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REPORT

OF

THE AUDITOR-GENERAL

ON

CENTRAL BANK OF KENYA

**FOR THE YEAR ENDED
30 JUNE, 2021**

CENTRAL BANK OF KENYA

ANNUAL REPORT
AND
FINANCIAL STATEMENTS

FOR THE YEAR ENDED
30 JUNE 2021



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CENTRAL BANK OF KENYA
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2021

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CENTRAL BANK OF KENYA
BANK INFORMATION
FOR THE YEAR ENDED 30 JUNE 2021

BOARD OF DIRECTORS

Mr. Mohammed Nyaoga	Chairman
Dr. Patrick Njoroge	Governor
Dr. Julius Muia	Principal Secretary, The National Treasury
Mr. Samson Cherutich	Member -(Reappointed on 5 December, 2020)
Mrs. Nelius W. Kariuki	Member -(Reappointed on 5 December, 2020)
Mrs. Rachel Dzombo	Member - (Reappointed on 5 December, 2020)
Mr. Ravi J. Ruparel	Member - (Reappointed on 5 December, 2020)

SENIOR MANAGEMENT

Dr. Patrick Njoroge	Governor
Mrs. Sheila M'Mbijjew	Deputy Governor

HEADS OF DEPARTMENT

Mr. Kennedy Abuga	Director - Governor's Office (Board Secretary)
Mr. William Nyagaka	Director - Kenya School of Monetary Studies
Mr. David Luusa	Director - Financial Markets Department
Mr. Gerald Nyaoma	Director - Bank Supervision Department
Mr. Antony Gacanja	Director - Information Technology Department
Mr. Stephen Muriu	Director - General Services Department
Ms. Darliah M. Mbugua	Director - Human Resource and Administration Department- (Appointed on 1 September 2020)
Mr. Michael Rundu Eganza	Director - Banking, National Payments Department- (Appointed on 4 January 2021)
Ms. Caroline Mackola	Director - Finance Department - (Appointed on 22 February 2021)
Ms. Beth Kithinji	Director - Internal Audit Department and Risk Management Department - (Appointed on 11 May 2021)
Prof. Robert Mudida	Director - Research Department - (Appointed on 1 July 2021)
Ms. Terry Nganga	Acting Director - Human Resource and Administration Department - (Until 30 August 2020)
Mr. Paul Wanyagi	Acting Director - Currency Operations and Branch Administration Department
Mr. Mwenda Marete	Acting Director - Banking, National Payments Department - (Until 3 January 2021)
Mr. Moses Ngotho	Acting Director - Finance Department - (Until 21 February 2021)
Mr. Raphael Otieno	Acting Director - Research Department - (Until 30 June 2021)
Mrs. Matilda Onyango	Acting Director - Internal Audit Department and Risk Management Department - (Retired on 10 May 2021)
Mr. Patrice Odude	Acting Director- Strategic Management Department - (Retired on 12 July, 2021)

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

BRANCHES

Mombasa Branch Central Bank of Kenya Building Nkrumah 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
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CENTRAL BANK OF KENYA
BANK INFORMATION (continued)
FOR THE YEAR ENDED 30 JUNE 2021

CENTRAL BANK CENTRES

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

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

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

Kisii Centre
ABSA Bank Building
Sotik Road
P.O. Box 411
40200 Kisii

SUBSIDIARY

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

PRINCIPAL LAWYERS

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

Amolo & Gacoka Advocates.
41, A & G
Grevillea Grove, Kyuna
P.O. Box 53319-00200
NAIROBI.

PRINCIPAL AUDITOR

The Auditor - General
Anniversary Towers
P.O. Box 30084
00100 Nairobi

DELEGATED AUDITOR

Ernst & Young LLP
Kenya-Re Towers, Upper Hill, Off Ragati Road
P.O. Box 44286
00100 Nairobi

CENTRAL BANK OF KENYA
STATEMENT OF CORPORATE GOVERNANCE
FOR THE YEAR ENDED 30 JUNE 2021

1. Statement of Corporate Governance

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

1.1. Board of Directors

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

All the Non-Executive Directors are independent of management and free from any business or other relationship, which could interfere with the exercise of their independent oversight.

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

The table below shows the Board of Directors' appointment dates and contract end dates.

No.	Name	Position	Discipline	Date of Appointment	Contract end date
1.	Mr. Mohammed Nyaoga	Chairman	Lawyer	Reappointed on 18 June 2019	17 June 2023
2.	Dr. Patrick Njoroge	Governor	Economist	Reappointed on 18 June 2019	17 June 2023
3.	Principal Secretary/ The National Treasury	Executive Officer	Economist	Permanent	Permanent
4.	Mrs. Nelius Kariuki	Member	Economist	Reappointed on 5 December 2020	4 December 2024
5.	Mr. Ravi Ruparel	Member	Financial Sector Expert	Reappointed on 5 December 2020	4 December 2024
6.	Mr. Samson Cherutich	Member	Accountant	Reappointed on 5 December 2020	4 December 2024
7.	Mrs. Rachel Dzombo	Member	Management Expert	Reappointed on 5 December 2020	4 December 2024

The Members of the Board (all Kenyans) in the year ended 30 June 2021 and their attendance and the number of meetings held in the year were as follows:

No.	Name	Position	Discipline	Meetings Attended
1.	Mr. Mohammed Nyaoga	Chairman	Lawyer	9
2.	Dr. Patrick Njoroge	Governor	Economist	9
3.	Principal Secretary/ The National Treasury	Executive Officer	Economist	8
4.	Mrs. Nelius Kariuki	Member	Economist	9
5.	Mr. Ravi Ruparel	Member	Financial Sector Expert	9
6.	Mr. Samson Cherutich	Member	Accountant	9
7.	Mrs. Rachel Dzombo	Member	Management Expert	9

CENTRAL BANK OF KENYA
STATEMENT OF CORPORATE GOVERNANCE (continued)
FOR THE YEAR ENDED 30 JUNE 2021

1.1. Board of Directors (continued)

The remuneration paid to the Directors for services rendered during the financial year 2020/2021 is disclosed in Note 29 to the financial statements. The Non-Executive Directors are paid a monthly retainer fee and a sitting allowance for every meeting attended. There were no loans to Non-Executive Directors during the year while Executive Directors are paid a monthly salary and are eligible for staff loans.

1.2. Secretary to the Board

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

1.3. Audit Committee

The members of the Audit Committee in the year ended 30 June 2021 were Mr. Samson K. Cherutich (Chairman), Mr. Ravi J. Ruparel, Mrs. Nelius W. Kariuki and Mrs. Rachel Dzombo. The members are all Non-Executive Directors with experience in Accounting, Auditing, Finance and Management. The Committee meets once every two (2) months and as necessary. The Terms of Reference of the Audit Committee cover five (5) major areas, namely: Internal Control System, Risk Management, Financial Reporting and Related Reporting Practices, External and Internal Audits.

The Audit Committee's mandate, under Internal Control, includes ensuring that internal control and risk management is planned, structured and implemented at the Bank. The Committee also ensures that internal and external audit recommendations are implemented.

The mandate relating to Financial Reporting and Related Reporting Practices requires the Audit Committee to review the annual financial statements of the Bank, the external auditor's opinion and their comments on internal controls and other observations. The Committee also reviews significant accounting and reporting issues and their impact on financial reports and legal matters that could significantly impact on the financial statements, among other financial reporting responsibilities.

With regard to External Audit, the Audit Committee reviews the external auditor's proposed audit scope, approach and audit deliverables, and reviews the financial statements before submission to the Board for consideration and approval.

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 the internal audit function within the Bank. It also covers review of the internal audit plan and follow up of the implementation of internal audit 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 Audit Committee also reports to the Board of Directors on internal audit scope, approach and deliverables.

The Committee Members' positions, disciplines and number of meetings attended for the year ended 30 June 2021 were as follows:

No.	Name	Position	Discipline	Meetings Attended
1.	Mr. Samson Cherutich	Chairman	Accountant	10
2.	Mr. Ravi Ruparel	Member	Financial Sector Expert	10
3.	Mrs. Nelius Kariuki	Member	Economist	10
4.	Mrs. Rachel Dzombo	Member	Management Expert	10

CENTRAL BANK OF KENYA
STATEMENT OF CORPORATE GOVERNANCE (continued)
FOR THE YEAR ENDED 30 JUNE 2021

1.4. Human Resources Committee (HRC)

The members of the HRC in the year ended 30 June 2021 were Mrs. Nelius Kariuki (Chairman), Mr. Samson Cherutich, Mrs. Rachel Dzombo and Mr. Ravi Ruparel. The members are all Non-Executive Directors with experience in Accounting, Management and Business.

The HRC of the Board performs an advisory role to the Bank's Board in the fulfilment of the following oversight responsibilities:

- a) Monitor the formulation and implementation of Human Resources Policies in the Bank;
- b) In relation to staff matters, they ensure the Bank's compliance with the Kenyan Constitution, Laws of Kenya, CBK regulations and its own code of conduct;
- c) Perform any other Human Resources related functions as assigned by the Board.
- d) Monitor the implementation of Board resolutions relating to the HRC of the Board.

The goal of the committee is to drive the HR function at the Bank to attain best in class global standards.

The members of the Human Resources Committee in the year ended 30 June 2021 and their attendance of the meetings held in the year were as follows:

No.	Name	Position	Discipline	Meetings attended
1.	Mrs. Nelius Kariuki	Chairman	Economist	6
2.	Mr. Samson Cherutich	Member	Accountant	6
3.	Mrs Rachel Dzombo	Member	Management Expert	6
4.	Mr. Ravi Ruparel	Member	Financial Sector Expert	6

1.5. Monetary Policy Committee (MPC)

Section 4D of the Central Bank of Kenya (Amendment) Act 2008 establishes the Monetary Policy Committee (MPC). The MPC is responsible for formulating monetary policy and is required to meet at least once every two (2) months. The MPC comprises the:

- i) Governor who is the Chairman
- ii) The Deputy Governor who is the Deputy Chairperson
- iii) Two (2) members appointed by the Governor from the CBK. Of the two members:
 - a) one shall be a person with executive responsibility within the Bank for monetary analyses and;
 - b) one shall be a person with responsibility within the Bank for monetary policy operations.
- iv) Four (4) external members appointed by the Cabinet Secretary for The National Treasury
- v) Principal Secretary for the National Treasury or his Representative

External members of the MPC are appointed for an initial period of three (3) years each and may be reappointed for another final term of three (3) years. The quorum for MPC meetings is five (5) members, one of whom must be the Chairman or Deputy Chairperson.

1.5. Monetary Policy Committee (MPC) (continued)

The MPC held six (6) meetings in the year ended 30 June 2021, and attendance was as follows:

No.	Name	Position	Discipline	Meetings Attended
1.	Dr. Patrick Njoroge	Chairman	Economist	6
2.	Mrs. Sheila M'Mbijjewe	Deputy Chairperson	Finance/ Accountancy	6
3.	Dr. Margaret Chemengich	Member (External)	Economist	6
4.	Prof. Jane Kabubo-Mariara	Member (External)	Economist	6
5.	Dr. Benson Ateng'	Member (External)	Economist	6
6.	Mr. Humphrey Muga	Member (External)	Economist	6
7.	Mr. Musa Kathanje	Representative of the Principal Secretary, The National Treasury	Economist	6
8.	Mr. David Luusa	Member (Internal)	Economist	6
9.	Mr. Raphael Otieno	Member (Internal)	Economist	6

1.6. Management Structure

The positions of Governor and Deputy Governor are set out in the CBK Act Cap 491 of the Laws of Kenya. The Governor and the Deputy Governor constitute the Central Bank's Senior Management. As the Chief Executive of the Bank, the Governor assigns duties to the Deputy Governor.

There are 13 Directors who head up the key departments of the Central Bank, using structure, oversight, governance and control of the key areas. Senior Management and departmental heads have frequent meetings in the running of the Bank, many of these meetings organised in structured frameworks to ensure clarity, transparency and success of the outcomes

1.7. Code of Ethics

The Bank is committed to the highest standards of integrity, behaviour and ethics. A formal code of ethics for all employees has been approved by the Board and is fully implemented. All employees of the Bank are expected to avoid activities and financial interests, which could give rise to conflict of interest with their responsibilities in the Bank. Strict rules of conduct embedded in the *Staff Rules and Regulations* and the *Employment Act 2007* apply to the entire Bank's staff.

1.8. Internal Controls

The Management of the Bank has put in place a system of internal control mechanisms to ensure the reporting of complete and accurate accounting information. Procurement of goods and services is strictly done in accordance with the *Public Procurement & Disposal Act, 2015 and Regulations, 2020*. In all operational areas of the Bank, workflows have been structured in a manner that allows adequate segregation of duties.

1.9. Authorizations

All the expenditure of the Bank must be authorized in accordance with a comprehensive set of the Bank policies and procedures. There is an annual Budget approved by the Board and a Procurement Plan approved by the Senior Management before commencement of the financial year. The Board of Directors receives regular management accounts comparing actual outcomes against budget as a means of monitoring actual financial performance of the Bank.

