (increase by Shs 1,438 million). This sensitivity analysis has been determined based on reasonably possible changes of the assumption occurring at the end of 30 June 2018, while holding all other assumptions constant.

18 Property and equipment

	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
Year ended 30 June 2017						
Opening net amount	12,070	2,157	6,331	57	1,770	22,385
Additions	-	-	1,044	-	229	1,273
Transfer	-	-	(86)	-	86	-
Reclassification-cost	-	-	-	-	64	64
Reclassification-depreciation	-	-	-	-	(1)	(1)
Disposals-NBV	-	-	-	-	(2)	(2)
Charge for the year	(480)	(50)	-	(18)	(468)	(1,016)
At end of year	11,590	2,107	7,289	39	1,678	22,703
As at 30 June 2017						
Cost of valuation	12,492	2,203	7,289	388	4,794	27,166
Accumulated depreciation	(902)	(96)	-	(349)	(3,116)	(4,463)
Net book amount	11,590	2,107	7,289	39	1,678	22,703
Year ended 30 June 2018						
Opening net amount	11,590	2,107	7,289	39	1,678	22,703
Additions	-	-	1,175	116	1,023	2,314
Revaluation	1,073	1,938	-	-	-	3,011
Capitalization of WIP	-	-	(237)	-	237	0
Disposals-NBV	-	-	-	(1)	(1)	(2)
Charge for the year	(389)	(54)	-	(44)	(386)	(873)
At end of year	12,274	3,991	8,227	110	2,551	27,153
As at 30 June 2018						
Cost	12,337	4,006	8,227	498	6,039	31,107
Accumulated depreciation	(63)	(15)	-	(388)	(3,488)	(3,954)
Net book amount	12,274	3,991	8,227	110	2,551	27,153

Land and buildings were revalued by external professional valuers in 2018 on an open market basis and the revaluation has been included in the revaluation reserve. 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 comparable 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.

The Bank is in possession of all titles deeds and occupies all the properties.

19 Intangible assets

	Software Shs' Million	Total Shs' Million
Year ended 30 June 2017		
Cost		
At start of year	1,721	1,721
Additions	24	24
Reclassification	(64)	(64)
At end of year.	1,681	1,681
Accumulated amortisation		
At start of year	1,514	1,514
Reclassification	(1)	(1)
Amortisation for the year	116	116
At end of year	1,629	1,629
Net carrying value	52	52
Year ended June 30 2018		
Cost		
At start of year	1,681	1,681
Additions	136	136
At end of year	1,817	1,817
Accumulated amortisation		
At start of year	1,629	1,629
Amortisation for the year	23	23
At end of year	1,652	1,652
Net carrying value	165	165

20 Due from Government of Kenya

	2018 Shs' million	2017 Shs' million
Overdraft	56,849	-
Government loan	23,339	24,449
	80,188	24,449

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 for the year ending 30 June 2018 is KSh. 57,579 million (2017: KSh. 52,102 million) based on the gross recurrent revenue for the year ended 30 June 2016, which are the latest audited financial statements at the date of approval of these financial statements. Interest is charged at the Central Bank Rate currently at 10%. The Bank converted the Government of Kenya overdraft facility that exceeded statutory limit in 1997 into a loan at 3% interest repayable by 2039 and is guaranteed by a deed executed by the Minister of Finance. Principal repayments of KSh.555 million plus interest accruing are paid half yearly. The movement in the balance in the current year includes the year repayment of principal of KSh. 1,110 million which was received by 30 June, 2018.

21 Currency in circulation

	2018 Shs' million	2017 Shs' million
Kenya bank notes	253,550	245,595
Kenya coins	8,889	8,192
	262,439	253,787
Movement in the account was as follows:		
At start of year	253,787	234,751
Deposits by commercial banks	(501,903)	(513,252)
Withdrawals by commercial banks	510,585	532,179
(Deposits)/withdrawals by CBK	(30)	109
At end of year	262,439	253,787

22 Deposits from banks and government

	2018 Shs' million	2017 Shs' million
Local commercial banks clearing accounts and cash ratio reserve	166,772	145,815
Local banks foreign exchange settlement accounts	21,753	28,526
External banks foreign exchange settlement accounts	134	179
Other public entities and project accounts	28,698	35,272
Government of Kenya	366,930	260,317
	584,287	470,109

23 Other liabilities

	2018 Shs' million	2017 Shs' million
Impersonal accounts	3,743	-
Sundry creditors-Including KSMS creditors	2,934	2,106
Refundable deposits	231	243
Leave accrual	156	156
Gratuity to staff members	55	54
	7,119	2,559

Impersonal accounts holds amounts due to ministries and departments of Government of Kenya.

