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REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF
CENTRAL BANK OF KENYA

FOR THE YEAR ENDED
30 JUNE 2015

Paper laid
By Hon. K.O. Mutebo
(Majority party whip)
on Wed. 18.11.15 (pm)
KMM



CENTRAL BANK OF KENYA

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2015

KENYA NATIONAL AUDIT OFFICE
P. O. Box 30984 - 00100, NAIROBI.

28 SEP 2015

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Board of Directors

Mr. Mohammed Nyaoga	Chairman - Appointed on 19 th June 2015
Dr. Patrick Njoroge	Governor - Appointed on 19 th June 2015
Dr. Kamau Thugge	Principal Secretary, the National Treasury
Dr. Mbui Wagacha	Interim Chairperson - Retired on 4 th March 2015
Prof. Njuguna Ndung'u	Governor - Retired on 4 th March 2015
Prof. William Ogara	Retired on 13 th March 2015
Ms. Vivienne Apopo	Retired on 13 th March 2015
Dr. Florence Muindi	Retired on 31 st May 2015
Mr. John Msafari	Retired on 31 st May 2015

Senior Management

Dr. Patrick Njoroge	Governor - Appointed on 19 th June 2015
Dr. Haron Sirima	Deputy Governor
Ms. Sheila M'Mbijjewe	Deputy Governor - Appointed on 19 th June 2015
Mr. Kennedy Abuga	Director - Governors' Office and Board Secretary
Ms. Rose Detho	Director - Strategic Management Department
Mr. William Nyagaka	Director - Internal Audit Department
Mr. Charles Koori	Director - Research Department
Mr. Peter Rotich	Director - Finance and ICT Department
Mr. Mark Lesiit	Director - Banking, National Payments and Risk Management Department
Prof. Kinandu Muragu	Executive Director - Kenya School of Monetary Studies
Mr. Gerald Nyaoma	Director - Bank Supervision Department - Appointed on 12 th August 2015
Mr. Paul Wanyagi	Acting Director - Currency Operations and Branch Administration Department
Eng. Erastus Miriti	Acting Director - Department of Procurement, Logistics and Supplies- Appointed on 3 rd February 2015
Mr. John Birech	Acting Director - Financial Markets Department - Appointed on 12 th August 2015
Ms. Teresia Ng'ang'a	Acting Director - Human Resource and Administration Department - Appointed on 21 st September 2015
Prof. Njuguna Ndung'u	Governor - Retired on 4 th March 2015
Mr. Cassian Nyanjwa	Director - Department of Procurement, Logistics and Supplies - Retired on 31 st December 2014
Mr. Fredrick Pere	Director - Bank Supervision Department - Deceased on 23 rd July 2015
Mr. Gerald Nyaoma	Director - Financial Markets Department - up to 12 th August 2015
Ms. Mary Waceke	Director - Human Resource and Administration Department - up to 21 st September 2015

Registered office and principal place of business

Central Bank of Kenya Building
Haile Selassie Avenue
P.O. Box 60000
00200 Nairobi, Kenya
Tel. (+254) (02) 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

Central Bank of Kenya 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

The Auditor General
Kenya National Audit Office
Anniversary Towers
P.O. Box 30084
00100 Nairobi

Delegated/Authorised Auditor:

PricewaterhouseCoopers

Certified Public Accountants
PwC Tower, Waiyaki Way / Chiromo Road, Westlands
P.O. Box 43963
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 business 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, the Principal Secretary to the National Treasury who is a non-voting member and five Non-Executive Directors. Previously, all the Board members were appointed directly by the President of the Republic of Kenya, (the "President") without an intermediate vetting process. With effect from 2 May 2012, however, the Act was amended and now requires that the President appoints the Governor after the conduct of a competitive process and following the approval of Parliament. The proposed procedure for appointing the Chairperson, although not yet enacted, is intended to be similar to the appointment procedure applicable to the Governor. Other than the Principal Secretary to the National Treasury who is an ex-officio member, all the Non-Executive Directors of the Board are appointed by the President with the approval of Parliament. All the Board members are appointed for terms of four years each and are eligible for reappointment provided that no Board Member holds office for more than two terms.

The Chairman of the Board of Directors, Mr Mohammed Nyaoga, was appointed on 19th June 2015 through a competitive recruitment process. The independent Non-Executive Board members are yet to be appointed to replace the retired members. All the Non-Executive Directors are independent of management and free from any business or other relationship, which could interfere with the exercise of their independent judgement.

The Board meets once every two months and has a formal schedule of agenda items due for deliberations. The Directors are given appropriate and timely information to 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 the Act. It however, retains responsibility for determining the policies of the Bank.

The Members of the Board (all Kenyans) in the year ended 30 June 2015 and their attendance of the 6 meetings held in the year were as follows:

No	Name	Position	Discipline	Date of appointment / Retirement	Meetings attended
1	Mr. Mohammed Nyaoga	Chairman	Lawyer	Appointed – 19 th June 2015	-
2	Dr. Patrick Njoroge	Governor	Economist	Appointed – 19 th June 2015	-
3	Principal Secretary/ National Treasury	Executive Officer	Economist	Permanent (Ex-Officio)	5
4	Dr. Mbui Wagacha	Interim Chairperson	Economist	Retired – 4 th March 2015	6
5	Prof. Njuguna Ndungu	Governor	Economist	Retired – 4 th March 2015	6
6	Prof. William Ogara	Member	Professional Accountant	Retired – 4 th March 2015	6
7	Mr. John Msafari	Member	Business Management	Retired – 31 st May 2015	6
8	Ms. Vivienne Apopo	Member	Lawyer and Banker	Retired – 4 th March 2015	4
9	Dr. Florence Muindi	Member	Human Resource	Retired – 31 st May 2015	6

The remuneration paid to the Directors for services rendered during the financial year 2014/2015 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. Statement of Corporate Governance (continued)

1.2. Secretary to the Board

The Board Secretary provides technical, secretarial and logistical support to the Board and facilitates efficient interface between policy making and policy implementation. The Board Secretary also advises the Board on corporate governance and 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 30 June 2015 were Dr William Otiende Ogara (Chairman), Mr John Gerin Msafari, Ms Florence Muindi and Ms Vivienne Yeda Apopo. The members are all Non-Executive Directors having experience in Accounting, Auditing, Economics, Banking, Financial and Business Management, Human Resource Management and Legal matters. The Committee met once every two months and as necessary. The Terms of Reference of the Audit Committee cover five major areas, namely, Internal Control, Financial Reporting, Risk Management, Internal Audit and External Audit.

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

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

With regard to External Audit, the Audit Committee reviews the appointed external auditor's proposed audit scope, approach and audit deliverables; and reviews draft financial statements before submission to the Auditor General. In the absence of the Audit Committee, the review and approval of the 2014/15 financial statements was carried out by the Chairman and the Governor.

The Committee's mandate on Internal Audit covers review of the activities and resources of the Internal Audit function including the effectiveness, standing and independence of Internal Audit function within the Bank. It also covers review of the Internal Audit plan; and follow up of implementation of Internal Auditors' findings and recommendations. The Audit Committee reports to the Board of Directors on the standing and independence of the Internal Audit function within the Bank; the review of the Internal Audit plan; and follow up of implementation of Internal Auditors' findings and recommendations. The Audit Committee also reports to the Board of Directors on audit scope, approach and deliverables.

The Members of the Audit Committee in the year ended 30 June 2015, and their attendance of the 10 meetings held in the year were as follows:

No	Name	Position	Discipline	Meetings attended
1	Prof. William Ogara	Chairman up to 13 th March 2015	Professional Accountant	10
2	Mr. John Msafari	Member up to 31 st May 2015	Business Management	10
3	Dr. Florence Muindi	Member up to 31 st May 2015	Human Resource	10
4	Ms. Vivienne Apopo	Member up to 13 th March 2015	Lawyer and Banker	6

1. Statement of Corporate Governance (continued)

1.4. Monetary Policy Committee (MPC)

Section 4D of the Central Bank 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 in two months. Members of the MPC are appointed by the Cabinet Secretary to the National Treasury for an initial period of three years each and may be reappointed for another final term of three years.