1.10. Internal Audit and Risk Management

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

1.11. Transparency

The Bank publishes an Annual Report, Monthly Economic Review, Weekly Releases, Statistical Bulletin and Bi-annual Monetary Policy Statements. In addition, the Bank issues policy briefs to The National Treasury on both the Monetary and Fiscal policies. On an annual basis, the Financial Statements of the Bank are published in the Kenya Gazette and placed in the Bank's website.

2.0. Financial Performance

The Bank's financial performance is primarily affected by the Monetary Policy stance adopted, interest rates and changes in exchange rate. The Bank's financial performance is presented on page 12 of these financial statements.

During financial year ended 30 June 2021, the Bank recorded a net surplus of KShs 36,993 million compared to KShs 41,530 million in financial year ended 30 June 2020. The surplus is included as part of the General Reserve Fund.

During the financial year ended 30 June 2021, the Bank's operating surplus was KShs 11,723 million (2020: KShs 17,055 million) due to lower rates offered on foreign deposit placements and the one-off gain on demonization of old currency that was realised in the prior year. An unrealised foreign exchange gain of KShs 25,270 million was recorded during the year ended 30 June 2021 (2020: KShs 24,475 million) due to the strengthening of the USD. The Bank also recorded a fair value loss on fixed income securities of KShs 6,321 million (2020: gain of KShs 8,452 million) as a result of a decline in market prices. The loss recorded during the year has been presented in other comprehensive income.

In addition, an actuarial gain on retirement benefit asset of KShs 676 million (2020: gain of KShs 1,949 million) was also earned. There was an overall revaluation increase of KShs 1,319 million on land and buildings recorded during the year in the consolidated statement of comprehensive income. This valuation is performed every 3 years in line with the Bank's Fixed assets management policy.

The Bank's assets increased to KShs 1,449,056 million (2020: KShs 1,350,434 million) mainly attributed to increase in funds on lent to the Government of Kenya from the International Monetary Fund and net inflows from banking institutions. Liabilities increased to KShs 1,232,562 million (2020: KShs 1,154,419 million) mainly due to from the International Monetary Fund.

CENTRAL BANK OF KENYA
REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2021

The Directors submit their report together with the audited financial statements for the year ended 30 June 2021, which shows performance of the Bank during the year and the state of affairs of Central Bank of Kenya (the "Bank"/"CBK") as at the year end.

1. INCORPORATION

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

2. 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 at 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.

3. RESULTS AND SURPLUS

The surplus for the year was KShs 36,993 million (2020: KShs 41,530 million) made up of KShs 11,723 million (2020: KShs 17,055 million) realized surplus and KShs 25,270 million (2020: KShs 24,475 million) unrealized surplus. In 2020 the Bank had an exceptional realized gain of KShs 7.4 billion in respect of a demonetization exercise carried out in the year. The surplus has been included as part of the General Reserve Fund. The directors recommended an exceptional transfer of operational surplus in the year to 30 June 2021 of KShs 5,000 million on 12 February 2021. The directors further recommend a final transfer of operational surplus in the year to 30 June 2021 of KShs 5,500 million (2020: KShs 2,500 million) to the Consolidated Fund.

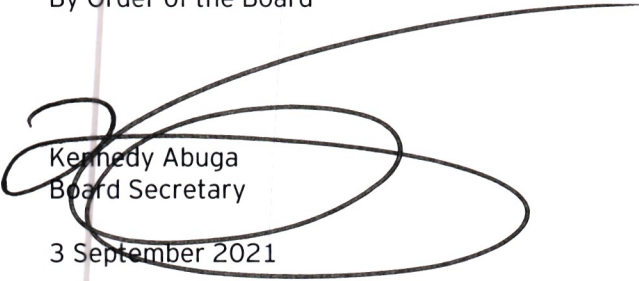
4. BOARD OF DIRECTORS

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

5. AUDITOR

The Auditor - General is responsible for the statutory audit of the Bank's Financial Statements in accordance with Section 35 of the Public Audit Act, 2015. Section 23(1) of the Act empowers the Auditor-General to appoint other auditors to carry out the audit on his behalf. Accordingly, Ernst & Young LLP were appointed to carry out the audit for the year ended 30 June 2021 and report to the Auditor - General. However, Ernst & Young LLP have audited the Bank for three years and are due for rotation after 30 June 2021.

By Order of the Board


Kennedy Abuga
Board Secretary

3 September 2021

CENTRAL BANK OF KENYA
STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 30 JUNE 2021

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


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

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

The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial position of the Bank as at 30 June 2021 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*.

These financial statements are prepared on a going concern basis, taking into account the legal mandate and responsibilities of the Bank, in particular is monetary policy, financial stability and payment system leadership.

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



Chairman, Board of Directors
Mr. Mohammed Nyaoga

3 September 2021

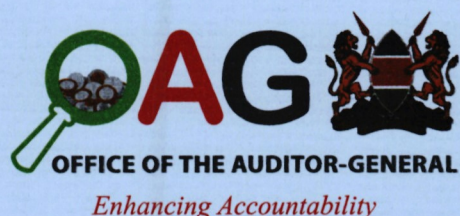


Governor
Dr. Patrick Njoroge

3 September 2021

REPUBLIC OF KENYA

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E-mail: info@oagkenya.go.ke
Website: www.oagkenya.go.ke



HEADQUARTERS
Anniversary Towers
Monrovia Street
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON CENTRAL BANK OF KENYA FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

- A. Report on the financial statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.
- B. Report on Lawfulness and Effectiveness in use of public resources which considers compliance with applicable laws, regulations, policies, gazetted notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure government achieves value for money and that such funds are applied for intended purpose.
- C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal control, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying consolidated financial statements of Central Bank of Kenya set out on pages 12 to 88, which comprise the consolidated statement of financial position as at 30 June, 2021, 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 Ernst and Young LLP auditors appointed under Section 23 of the Public Audit Act, 2015 and in accordance with the provisions of Article 229 of the Constitution of Kenya. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Central Bank of Kenya as at 30 June, 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs) and comply with the Central Bank of Kenya Act, Cap 491 of the Laws of Kenya and the Public Finance Management Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Central Bank of Kenya Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

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

Other Matter

1. Failure to Maintain the Required Number of Non-Executive Directors

As was reported in the previous year, the Central Bank Act, Cap 491 of 2014, Part IV - Management, Section 11(1)(d) provides that there shall be eight (8) other Non-Executive Directors of the Board. During the year under review, the Bank had in place four (4) Non-Executive Directors transacting business on its behalf. There was no amendment to the Central Bank Act to provide for reduction in the number of Directors.

2. Lack of the Second Deputy Governor

In addition, the Central Bank of Kenya Act, Cap 491 Section 13B(1) states that, "There shall be two Deputy Governors who shall be appointed by the President through a transparent and competitive process and with the approval of Parliament". During the year under review, only one Deputy Governor was in office. There was no amendment to the Central Bank Act to provide for reduction in the number of Deputy Governors.

Other Information

The Directors are responsible for the other information, which comprises the Statement of Corporate Governance, Directors' Report and the Statement of

Directors' Responsibilities. The other information does not include the financial statements and my auditor's report thereon.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Delayed Winding up of the Kenya School of Monetary Studies (KSMS)

I draw attention to Note 29(vi) to the financial statements which states that the Kenya School of Monetary Studies, (KSMS) is a subsidiary of the Bank, owned and managed by the Bank. In accordance with Article 29 of the Memorandum and Articles of Association, the number of Directors should not be less than three (3) or more than ten (10) and should be appointed by the School in a General Meeting. For the last six (6) years, the School has existed without a functional Board of Directors and has been proposed for winding up. The dissolution of the School as a legal entity was Gazetted on 24 April, 2020. This was in an effort to address concerns regarding governance and internal controls at KSMS, and to align its objectives and financial reporting framework with that of CBK. However, as at the date of this report, KSMS had not been dissolved.

Consequently, it is critical that CBK Management follows up and expedites the conclusion of the dissolution process.

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively. In all material respects, I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and the Board of Directors

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

In preparing the consolidated financial statements, Management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to liquidate the Bank or to cease operations.

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

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective manner.

Those charged with governance are responsible for overseeing the financial reporting process, reviewing the effectiveness of how the bank monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the

activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components, does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.


As part of an audit conducted in accordance with ISSAIs, I exercise professional judgement and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Bank to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.


CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

27 September, 2021

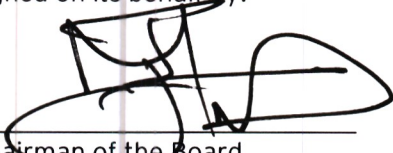
CENTRAL BANK OF KENYA
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 KShs' million	2020 KShs' million
Interest income	4	17,084	22,308
Interest expense	5	<u>(2,026)</u>	<u>(4,618)</u>
Net interest income		15,058	17,690
Fees and commission income	6(a)	3,000	3,000
Net trading income	6(b)	13,237	11,753
Other income	7(a)	1,044	982
Demonetization of old currency	7(b)	<u>-</u>	<u>7,388</u>
Operating income		32,339	40,813
Impairment allowance expense on financial assets	8	(4,333)	(8,627)
Operating expenses	9(a)	<u>(16,283)</u>	<u>(15,131)</u>
Operating surplus before unrealized gains		11,723	17,055
<i>Unrealised gains:</i>			
Foreign exchange gain		<u>25,270</u>	<u>24,475</u>
Surplus for the year		<u>36,993</u>	<u>41,530</u>
Other comprehensive income:			
<i>Items that are or may be subsequently reclassified to profit or loss:</i>			
Debt instruments at fair value through other comprehensive income:			
Net change in fair value during the year	10(a)	(6,321)	8,452
Reclassification to income statement	10(b)	(7,329)	(3,020)
Changes in Impairment allowance	8	<u>81</u>	<u>17</u>
		<u>(13,569)</u>	<u>5,449</u>
<i>Items that will not be reclassified to profit or loss:</i>			
Land and building revaluation increase	18(b)	3,879	-
Actuarial gain on retirement benefit asset	20	<u>676</u>	<u>1,949</u>
		<u>4,555</u>	<u>1,949</u>
Other comprehensive income for the year		<u>(9,014)</u>	<u>7,398</u>
Total comprehensive income for the year		<u>27,979</u>	<u>48,928</u>

CENTRAL BANK OF KENYA
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2021

	Notes	2021 KShs' million	2020 KShs' million
ASSETS			
Balances due from banking institutions	11	430,968	369,505
Funds held with International Monetary Fund (IMF)	12(a)	2,201	3,255
Securities and advances to banks	13	59,540	55,561
Loans and advances	14	3,131	3,274
Debt instruments at fair value through other comprehensive income	15	664,991	724,892
Equity instruments at fair value through other comprehensive income	16	10	10
Other assets	17(a)	5,541	5,595
Gold holdings	17(b)	106	106
Right-of-use assets	18(a)	114	222
Property and equipment	18(b)	33,105	31,618
Intangible assets	19	1,784	1,224
Retirement benefit asset	20	7,639	6,537
IMF On-Lent to Government of Kenya (GOK)	21(a)	160,638	79,702
Due from Government of Kenya	21(b)	<u>79,288</u>	<u>68,933</u>
TOTAL ASSETS		<u>1,449,056</u>	<u>1,350,434</u>
LIABILITIES			
Currency in circulation	22	277,129	257,792
Investment by banks	23	-	6,997
Deposits from Banks and Government	24	728,001	732,187
Due to IMF	12(b)	221,174	151,841
Other liabilities	25	<u>6,258</u>	<u>5,602</u>
TOTAL LIABILITIES		<u>1,232,562</u>	<u>1,154,419</u>
EQUITY			
Share capital	26(a)	35,000	35,000
General reserve fund	26(b)	155,368	128,199
Fair value reserve	26(c)	(1,054)	12,515
Revaluation reserve	26(d)	21,680	17,801
Consolidated fund	26(e)	<u>5,500</u>	<u>2,500</u>
TOTAL EQUITY		<u>216,494</u>	<u>196,015</u>
TOTAL LIABILITIES AND EQUITY		<u>1,449,056</u>	<u>1,350,434</u>

The financial statements were authorised for issue by the Board of Directors on 3 September 2021 and signed on its behalf by:


Chairman of the Board
Mr. Mohammed Nyaoga


Governor
Dr. Patrick Njoroge

CENTRAL BANK OF KENYA
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2021

Year ended 30 June 2021	Notes	Share Capital KShs' million	General Reserve KShs' million	Revaluation Reserve KShs' million	Fair value Reserve KShs' million	Consolidated Fund KShs' million	Total KShs' million
At 1 July 2020		35,000	128,199	17,801	12,515	2,500	196,015
Surplus for the year		-	36,993	-	-	-	36,993
Net change in fair value of debt instrument at FVOCI		-	-	-	(6,321)	-	(6,321)
Net amount reclassified to the income statement on sale and maturity of debt instruments at FVOCI		-	-	-	(7,329)	-	(7,329)
Net change in impairment allowance on debt instruments at FVOCI	18(b)	-	-	-	81	-	81
Revaluation gain		-	-	3,879	-	-	3,879
Actuarial gain on retirement benefit asset	20	-	676	-	-	-	676
Total comprehensive income for the year		-	37,669	3,879	(13,569)	-	27,979
<i>Transactions with owners</i>							
-Transfer to consolidated fund	26(e)	-	(10,500)	-	-	10,500	-
-Payments out of consolidated fund	26(e)	-	-	-	-	(7,500)	(7,500)
At 30 June 2021		35,000	155,368	21,680	(1,054)	5,500	216,494

CENTRAL BANK OF KENYA
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
FOR THE YEAR ENDED 30 JUNE 2021

Year ended 30 June 2020	Notes	Share Capital KShs' million	General Reserve KShs' million	Revaluation Reserve KShs' million	Fair value Reserve KShs' million	Consolidated Fund KShs' million	Total KShs' million
At 1 July 2019		20,000	109,608	17,801	7,066	4,000	158,475
Surplus for the year		-	41,530	-	-	-	41,530
Net change in fair value of debt instrument at FVOCI		-	-	-	8,452	-	8,452
Net amount reclassified to the income statement on sale and maturity of debt instruments at FVOCI		-	-	-	(3,020)	-	(3,020)
Net change in Impairment allowance on debt instruments at FVOCI		-	-	-	17	-	17
Actuarial gain on retirement benefit asset	20	-	1,949	-	-	-	1,949
Total comprehensive income for the year		-	43,479	-	5,449	-	48,928
Additional share capital	26(a)	15,000	(15,000)	-	-	-	-
<i>Transactions with owners</i>							
-Transfer to consolidated fund	26(e)	-	(9,888)	-	-	9,888	-
-Payments out of consolidated fund	26(e)	-	-	-	-	(11,388)	(11,388)
At 30 June 2020		35,000	128,199	17,801	12,515	2,500	196,015

CENTRAL BANK OF KENYA
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2021

	Notes	2021 KShs' million	2020 KShs' million
OPERATING ACTIVITIES			
Cash used in operating activities	27	(65,484)	(43,555)
Interest received		17,084	22,308
Interest paid		(2,026)	(4,618)
Interest paid on lease liabilities	18(a)	<u>(22)</u>	<u>(7)</u>
Cash used in operating activities		<u>(50,448)</u>	<u>(25,872)</u>
INVESTING ACTIVITIES			
Purchase of property and equipment	18(b)	(2,884)	(3,394)
Purchase of intangible assets	19	(723)	(546)
Proceeds from disposal of property and equipment		12	64
Net change in debt instruments at fair value through other comprehensive income		40,478	(181,615)
Net change in securities and advances to banks		(18,102)	(31,979)
Net change in funds held with International Monetary Fund (IMF)		<u>1,054</u>	<u>(2,247)</u>
Net cash generated from/(used in) investing activities		<u>19,835</u>	<u>(219,717)</u>
FINANCING ACTIVITIES			
Payment of principal portion of lease liabilities	18(a)	(171)	(158)
Receipts from International Monetary Fund (IMF)	28(b)	77,190	79,702
Repayments to the International Monetary Fund (IMF)	28(b)	<u>(7,894)</u>	<u>(11,634)</u>
Net cash generated from financing activities		<u>69,125</u>	<u>67,910</u>
Net increase/(decrease) in cash and cash equivalents		38,512	(177,679)
Cash and cash equivalents at the beginning of the year		<u>451,154</u>	<u>628,833</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	28(a)	<u>489,666</u>	<u>451,154</u>

CENTRAL BANK OF KENYA
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED 30 JUNE 2021

1. GENERAL INFORMATION

Central Bank of Kenya (the "Bank"/" CBK") is established under Article 231 of the Constitution of Kenya. The Central Bank of Kenya is responsible for formulating monetary policy, promoting price stability, the payment system and performing other functions conferred on it by the Act of Parliament. The Bank is wholly owned by the National Treasury. 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 (KShs), rounded to the nearest million.

(b) Changes in accounting policies and disclosures

New and amended standards and interpretations

The following amendments became effective during the period:

New standards or amendments	Effective for annual period beginning on or after
Definition of a Business (Amendments to IFRS 3)	1 January 2020
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	1 January 2020
Definition of Material (Amendments to IAS 1 and IAS 8)	1 January 2020
Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
COVID-19-Related Rent Concessions (Amendments to IFRS 16)	1 June 2020

These amendments and interpretations apply for the first time in the period, but do not have an impact on the financial statements of the Bank. Below are the new standards or amendments which affect the Bank:

COVID-19-Related Rent Concessions (Amendments to IFRS 16)

On May 28 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no significant impact on the financial statements of the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Changes in accounting policies and disclosures (continued)

New and amended standards (continued)

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no significant impact on the Bank financial statements.

Conceptual Framework for Financial Reporting issued on 29 March 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the IASB in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards. This will affect those entities which developed their accounting policies based on the Conceptual Framework.

The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the Bank.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are listed below:

New standards or amendments	Effective for annual period beginning on or after
Interest Rate Benchmark Reform - Phase 2 - Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	1 January 2021
Covid-19-Related Rent Concessions beyond 30 June 2021 - Amendment to IFRS 16	1 April 2021
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
Onerous Contracts Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
AIP IFRS 1 First-time Adoption of International Financial Reporting Standards - Subsidiary as a first-time adopter	1 January 2022
AIP IFRS 9 Financial Instruments - Fees in the '10 per cent' test for derecognition of financial liabilities	1 January 2022
AIP IAS 41 Agriculture - Taxation in fair value measurements	1 January 2022
IFRS 17 Insurance Contracts	1 January 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Changes in accounting policies and disclosures (continued)

Standards issued but not yet effective (continued)

New standards or amendments	Effective for annual period beginning on or after
Classification of liabilities as current or non-current (Amendments to IAS 1)	1 January 2023
Definition of Accounting Estimates - Amendments to IAS 8	1 January 2023
Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2	1 January 2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction - Amendments to IAS 12	1 January 2023
Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28)	To be determined

The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective. The following standards and interpretations are expected to affect the Bank financial statements when they become effective.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1 2023 and must be applied retrospectively. The Bank is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Property, Plant and Equipment: Proceeds before Intended Use - Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Changes in accounting policies and disclosures (continued)

Standards issued but not yet effective (continued)

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Bank.

Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021.

The Bank has not received Covid-19-related rent concessions but plans to apply the practical expedient if it becomes applicable within allowed period of application.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Bank is currently assessing the impact of the amendments to determine the impact they will have on the Bank's accounting policy disclosures.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary, Kenya School of Monetary Studies, as at 30 June 2021. Kenya School of Monetary Studies is a subsidiary of the Bank. The Bank has the power to govern the financial and operating policies generally of the school. The subsidiary was fully consolidated from the date on which control was transferred to the Bank.

The Bank 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 on consolidation. 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

Functional and presentation currency

Items included in the financial statements 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 ("KShs") which is the Bank's functional currency.

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.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

All foreign exchange gains and losses are presented in profit or loss within 'foreign exchange gains/(losses)'.

(e) Currency Inventory

The Bank's inventory is comprised of new currency notes and coins. 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 profit or loss from the deferred costs account. The deferred amount is recognised as 'deferred currency expenses' in other assets and represents un-issued bank notes and coins stock.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Bank's business model for managing them. The Bank initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or debt instruments at fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Bank's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the settlement date, i.e., the date that the Bank receives the asset on purchase or delivers the asset on sale.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Bank. The Bank measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; And
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Bank's financial assets at amortised cost includes balances due from banking institutions, funds held with IMF, securities and advances to banks, loans and advances, other assets (sundry debtors), IMF On-Lent to GOK and due from Government of Kenya.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

Financial assets (continued)

Subsequent measurement (continued)

Financial assets at fair value through OCI (debt instruments)

The Bank measures debt instruments at fair value through OCI if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling; And
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and Impairment allowance or reversals are recognised in profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss.

The Bank's debt instruments at fair value through OCI includes investments in fixed income securities. Fixed income securities comprise Government debt securities issued by sovereign governments, Municipal bonds and bonds issued by international financial institutions.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Bank can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in profit or loss when the right of payment has been established, except when the Bank benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Bank elected to classify irrevocably its non-listed equity investments under this category as it intends to hold these investments for the foreseeable future.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

The Bank does not have any financial assets classified under this category.

CENTRAL BANK OF KENYA
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

Classes of financial instruments

Category (as defined by IFRS 9)		Class (as determined by the Bank)		2021	2020		
				KShs' million	KShs' million		
Financial assets	Financial assets at amortized cost	Securities and advances to banks		59,540	55,561		
		Funds held with IMF		2,201	3,255		
		Net advances to staff and banks under liquidation		3,131	3,274		
		Other assets (classified as financial assets)		349	500		
	Due from Government	Government term loan			20,009	21,783	
			IMF On-Lent to GOK		160,638	79,702	
			GOK Overdraft facility		59,279	47,150	
	Balances due from banking institutions		Foreign currency denominated term deposits and current account balances		430,968	369,505	
	Financial assets at Fair value through other comprehensive income	Fixed income securities		World Bank managed and internally managed fixed income portfolios		664,991	724,892
		Equity		Investment securities		10	10
Financial liabilities	Financial liabilities at amortised cost	Deposits from banks		Cash reserve ratio and current account deposits		336,115	450,764
		Due to IMF		221,174	151,841		
		Investments by banks		-	6,997		
		Other liabilities		5,952	5,343		
		Deposits from Government institutions		391,886	281,423		

Impairment of financial assets

Overview of Expected Credit Loss (ECL) principles

The Bank recognizes Impairment allowance for expected credit losses "ECL" for financial assets that are debt instruments and are not measured at FVTPL.

The Bank measures Impairment allowance at an amount equal to lifetime ECL except for the following for which they are measured as 12-month ECL:

- Fixed income securities that are determined to have low credit risk at the reporting date; and
- other financial instruments for which credit risk has not increased significantly since initial recognition.

The Bank considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment-grade'. 12-month ECL is the portion of ECL that represents the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'. Life-time ECL are the ECLs that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'. Financial instruments that are considered credit - impaired are referred to as 'Stage 3 financial instruments'. The Bank records an allowance for the lifetime ECL.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

Measurement of ECL

ECL are a probability-weighted estimate of credit losses and are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;

Credit impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; and,
- the disappearance of an active market for a security because of financial difficulties.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields;
- The rating agencies' assessments of creditworthiness;
- The country's ability to access the capital markets for new debt issuance;
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; and,
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Presentation of allowance for ECL in the statement of financial position

Impairment allowance for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- debt instruments measured at FVOCI: no impairment allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the impairment allowance is disclosed and is recognized in the fair value reserve with a corresponding charge to profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

Financial assets (continued)

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Bank's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired

Or

- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Bank continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

Write-offs

Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'Impairment allowance on financial instruments' in profit or loss.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Bank's financial liabilities include investment by banks, deposits from banks and government, due to IMF and other liabilities.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognised in profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 is satisfied.

The Bank has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Bank. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in profit or loss.

This category generally applies to deposits from bank and government, due to IMF, investment by banks and other liabilities.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

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 offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(g) 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.

(h) Cash and cash equivalents

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

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of balances due from banking institutions, fixed income securities and securities and advances to banks with maturities of less than three months.

(i) Property and equipment

Land and buildings comprise mainly branches and offices. All equipment used by the Bank is stated at cost, net of accumulated depreciation and accumulated Impairment allowance, if any. Work in progress is stated at cost net of accumulated Impairment allowance, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Land and buildings are measured at fair value less accumulated depreciation and Impairment allowance recognised after the date of revaluation. Valuations are performed with sufficient frequency to ensure that the carrying amount of a revalued asset does not differ materially from its fair value. Valuations are carried out every three years.

A revaluation surplus is recorded in OCI and credited to the asset revaluation surplus in equity. However, to the extent that it reverses a revaluation deficit of the same asset previously recognised in the profit or loss, the increase is recognised in profit and loss. A revaluation deficit is recognised in profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation surplus.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Property and equipment (continued)

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:

<u>Asset classification</u>	<u>Useful life</u>	<u>Depreciation rate</u>
Leasehold land	Over the period of the lease	
Buildings	20 years	5%
Motor vehicles	4 years	25%
Furniture and equipment	5 - 10 years	10-20%
Computers	4 years	25%

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

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

(j) Intangible assets

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

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

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

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

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years. Computer software under installation and not yet placed in use is held in software clearing account and not amortized until commissioned.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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 of disposal 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.