24 (a) Share capital

	Authorised share capital Shs' million	Authorised share capital Shs' million
Balance at 1 July 2016, 30 June 2017 and 30 June 2018	5,000	5,000

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

24 (b) General reserve fund

The general reserve fund represents accumulated surpluses comprising surplus arising from normal operations of the Bank and unrealized gains on exchange rates fluctuations. The distribution of this amounts is subject to the Bank retaining at least 10% of annual surplus for the year or any other amount as the Board in consultation with the Minister may determine.

24 (c) Revaluation reserve

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

24 (d) Consolidated fund

The Consolidated Fund represents amounts proposed for distribution to the Government of Kenya from the General Reserve Fund.

25 Cash generated from operations

	2018 Shs' million	2017 Shs' million
Reconciliation of net surplus to cash flows from operations:		
(Deficit)/surplus for the year	(4,662)	17,562
Adjustments for:		
Depreciation (Note 18)	873	1,016
Amortisation (Note 19)	23	116
Gain on disposal of property and equipment (Note 7)	(6)	(1)
Net credit relating to the retirement benefit asset (Note 17)	(917)	(832)
Employer contributions on defined benefits scheme	(99)	(101)

Changes in working capital:		
Loans and advances	(10)	(9)
Other assets	7,264	(6,281)
Due from Government of Kenya	(55,739)	45,313
Currency in circulation	8,652	19,036
Deposits	114,178	(25,935)
Other liabilities	4,560	(2,221)
Investments by banks	-	(7,843)
Net cash generated from operations	74,117	39,820

26 **Cash and cash equivalents**

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

	2018 Shs' million	2017 Shs' million
Balances due from banking institutions (Note 10)	522,987	558,797
Financial assets - FVPL (Note 28 ii)	25,421	1,998
Securities discounted by banks and other advances (Note 14)	28,919	23,600
	577,327	584,395

27 **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 Kenya Deposit Insurance Corporation (formerly, the Deposit Protection Fund Board) which is established by law as a deposit insurance scheme to provide cover for depositors and act as a liquidator of failed member institution. It is managed by a Board including the Governor of the Central Bank of Kenya. The main transactions are ordinary banking facilities to government ministries included in Note 22 and lending to the Government of Kenya included in Note 20.

(i) Loans

The Bank extends loan facilities to the key management staff of the Central Bank. The advances are at preferential rates of interest determined by the Bank.

	2018 Shs' million	2017 Shs' million
Loans to key management staff		
At start of the year	44	52
Loans advanced during the year	53	16
Loan repayments	(22)	(24)
At end of the year	75	44
(ii) Directors' emoluments:		
Fees to non-executive directors	22	13
Directors travelling expenses	14	4
Other remuneration to executive director	33	34
	69	51
(iii) Remuneration to senior management	185	165
(iv) Post–employment pension to senior management	4	4
(v) Government of Kenya		
Due from Government of Kenya (Note 20)	80,188	24,449
Government of Kenya Deposits (Note 22)	366,930	260,317
Interest earned from Government of Kenya –Loan (Note 4)	725	759
Interest earned from Government of Kenya-Overdraft (Note 4)	2,494	1,270
Loans Principal repayment	1,110	1,110

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) Kenya Deposit Insurance Corporation (KDIC)

The Bank has a close working relationship with the KDIC, an entity incorporated under an Act of Parliament, and provides it with staff and office accommodation. Certain costs incurred on behalf of the KDIC are fully reimbursed to the Bank. The balance outstanding from the KDIC has been included in sundry debtors (note 16) as at year end was KSh. 26 million (2017: KSh. 20.5 million).

The deposits relating to KDIC has been included in deposits from banks and Government as at year end was KSh. 19 million (2017: KSh. 27 million). The staffs of the Corporation are contractually employees of Central Bank but seconded to the Corporation. Salaries of these staff are met by the Central Bank and fully reimbursed by the Corporation. In the year, salaries paid to the staff of Corporation by the Central Bank amounted to KSh. 270 million (2017: KSh. 308 million)

(vii) Kenya School of Monetary Studies (KSMS)

The Kenya School of Monetary Studies (the "School") primarily owned and managed by CBK has been consolidated in these financial statements. The permanent staff working at KSMS are employees of CBK. Fixed assets are also wholly owned by the Bank and a letter of support is issued annually to the external auditor of the School as part of the commitment of the Bank for going concern purposes. During the year under review, the school's physical developments projects were significantly completed.