During the fiscal year 2014/15, the MPC formulated and adopted monetary policy measures that contributed to overall inflation remaining within the target range, except in July and August 2014 when food and fuel prices exerted significant upward pressure. In addition, the monetary policy operations coupled with regulatory measures in the foreign exchange market dampened the volatility in Kenya Shilling exchange rate against the U.S. dollar attributed mainly to the global strengthening of the U.S. dollar as most currencies were volatile against the U.S. dollar during the period. Regular meetings between the MPC and stakeholders in the banking sector in the period provided a forum for moral suasion and feedback. The forums have improved the understanding of monetary policy decisions and enhanced the transmission mechanism of monetary policy.

The Members of the MPC in the year ended 30 June 2015 (all Kenyan) and their attendance of the 7 meetings held in the year were as follows:

No	Name	Position	Discipline	Meetings attended
1	Dr. Patrick Njoroge	Chairman	Economist	-
2	Prof. Njuguna Ndung'u	Chairman	Economist	5
3	Dr. Haron Sirima	Vice Chairman	Economist	7
4	Principal Secretary/ National Treasury	Member	Economist	7
5	Prof. Francis Mwegu	Member	Economist	7
6	Ms. Sheila Mbijjewe	Member	Finance	-
7	Mrs. Farida Abdul	Member	Economist	7
8	Mr. Charles Koori	Internal - Member	Economist	6
9	Mr. John Birech	Internal - Member	Economist	7

1.5. Human Resources Committee of the Board (HRCB)

The HRCB performs an advisory role to the Board in fulfilment of the Board's Human Resource (HR) oversight responsibility. Consequently meets once every two months and when need arises to review HR policies and make suitable recommendations to the Board. The HRCB also performs any other HR related function assigned by the Board. During financial year 2014/15, the HRCB recommended to the Board, policies on Occupation Health and Safety; Disability mainstreaming; Gender Mainstreaming; Alcohol and Drug Abuse; HIV & AIDS; Sexual Harassment and the Organizational Development Review framework.

The Members of the Human Resources Committee in the year ended 30 June 2015 and their attendance of the 4 meetings held in the year were as follows:

No	Name	Position	Discipline	Meetings attended
1	Dr. Florence Muindi	Chairperson	Human Resource	4
2	Prof. William Ogara	Member	Professional Accountant	4
3	Mr. John Msafari	Member	Business Management	3
4	Ms. Vivienne Apopo	Member	Lawyer and Banker	2

1. Statement of Corporate Governance (continued)

1.6. Financial Stability and Investment Committee

This committee meets regularly and as and when need arises to review financial stability issues and foreign reserves management and investments policies and make suitable recommendations to the Board.

Members of this committee who served during the year are as follows:

No	Name	Position	Discipline	Meetings attended
1	Ms Vivienne Apopo	Chairperson	Lawyer and Banker	3
2	Prof William Ogara	Member	Professional Accountant	4
3	Dr Mbui Wagacha	Member	Economist	4

1.7 Management Structure

The positions of Governor and Deputy Governors are set out in the CBK Act Cap 491 of the Laws of Kenya. The Governor and the Deputy Governors make up the Central Bank's Senior Management and meet regularly with the heads of the Bank's various departments as 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 to discharge his responsibilities efficiently as the Chief Executive Officer of the Bank.

1.8 Code of Ethics

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

1.9 Internal Controls

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

1.10 Authorizations

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

1.11 Internal Audit and Risk Management

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

1. Statement of Corporate Governance (continued)

1.12 Transparency

The Bank publishes an Annual Report, Monthly Economic Review, Weekly Releases, Statistical Bulletin and Bi-annual Monetary Policy Statement which explain current monetary policy and also provide the expected monetary policy stance. 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 are published in the Kenya Gazette and are also placed in the Bank's website.

2. Financial Performance

The Bank's financial performance is affected by monetary policy undertaken, money supply, interest rates and exchange rate. The Bank's financial performance is presented on page 12 of these financial statements.

During the financial year ended 30 June 2015, the Bank's net interest income after impairment charge was Shs 4,245 million (2014: Shs 4,757 million) subject to the loan impairment adjustment. This is due to reduction of monetary policy expenses attributed to the stance taken by the Monetary Policy Committee together with low interest rates on foreign currency denominated deposits.

The Bank's unrealized foreign exchange gains went up significantly to a record level of Shs 40,740 million (2014: Shs 14,820 million) due to increased levels of foreign exchange reserves coupled with weak shilling in the year under review. The weakening of the shilling is attributed to external shocks and the strengthening of the U.S. Dollar against the other hard currencies.

Trading income mainly generated from sale of foreign currency increased to Shs 8,198 million (2014: Shs 2,125 million) due to movements in major foreign currency sales to the market to stabilize the weakening shilling and major government repayments during the year.

Administrative expenses reduced significantly to Shs 8,762 million (2014: Shs 11,436 million) as a result of change in accounting policy for coin minting costs. The new policy requires recognition of the cost of new coins not yet issued as inventory under "other assets". Previously, coins minting costs were charged to profit or loss on delivery to the Bank. See notes 2(b) and 2(u). Currency costs are expected to significantly increase when the Bank issues new generation currency to comply with constitutional requirements. Staff expenses were Shs 3,059 million (2014: Shs 3,899 million).

The Bank adopted IAS19 revised in the previous financial year and actuarial gains were recognized in its books. However, the Cabinet Secretary of the National Treasury through Gazette notice no.111 of 11 June 2015 amended the treatment of any surplus to be shared on 50:50 basis between the sponsor and the members. This change led to a reduction in the retirement benefit asset by Shs 2,991 million to Shs 4,668 million (2014: Shs 7,659 million).

The outcome of the Bank's operations was a net surplus of Shs 49,725 million (2014: Shs 13,073 million) that has been added to the general reserve fund.

The financial position for the year is set out on page 13. The Bank's assets decreased to Shs 805,369 million (2014: Shs 856,120 million) attributed mainly to utilization of the U.S. Dollar 2 billion Eurobond proceeds by the Government of Kenya partially offset by the impact of the weakening shilling on foreign currency deposits held by the Bank.

Liabilities also decreased to Shs 683,736 million (2014: Shs 784,212 million) attributed to lower liquidity as evidenced by lower deposits from banks and government at Shs 331,316 million (2014: Shs 448,800 million) and moderated by higher currency in circulation at Shs 222,178 million (2014: Shs 199,966 million). The decline in liabilities was further moderated by favorable exchange rates gains recorded in the year under review compared to the previous year. The Bank relaxed excess liquidity mop-up monetary policy measures resulting in nil investments by banks for the second year running.

The Directors submit their report together with the audited financial statements for the year ended 30 June 2015, which shows the state of affairs of Central Bank of Kenya (the "Bank"/"CBK").

Incorporation

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

Principal activities

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

Results and dividend

The surplus for the year of Shs 48,131 million (2014: Shs 14,245 million) has been added to the general reserve fund. The directors do not recommend the payment of a dividend (2014: Nil).

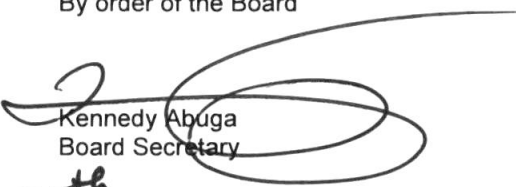
Board of Directors

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

25th September 2015

Central Bank of Kenya
Statement of directors' responsibilities
For the year ended 30 June 2015

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

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

- (i) Designing, implementing and maintaining internal control necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
- (ii) Selecting and applying appropriate accounting policies; and
- (iii) Making accounting estimates and judgments that are reasonable in the circumstances.

The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial position of the Bank at 30 June 2015 and of the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Central Bank of Kenya Act.

Nothing has come to the attention of the Directors to indicate that the Bank and its subsidiary will not remain a going concern for at least twelve months from the date of this statement.

Signed on behalf of the Board of Directors by:


Chairman of the Board


Governor, Central Bank of Kenya

25th September 2015



OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON CENTRAL BANK OF KENYA FOR THE YEAR ENDED 30 JUNE 2015

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Central Bank of Kenya set out on pages 12 to 56 which comprise the statement of financial position as at 30 June 2015, 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 PricewaterhouseCoopers, auditors appointed under Section 39 of the Public Audit Act, 2003 and in accordance with the provisions of Article 229 of the Constitution of Kenya. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Management's Responsibility for the Financial Statements

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

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

Auditor-General's Responsibility

My responsibility is to express an independent opinion on the financial statements based on the audit and report in accordance with the provisions of Section 15(2) and (3) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

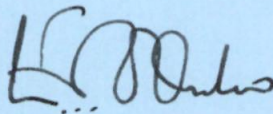
An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial

statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 30 June 2015, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Central Bank Act, Cap 491 of the Laws of Kenya.



Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

29 September 2015

Consolidated statement of comprehensive income

	Notes	Year ended 30 June	
		2015	2014 Restated
		Shs' million	Shs' million
Interest income	4	6,230	5,828
Interest expense	5	(1,977)	(1,069)
Net interest income		4,253	4,759
Increase in loan impairment	15	(8)	(2)
		4,245	4,757
Fees and commission income	2 (r)	3,000	3,000
Net trading income	6	8,198	2,125
Other income	7	686	803
Operating income		16,129	10,685
Operating expenses	8	(8,762)	(11,436)
Operating surplus/(deficit) before unrealised gains		7,367	(751)
Unrealized gains:			
Foreign exchange gain	2(d)	40,740	14,820
Fair value gain on financial assets held for trading		24	176
Surplus for the year		48,131	14,245
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss:</i>			
Actuarial loss on retirement benefit asset	17	(4,343)	(1,126)
Land and buildings revaluation gain / (adjustment)	18	5,937	(46)
Total comprehensive income for the year		49,725	13,073

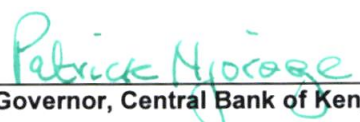
The notes on pages 17 to 56 are an integral part of these financial statements.

Consolidated statement of financial position

		At 30 June 2015	At 30 June 2014 Restated	At 30 June 2013 Restated
	Notes	Shs' million	Shs' million	Shs' million
Assets				
Balances due from banking institutions	10	591,962	681,397	450,693
Advances to banks	14	75	50	351
Funds held with International Monetary Fund (IMF)	13 (a)	4,385	692	2,694
Loans and advances	15	2,333	2,654	2,645
Financial assets at fair value through profit or loss	11	113,006	78,190	77,929
Investments securities – Available-for-sale	12	9	6	6
Other assets	16	4,531	4,882	4,894
Property and equipment	18	20,743	13,813	12,052
Intangible assets	19	494	639	973
Retirement benefit asset	17	4,668	7,659	8,108
Due from Government of Kenya	20	63,163	66,138	35,960
Total assets		805,369	856,120	596,305
Liabilities				
Currency in circulation	21	222,178	199,966	183,047
Deposits from banks and government	22	331,316	448,800	191,671
Due to International Monetary Fund (IMF)	13 (b)	125,775	130,064	118,568
Investments by banks		-	-	41,589
Other liabilities	23	4,467	5,382	2,595
Total liabilities		683,736	784,212	537,470
Equity and reserves				
Share capital	24 (a)	5,000	5,000	5,000
General reserve fund	24 (b)	101,843	58,055	44,936
Revaluation reserve	24 (c)	14,790	8,853	8,899
Total equity		121,633	71,908	58,835
Total equity and liabilities		805,369	856,120	596,305

The financial statements on pages 12 to 56 were authorised for issue by the Board of Directors on ___ September 2015 and signed on its behalf by:


Chairman of the Board


Governor, Central Bank of Kenya

Consolidated statement of changes in equity

	Notes	Share Capital Shs' million	General Reserve Fund Shs' million	Revalua tion reserve Shs' million	Total Shs' million
Year ended 30 June 2014					
Balance at 1 July 2013 as previously reported		5,000	44,161	8,899	58,060
Restatement on change in accounting policy for coin minting costs	16	-	775	-	775
As restated on 1 July 2013		5,000	44,936	8,899	58,835
Surplus for the year		-	14,245	-	14,245
Actuarial losses in retirement benefit asset	17	-	(1,126)	-	(1,126)
Adjustment to revaluation reserve		-	-	(46)	(46)
Total comprehensive income for the year		-	13,119	(46)	13,073
Restated balance at 30 June 2014		5,000	58,055	8,853	71,908

Note:

- *The revaluation reserve relates to unrealized gains on valuation of land and buildings that will not be recycled into profit or loss*
- *The share capital and proposed dividend reserve have been described in note 2 (n) and 2 (o) respectively*

The notes on pages 17 to 56 are an integral part of these financial statements.

Consolidated statement of changes in equity (continued)

	Notes	Share Capital Shs' million	General Reserve Fund Shs' million	Revalua tion reserve Shs' million	Total Shs' million
Year ended 30 June 2015					
Balance at 1 July 2014 as previously reported		5,000	56,539	8,853	70,392
Restatement on change in accounting policy for coin minting costs	16	-	1,516	-	1,516
As restated on 1 July 2014		5,000	58,055	8,853	71,908
Surplus for the year		-	48,131	-	48,131
Land and buildings revaluation gain	18	-	-	5,937	5,937
Actuarial losses in retirement benefit asset	17	-	(4,343)	-	(4,343)
Total comprehensive income for the year		-	43,788	5,937	49,725
Balance at 30 June 2015		5,000	101,843	14,790	121,633

Note:

- *The revaluation reserve relates to unrealized gains on valuation of land and buildings that will not be recycled into profit or loss*
- *The share capital and proposed dividend reserve have been described in note 2 (n) and 2 (o) respectively*

The notes on pages 17 to 56 are an integral part of these financial statements.

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

Ref: CBK/4/16/2014/2015(13)

7 October 2015

Justin N. Bundi,
Clerk of the National Assembly,
Parliament Buildings,
P.O. Box 41842-00100,
NAIROBI.

Dear Mr. Bundi,

REPORT OF THE AUDITOR-GENERAL ON THE FINANCIAL STATEMENTS OF CENTRAL BANK OF KENYA FOR THE YEAR ENDED 30 JUNE 2015

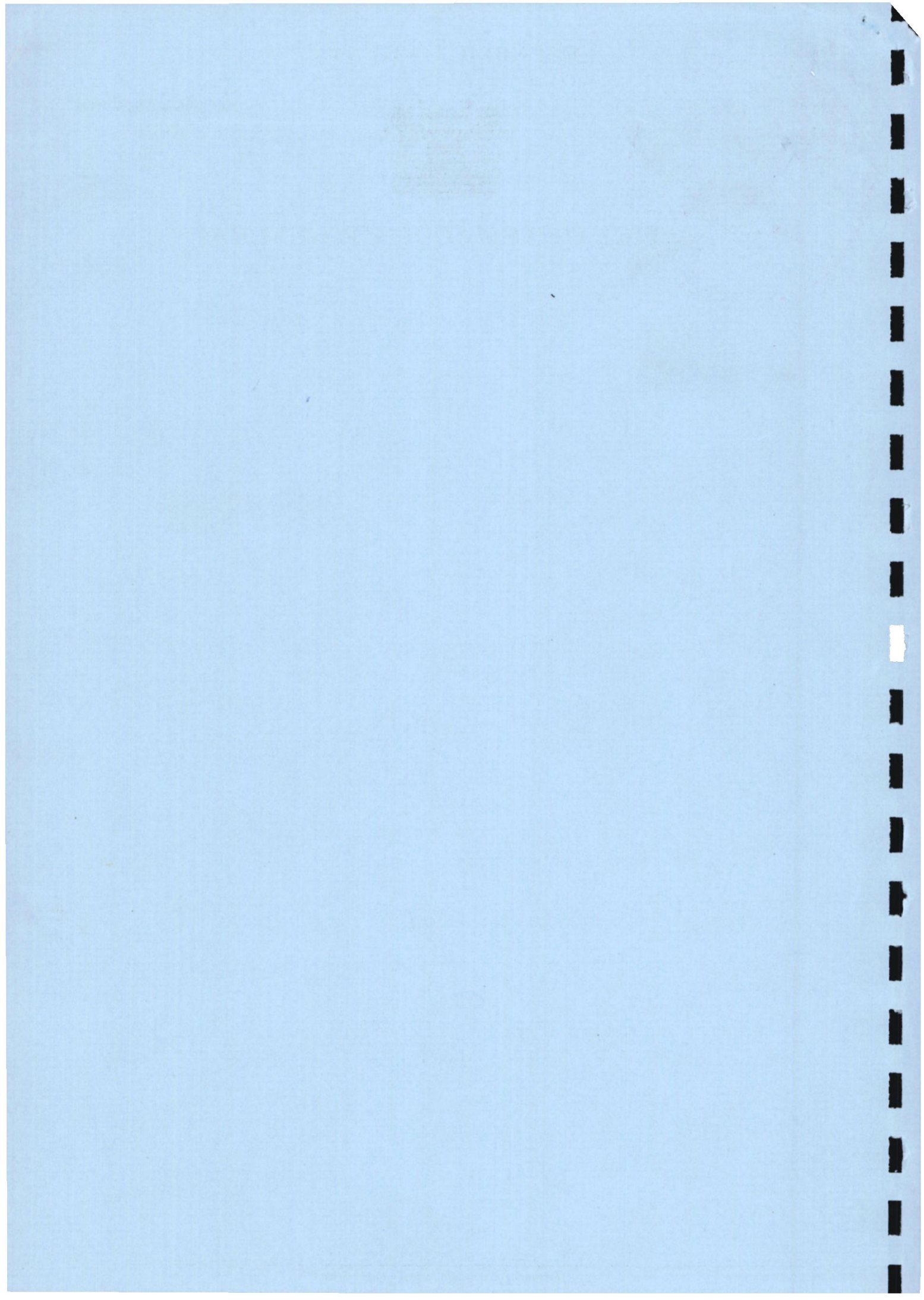
I transmit the report off the Auditor-General on the examination and audit of the financial statements of Central Bank of Kenya for the year ended 30 June 2015 in accordance with the provisions of Article 229(7) of the Constitution of Kenya for necessary action as required by Article 229(8) of the Constitution.