Impairment allowance of continuing operations are recognised in profit or loss in expense categories consistent with the function of the impaired asset, except for properties previously revalued with the revaluation taken to OCI. For such properties, the impairment is recognised in OCI up to the amount of any previous revaluation. Impairment allowance recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists.

A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount or exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase. An impairment loss recognised for goodwill is not reversed in a subsequent period.

(l) Employee benefits

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

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

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

The assets of the scheme are held by the Bank in an independent trustee administered fund.

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Employee benefits (continued)

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

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

(m) Income tax

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

(n) Provisions

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

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

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

(o) Surplus funds

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

(p) Share capital

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Leases

The Bank assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment allowance, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term as follows:

Buildings	1 to 5 years
Equipment	1 to 5 years

The right-of-use assets are also subject to impairment. Refer to the accounting policies in Note 2(k) Impairment of non-financial assets.

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments.

In calculating the present value of lease payments, the Bank uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the lease payments.

The Bank's lease liabilities are included in Other liabilities (see Note 25).

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases of buildings and equipments (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of equipments that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Bank as a lessor

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability on initial recognition. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument, and any revisions to these estimates are recognised in profit or loss. 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.

If a financial asset is measured at FVOCI or FVTPL, the amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if the financial asset had been measured at amortised cost.

The Bank calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset.

When a financial asset becomes credit-impaired (and is therefore regarded as 'Stage 3'), the Bank calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

(s) Fee and commission income

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 KShs 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.

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Fees and commission income are recognised at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Bank has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

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

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

(u) Currency in circulation

Notes and coins in circulation are measured at fair value. Currency in circulation represents the nominal value of all bank notes and coins held by the public and commercial banks. The Bank demonetises currency denominations that it considers no longer suitable for circulation through a Gazette Notice.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 KShs 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 debt instrument at amortised cost.

(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 encashable on demand promissory notes 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.

(x) Fair value measurement

The Bank measures financial instruments such as debt instruments at fair value through other comprehensive income, and non-financial assets such as land and buildings and gold holdings, at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability
Or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Fair value measurement (continued)

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External valuers are involved for valuation of land and buildings. Involvement of external valuers is determined after every three years. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. Valuers are normally rotated every three years.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

Fair-value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarised in the following notes:

- Disclosures for valuation methods, significant estimates and assumptions Notes 3, 15, 17(b), 18(b) and 31
- Quantitative disclosures of fair value measurement hierarchy Note 31
- Debt instruments at fair value through other comprehensive income Note 15
- Gold holdings Note 17(b)
- Land and buildings Note 18(b)

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The preparation of the Bank's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Bank's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Existing circumstances and assumptions about future developments may change due to circumstances beyond the Bank's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the consolidated financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

Impairment allowance on financial assets

The measurement of Impairment allowance under IFRS 9 across all categories of financial assets in scope requires judgement, particularly, the estimation of the amount and timing of future cash flows and collateral values when determining Impairment allowance and the assessment of a significant increase in credit risk.

These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Bank's internal credit grading model, which assigns PDs to the individual grades.
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment.
- The segmentation of financial assets when their ECL is assessed on a collective basis.
- Development of ECL models, including the various formulas and the choice of inputs.
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs (Explanation of the terms: PDs, EADs and LGDs are included in Note 30(i)).
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary. Further details about the ECLs are provided in Notes 8, 11, 13, 14, 17 and 30(i).

Post-retirement benefits

Post-retirement benefits are long term liabilities whose value can only be estimated using assumptions about developments over a long period. The Bank has employed actuarial advice in arriving at the figures in the financial statements (Note 20 which includes assumptions). The Board of Directors considers the assumptions used by the actuary in their calculations to be appropriate for this purpose.

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. See Note 31 for additional disclosures.

Property and equipment

Land and buildings are carried at fair value; representing open market value determined periodically by internal professional valuers. See Notes 18(b) and 31 for additional disclosures.

CENTRAL BANK OF KENYA
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2021

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES
 (continued)

Leases - Estimating the incremental borrowing rate

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay'.

The Bank estimates the IBR using observable inputs i.e. market interest rates.

Determining the lease term of contracts with renewal and termination options - Group as lessee

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

4. INTEREST INCOME	2021 KShs' million	2020 KShs' million
Interest income calculated using the effective interest method		
Financial assets - debt instruments at amortised cost	7,391	11,587
Financial assets at fair value through other comprehensive income	<u>9,693</u>	<u>10,721</u>
	<u>17,084</u>	<u>22,308</u>
Interest income from debt instruments at amortised cost		
Interest on term deposits	2,055	4,856
Interest on Government of Kenya loan	626	666
Interest on Government of Kenya overdraft	2,208	3,245
Interest on staff loans and advances	102	104
Interest on advances to banks	2,082	2,142
Other interest income*	<u>318</u>	<u>574</u>
	<u>7,391</u>	<u>11,587</u>
Interest income from debt instruments at fair value through other comprehensive income comprises:		
Internally managed portfolio	9,186	10,093
Externally managed portfolio - (World Bank Reserve Advisory & Management Partnership)	<u>507</u>	<u>628</u>
	<u>9,693</u>	<u>10,721</u>

*Other interest income mainly comprises interest from overnight lending to banks.

CENTRAL BANK OF KENYA
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2021

	2021 KShs' million	2020 KShs' million
5. INTEREST EXPENSE		
Interest expense calculated using the effective interest method		
Interest on monetary policy issues - investments by banks	1,897	4,355
Interest expense - IMF	<u>129</u>	<u>263</u>
	<u>2,026</u>	<u>4,618</u>
6. (a) FEES AND COMMISSION INCOME	<u>3,000</u>	<u>3,000</u>
Fees and commission relate to income the Bank earns from the Government of Kenya through its agency role in the issuance of Treasury bills and bonds.		
(b) NET TRADING INCOME	2021 KShs' million	2020 KShs' million
Net gain on sale of foreign exchange currencies	8,328	7,437
Net gain on disposal of financial assets at fair value through other comprehensive income	<u>4,909</u>	<u>4,316</u>
	<u>13,237</u>	<u>11,753</u>
7. (a) OTHER INCOME		
Licence fees from commercial banks and foreign exchange bureaus	296	291
Penalties from commercial banks and foreign exchange bureaus	29	36
Rental income	49	57
Kenya School of Monetary Studies operating income - hospitality services and tuition fee	19	271
Gain on disposal of property and equipment	11	-
KEPSS Billing revenue	328	301
Miscellaneous income	<u>312</u>	<u>26</u>
	<u>1,044</u>	<u>982</u>
(b) DEMONETIZATION OF OLD CURRENCY	<u>-</u>	<u>7,388</u>
This amount relates to 7,388,000 pieces of older series of KShs 1,000 note that were not returned on conclusion of the demonetisation exercise on 30 September 2019. The value of these notes represented an operational surplus and was transferred to the exchequer on 20 March 2020 to support the National Government's efforts against the COVID-19 pandemic.		
8. IMPAIRMENT ALLOWANCE ON FINANCIAL ASSETS	2021 KShs' million	2020 KShs' million
The table below shows the ECL charges on financial instruments:		
Impairment allowance on staff loans (Note 14)	5	3
Impairment allowance on balances due from banking institutions (Note 11)	17	87
Impairment allowance on securities and advances to banks (Note 13)	(4,274)	(8,700)
Impairment allowance on debt instruments at fair value through other comprehensive income	<u>(81)</u>	<u>(17)</u>
	<u>(4,333)</u>	<u>(8,627)</u>

CENTRAL BANK OF KENYA
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2021

	2021 KShs' million	2020 KShs' million
9. (a) OPERATING EXPENSES		
Employee benefits (Note 9(b))	4,740	5,121
Currency production expenses	2,090	3,047
Property maintenance and utility expenses	1,830	1,910
Depreciation of property and equipment (Note 18(b))	2,125	1,695
Amortisation of intangible assets (Note 19)	163	159
Depreciation of right -of -use asset (Note 18(a))	135	133
Interest on leases liabilities (Note 18(a))	12	21
Provision for impairment loss on other assets (Note 17(a))	17	17
Work-in-Progress (WIP) write off	590	-
Auditor's remuneration	11	11
Transport and travelling costs	146	197
Office expenses	175	216
Postal service expense	232	208
Legal and professional fees	352	500
Loss on disposal of property and equipment	-	18
Revaluation decrease on land and buildings (Note 18(b))	2,560	-
Other administrative expenses	<u>1,105</u>	<u>1,878</u>
	<u>16,283</u>	<u>15,131</u>
(b) EMPLOYEE BENEFITS		
Wages and salaries	4,162	4,181
Pension costs - Defined contribution plan	448	421
Medical expenses	395	342
Other staff costs	36	291
Directors' emoluments (Note 29(ii))	51	60
Net income relating to the retirement benefit asset (Note 20)	<u>(352)</u>	<u>(174)</u>
	<u>4,740</u>	<u>5,121</u>
10. (a) CHANGES IN FAIR VALUE OF INVESTMENTS		
Fair value changes on debt instruments at fair value through other comprehensive income:		
Internally managed portfolio	(5,803)	8,183
Externally managed portfolio - RAMP	<u>(518)</u>	<u>269</u>
	<u>(6,321)</u>	<u>8,452</u>
(b) RECLASSIFICATION TO THE INCOME STATEMENT		
Net amount reclassified to the income statement on sale and maturity of debt instruments at FVOCI:		
Internally managed portfolio	7,091	2,680
Externally managed portfolio - RAMP	<u>238</u>	<u>340</u>
	<u>7,329</u>	<u>3,020</u>
This amount relates to reclassification on sale or maturity of debt instruments.		

CENTRAL BANK OF KENYA
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2021

	2021 KShs' million	2020 KShs' million
11. BALANCES DUE FROM BANKING INSTITUTIONS		
Current accounts	135,329	39,341
Foreign currency denominated term deposits	221,053	243,473
Accrued interest on term deposits	104	60
Special project accounts	33,374	57,520
Domestic foreign currency cheque clearing	40,576	28,426
REPSS clearing and regional central banks	<u>543</u>	<u>713</u>
	430,979	369,533
Impairment allowance	<u>(11)</u>	<u>(28)</u>
	<u>430,968</u>	<u>369,505</u>

An analysis of changes in the impairment allowance of balances due from banking institutions is as follows:

	2021 KShs' million	2020 KShs' million
At start of the year	28	115
Movement in impairment allowance (Note 8)	<u>(17)</u>	<u>(87)</u>
At 30 June	<u>11</u>	<u>28</u>

A reconciliation from the opening balance to the closing balance of the Impairment allowance based on year end stage classification is disclosed in Note 30 (i).

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 24).

12. FUNDS HELD AT/ DUE TO INTERNATIONAL MONETARY FUND (IMF)

	2021 SDR million	2021 KShs' million	2020 SDR million	2020 KShs' million
(a) Assets				
IMF balances (SDR asset account)	<u>14</u>	<u>2,201</u>	<u>22</u>	<u>3,255</u>
(b) Liabilities				
International Monetary Fund Account No. 1	20	3,048	20	2,886
International Monetary Fund Account No. 2	-	5	-	4
International Monetary Fund - PRGF Account	114	17,566	212	31,124
Rapid Credit Facility	543	83,448	543	79,702
Extended Credit Facility	163	25,035	-	-
Extended Fund Facility	339	52,155	-	-
IMF - SDR Allocation account	<u>260</u>	<u>39,917</u>	<u>260</u>	<u>38,125</u>
	<u>1,439</u>	<u>221,174</u>	<u>1,035</u>	<u>151,841</u>

The Bank received SDR 502.09 million (2020: SDR 542.8 million relating to Rapid Credit Facility (RCF)) from the Fund for direct budget support of the Government of Kenya initiatives towards COVID-19 pandemic. These funds were released to the Bank under Extended Credit Facility (ECF) and Extended Fund Facility (EFF) and represent a debt due from the Government of Kenya to the IMF. This debt is recognised in the books of the CBK, but on-lent to the government through the National Treasury.

CENTRAL BANK OF KENYA
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2021

12. FUNDS HELD AT/ DUE TO INTERNATIONAL MONETARY FUND (IMF) (continued)

Kenya's quota in IMF of SDR 542.8 million (2020: SDR 542.8 million) is not included in the financial statements of the Bank as these are booked in the National Treasury who are the Government of Kenya's Fiscal Agent. Allocations of SDR 260 million (2020: SDR 260 million) are included in the financial statements of the Bank as the custodian of the Government of Kenya. The repayment of IMF facilities is currently bi-annual and Poverty Reduction Growth Facility (PRGF) attracts nil interest until advised by IMF. The Rapid Credit Facility will be paid within a period of five years from November 2025 to May 2030. ECF will be paid quarterly within a period of 5 years from October 2026 to June 2031. EFF will be paid quarterly within a period of six years from October 2025 to June 2031.