	2018 Shs' million	2017 Shs' million
CBK-KSMS related activities		
Grants from CBK	474	506
Buildings	2,317	3,223
Land	4,250	4,000
Receivable from KSMS	58	58
Accumulated deficit	62	62

(viii) Central Bank of Kenya Pension Fund and Banki Kuu Pension Scheme 2012

The pension schemes (that is, the defined benefit and defined contribution schemes) are managed and administered by the Secretariat appointed by the sponsor.

28 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 Banking 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-debt government 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 rate 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 (F1), composite rating and capital adequacy.

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

The Bank assesses the credit quality of these assets. None of the balances have had their terms renegotiated as a result of non-performance. Management monitors the credit exposure of staff on a continuous basis, taking into account their financial position, past experience and other factors. Net write off/back of Shs.35 million (2016: Shs.24 million) have been recognised 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 2018 Shs' million	Individually impaired 2018 Shs' million	Neither past due nor impaired 2017 Shs' million	Individually impaired 2017 Shs' million
Balances due from banking Inst	522,987	-	735,548	-
Advances to banks	38,503	-	34,870	-
Investments securities – AFS	9	-	9	-
Funds held with (IMF)	2,012	-	1,877	-
Financial assets at FVPL	400,404	-	134,777	-
Due from Government of Kenya	80,188	-	24,449	-
Advances to employees	2,585	103	2,575	68
Due from banks under liquidation	-	3,400	-	3,400
Other assets	3,302	4,929	10,566	4,914
	1,049,990	8,432	944,671	8,382
Allowance for impairment				
- other assets (Note 16)	-	(4,929)	-	(4,914)
- loans and advances (Note 15)	-	(3,503)	-	(3,468)
	-	(8,432)	-	(8,382)
	1,049,990	-	944,671	-

There were no past due but not impaired balances as at 30 June 2018 - (2017: 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 with oversight from the Monetary Policy Committee. Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with commercial banks or the market. On-trading portfolios primarily arise from the interest rate management of the Bank's investment 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 re-pricing.

As at 30 June 2018	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	505,659	-	-	-	17,328	522,987
Securities & advances to banks	28,919	1,224	8,360	-	-	38,503
Financial assets at FVPL	25,421	100,066	274,846	-	71	400,404
Funds held with International Monetary Fund (IMF)	-	-	-	-	2,012	2,012
Investments securities – Available-for-sale	-	-	-	-	9	9
Loans and advances	151	454	1,569	411	-	2,585
Other assets	-	-	-	-	3,302	3,302
Due from Government of Kenya	-	57,959	4,440	17,789	-	80,188
Total financial assets	560,150	159,703	289,215	18,200	22,722	1,049,990
Liabilities						
Deposits from banks and government	-	-	-	-	584,287	584,287
Due to International Monetary Fund (IMF)	-	-	-	-	100,284	100,284
Other liabilities	-	-	-	-	7,119	7,119

Total financial liabilities	-	-	-	-	691,690	691,690
Interest sensitivity gap	560,150	159,703	289,215	18,200	(668,968)	358,300

As at 30 June 2018, increase of 10 basis points would have resulted in a decrease/increase in profit of Shs. 102,268 million (2017: Shs 91,096 million).

As at 30 June 2017	**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	489,877	224,491	-	-	21,180	735,548
Securities & advances to banks	23,600	1,912	9,358	-	-	34,870
Financial assets at FVPL	1,998	40,984	91,722	-	73	134,777
Funds held with International Monetary Fund (IMF)	-	-	-	-	1,877	1,877
Investments securities – Available-for-sale	-	-	-	-	9	9
Loans and advances	111	342	1,100	1,022	-	2,575
Other assets	-	-	-	-	10,566	10,566
Due from Government of Kenya	-	1,110	4,440	18,899	-	24,449
Total financial assets	515,586	268,839	106,620	19,921	33,705	944,671
Liabilities						
Deposits from banks and government	-	-	-	-	470,109	470,109
Due to International Monetary Fund (IMF)	-	-	-	-	115,125	115,125
Other liabilities	-	-	-	-	2,559	2,559
Total financial liabilities	-	-	-	-	587,793	587,793
Interest sensitivity gap	515,586	268,839	106,620	19,921	(554,088)	356,878

As at 30 June 2017, increase of 10 basis points would have resulted in a decrease/increase in profit of Shs 91,096 million (2016: 92,361 million).