Yours Sincerely,

Edward R. O. Ouko, CBS
AUDITOR-GENERAL



Copy to: The Principal Secretary,
National Treasury,
P.O. Box 30007- 00100,
NAIROBI. (This is only for notification)



Consolidated statement of cash flows

	Notes	Year ended 30 June	
		2015 Shs' million	2014 Shs' million
Net cash (used in)/generated from operating activities	25	(44,802)	219,937
Cash flows from investing activities			
Purchase of property and equipment	18	(1,726)	(2,792)
Purchase of intangible assets	19	(98)	(9)
Proceeds from disposal of property and equipment		17	30
Net (purchase) / sale of financial assets			
- Fair value through profit or loss		(38,352)	12,126
- Held to maturity		(361,154)	(2,251)
- Available-for-sale		(3)	-
- Funds held with International Monetary Fund (IMF)		(3,693)	2,002
Net cash (used in)/from investing activities		(405,009)	9,106
Cash flows from financing activities			
(Repayments to) / proceeds from the International Monetary Fund (IMF)		(4,289)	11,496
Net cash (used in) / generated from financing activities		(4,289)	11,496
(Decrease)/increase in cash and cash equivalents		(454,100)	240,539
Cash and cash equivalents at start of year		648,965	408,426
Cash and cash equivalents at end of year	26	194,865	648,965

The notes on pages 17 to 56 are an integral part of these financial statements.

Notes

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). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (Shs), rounded to the nearest million.

Changes in accounting policy and disclosures

New standards, amendments and interpretations adopted by the Bank

The following are the significant amendments to existing standards that have been adopted by the Bank for the first time for the financial year beginning on or after 1 July 2014:

IAS 32(Amendment), 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the Bank financial statements.

Amendments to IAS 19 titled 'Defined benefit plans: employee contributions': the amendments, applicable retrospectively to annual periods beginning on or after 1 July 2014, clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In particular, contributions that are independent of the number of years of service can be recognised as a reduction in the service cost in the period in which the related service is rendered (instead of attributing them to the periods of service). The amendment did not have a significant effect on the Bank financial statements.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 July 2014 are not material to the Bank.

New and revised standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2014, and have not been applied in preparing these financial statements.

None of these is expected to have a significant effect on the consolidated financial statements of the Bank, except the following:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued on July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

Changes in accounting policy and disclosures (continued)

New and revised standards and interpretations not yet adopted (continued)

IFRS 9 retains but simplifies the mixed measurements model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (FVTOCI) and fair value through profit or loss (FVTPL). The basis of classification depends on the entity's model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to changes in fair value in OCI not recycling.

There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to the classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Bank is yet to assess the full impact of IFRS 9 on the consolidated financial statements.

IFRS 15, 'Revenue from contracts with customers', deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The new standard is effective for annual periods beginning on or after 1 January 2018, and replaces IAS 11 and IAS 18. The Bank is currently assessing the impact of IFRS 15 on the consolidated financial statements.

(b) 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.

The accounting policy for coin minting costs was changed in the year. Previously, coin minting costs were charged to profit or loss on delivery of the coins to the Bank. Coin minting costs are now charged to profit or loss when issued to the public. The cost of new currency coins not yet issued is now recognised as inventory within 'other assets' consistent with the accounting for the cost of unissued bank note stocks.

Notes (continued)

2 Summary of significant accounting policies (continued)

(c) Consolidation

Kenya School of Monetary Studies is a subsidiary of 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.

(d) Functional currency and translation of foreign currencies

i. Functional and presentation currency

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

ii. Transactions and balances

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

The Bank's exposure to foreign currency exchange rate risk is presented in note 28 (ii).

Notes (continued)

2 Summary of significant accounting policies (continued)

(e) 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'.

(f) 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(f) Financial assets and liabilities (continued)

i. Financial assets (continued)

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 generally below the prevailing market interest rates. Loans issued at non market rates are initially be measured at fair value (by discounting the related cash flows using market rates of interest) and subsequently carried at amortised cost. The difference between the fair value of the loans and the carrying amount at inception is treated as a long term employee benefit and is accounted for as a deferred cost. The resulting loan adjustment account is released to interest income over the loan period in line with the unwinding of the discount, while the deferred cost is expensed to staff costs as the services are rendered to the Bank over the period of the loan.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Available-for-sale financial assets are measured at fair value. Gains or losses arising from fair value 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 policies in accordance with the Kenyan Banking Act and are interest free.

Notes (continued)

2 Summary of significant accounting policies (continued)

(f) Financial assets and liabilities (continued)

iii. Determination of fair value

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

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

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

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

iv. De-recognition

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(f) Financial assets and liabilities (continued)

v. Classes of financial instruments

Category (as defined by IAS 39)		Class (as determined by the Bank)		2015	2014
				Shs' million	Shs' million
Financial assets	Financial assets at fair value through profit or loss	Held for trading	World Bank Reserve Asset Management Programme (RAMP) financial assets	28,822	25,989
			Fixed income securities	84,118	52,136
		Designated at initial recognition	Gold holdings	66	65
	Loans and receivables	Advances to banks		75	50
		Funds with IMF		4,385	692
		Net advances to staff and banks under liquidation		2,333	2,654
		Due from Government	Government loan	26,669	28,900
			Overdraft facility to Government	36,494	37,238
		Balances due from banking institutions	Foreign denominated term deposits	523,189	417,199
	Available-for-sale	Investment securities	SWIFT shares	9	6
Financial liabilities	Financial liabilities at amortised cost	Deposits from banks	Cash reserve ratio and current account deposits	193,661	137,289
		Due to IMF		125,775	130,064
		Deposits from Government institutions		136,780	311,511

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 assets'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.

Notes (continued)

(f) Financial assets and liabilities (continued)

vi. Impairment of financial assets (continued)

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.

(g) 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.

(h) Property and equipment

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

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other repair and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Freehold land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(i) Intangible assets

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

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

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

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

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

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

(j) 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.

(k) 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(k) Employee benefits (continued)

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 yield on government securities that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past service costs are recognised immediately in income.

The Bank's post-employment amounts and activity are disclosed in Note 17.

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.

(l) 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(m) 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.

(n) Dividend payable

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

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

(o) Share capital

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

(p) 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.

(q) 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(r) 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 Shs 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.

(s) 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.

(t) Currency in circulation

Notes and coins in circulation are measured at face value of the issued currency. This represents the nominal value of all bank notes and coins held by the public and commercial banks.

(u) Inventories

The Bank's inventory is comprised of new currency not 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.

(v) 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.

Notes (continued)

2 Summary of significant accounting policies (continued)

(w) 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.

(x) 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.