13. SECURITIES AND ADVANCES TO BANKS

	2021 KShs' million	2020 KShs' million
Treasury bonds discounted	7,299	7,513
Treasury bills discounted	534	116
Accrued interest bonds discounted	231	241
Repo treasury bills (Injection)	10,963	21,041
Accrued interest repo	69	214
Liquidity support framework	55,471	36,949
Due from commercial banks	<u>947</u>	<u>1,187</u>
	75,514	67,261
Impairment allowance	<u>(15,974)</u>	<u>(11,700)</u>
	<u>59,540</u>	<u>55,561</u>

An analysis of changes in the impairment allowance of securities and advances to banks is as follows:

	2021 KShs' million	2020 KShs' million
At the start of the year	11,700	3,000
Charge to profit or loss (Note 8)	<u>4,274</u>	<u>8,700</u>
At 30 June	<u>15,974</u>	<u>11,700</u>

Year ended 30 June 2021	Maturity period			Total KShs' million
	0-3 months KShs' million	4-12 months KShs' million	Over 1 year KShs' million	
Treasury bills discounted	519	15	-	534
Treasury bonds discounted	-	77	7,222	7,299
Accrued interest bonds discounted	180	51	-	231
Repo treasury bills & bonds (Injection)	10,963	-	-	10,963
Accrued interest repo	69	-	-	69
Due from commercial banks	947	-	-	947
Liquidity support framework	<u>-</u>	<u>-</u>	<u>39,497</u>	<u>39,497</u>
	<u>12,678</u>	<u>143</u>	<u>46,719</u>	<u>59,540</u>

CENTRAL BANK OF KENYA
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2021

13. SECURITIES AND ADVANCES TO BANKS (continued)

Year ended 30 June 2020	Maturity period			Total KShs' million
	0-3 months KShs' million	4-12 months KShs' million	Over 1 year KShs' million	
Treasury bills discounted	46	70	-	116
Treasury bonds discounted	-	281	7,232	7,513
Accrued interest bonds discounted	39	202	-	241
Repo treasury bills & bonds (Injection)	21,041	-	-	21,041
Accrued interest repo	214	-	-	214
Due from commercial banks	1,187	-	-	1,187
Liquidity support framework	-	-	25,249	25,249
	<u>22,527</u>	<u>553</u>	<u>32,481</u>	<u>55,561</u>

14. LOANS AND ADVANCES

	2021 KShs' million	2020 KShs' million
Due from banks under liquidation	3,400	3,400
Advances to employees	<u>3,179</u>	<u>3,327</u>
	6,579	6,727
Impairment allowance	<u>(3,448)</u>	<u>(3,453)</u>
Net advances	<u>3,131</u>	<u>3,274</u>
The movement in the Impairment allowance is as follows:		
At 1 July	3,453	3,456
Movement in impairment allowance (Note 8)	<u>(5)</u>	<u>(3)</u>
At 30 June	<u>3,448</u>	<u>3,453</u>

15. DEBT INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2021 KShs' million	2020 KShs' million
Fixed income securities - Internally managed portfolio	629,146	690,431
Fixed income securities under World Bank RAMP	<u>35,845</u>	<u>34,461</u>
	<u>664,991</u>	<u>724,892</u>

Maturity analysis Year ended 30 June 2021	Maturity period			Total KShs' million
	0-3 months KShs' million	4-12 months KShs' million	Over 1 year KShs' million	
Fixed income securities - Internally managed Portfolio	44,523	188,014	396,609	629,146
Fixed income securities under World Bank RAMP	<u>1,497</u>	<u>11,998</u>	<u>22,350</u>	<u>35,845</u>
	<u>46,020</u>	<u>200,012</u>	<u>418,959</u>	<u>664,991</u>

CENTRAL BANK OF KENYA
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2021

15. DEBT INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
 (continued)

Maturity analysis	Maturity period			Total KShs' million
	0-3 months KShs' million	4-12 months KShs' million	Over 1 year KShs' million	
At 30 June 2020				
Fixed income securities - Internally managed Portfolio	57,638	375,418	257,375	690,431
Fixed income securities under World Bank RAMP	<u>1,484</u>	<u>10,104</u>	<u>22,873</u>	<u>34,461</u>
	<u>59,122</u>	<u>385,522</u>	<u>280,248</u>	<u>724,892</u>

Fixed income securities decreased by KShs 59,901 million to KShs 664,991 million (2020: KShs 724,892 million) mainly due to sale/maturities of fixed income securities during the year under review.

16. UNLISTED EQUITY INVESTMENTS

	2021 KShs' million	2020 KShs' million
Unquoted equity securities at fair value through other comprehensive income	<u>10</u>	<u>10</u>

17. (a) OTHER ASSETS

	2021 KShs' million	2020 KShs' million
Prepayments	1,471	1,930
Deferred currency expenses	3,572	2,933
Sundry debtors	5,328	5,462
Items in the course of collection	110	211
Uncleared effects	<u>39</u>	<u>21</u>
	10,520	10,557
Impairment allowance	<u>(4,979)</u>	<u>(4,962)</u>
	<u>5,541</u>	<u>5,595</u>

All other assets balances are recoverable within one year.

The movement in the Impairment allowance is as follows:

At start of the year	4,962	4,945
Increase in impairment allowance (Note 9(a))	<u>17</u>	<u>17</u>
At 30 June	<u>4,979</u>	<u>4,962</u>

(b) GOLD HOLDINGS

Gold holdings	<u>106</u>	<u>106</u>
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CENTRAL BANK OF KENYA
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2021

18(a) RIGHT OF USE ASSETS

Year ended 30 June 2021	Leases relating to buildings KShs' million	Leases relating to equipment KShs' million	Total KShs' million
COST			
At 1 July 2020	151	204	355
Additions	28	-	28
Disposal	<u>(1)</u>	<u>-</u>	<u>(1)</u>
At 30 June 2021	<u>178</u>	<u>204</u>	<u>382</u>
ACCUMULATED DEPRECIATION			
At 1 July 2020	62	71	133
Charge for the year	<u>61</u>	<u>74</u>	<u>135</u>
At 30 June 2021	<u>123</u>	<u>145</u>	<u>268</u>
CARRYING AMOUNT			
At 30 June 2021	<u>55</u>	<u>59</u>	<u>114</u>
Year ended 30 June 2020	Leases relating to buildings KShs' million	Leases relating to equipment KShs' million	Total KShs' million
COST			
Effect of adoption of IFRS 16 on 1 July 2019	148	204	352
Additions	<u>3</u>	<u>-</u>	<u>3</u>
At 30 June 2020	<u>151</u>	<u>204</u>	<u>355</u>
ACCUMULATED DEPRECIATION			
At 1 July 2019	-	-	-
Charge for the year	<u>62</u>	<u>71</u>	<u>133</u>
At 30 June 2020	<u>62</u>	<u>71</u>	<u>133</u>
CARRYING AMOUNT			
At 30 June 2020	<u>89</u>	<u>133</u>	<u>222</u>

Set out below are the carrying amounts of lease liabilities (included under 'Other liabilities' in Note 25) and the movements during the period:

	2021 Kshs million	2020 KShs 'million
At start of the year	209	350
Additions	28	3
Accretion of interest	12	21
Payment of principal	(171)	(158)
Terminated lease	(1)	-
Payment of interest	<u>(22)</u>	<u>(7)</u>
At 30 June	<u>55</u>	<u>209</u>

CENTRAL BANK OF KENYA
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2021

18(a) RIGHT OF USE ASSETS (continued)

The maturity analysis of lease liabilities is disclosed in Note 30. The following are the amounts recognised in profit or loss:

	2021 KShs 'million	2020 KShs 'million
Depreciation expense for right-of-use assets	135	133
Interest expense on lease liabilities	12	21
Expense relating to short-term leases (included in Other administrative expenses)	<u>10</u>	<u>5</u>
Total amount recognised in profit or loss	<u>157</u>	<u>159</u>

The Bank had total cash outflows for leases of KShs 193 million (2020: KShs 165 million) during the year. No impairment loss or reversals of impairment loss has been recognized in profit or loss during the period.

The bank also had non-cash additions to the right-of-use assets and lease liabilities of KShs 28 million (2020: KShs 3 million).

CENTRAL BANK OF KENYA
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2021

18(b). PROPERTY AND EQUIPMENT

Year ended 30 June 2021	Freehold land and buildings KShs' million	Leasehold land and buildings KShs' million	Work in progress KShs' million	Motor vehicles KShs' million	Furniture and equipment KShs' million	Total KShs' million
AT COST OR VALUATION						
At 1 July 2020	19,282	5,410	2,963	431	9,140	37,226
Additions	455	-	1,711	17	701	2,884
Revaluation	(753)	79	-	-	-	(674)
Capitalization of work in progress	545	-	(2,024)	-	1,479	-
WIP write off	-	-	(590)	-	-	(590)
Transfers	31	(31)	-	-	-	-
Disposal	-	-	-	(22)	(68)	(90)
At 30 June 2021	<u>19,560</u>	<u>5,458</u>	<u>2,060</u>	<u>426</u>	<u>11,252</u>	<u>38,756</u>
DEPRECIATION						
At 1 July 2020	928	227	-	385	4,068	5,608
Charge for the year	752	158	-	29	1,186	2,125
Revaluation	(1,622)	(371)	-	-	-	(1,993)
Disposals	-	-	-	(22)	(67)	(89)
At 30 June 2021	<u>58</u>	<u>14</u>	<u>-</u>	<u>392</u>	<u>5,187</u>	<u>5,651</u>
CARRYING AMOUNT						
At 30 June 2021	<u>19,502</u>	<u>5,444</u>	<u>2,060</u>	<u>34</u>	<u>6,065</u>	<u>33,105</u>

Work in progress relates to integrated security management system and office modernisation Phase III at Head Office.

The WIP write off represents consultancy costs for projects in the bank that were determined to be no longer feasible for implementation.

Land and buildings were revalued as at 30 June 2021 by Regent Valuers International (K) Ltd and SEC & M Co. Ltd. The valuation resulted in an overall revaluation increase of KShs 1,319 million.

CENTRAL BANK OF KENYA
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2021

18(b). PROPERTY AND EQUIPMENT (continued)

Year ended 30 June 2020	Freehold land and Buildings KShs' million	Leasehold land and Buildings KShs' million	Work in Progress (WIP) KShs' million	Motor vehicles KShs' million	Furniture and equipment KShs' million	Total KShs' million
AT COST OR VALUATION						
At 1 July 2019	12,820	4,913	8,579	459	8,381	35,152
Additions	-	497	846	5	2,046	3,394
Capitalization of work in progress	6,462	-	(6,462)	-	-	-
Disposal	-	-	-	(33)	(1,287)	(1,320)
At 30 June 2020	19,282	5,410	2,963	431	9,140	37,226
DEPRECIATION						
At 1 July 2019	451	114	-	390	4,196	5,151
Charge for the year	477	113	-	28	1,077	1,695
Disposals	-	-	-	(33)	(1,205)	(1,238)
At 30 June 2020	928	227	-	385	4,068	5,608
NET CARRYING AMOUNT						
At 30 June 2020	18,354	5,183	2,963	46	5,072	31,618

Work in progress relates to integrated security management system and office modernisation Phase III at Head Office.

Land and buildings were revalued on 31 May 2018 by Lloyd Masika Limited. Land was revalued on the basis of the open market value, while buildings were valued on the basis of depreciated replacement cost.

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 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2021

18(b). PROPERTY AND EQUIPMENT (continued)

The treatment of the revaluation changes in the current financial year in the financial statements is as follows:

Revaluation increase on fixed assets (Note 9(a))	2021 KShs' million
Freehold land	2,607
Buildings	521
Leasehold land	<u>751</u>
The revaluation increase has been posted to Other Comprehensive Income	<u>3,879</u>

Revaluation decrease on land and buildings (Note 9(a))

Buildings	(2,259)
Leasehold land	<u>(301)</u>
Revaluation decrease has been charged to profit and loss	<u>(2,560)</u>

The overall revaluation increase is KShs 1,319 million.

Land and buildings are included in the level 3 of the fair valuation hierarchy.

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 is based on the prevailing rentals for similar properties within the same location.
- The Bank has taken into account comparable values of similar properties (plot, construction standards, design, lay out, size, location, current sale prices of vacant plots and those developed) to derive the market prices. These were obtained from market transactions of comparable properties.
- The Bank is in possession of all title deeds

The reported revaluation decrease arose mainly from buildings at the Kenya School of Monetary Studies (KSMS). KSMS is the training institution for the CBK. As with other Central Banks, the training institution supports the mandate of the Bank of supporting financial sector stability.

Financial participants in the Kenyan market and regionally can be upskilled on all matters financial, which then provides a strong, informed and well educated financial sector. This is a critical basis for stability and will support the vision of Kenya to be a financial centre in East and Central Africa.