Foreign 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 Monetary Policy Committee 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 2018. Included in the table are the Bank's financial instruments categorised by currency:

As at 30th June, 2018	**USD Shs' million**	**GBP Shs' million**	**EUR Shs' million**	**SDR Shs' million**	**Others Shs 'million**	**Total Shs' million**
Assets						
Balances due from banking institutions	299,812	66,175	5,228	-	151,772	522,987
Financial assets at fair value	400,404	-	-	-	-	400,404
Funds held with International Monetary Fund (IMF)	-	-	-	2,012	-	2,012
Total financial assets	700,216	66,175	5,228	2,012	151,772	925,403
Liabilities						
Due to International Monetary Fund (IMF)	-	-	-	100,284	-	100,284
Deposits from banks and government	16,422	2,654	2,573	-	238	21,887
Total financial liabilities	16,422	2,654	2,573	100,284	238	122,171
Net position	683,794	63,521	2,655	(98,272)	151,534	803,232

As at 30 June 2017	**USD Shs' million**	**GBP Shs' million**	**EUR Shs' million**	**SDR Shs' million**	**Others Shs 'million**	**Total Shs' million**
Assets						
Balances due from banking institutions – Local	501,045	82,272	3,186	-	149,045	735,548

Financial assets at fair value through profit or loss	134,704	-	-	-	73	134,777
Funds held with International Monetary Fund (IMF)	-	-	-	1,877	-	1,877
Total financial assets	635,749	82,272	3,186	1,877	149,118	872,202
Liabilities						
Due to International Monetary Fund (IMF)	-	-	-	115,125	-	115,125
Deposits from banks and government	23,489	2,020	3,017	-	147	28,673
Total financial liabilities	23,489	2,020	3,017	115,125	147	143,798
Net position	612,260	80,252	169	(113,248)	148,971	728,404

As at 30 June 2018, if the shilling had weakened/strengthened by 5% against the major currencies with all other variables held constant, the impact on the Bank's profit would have been:

- USD KSh. 34,193 million (2017: KSh. 31,072 million)
- Euro KSh. 133 million (2017: KSh. 8 million)
- British Pound KSh. 3,176 million (2017: KSh. 4,012 million)
- SDR KSh. 4,911million (2017: KSh. 5,662 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 KSh' million	**1 – 3 months KSh' million**	**3-12 months KSh' million**	**1 - 5 years KSh' million**	**Over 5 years KSh' million**	**Total KSh' million**
As at 30th June, 2018						
Currency in circulation	-	-	-	-	262,439	262,439
Deposits from banks and government	555,588	-	28,698	-	-	584,286
Due to International Monetary Fund (IMF)	-	-	-	-	100,284	100,284
Other liabilities	-	-	7,119	-	-	7,119
Total financial liabilities	555,588	-	35,817	-	362,723	954,128
As at 30th June, 2017						
Currency in circulation	-	-	-	-	253,787	253,787
Deposits from banks and government	434,837	-	35,272	-	-	470,109
Due to International Monetary Fund (IMF)	-	-	-	-	115,125	115,125
Other liabilities	-	-	2,559	-	-	2,559
Repo sold to Banks	-	-	-	-	-	-
Total financial liabilities	434,837	-	37,831	-	368,912	841,580

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 2018:				
Financial assets at fair value	400,333	71	-	400,404
Investment securities – Available-for-sale	-	-	9	9
Total assets	400,333	71	9	400,413
As at 30 June 2017:				
Financial assets at fair value	134,704	73	-	134,777
Investment securities – Available-for-sale	-	-	9	9
Total assets	134,704	73	9	134,786

There were no changes in level 3 instrument as disclosed in Note 12 of the financial statements.

29 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 2018, the Bank had capital commitments of Shs.10,507 (2017: Shs10,684 million) in respect of property and equipment purchases.

Operating lease commitments – Bank as lessee

	2018 Shs' million	2017 Shs' million
Not later than 1 year	188	164
Later than 1 year and not later than 5 years	95	483
	283	647

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