Notes (continued)

4 Interest income	2015	2014
	Shs' million	Shs' million
Financial assets - held to maturity	1,878	1,353
Loans and advances	3,860	4,116
Financial assets at fair value through profit or loss	492	359
	<u>6,230</u>	<u>5,828</u>
Interest income from loans and advances comprises:		
Due from Government of Kenya - loan	825	858
Due from Government of Kenya - overdraft	2,240	2,263
Staff loans and advances	260	255
Advances to banks	204	506
Local commercial banks overnight loans	65	71
Other interest income	266	163
	<u>3,860</u>	<u>4,116</u>
5 Interest expense		
Interest on monetary policy issues – investments by banks	1,894	1,029
Interest paid to IMF	83	40
	<u>1,977</u>	<u>1,069</u>
6 Net trading income		
Net gain on sale of foreign exchange currencies	8,169	2,182
Net gain/(loss) on held for trading financial assets	29	(57)
	<u>8,198</u>	<u>2,125</u>
7 Other income		
Licence fees from commercial banks and foreign exchange bureaux	248	220
Penalties from commercial banks and foreign exchange bureaux	16	21
Rent income from Thomas De La Rue Kenya Limited	2	2
Kenya School of Monetary Studies operating income - hospitality services and tuition fee	372	467
Gain on disposal of property and equipment	17	30
Miscellaneous income	31	63
	<u>686</u>	<u>803</u>

Notes (continued)

8 Operating expenses	2015	2014	2013
	Shs' million	Restated Shs' million	Restated Shs' million
Employee benefits (Note 9)	3,059	3,899	3,645
Currency production expenses	1,965	3,924	1,621
Property maintenance and utility expenses	1,203	1,129	903
Depreciation (Note 18)	733	985	823
Amortisation (Note 19)	243	343	345
Provision for impairment loss on other assets (Note 16)	-	21	153
Auditor's remuneration	6	6	6
Loss on financial assets at fair value through profit or loss	-	-	16
Transport and travelling	189	189	178
Office expenses	195	195	190
Postal service expense	126	112	136
Legal and professional fees	83	42	112
Other administrative expenses	960	591	501
	<u>8,762</u>	<u>11,436</u>	<u>8,629</u>

Currency production expenses for 2014 and 2013 have been restated as a result of the change in the accounting policy for coin minting costs as follows (see also note 16):

	2014	2013
	Shs' million	Shs' million
As previously reported	4,665	2,396
Restatement on change in accounting policy for coin minting costs	(741)	(775)
	<u>3,924</u>	<u>1,621</u>

9 Employee benefits	2015	2014
	Shs' million	Shs' million
Wages and salaries	3,614	3,834
Medical expenses	200	195
Other staff costs	424	391
Directors' emoluments (Note 27)	62	45
Net credit relating to the retirement benefit asset (Note 17)	(1,241)	(565)
	<u>3,059</u>	<u>3,899</u>

Notes (continued)

10 Balances due from banking institutions	2015	2014
	Shs' million	Shs' million
Current accounts	31,118	50,343
Foreign denominated term deposits	125,542	380,956
Accrued interest on term deposits	475	225
Special project accounts	25,778	199,586
Domestic foreign currency cheque clearing	11,704	14,088
Repos clearing and regional central banks	173	181
	<hr/>	<hr/>
Cash in cash and cash equivalents (note 26)	194,790	645,379
Foreign denominated term deposits	397,172	36,016
Accrued interest on term deposits	-	2
	<hr/>	<hr/>
	591,962	681,397
	<hr/>	<hr/>

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 drawdown of the proceeds of the U.S. Dollar 2 billion Euro bond by the Government of Kenya.

11 Financial assets at fair value through profit or loss	2015	2014
	Shs' million	Shs' million
a. Designated at initial recognition		
Gold holdings	66	65
	<hr/>	<hr/>
Movements in gold holdings are due to mark to market movements.		
b. Held for trading		
Fixed income securities	84,118	52,136
Fixed income securities under World Bank RAMP	28,822	25,989
	<hr/>	<hr/>
	112,940	78,125
	<hr/>	<hr/>
	113,006	78,190
	<hr/>	<hr/>

Notes (continued)

12 Investments securities – Available-for-sale	2015 Shs' million	2014 Shs' million
Unlisted equity securities	9	6
At start of year	6	-
Additions	3	6
At end of year	9	6

“Unlisted equity securities” relate to the Bank’s investment in shares of the Society for Worldwide Interbank Financial Telecommunication (SWIFT) which is a member owned co-operative with its headquarters in Belgium. The Bank held 24 (2014: 16) SWIFT shares at 30 June 2015.

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

	2015 SDR million	2015 Shs' million	2014 SDR million	2014 Shs' million
(a) Assets				
IMF balances (SDR asset account)	32	4,385	5	692
(b) Liabilities				
International Monetary Fund Account No. 1	19	2,631	19	2,661
International Monetary Fund Account No. 2	-	2	-	2
International Monetary Fund – PRGF Account	631	87,236	683	92,308
IMF - SDR Allocation account	260	35,906	260	35,093
	910	125,775	962	130,064

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 271.4 million (2014: SDR 271.4 million) and allocations of SDR 258.3 million (2014: 258.3 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.

14 Advances to banks	2015 Shs' million	2014 Shs' million
Treasury bonds discounted	38	38
Treasury bills discounted	36	11
Accrued interest	1	1
	75	50

All advances to banks are recoverable within one year.

Notes (continued)

15 Loans and advances	2015 Shs' million	2014 Shs' million
Due from banks under liquidation	3,656	3,656
Advances to employees	2,365	2,678
	<hr/>	<hr/>
Allowance for impairment	6,021 (3,688)	6,334 (3,680)
	<hr/>	<hr/>
Net advances	2,333	2,654
	<hr/>	<hr/>
Movement in the loan impairment allowance is as follows:		
At start of year	3,680	3,678
Increase in impairment allowance	8	2
	<hr/>	<hr/>
At end of year	3,688	3,680
	<hr/>	<hr/>

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

16 Other assets	2015 Shs' million	2014 Restated Shs' million	2013 Restated Shs' million
Prepayments	526	688	115
Deferred currency expenses	3,704	3,766	4,252
Sundry debtors	5,102	5,218	5,212
Items in the course of collection	82	70	154
	<hr/>	<hr/>	<hr/>
Provision for impairment	9,414 (4,883)	9,742 (4,860)	9,733 (4,839)
	<hr/>	<hr/>	<hr/>
	4,531	4,882	4,894
	<hr/>	<hr/>	<hr/>
All other assets balances are recoverable within one year.			
Movement in the impairment allowance is as follows:			
At start of year	4,860	4,839	4,686
Increase in impairment allowance	23	21	153
	<hr/>	<hr/>	<hr/>
At end of year	4,883	4,860	4,839
	<hr/>	<hr/>	<hr/>

Notes (continued)

16 Other assets (continued)

Deferred currency expenses have been restated in 2014 and 2013 as a result of the change in accounting policy for coin minting costs as below (see also note 8):

Deferred currency expenses	2014 Restated Shs' million	2013 Restated Shs' million
As previously reported	2,250	3,477
Restatement on change in accounting policy for coin minting costs:		
- Opening balance	775	-
- Credit to profit or loss in the year	741	775
As restated	<u>3,766</u>	<u>4,252</u>

17 Retirement benefit asset

	2015 Shs' million	2014 Shs' million
Present value of funded obligations	17,820	17,006
Fair value of plan assets	(27,156)	(24,665)
Adjustment to retirement benefit asset related to asset ceiling*	4,668	-
Asset in the statement of financial position	<u>(4,668)</u>	<u>(7,659)</u>

Reconciliation of asset in the statement of financial position

At start of year	7,659	8,108
Net income recognised in the income statement	1,241	565
Net income/(expense) recognized in other comprehensive income (OCI)	325	(1,126)
Adjustment to retirement benefit asset recognised through OCI – asset ceiling*	(4,668)	-
Employer contributions	111	112
At end of year	<u>4,668</u>	<u>7,659</u>

Movements in the plan benefit obligation are as follows:

At start of year	17,006	13,065
Current service cost net of employees' contributions	404	457
Interest cost	2,160	1,779
Employee contributions	55	55
Actuarial (loss)/gain	(863)	2,318
Benefits paid	(942)	(668)
At end of year	<u>17,820</u>	<u>17,006</u>

Notes (continued)

17 Retirement benefit asset (continued)

	2015 Shs' million	2014 Shs' million
Movements in the plan assets are as follows:		
At start of year	24,665	21,173
Expected return on scheme assets	3,205	2,858
Actuarial (loss)/gain	(539)	1,191
Employer contributions	111	112
Employee contributions	56	55
Benefits expenses paid	(942)	(667)
Adjustment for previous year values	600	(57)
	<hr/>	<hr/>
At end of year	27,156	24,665
	<hr/>	<hr/>