In assessing the valuation methodology to use, the Valuer considered the following:

- i. That the KSMS complex is not operated for profit but rather to support the CBK mandate of financial sector stability
- ii. Volatility in the national and global economy and disruption in travel as a result of the Covid-19 pandemic that has a negative impact on the operations of KSMS.
- iii. The Covid-19 pandemic outbreak which has negatively impacted property prices.

As a result of the above, the valuation method settled on was the Cost approach. Whereas the ongoing Covid-19 pandemic has depressed the global economy, we expect a reversal of the impact as result of the vaccine roll out and appropriate government interventions, and thus will impact future revaluations.

The remainder of the revaluation decrease relates to leasehold land that have been impacted by the slump in real estate prices.

CENTRAL BANK OF KENYA
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2021

19. INTANGIBLE ASSETS

	Software KShs' million	Work in Progress KShs' million	Total KShs' million
Year ended 30 June 2021			
COST			
At 1 July 2020	2,428	741	3,169
Additions	<u>57</u>	<u>666</u>	<u>723</u>
At 30 June 2021	<u>2,485</u>	<u>1,407</u>	<u>3,892</u>
ACCUMULATED AMORTISATION			
At 1 July 2020	1,945	-	1,945
Charge for the year	<u>163</u>	<u>-</u>	<u>163</u>
At 30 June 2021	<u>2,108</u>	<u>-</u>	<u>2,108</u>
NET CARRYING AMOUNT			
At 30 June 2021	<u>377</u>	<u>1,407</u>	<u>1,784</u>
Year ended 30 June 2020			
COST			
At 1 July 2019	2,415	208	2,623
Additions	<u>13</u>	<u>533</u>	<u>546</u>
At 30 June 2020	<u>2,428</u>	<u>741</u>	<u>3,169</u>
ACCUMULATED AMORTISATION			
At 1 July 2019	1,786	-	1,786
Charge for the year	<u>159</u>	<u>-</u>	<u>159</u>
At 30 June 2020	<u>1,945</u>	<u>-</u>	<u>1,945</u>
NET CARRYING AMOUNT			
At 30 June 2020	<u>483</u>	<u>741</u>	<u>1,224</u>

Work in progress relates to implementation of enterprise data warehouse (EDW).

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 NOTES TO THE FINANCIAL STATEMENTS (continued)
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20. RETIREMENT BENEFIT ASSET	2021 KShs' million	2020 KShs' million
Present value of funded obligations	17,302	17,910
Fair value of plan assets	<u>(32,048)</u>	<u>(30,270)</u>
Net overfunding in funded plan	(14,746)	(12,360)
Limit on defined benefit asset	<u>7,107</u>	<u>5,823</u>
Retirement Benefit Asset	<u>(7,639)</u>	<u>(6,537)</u>
Movements in the net defined benefit asset recognised are as follows:		
At start of the year	6,537	4,328
Net income recognised in profit or loss (Note 9(b))	352	174
Net income recognized in other comprehensive income (OCI)	676	1,949
Employer contributions	<u>74</u>	<u>86</u>
At 30 June	<u>7,639</u>	<u>6,537</u>
Movements in the plan assets are as follows:		
At start of the year	30,270	30,640
Interest income on plan assets	3,382	3,847
Employer contributions	74	86
Employee contributions	37	43
Benefits expenses paid	(1,538)	(1,601)
Return on plan assets excluding amount in interest income	(32)	(2,659)
Prior year adjustments	<u>(145)</u>	<u>(86)</u>
At 30 June	<u>32,048</u>	<u>30,270</u>
Movements in the plan benefit obligation are as follows:		
At start of the year	17,910	16,423
Current service cost net of employees' contributions	229	275
Interest cost	1,986	2,036
Employee contributions	37	43
Actuarial loss due to demographic assumptions	-	11
Actuarial gain due to participants' movement	(682)	(1,004)
Actuarial (gain)/loss due to change in financial assumptions	(640)	1,727
Benefits paid	<u>(1,538)</u>	<u>(1,601)</u>
At 30 June	<u>17,302</u>	<u>17,910</u>
The principal actuarial assumptions at the reporting date were:		
	2021	2020
Discount rate (p.a.)	12.00%	11.50%
Salary increase (p.a.)	7.00%	7.00%
Future pension increases	<u>3.00%</u>	<u>3.00%</u>

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 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2021

20. RETIREMENT BENEFIT ASSET (continued)

	2021 KShs' million	2020 KShs' million	2019 KShs' million	2018 KShs' million	2017 KShs' million
Five-year summary					
Fair value of plan assets	32,048	30,270	30,640	30,279	28,464
Present value of funded obligations	(17,302)	(17,910)	(16,423)	(14,551)	(13,440)
Adjustment to retirement benefit asset	<u>(7,107)</u>	<u>(5,823)</u>	<u>(9,889)</u>	<u>(9,144)</u>	<u>(6,827)</u>
Net retirement benefit asset	<u>7,639</u>	<u>6,537</u>	<u>4,328</u>	<u>6,584</u>	<u>8,197</u>

Plan assets are distributed as follows:

	2021		2020	
	KShs' million	%	KShs' million	%
Quoted shares	6,722	20.97%	5,684	18.8%
Investment properties	8,828	27.55%	8,358	27.6%
Government of Kenya treasury bills and bonds	14,621	45.62%	14,667	48.5%
Commercial paper and corporate bonds	81	0.25%	219	0.7%
Offshore investments	575	1.79%	133	0.4%
Fixed and term deposits	681	2.12%	1,114	3.7%
Fixed assets	2	0.02%	1	-
Private Equity	284	0.89%	-	-
Net current assets	<u>254</u>	<u>0.79%</u>	<u>94</u>	<u>0.3%</u>
	<u>32,048</u>	<u>100%</u>	<u>30,270</u>	<u>100%</u>

Sensitivity of principal actuarial assumptions:

If the discount rate is 1% lower (higher), the present value of funded obligations would be KShs 18,628 million (increase by KShs 1,326 million). This sensitivity analysis has been determined based on reasonably possible changes of the assumption occurring at the end of 30 June 2021, while holding all other assumptions constant.

The other principal actuarial assumptions, that is salary increase and future pension increase are not expected to change materially because they are within the control of management and are approved in the Human Resource Policy on employee benefits. Additionally, any change is not expected to be material based on historical trends and may not have a linear impact on the present value of the fund obligation.

The Bank does not have any asset-liability matching strategies used to manage risk. The retirement benefit scheme is funded and hence the assets under the scheme are used to meet benefit payments as and when they arise. The timing of the benefit payments from the scheme are unknown as the fund comprises active members, pensioners and deferred pensioners.

The scheme is funded by contributions from employer and employees. The average duration of the defined benefit plan obligation at the end of the reporting period is 7.4 years (2020: 7.0 years). The Bank expects to pay KShs 80 million to its defined benefit plan in financial year ended 30 June 2022.

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 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2021

21. (a) IMF On-Lent to GOK	2021 KShs' million	2020 KShs' million
Rapid credit facility	83,448	79,702
Extended credit facility	25,035	-
Extended fund facility	<u>52,155</u>	<u>-</u>
	<u>160,638</u>	<u>79,702</u>

The balance as at 30 June 2021 relates to IMF on-lent funds disbursed to the Government of Kenya by the International Monetary Fund (IMF) amounting SDR 542.8 million under Rapid Credit Facility and SDR 502.09 under ECF and EFF to mitigate the impact of COVID-19 pandemic. RCF will be paid half-yearly within a period of five years from November 2025 to May 2030. ECF will be paid quarterly within a period of 5 years from October 2026 to June 2031. EFF will be paid quarterly within a period of six years from October 2025 to June 2031.

(b) DUE FROM GOVERNMENT OF KENYA	2021 KShs' million	2020 KShs' million
Overdraft	59,279	47,150
Government loan	<u>20,009</u>	<u>21,783</u>
	<u>79,288</u>	<u>68,933</u>

Movement in the government loan is as follows:

At start of the year	21,783	22,229
Principal repayment	(1,665)	(555)
Interest charged	626	666
Interest paid	<u>(735)</u>	<u>(557)</u>
At 30 June	<u>20,009</u>	<u>21,783</u>

Section 46(3) of the *Central Bank of Kenya Act* sets the limit of the Government of Kenya's overdraft facility at the Bank at 5% of the Gross Recurrent Revenue as reported in the latest Government of Kenya audited financial statements. The limit for the year ending 30 June 2021 is KShs 75,453 million (2020: KShs 68,495 million) based on the gross recurrent revenue for the year ended 30 June 2019, which are the latest audited financial statements at the date of approval of these financial statements. Interest is charged at the Central Bank Rate, currently at 7%.

The Bank converted the Government of Kenya overdraft facility that exceeded statutory limit in 1997 into a loan at 3% interest repayable by 2039 and is guaranteed by a deed executed by the Cabinet Secretary, The National Treasury. Principal repayments of KShs 555 million are paid half yearly while interests accruing are paid monthly.

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 FOR THE YEAR ENDED 30 JUNE 2021

	2021	2020
	KShs' million	KShs' million
22. CURRENCY IN CIRCULATION		
Kenya bank notes	267,388	248,373
Kenya coins	<u>9,741</u>	<u>9,419</u>
	<u>277,129</u>	<u>257,792</u>
Movement in the account was as follows:		
At 1 July	257,792	249,509
Deposits by commercial banks	(577,361)	(571,022)
Withdrawals by commercial banks	596,704	586,732
Deposits by CBK	(6)	(39)
Demonetization of old currency	<u>-</u>	<u>(7,388)</u>
At 30 June	<u>277,129</u>	<u>257,792</u>
23. INVESTMENT BY BANKS		
REPO securities sold to banks	<u>-</u>	<u>6,997</u>
The balance on 30 June 2020 relates to repurchase agreements contracted by the Bank to address excess liquidity and matures within a short period of between 7 to 14 days.		
24. DEPOSITS FROM BANKS AND GOVERNMENT	2021	2020
	KShs' million	KShs' million
Local commercial banks clearing accounts and cash ratio reserve	246,215	352,490
Local banks foreign exchange settlement accounts	37,394	25,824
External banks foreign exchange settlement accounts	2,851	2,620
Other public entities and project accounts	49,655	69,830
Government of Kenya	<u>391,886</u>	<u>281,423</u>
	<u>728,001</u>	<u>732,187</u>
25. OTHER LIABILITIES		
Impersonal accounts	997	1,412
Sundry creditors	3,161	3,489
Lease liability (Note 18(a))	55	209
Refundable deposits	224	233
Leave accrual	259	235
Bond pending payables	1,515	-
Gratuity to staff members	<u>47</u>	<u>24</u>
	<u>6,258</u>	<u>5,602</u>

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

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	2021 KShs' million	2020 KShs' million
26. (a) SHARE CAPITAL		
Authorised share capital:		
At 1 July and 30 June	<u>50,000</u>	<u>50,000</u>
Paid up share capital:		
At start of the year	35,000	20,000
Additional share capital	<u>-</u>	<u>15,000</u>
At 30 June	<u>35,000</u>	<u>35,000</u>

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

(b) GENERAL RESERVE FUND

The general reserve fund represents accumulated realized surpluses of KShs 50,136 million (2020: KShs 48,913 million) arising from normal operations of the Bank and unrealized gains of KShs 105,232 million (2020: KShs 79,287 million).

(c) FAIR VALUE RESERVE

The fair value reserve represents cumulative gains and losses arising from revaluation of debt instruments from cost to fair value based on the market values at the end of the reporting date.

(d) REVALUATION RESERVE

The revaluation reserve relates to unrealized revaluation gains on land and buildings that will not be recycled into profit or loss. The reserve is non-distributable.

(e) CONSOLIDATED FUND

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

Movement in the consolidated fund is as follows:

	2021 KShs' million	2020 KShs' million
At start of the year	2,500	4,000
Transfer from General reserve	10,500	9,888
Payments out of consolidated fund	<u>(7,500)</u>	<u>(11,388)</u>
At 30 June	<u>5,500</u>	<u>2,500</u>

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	2021 KShs' million	2020 KShs' million
27. CASH USED IN OPERATIONS		
Surplus for the year	36,993	41,530
Adjustments for:		
Depreciation of property and equipment (Note 18(b))	2,125	1,695
Amortisation of intangible assets (Note 19)	163	159
Amortisation of right-of-use assets (Note 18(a))	135	133
Work-in-Progress (WIP) write off (Note 9(a))	590	-
Gain on disposal of property and equipment (Note 7)	(11)	-
Loss on valuation of land and building	2,560	-
Loss on disposal of property and equipment (Note 9(a))	-	18
Impairment allowance on financial assets	4,350	8,714
Net interest income	(15,058)	(17,690)
Interest on lease liability (Note 9(a))	12	21
Provision for impairment loss on other assets (Note 9(a))	17	17
Net credit relating to the retirement benefit asset (Note 20)	(352)	(174)
Employer contributions on defined benefit asset (Note 20)	(74)	(86)
Demonetization of old currency (Note 7(b))	-	(7,388)
Reclassification from fair value reserve (Note 10(b))	(7,329)	(3,020)
Unrealised foreign exchange loss on due to IMF	<u>37</u>	<u>120</u>
Operating surplus before working capital changes	24,158	24,049
Changes in working capital:		
Loans and advances	148	92
Other assets	37	70
Due from Government of Kenya	(10,355)	10,623
Currency in circulation	19,337	15,671
Deposits	(4,186)	(8,813)
Investment by banks	(6,997)	6,997
IMF on-lent	(80,936)	(79,702)
Gold holdings	-	(25)
Consolidated fund (Note 26(e))	(7,500)	(11,388)
Other liabilities	<u>810</u>	<u>(1,129)</u>
Net cash used in operations	<u>(65,484)</u>	<u>(43,555)</u>
28. CASH AND CASH EQUIVALENTS		
(a) For the purpose of the statement of cash flows, cash and cash equivalents include:		
	2021 KShs' million	2020 KShs' million
Balances due from banking institutions (Note 11)	430,968	369,505
Financial assets - FVOCI (Note 15)	46,020	59,122
Securities discounted by banks and other advances (Note 13)	<u>12,678</u>	<u>22,527</u>
	<u>489,666</u>	<u>451,154</u>
(b) Changes in liabilities arising from financing activities		
At start of the year	151,841	83,653
Cash flow items:		
Repayments to IMF	(7,894)	(11,634)
Receipts during the year	77,190	79,702
Foreign exchange changes	<u>37</u>	<u>120</u>
At 30 June	<u>221,174</u>	<u>151,841</u>

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29. 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).

The main transactions are ordinary banking facilities to government ministries included in Note 24 and lending to the Government of Kenya included in Note 21.

(i) Loans

The Bank extends loan facilities to the key management staff. The advances are at preferential rates of interest determined by the Bank. The repayment terms and collateral used are similar to those of loans and advances to other staff. Provisions on loans and advances to staff are arrived at using collective assessment approach. Provisions at 30 June 2021 are disclosed in Note 14. Collateral information is disclosed in Note 30. The repayment terms of the loans are between 3 years and 25 years.

	2021 KShs' million	2020 KShs' million
Loans to key senior staff		
At 1 July	52	50
Loans advanced during the year	7	23
Loan repayments	<u>(33)</u>	<u>(21)</u>
At 30 June	<u>26</u>	<u>52</u>
(ii) Directors' emoluments:		
Fees to non-executive directors	17	18
Directors' travelling expenses	-	8
Other remuneration to executive directors	<u>34</u>	<u>34</u>
	<u>51</u>	<u>60</u>
(iii) Remuneration to senior staff	<u>258</u>	<u>240</u>
(iv) Post-employment pension to senior management	<u>4</u>	<u>4</u>
(v) Government of Kenya		
Due from Government of Kenya (Note 21(b))	79,288	68,933
Government of Kenya Deposits (Note 24)	391,886	281,423
IMF On-lent to GOK (Note 21(a))	160,638	79,702
Interest earned from Government of Kenya - Loan (Note 4)	626	666
Interest earned from Government of Kenya - Overdraft (Note 4)	2,208	3,245
Fees and commission income (Note 6(a))	3,000	3,000
Loan principal repayment (Note 21(b))	<u>1,665</u>	<u>555</u>

Transactions entered into with the Government include:

- Banking services;
- Management of issue and redemption of securities at a commission and;
- Foreign currency denominated debt settlement and other remittances at a fee.

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29. RELATED PARTY TRANSACTIONS (continued)

(vi) Kenya School of Monetary Studies (KSMS)

The Kenya School of Monetary Studies (the "School") is a subsidiary of the Bank. It is primarily owned and managed by CBK and its financial statements have been consolidated in these financial statements.

The permanent staff working at KSMS are employees of CBK. Fixed assets are also wholly owned by the Bank and a letter of support is issued annually to the external auditor of the School as part of the commitment of the Bank for going concern purposes.

During the year under review, the school's physical developments projects were significantly completed.

	2021 KShs' million	2020 KShs' million
CBK-KSMS related transactions and balances		
Grants from CBK	562	468
Buildings	6,224	8,780
Land	8,100	4,250
Receivable from KSMS	59	59
Accumulated deficit	<u>62</u>	<u>62</u>

(vii) 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. The costs of their operations are fully reimbursed to the Bank on a regular basis.

30. 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 Internal Audit and Risk Management 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.

(a) Strategy in using financial instruments

The bank holds foreign exchange reserves for the purpose of serving official foreign debt, paying non-debt government and Central Bank of Kenya expenditures abroad and intervention in the foreign exchange market to minimize volatility and facilitate its smooth functioning.

The foreign exchange reserves are managed via a governance framework anchored in legislation and a reserves management policy set by the Board of Directors. The policy sets the context within which the Strategic Asset Allocation, Investment guidelines and Investment Committee are operationalized in order to achieve the overarching principles of safety, liquidity and return.

(b) Risks facing the Bank

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

- Credit risk
- Market risk
- Liquidity risk

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk

Credit risk is the risk that the Bank will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

Credit risk arises from balances due from banking institutions, funds held with IMF, securities and advances to banks, IMF On-Lent to GOK, loans and advances, debt instruments at fair value through other comprehensive income, other assets (sundry debtors) and due from Government of Kenya.

Management of credit risk is carried out through the choice of counterparties. The Bank's choice of counterparties is confined to top international banks that meet the set eligibility criteria of financial soundness on long-term credit rating, short-term credit rating and capital adequacy.

The following table sets out the carrying amounts of the financial assets that are exposed to credit risk as at 30 June 2021 and 30 June 2020:

	2021 KShs' million	2020 KShs' million
Balances due from banking institutions	430,968	369,505
Funds held with International Monetary Fund (IMF)	2,201	3,255
Securities and advances to banks	59,540	55,561
IMF On-Lent to GOK	160,638	79,702
Loans and advances	3,131	3,274
Debt instruments at fair value through other comprehensive income	664,991	724,892
Other assets - sundry debtors	349	500
Due from Government of Kenya	<u>79,288</u>	<u>68,933</u>
	<u>1,401,106</u>	<u>1,305,622</u>

The Bank assesses the credit quality of these assets at every reporting date. None of the balances have had their terms renegotiated as a result of non-performance. Management monitors the credit exposure of staff on a continuous basis, taking into account their financial position, past experience and other factors.

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30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Credit quality analysis

The following tables set out information about the credit quality of financial assets measured at amortised cost and debt instruments at FVOCI. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts.

Explanation of the terms: 'Stage 1', 'Stage 2' and 'Stage 3' are included in Note 2(f). The credit ratings are obtained from recognized international credit rating agencies.

Year ended 30 June 2021

	Stage 1 KShs' million	Stage 2 KShs' million	Stage 3 KShs' million	Total KShs' million
Balance due from banking institutions				
Rated AAA	-	-	-	-
Rated AA- to AA+	111,771	-	-	111,771
Rated A- to A+	222,295	-	-	222,295
Rated BBB - BB	659	-	-	659
Unrated	<u>96,254</u>	<u>-</u>	<u>-</u>	<u>96,254</u>
Gross carrying amount	430,979	-	-	430,979
Impairment allowance	<u>(11)</u>	<u>-</u>	<u>-</u>	<u>(11)</u>
Net carrying amount	<u>430,968</u>	<u>-</u>	<u>-</u>	<u>430,968</u>
Debt instruments at fair value through OCI				
Rated AAA	657,885	-	-	657,885
Rated AA- to AA+	<u>7,106</u>	<u>-</u>	<u>-</u>	<u>7,106</u>
Carrying amount	<u>664,991</u>	<u>-</u>	<u>-</u>	<u>664,991</u>
Due from Government of Kenya				
Unrated	<u>79,288</u>	<u>-</u>	<u>-</u>	<u>79,288</u>
Funds with IMF				
Unrated	<u>2,201</u>	<u>-</u>	<u>-</u>	<u>2,201</u>
IMF On-Lent to GOK				
Unrated	<u>160,638</u>	<u>-</u>	<u>-</u>	<u>160,638</u>

CENTRAL BANK OF KENYA
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2021

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Credit quality analysis (continued)

Year ended 30 June 2021

	Stage 1 KShs' million	Stage 2 KShs' million	Stage 3 KShs' million	Total KShs' million
Securities and advances to banks				
Unrated	<u>75,514</u>	<u>-</u>	<u>-</u>	<u>75,514</u>
Gross carrying amount	75,514	-	-	75,514
Impairment allowance	<u>(15,974)</u>	<u>-</u>	<u>-</u>	<u>(15,974)</u>
Net carrying amount	<u>59,540</u>	<u>-</u>	<u>-</u>	<u>59,540</u>
Loans and advances				
Unrated	<u>3,051</u>	<u>6</u>	<u>3,522</u>	<u>6,579</u>
Gross carrying amount	3,051	6	3,522	6,579
Impairment allowance	<u>(7)</u>	<u>-</u>	<u>(3,441)</u>	<u>(3,448)</u>
Net carrying amount	<u>3,044</u>	<u>6</u>	<u>81</u>	<u>3,131</u>
Other assets				
Unrated	<u>-</u>	<u>-</u>	<u>5,328</u>	<u>5,328</u>
Gross carrying amount	-	-	5,328	5,328
Impairment allowance	<u>-</u>	<u>-</u>	<u>(4,979)</u>	<u>(4,979)</u>
Net carrying amount	<u>-</u>	<u>-</u>	<u>349</u>	<u>349</u>

CENTRAL BANK OF KENYA
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2021

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Credit quality analysis (continued)

Year ended 30 June 2020

	Stage 1 KShs' million	Stage 2 KShs' million	Stage 3 KShs' million	Total KShs' million
Balance due from banking institutions				
Rated AAA	36,248	-	-	36,248
Rated AA- to AA+	146,509	-	-	146,509
Rated A- to A+	109,007	-	-	109,007
Rated BBB - BB	807	-	-	807
Unrated	<u>76,962</u>	<u>-</u>	<u>-</u>	<u>76,962</u>
Gross carrying amount	369,533	-	-	369,533
Impairment allowance	<u>(28)</u>	<u>-</u>	<u>-</u>	<u>(28)</u>
Net carrying amount	<u>369,505</u>	<u>-</u>	<u>-</u>	<u>369,505</u>
Debt instruments at fair value through OCI				
Rated AAA	715,417	-	-	715,417
Rated AA- to AA+	<u>9,475</u>	<u>-</u>	<u>-</u>	<u>9,475</u>
Carrying amount	<u>724,892</u>	<u>-</u>	<u>-</u>	<u>724,892</u>
Due from Government of Kenya				
Unrated	<u>68,933</u>	<u>-</u>	<u>-</u>	<u>68,933</u>
Funds with IMF				
Unrated	<u>3,255</u>	<u>-</u>	<u>-</u>	<u>3,255</u>
IMF On-Lent to GOK				
Unrated	<u>79,702</u>	<u>-</u>	<u>-</u>	<u>79,702</u>

CENTRAL BANK OF KENYA
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2021

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Credit quality analysis (continued)

Year ended 30 June 2020

	Stage 1 KShs' million	Stage 2 KShs' million	Stage 3 KShs' million	Total KShs' million
Securities and advances to banks				
Unrated	<u>65,114</u>	<u>-</u>	<u>2,147</u>	<u>67,261</u>
Gross carrying amount	65,114		2,147	67,261
Impairment allowance	<u>(9,553)</u>	<u>-</u>	<u>(2,147)</u>	<u>(11,700)</u>
Net carrying amount	<u>55,561</u>	<u>-</u>	<u>-</u>	<u>55,561</u>
Loans and advances				
Unrated	<u>3,166</u>	<u>11</u>	<u>3,550</u>	<u>6,727</u>
Gross carrying amount	3,166	11	3,550	6,727
Impairment allowance	<u>(3)</u>	<u>-</u>	<u>(3,450)</u>	<u>(3,453)</u>
Net carrying amount	<u>3,163</u>	<u>11</u>	<u>100</u>	<u>3,274</u>
Other assets				
Unrated	<u>-</u>	<u>-</u>	<u>5,462</u>	<u>5,462</u>
Gross carrying amount	-	-	5,462	5,462
Impairment allowance	<u>-</u>	<u>-</u>	<u>(4,962)</u>	<u>(4,962)</u>
Net carrying amount	<u>-</u>	<u>-</u>	<u>500</u>	<u>500</u>

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Collateral and other credit enhancements

The Bank holds collateral and other credit enhancements against certain credit exposures. The following table sets out the principal types of collateral held against different types of financial assets.

	Notes	Percentage of exposure that is subject to collateral requirements		Principal type of collateral held
		30 June 2021	30 June 2020	
Advances to banks - Reverse repurchase arrangements and due from commercial banks	13	100	100	Kenya Government debt securities
Loans and advances - Loans to staff	14	100	100	Land and buildings, government securities, motor vehicles

At 30 June 2021, the Bank held advances to banks of KShs 11,910 million (2020: KShs 22,228 million), for which no Impairment allowance is recognised because of full collateral coverage. The fair value of the collateral held for Advances to banks was KShs 13,796 million (2020: KShs 26,137 million). These have been determined based on market price quotations at the reporting date.