The amounts recognised in profit or loss for the year are as follows:

Expected return on scheme assets	3,205	2,858
Adjustment for previous year values	600	(57)
Current service cost net of employees' contributions	(404)	(457)
Interest cost	(2,160)	(1,779)
	<hr/>	<hr/>
Net charge for the year included in employee benefits (Note 9)	1,241	565
	<hr/>	<hr/>

Plan assets are distributed as follows:

	2015		2014	
	Shs' million	%	Shs' million	%
Quoted shares	10,770	40%	9,865	40%
Investment properties	4,137	15%	3,039	12%
Government of Kenya treasury bills and bonds	7,543	28%	7,217	29%
Commercial paper and corporate bonds	1,928	7%	1,590	7%
Offshore investments	2,436	9%	2,095	9%
Fixed and term deposits	342	1%	859	3%
	<hr/>		<hr/>	
	27,156	100%	24,665	100%
	<hr/>		<hr/>	

*Amendments to the Retirement Benefits Act (Cap 197) on the treatment of the surplus in a defined benefit scheme were published in June 2015. The impact of the amendments is that the sponsor can only recognize up to 50% of the surplus in a scheme. The impact has been presented in these financial statements as an "adjustment to retirement benefit asset related to asset ceiling".

Notes (continued)

17 Retirement benefit asset (continued)

The principal actuarial assumptions at the reporting date were:	2015	2014
Discount rate (p.a.)	12.9%	12.9%
Salary increase (p.a.)	10.9%	10.9%
Expected return on plan assets (p.a.)	12.9%	12.9%
Future pension increases	3.0%	3.0%

Sensitivity analysis

The effect of certain changes to the financial and demographic assumptions is analysed below:

	Base	Discount rate -1%	Discount rate +1%	Salary rate -1%	Salary rate +1%	Demographic assumptions	
	Shs million	Shs million	Shs million	Shs million	Shs million	+10%	-10%
Net asset at start of year	7,659	7,659	7,659	7,659	7,659	7,659	7,659
Net expense recognised in profit or loss	1,241	1,194	1,281	1,259	1,222	1,246	1,236
Net expense recognised in OCI	324	(1,225)	1,650	495	146	490	146
Adjustment to retirement benefit asset recognised through OCI - asset ceiling	(4,667)	(3,870)	(5,350)	(4,762)	(4,569)	(4,753)	(4,575)
Employer contributions	111	111	111	111	111	111	111
Net asset at end of year	4,668	3,869	5,351	4,762	4,569	4,753	4,577

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

Notes (continued)

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 2014						
Opening net amount	2,897	4,693	2,108	136	2,296	12,052
Additions	-	-	2,373	71	348	2,792
Disposals	-	-	-	(35)	(4)	(39)
Charge for the year	(77)	(340)	-	(66)	(580)	(985)
Reversal of charge on disposals	-	-	-	35	4	39
Adjustment to revaluation reserve	(46)	-	-	-	-	(46)
At end of year	2,774	4,353	4,481	141	2,064	13,813
At 30 June 2014						
Cost or valuation	2,929	4,893	4,481	364	3,972	16,639
Accumulated depreciation	(155)	(540)	-	(223)	(1,908)	(2,826)
Net book amount	2,774	4,353	4,481	141	2,064	13,813
Year ended 30 June 2015						
Opening net amount	2,774	4,353	4,481	141	2,064	13,813
Additions	-	-	1,437	40	249	1,726
Revaluation gain	3,346	1,564	-	-	-	4,910
Disposals	-	-	-	(34)	-	(34)
Charge for the year	(73)	(259)	-	(93)	(308)	(733)
Reversal of charge on revaluation	228	799	-	-	-	1,027
Reversal of charge on disposals	-	-	-	34	-	34
At end of year	6,275	6,457	5,918	88	2,005	20,743
At 30 June 2015						
Cost or valuation	6,275	6,457	5,918	370	4,221	23,241
Accumulated depreciation	-	-	-	(282)	(2,216)	(2,498)
Net book amount	6,275	6,457	5,918	88	2005	20,743

Notes (continued)

18 Property and equipment (continued)

Land and buildings were revalued by internal professional valuers in 2015 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.

Included in land and buildings is land in Kisumu and Mombasa, valued at Shs 627 million (2014: Shs 486 million), for which the Bank is in the final stage of registration of titles. The Bank is in possession and occupies all the properties. Work in progress at 30 June 2015 and 2014 relates to ongoing development at the Kenya School of Monetary Studies.

19 Intangible assets	Software	Work-in-Progress	Total
	Shs' million	Shs' million	Shs' million
Year ended 30 June 2014			
Cost			
At start of year	1,618	-	1,618
Additions	-	9	9
At end of year	1,618	9	1,627
Accumulated amortisation			
At start of year	645	-	645
Amortisation for the year	343	-	343
At end of year	988	-	988
Net carrying value	630	9	639
Year ended 30 June 2015			
Cost			
At start of year	1,618	9	1,627
Additions	98	-	98
Transfers	7	(7)	-
At end of year	1,723	2	1,725
Accumulated amortisation			
At start of year	988	-	988
Amortisation for the year	243	-	243
At end of year	1,231	-	1,231
Net carrying value	492	2	494

Notes (continued)

20 Due from Government of Kenya

	2015 Shs' million	2014 Shs' million
Overdraft	36,494	37,238
Government loan	26,669	28,900
	63,163	66,138

The Government of Kenya overdraft account is used to fund the treasury bills and interest related accounts that overdraw as a result of shortfalls from primary issues in the market. Whenever the previously funded account receives funding as a result of proceeds from primary issues of call-ups, the overdraft account is refunded the previously owed amount.

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 ended 30 June 2015 was Shs 39,123 million (2014: Shs 34,187 million) based on the gross recurrent revenue for the year ended 30 June 2013 (which were the latest audited financial statements at the start of the year), which was Shs 782,466 million, and interest is charged at the Central Bank Rate currently at 11.5%.

The Bank has issued a loan to the Government of Kenya. Principal repayments of Shs 550 million plus interest accruing are paid half yearly. The movement in the balance in the current year includes the repayment of principal of Shs 1,100 million for the prior year which was not settled at 30 June 2014.

21 Currency in circulation

	2015 Shs' million	2014 Shs' million
Kenya bank notes	215,190	193,640
Kenya coins	6,988	6,326
	222,178	199,966
Movement in the account was as follows:		
At start of year	199,966	183,047
Deposits by banks	(489,768)	(458,504)
Withdrawals by banks	512,011	475,504
Decommissioned currency	(31)	(81)
	222,178	199,966

Notes (continued)

22 Deposits from banks and government	2015 Shs' million	2014 Shs' million
Local commercial banks clearing accounts and cash ratio reserve	176,520	123,766
Local banks foreign exchange settlement accounts	17,054	13,476
External banks foreign exchange settlement accounts	37	47
Other public entities and project accounts	32,185	207,836
Government of Kenya	105,520	103,675
	331,316	448,800

Special project accounts relate to amounts received by the Government of Kenya (or its ministries) for specific projects or purposes. An equal and corresponding asset is recorded and disclosed under "Balances due from banking institutions (note 10)". The movement in the year is mainly attributable to the drawdown of the proceeds of the U.S. Dollar 2 billion Euro bond by the Government of Kenya.

23 Other liabilities	2015 Shs' million	2014 Shs' million
Impersonal accounts	3,496	1,654
Sundry creditors	409	1,559
Bonds pending payables	109	1,331
Refundable deposits	283	682
Leave accrual	122	118
Gratuity to staff members	48	38
	4,467	5,382

Impersonal accounts includes accounts to which the Bank posts amounts from the National Treasury temporarily pending allocation to a Government of Kenya ministry.

24 Equity and reserves

(a) Share capital	Authorised share capital Shs' million	Authorised share capital Shs' million
Balance at 1 July 2013, 30 June 2014 and 30 June 2015	5,000	5,000

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

(b) General reserve fund

The general reserve fund comprises of unrealised and realised reserve funds.

The unrealised reserve fund comprises unrealised foreign exchange gains/(losses), fair value gains/(losses) on financial assets held for trading and actuarial gains/(losses) on the retirement benefit asset. Until such gains are realised, they are not available for distribution. The unrealised reserve fund acts as a cushion against any significant future exchange losses which may arise from the appreciation of the Kenyan Shilling against other international currencies.

The realised reserve fund comprises the operating surplus/(deficit) before unrealised gains/(losses). Dividends to the National Treasury are settled from the realised reserve fund. It includes the capital reserve account which is used to finance major capital projects of the Bank. Capital expenditure is approved on an annual basis by the Board of Directors.

Notes (continued)

24 Equity and reserves (continued)

(b) General reserve fund (continued)

Capital reserve account

The capital reserve account (or "CR") was established the Bank's Board of Directors in the financial year 2011/12. On an annual basis, the amount to be spent to finance capital projects is transferred from the realised reserve fund to the CR. The CR is permanent in nature and can only be available for enhancement of share capital when need arises. At 30 June 2015, the reserve had Shs 11,268 million (2014: Shs 7,445 million).

Presently, the Bank is expected to undertake projects to comply with constitutional requirements. These include production of new generation currency, support to County and National Governments, and installation and upgrade of robust IT software and infrastructure hence the need to retain adequate reserves to fund these initiatives.

	2015	2014	2013
	Shs' million	Restated Shs' million	Restated Shs' million
Unrealised reserve fund	81,944	45,538	31,668
Realised reserve fund	19,899	12,517	13,268
	<u>101,843</u>	<u>58,055</u>	<u>44,936</u>

Currency production expenses for 2014 and 2013 have been restated as a result of the change in the accounting policy for coin minting costs as explained in note 2 (b). The impact of the adjustment on the general reserve fund is as illustrated below. See also the 'Consolidated statement of changes in equity', note 8, note 16 and note 30.

	2014	2013
	Shs' million	Shs' million
As previously reported	56,539	44,161
Restatement on change in accounting policy for coin minting costs	1,516	775
	<u>58,055</u>	<u>44,936</u>

(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. See also note 18.

Notes (continued)

25 Cash generated from operations	2015	2014
	Shs' million	Shs' million
Reconciliation of net surplus to cash flows from operations:		
Surplus for the year	48,131	14,245
Adjustments for:		
Depreciation (Note 18)	733	985
Amortisation (Note 19)	243	343
Gain on disposal of property and equipment (Note 7)	(17)	(30)
Net credit relating to the retirement benefit asset (Note 17)	(1,241)	(565)
Employer contributions on the defined benefit asset (Note 17)	(111)	(112)
Changes in working capital:		
Loans and advances	321	(9)
Other assets	351	12
Due from Government of Kenya	2,975	(30,178)
Currency in circulation	22,212	16,919
Deposits	(117,484)	257,129
Other liabilities	(915)	2,787
Investments by banks	-	(41,589)
	<hr/>	<hr/>
Net cash (used) / generated from operations	(44,802)	219,937
	<hr/>	<hr/>

26 Cash and cash equivalents

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

	2015	2014
	Shs' million	Shs' million
Balances due from banking institutions (Note 10)	194,790	645,379
Financial assets - held for trading (Note 28)	-	3,536
Advances to banks (Note 14)	75	50
	<hr/>	<hr/>
	194,865	648,965
	<hr/>	<hr/>

Notes (continued)

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 - a corporation 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 comprising the Governor of the Central Bank of Kenya as the Chairman).

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

(i) Loans

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

	2015 Shs' million	2014 Shs' million
Loans to executive director		
At start of the year	8	13
Loan repayments	(8)	(5)
	<hr/>	<hr/>
At end of the year	-	8
	<hr/>	<hr/>
Loans to key management personnel		
At start of the year	71	77
Loans advanced during the year	-	17
Loan repayments	(23)	(23)
	<hr/>	<hr/>
At end of the year	48	71
	<hr/>	<hr/>
(ii) Directors' emoluments:		
Fees to non-executive directors	20	15
Other remuneration to executive directors	20	30
Gratuity for the Governor, who retired in the year	22	-
	<hr/>	<hr/>
	62	45
	<hr/>	<hr/>

Notes (continued)

27 Related party transactions (continued)	2015 Shs' million	2014 Shs' million
(iii) Remuneration to senior management	171	196
(iv) Post-employment pension to senior management	10	10
(v) Government of Kenya		
Due from Government of Kenya (Note 20)	63,163	66,138

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 (formerly the Deposit Protection Fund Board), an entity incorporated under the Banking Act, and provides it with staff and office accommodation. Certain costs incurred on behalf of the KDIC are fully reimbursed to the Bank.

The balance outstanding from the KDIC and included in other assets as at year end was Shs 2.6 million (2014: Shs 18.9 million).

(vii) Kenya School of Monetary Studies (KSMS)

The Kenya School of Monetary Studies (the "School") is a registered legal entity 99 % owned by the Bank and 1% by the National Treasury has been consolidated in these financial statements.

The Bank's Board of directors also serves as part of the KSMS Board during the year. 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.

The transactions and balances between the Bank and KSMS are as follows:

	2015 Shs' million	2014 Shs' million
Grants from CBK	460	419
Budgetary support	498	402
Receivable from KSMS	58	58

(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.

Notes (continued)

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 Finance 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 risk
 - Foreign currency exchange risk
 - Liquidity risk
- Non-financial risks include:
 - Operational risk
 - Human resource risk
 - Legal risk
 - Reputation risk

i. Credit risk

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

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

Notes (continued)

28 Financial risk management objectives and policies (continued)

i. Credit risk (continued)

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

The Bank does not grade the credit quality of these assets. None of the balances have had their terms renegotiated. Management monitors the credit exposure of staff on a continuous basis, taking into account their financial position, past experience and other factors. Provisions of Shs 64 million (2014: Shs 104 million) have been recorded due to impaired balances to related parties.

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

	Neither past due nor impaired 2015 Shs' million	Individually impaired 2015 Shs' million	Neither past due nor impaired 2014 Shs' million	Individually impaired 2014 Shs' million
Advances to employees	2,333	32	2,654	24
Due from banks under liquidation	-	3,656	-	3,656
Sundry debtors	4,531	4,883	4,882	4,860
	6,864	8,548	7,536	8,540
Allowance for impairment				
- other assets (Note 16)	-	(4,883)	-	(4,860)
- loans and advances (Note 15)	-	(3,688)	-	(3,680)
	-	(8,548)	-	(8,540)
	6,864	-	7,536	-

There were no past due but not impaired balances as at 30 June 2015 (2014: Nil).

Notes (continued)

28 Financial risk management objectives and policies (continued)

i. Credit risk (continued)

No.	List of Foreign Correspondent Banks - Current Accounts Balances	Type of Institution	Credit Ratings as of 30th June 2015		
			Fitch	S & P	Moody's
1	Reserve Bank of Australia	Central Bank	NR	NR	NR
2	Bank of Canada	Central Bank	NR	NR	NR
3	Schwerizerische National	Central Bank	NR	NR	NR
4	Bank of China	Commercial Bank	A	A	A1
5	Danmarks National Bank	Central Bank	NR	NR	NR
6	Commerz Bank AG	Commercial Bank	BBB	BBB+	Baa1
7	Bank of France	Central Bank	NR	NR	NR
8	Standard Chartered Bank, Germany	Commercial Bank	AA-	AA-	Aa3
9	Bank of England	Central Bank	NR	NR	NR
10	Bank of Japan	Central Bank	NR	NR	NR
11	Bank of Tokyo, Mitsubishi	Commercial Bank	A	A+	A1
12	Sverigs Riksbank	Central Bank	NR	NR	NR
13	Central Bank of Uganda	Central Bank	NR	NR	NR
14	J P Morgan Chase, New York	Commercial Bank	AA-	A+	Aa3
15	Citibank Na , New York	Commercial Bank	A	A+	A1
16	Federal Reserve , New York	Central Bank	NR	NR	NR
17	Bank of New York Mellon	Commercial Bank	AA-	A+	A1
18	South African Reserve Bank	Central Bank	NR	NR	NR

No.	List of Active Depository Banks	Type of Institution	Credit Ratings as of 30th June 2015		
			Fitch	S & P	Moody's
1	AUST AND NZ BANKING GROUP	Commercial Bank	AA-	AA-	Aa2
2	ABN AMRO BANK NV	Commercial Bank	A	A	A2
3	BANK OF NEW YORK MELLON CORP	Commercial Bank	AA-	A+	A1
4	BANK OF MONTREAL	Commercial Bank	AA-	A+	Aa3
5	BARCLAYS PLC	Commercial Bank	A	BBB	Baa3
6	BNP PARIBAS	Commercial Bank	A+	A+	A1
7	CAN IMPERIAL BK OF COMMERCE	Commercial Bank	AA-	A+	Aa3
8	COMMERZBANK AG	Commercial Bank	BBB	BBB+	Baa1
9	COMMONWEALTH BANK OF AUSTRAL	Commercial Bank	AA-	AA-	Aa2
10	RABOBANK	Commercial Bank	AA-	A+	Aa2
11	CREDIT AGRICOLE SA	Commercial Bank	A	A	A2
12	CREDIT SUISSE GROUP AG-REG	Commercial Bank	A	BBB+	Baa2
13	DANSKE BANK A/S	Commercial Bank	A	A	A2
14	DZ BANK AG DEUTSCHE ZENTRAL-	Commercial Bank	AA-	AA-	A1
15	ING BANK NV	Commercial Bank	A	A	A1
16	JPMORGAN CHASE & CO	Commercial Bank	A+	A	A3
17	LANDESBANK BADEN-WUERTTEMBER	Commercial Bank	A-	NR	A2
18	MIZUHO FINANCIAL GROUP INC	Commercial Bank	A-	A	NR
19	NATIONAL AUSTRALIA BANK LTD	Commercial Bank	AA-	AA-	Aa2
20	NORDEA BANK AB	Commercial Bank	AA-	AA-	Aa3
21	SKANDINAVISKA ENSKILDA BAN-A	Commercial Bank	A+	A+	Aa3
22	SOCIETE GENERALE SA	Commercial Bank	A	A	A2
23	STANDARD CHARTERED PLC	Commercial Bank	AA-	A-	Aa3
24	SVENSKA HANDELSBANKEN-A SHS	Commercial Bank	AA-	AA-	Aa2
25	SWEDBANK AB - A SHARES	Commercial Bank	A+	A+	Aa3

Note: Central Banks do not have a rating thus **NR** means **No Rating**

Notes (continued)

28 Financial risk management objectives and policies (continued)

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.

Non-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.

Notes (continued)

28 Financial risk management objectives and policies (continued)

ii. Market risk (continued)

Interest rate risk (continued)

At 30 June 2015	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	513,096	53,088	-	-	25,778	591,962
Advances to banks	75	-	-	-	-	75
Financial assets at FVTPL	-	84,164	-	28,776	66	113,006
Funds held with International Monetary Fund (IMF)	-	-	-	-	4,531	4,531
Investments securities – Available-for-sale	-	-	-	-	9	9
Loans and advances	22	84	656	1,571	-	2,333
Other assets	-	-	-	-	4,531	4,531
Due from Government of Kenya	-	36,483	4,440	22,240	-	63,163
Total financial assets	513,193	173,819	5,096	52,587	34,915	779,610
Liabilities						
Deposits from banks and government	-	-	-	-	331,316	331,316
Due to International Monetary Fund (IMF)	-	-	-	-	125,775	125,775
Other liabilities	-	-	-	-	4,467	4,467
Total financial liabilities	-	-	-	-	461,558	461,558
Interest sensitivity gap	513,193	173,819	5,096	52,587	(426,643)	318,052

Notes (continued)

28 Financial risk management objectives and policies (continued)

ii. Market risk (continued)

Interest rate risk (continued)

At 30 June 2014	1 – 3 months	3-12 months	1 - 5 years	Over 5 years	Non-interest Bearing	Total
	Shs' million	Shs' million	Shs' million	Shs' million	Shs' million	Shs' million
Assets						
Balances due from banking institutions	381,181	29,680	-	-	270,536	681,397
Advances to banks	50	-	-	-	-	50
Financial assets at FVPL	3,536	48,596	-	25,961	97	78,190
Investments securities – Available-for-sale	-	-	-	-	6	6
Loans and advances	22	87	653	1,892	-	2,654
Other assets	-	-	-	-	4,882	4,882
Due from Government of Kenya	-	38,348	4,440	23,350	-	66,138
Total financial assets	384,789	116,711	5,093	49,311	275,521	831,425
Liabilities						
Deposits from banks and government	-	-	-	-	448,800	448,800
Due to International Monetary Fund (IMF)	-	-	-	-	130,064	130,064
Other liabilities	-	-	-	-	5,382	5,382
Total financial liabilities	-	-	-	-	584,246	584,246
Interest sensitivity gap	384,789	116,711	5,093	49,311	(308,725)	247,179

As at 30 June 2015, an increase/decrease of 10 basis points would have resulted in a decrease/increase in profit of Shs 745 million (2014: Shs 700 million).

Notes (continued)

28 Financial risk management objectives and policies (continued)

ii. Market risk (continued)

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 2015. Included in the table are the Bank's financial instruments categorised by currency:

	USD Shs' million	GBP Shs' million	EUR Shs' million	SDR Shs' million	Others Shs' million	Total Shs' million
At 30 June 2015						
Assets						
Balances due from banking institutions – Local	347,319	158,693	38,890	-	47,060	591,962
Financial assets at fair value	113,006	-	-	-	-	113,006
Funds held with International Monetary Fund (IMF)	-	-	-	4,385	-	4,385
Total financial assets	460,325	158,693	38,890	4,385	47,060	709,353
Liabilities						
Due to International Monetary Fund (IMF)	-	-	-	125,775	-	125,775
Deposits from banks and government	35,048	1,581	5,165	-	197	41,991
Total financial liabilities	35,048	1,581	5,165	125,775	197	167,766
Net position	425,277	157,112	33,725	(121,390)	46,863	541,587

Notes (continued)

28 Financial risk management objectives and policies (continued)

ii. Market risk (continued)

Foreign exchange risk (continued)

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

As at 30 June 2015, 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 Shs 21,264 million (2014: Shs 27,328 million)
- British Pound Shs 7,856 million (2014: Shs 4,931 million)
- Euro Shs 1,686 million (2014: Shs 2,601 million)
- SDR Shs 6,070 million (2014: Shs 5,794 million)

Notes (continued)

28 Financial risk management objectives and policies (continued)

iii. Liquidity risk

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

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

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

	On demand Shs' million	1 – 3 months Shs' million	3-12 months Shs' million	1 - 5 years Shs' million	Over 5 years Shs' million	Total Shs' million
At 30 June 2015						
Currency in circulation	-	-	-	-	222,178	222,178
Deposits from banks and government	314,212	-	17,104	-	-	331,316
Due to International Monetary Fund (IMF)	-	-	-	-	125,775	125,775
Other liabilities	-	-	4,467	-	-	4,467
Total financial liabilities	313,337	-	21,571	-	347,953	683,736
At 30 June 2014						
Currency in circulation	-	-	-	-	199,966	199,966
Deposits from banks and government	437,587	11,213	-	-	-	448,800
Due to International Monetary Fund (IMF)	-	-	-	-	130,064	130,064
Other liabilities	-	-	5,382	-	-	5,382
Total financial liabilities	437,587	11,213	5,382	-	330,030	784,212

Notes (continued)

28 Financial risk management objectives and policies (continued)

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
At 30 June 2015:				
Financial assets at fair value	112,940	66	-	113,006
Investment securities – Available-for-sale	-	-	9	9
Total assets	112,940	66	9	113,015
As at 30 June 2014:				
Financial assets at fair value	78,125	65	-	78,190
Investment securities – Available-for-sale	-	-	6	6
Total assets	78,125	65	6	78,196

Changes in level 3 instrument are disclosed in Note 13 to 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 2015, the Bank had capital commitments of Shs 2,921 million (2014: Shs 40 million) in respect of property and equipment purchases.

Operating lease commitments – Bank as lessee

	2015 Shs' million	2014 Shs' million
Not later than 1 year	-	-
Later than 1 year and not later than 5 years	2,921	40
	2,921	40

Notes (continued)

30 Prior year adjustments

Currency production expenses for 2014 and 2013 have been restated as a result of the change in the accounting policy for coin minting costs as explained in note 2 (b). The impact of the above adjustment is as illustrated below.

On the income statement for the year ended 30 June 2014:

	Shs' million
Surplus for 2014 as previously reported	13,504
Adjustment in 2014 financial statements to restate currency production expenses	741
	<hr/>
Surplus as restated	14,245
	<hr/>

On the statement of financial position at 30 June 2014:

Total equity and liabilities:

As previously reported	854,604
Adjustment in 2013 financial statements to restate currency production expenses	775
Adjustment in 2014 financial statements to restate currency production expenses	741
	<hr/>
As restated	856,120
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