Inputs, assumptions and techniques used for estimating expected credit loss

Significant increase in credit risk

When determining whether the risk of default of the invested amount on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and credit risk specialist's assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk grades/ratings

For assessing the risk of default, at initial recognition, the Bank assigns to each exposure credit risk grade/rating determined based on the credit risk assessment.

The Bank, at initial recognition, allocates each exposure to banks a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applies experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Inputs, assumptions and techniques used for estimating expected credit loss (continued)

Credit risk grades/ratings (continued)

Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade/rating. The monitoring typically involves use of the following information.

Foreign currency exposures	Domestic currency exposures	Other assets
Data from credit rating agencies, press articles, changes in external credit ratings	Internally collected data on banks and supervisory indicators	Repayment history - this includes overdue status and financial situation of the borrower.
Quoted bond prices for the counterparty, where available	Existing and forecast changes in business, financial and economic conditions	Existing and forecast changes in financial and economic conditions
Actual and expected significant changes in the political, regulatory and technological environment of the counterparty or in its business activities		

PD estimation process

Credit risk grades/ratings are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by counterparty as well as by credit risk grading/ratings. The Bank employs statistical models to analyse the data collected and generate estimates of the lifetime PD of exposures and how these are expected to change as a result of the passage of time.

The methodology for determining PDs for domestic commercial banks is based on the risk assessment techniques used for supervisory purposes. Factors considered by these techniques include the capital adequacy, credit risk, liquidity and profitability of the counterparty. The PDs are calculated as the average weighted PDs for each factor, where the weights are determined based on the importance of the factor.

For the assets denominated in foreign currency, the Bank uses 12-month PDs for sovereign and non-sovereign issuances, estimated based on Bloomberg's probability of default model which indicate a possibility of bankruptcy over 12 months for issuers per each respective rating category. The Bloomberg PD includes the estimates of forward-looking parameters such as GDP, forex rates, and interest rates.

For exposures to the Kenyan Government in domestic currency, the estimated PD considers the short-term maturity of such exposures, the absence of historical defaults and detailed assessments of the ability of the Kenyan Government to fulfil its contractual cash flow obligations in the short-term which considers also the macroeconomic indicators over the assessment period.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Determining whether credit risk has increased significantly

The Bank considers a financial instrument to have experienced a significant increase in credit risk, when one or more of the following quantitative, qualitative or backstop criteria have been put:

- Significant dip in operating results of counterparty.
- Credit distress necessitated extension to terms granted.
- Significant adverse changes in the financial and /or economic conditions affecting the counterparty.
- Significant change in collateral value which is expected to increase risk of default.
- Signs of cash flow / liquidity problems.

A backstop is applied, and the financial instrument considered to have experience a significant increase in credit risk if the counterparty is more than 30 days past due.

Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the counterparty.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that the criteria are capable of identifying significant increases in credit risk before an exposure is in default.

Definition of default

The Bank considers a financial asset to be in default when:

- the counterparty is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the counterparty is past due more than 90 days on any material credit obligation to the Bank.

In assessing whether a counterparty is in default, the Bank considers indicators that are:

- qualitative - e.g. breaches of covenants;
- quantitative - e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and its significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

In its ECL models, the Bank relies on Bloomberg credit risk model for provision of probabilities of default values for the both the investment counterparties and the sovereigns. The bank also relies on international credit rating agencies for credit rating information. Credit ratings are a tool, among others, that investors can use when making decisions about purchasing bonds and other fixed income investments. They express independent opinions on creditworthiness, using a common terminology that may help investors make more informed investment decisions.

As part of their ratings analysis, the external credit agencies as well as the Bloomberg credit risk model evaluate current and historical information and assess the potential impact of a broad range of forward-looking information.

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- Probability of default (PD);
- Loss given default (LGD);
- Exposure at default (EAD).

These parameters are derived from internally developed statistical models, globally recognized external developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

Probability of default (PD); PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally and externally compiled data comprising both quantitative and qualitative factors. Transition matrixes data are used to derive the PD for counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD.

Loss given default (LGD); LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates, or parameters calculated by international credit rating agencies and regulatory institutions, of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

Exposure at default (EAD); EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortisation.

The EAD of a financial asset is its gross carrying amount. EAD estimates are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include: instrument type, credit risk grading; collateral type; date of initial recognition; remaining term to maturity; industry; and, geographic location of the counterparty

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

CENTRAL BANK OF KENYA
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2021

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Measurement of ECL (continued)

For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL comprise financial assets as follows:

	Exposure	Exposure	External benchmarks used	
	2021	2020		
	KShs' million	KShs' million	PD	LGD
Balances due from banking institutions	430,979	369,533	Bloomberg PD rating model	Basel recovery studies II
Debt instruments at fair value through other comprehensive income	664,991	724,892	Bloomberg PD rating model	Basel recovery studies II

CENTRAL BANK OF KENYA
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2021

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to the relevant financial assets is as follows:

Year ended 30 June 2021

	Stage 1 Gross carrying amount KShs' million	Stage 2 Gross carrying amount KShs' million	Stage 3 Gross carrying amount KShs' million	Total Gross carrying amount KShs' million	ECL KShs' million
Debt instruments at fair value through other comprehensive income					
At 1 July 2020	724,892	-	-	724,892	78
New assets originated or purchased	394,863	-	-	394,863	106
Asset derecognized or repaid	(476,644)	-	-	(476,644)	(27)
Accrued interest	1,028	-	-	1,028	-
Realised gains	(2,420)	-	-	(2,420)	-
Foreign exchange adjustments	29,593	-	-	29,593	-
Changes in risk parameters	-	-	-	-	2
Fair value changes	(6,321)	-	-	(6,321)	-
At 30 June 2021	<u>664,991</u>	<u>-</u>	<u>-</u>	<u>664,991</u>	<u>159</u>
Balances due from banking institutions					
At 1 July 2020	369,533	-	-	369,533	28
Net movement during the year	<u>61,446</u>	<u>-</u>	<u>-</u>	<u>61,446</u>	<u>(17)</u>
At 30 June 2021	<u>430,979</u>	<u>-</u>	<u>-</u>	<u>430,979</u>	<u>11</u>

CENTRAL BANK OF KENYA
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2021

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to the relevant financial assets is as follows:

Year ended 30 June 2021

	Stage 1 Gross carrying amount KShs' million	ECL KShs' million	Stage 2 Gross carrying amount KShs' million	ECL KShs' million	Stage 3 Gross carrying amount KShs' million	ECL KShs' million	Total Gross carrying amount KShs' million	ECL KShs' million
Securities and advances to banks								
At 1 July 2020	65,114	9,553	-	-	2,147	2,147	67,261	11,700
New assets originated or purchased	368,604	6,421	-	-	-	-	368,604	6,421
Asset derecognized or repaid	(358,048)	-	-	-	(2,147)	(2,147)	(360,195)	(2,147)
Accrued interest	(156)	-	-	-	-	-	(156)	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Change in risk parameters	-	-	-	-	-	-	-	-
At 30 June 2021	<u>75,514</u>	<u>15,974</u>	-	-	-	-	<u>75,514</u>	<u>15,974</u>
Other assets								
At 1 July 2020	492	-	-	-	4,970	4,962	5,462	4,962
New assets originated or purchased	177	-	-	-	-	-	177	-
Asset derecognized or repaid	(311)	-	-	-	-	-	(311)	-
Transfer to Stage 3	(17)	-	-	-	17	17	-	17
At 30 June 2021	<u>341</u>	-	-	-	<u>4,987</u>	<u>4,979</u>	<u>5,328</u>	<u>4,979</u>
Loans and advances								
At 1 July 2020	3,172	4	11	-	3,544	3,449	6,727	3,453
New assets originated or purchased	781	3	-	-	-	-	781	3
Asset derecognized or repaid	(868)	(3)	-	-	(61)	(26)	(929)	(29)
Transfer to Stages	(33)	-	(5)	-	38	16	-	16
Changes in risk parameters	-	5	-	-	-	-	-	5
At 30 June 2021	<u>3,052</u>	<u>9</u>	<u>6</u>	-	<u>3,521</u>	<u>3,439</u>	<u>6,579</u>	<u>3,448</u>

CENTRAL BANK OF KENYA
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2021

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to the relevant financial assets is as follows:

Year ended 30 June 2020

Debt instruments at fair value through other comprehensive income	Stage 1	Stage 2	Stage 3	Total	ECL KShs' million
	Gross carrying amount KShs' million	Gross carrying amount KShs' million	Gross carrying amount KShs' million	Gross carrying amount KShs' million	
At 1 July 2019	504,533	-	-	504,533	61
New assets originated or purchased	556,932	-	-	556,932	45
Asset derecognized or repaid	(365,842)	-	-	(365,842)	(17)
Accrued interest	775	-	-	775	-
Realised gains	1,296	-	-	1,296	-
Foreign exchange adjustments	18,746	-	-	18,746	-
Changes in risk parameters	-	(11)	-	-	(11)
Fair value changes	8,452	-	-	8,452	-
At 30 June 2020	724,892	-	-	724,892	78
Balances due from banking institutions					
At 1 July 2019	542,964	-	-	542,964	115
Net movement during the year	(173,431)	-	-	(173,431)	(87)
At 30 June 2020	369,533	-	-	369,533	28

CENTRAL BANK OF KENYA
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2021

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to the relevant financial assets is as follows:

Year ended 30 June 2020

	Stage 1 Gross carrying amount KShs' million	ECL KShs' million	Stage 2 Gross carrying amount KShs' million	ECL KShs' million	Stage 3 Gross carrying amount KShs' million	ECL KShs' million	Total Gross carrying amount KShs' million	ECL KShs' million
Securities and advances to banks								
At 1 July 2019	68,698	2,092	-	-	1,211	908	69,909	3,000
New assets originated or purchased	199,313	-	-	-	-	-	199,313	-
Asset derecognized or repaid	(202,113)	-	-	-	-	-	(202,113)	-
Accrued interest	152	-	-	-	-	-	152	-
Transfer to Stage 3	(936)	-	-	-	936	-	-	-
Change in risk parameters	-	7,461	-	-	-	1,239	-	8,700
At 30 June 2020	<u>65,114</u>	<u>9,553</u>	-	-	<u>2,147</u>	<u>2,147</u>	<u>67,261</u>	<u>11,700</u>
Other assets								
At 1 July 2019	322	-	-	-	4,953	4,945	5,275	4,945
New assets originated or purchased	427	-	-	-	-	-	427	-
Asset derecognized or repaid	(240)	-	-	-	-	-	(240)	-
Transfer to Stage 3	(17)	-	-	-	17	17	-	17
At 30 June 2020	<u>492</u>	-	-	-	<u>4,970</u>	<u>4,962</u>	<u>5,462</u>	<u>4,962</u>
Loans and advances								
At 1 July 2019	3,237	7	25	-	3,557	3,449	6,819	3,456
New assets originated or purchased	812	1	-	-	-	-	812	1
Asset derecognized or repaid	(858)	(2)	(8)	-	(38)	-	(904)	(2)
Transfer to Stages	(19)	-	(6)	-	25	-	-	-
Changes in risk parameters	-	(2)	-	-	-	-	-	(2)
At 30 June 2020	<u>3,172</u>	<u>4</u>	<u>11</u>	-	<u>3,544</u>	<u>3,449</u>	<u>6,727</u>	<u>3,453</u>

CENTRAL BANK OF KENYA
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2021

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Concentrations of credit risk

The Bank monitors concentrations of credit risk by geographic location and by counterparty type. An analysis of concentrations of credit risk is shown below.

Concentration by geographical location is based on the country of domicile of the issuer of the security. Concentration by counterparty type is based on the nature of the institution such as foreign governments, central banks and supranational institutions.

A segregation of the financial assets by geography is set out below:

Year ended 30 June 2021

	United States of America		Germany		United Kingdom		Singapore		Canada		Kenya		Others		Total
	KShs' million		KShs' million		KShs' million		KShs' million		KShs' million		KShs' million		KShs' million		
Balances due from banking institutions	151,636		49,961		24,900		13,792		31,731		7,467		151,492		430,979
Funds held with IMF	2,201		-		-		-		-		-		-		2,201
IMF On-Lent to GOK	-		-		-		-		-		160,638		-		160,638
Securities and advances to banks	-		-		-		-		-		75,514		-		75,514
Loans and advances	-		-		-		-		-		6,579		-		6,579
Debt instruments at fair value through OCI	588,033		12,235		-		-		2,844		-		61,879		664,991
Other assets - Sundry debtors	-		-		-		-		-		5,328		-		5,328
Due from Government of Kenya	-		-		-		-		-		79,288		-		79,288
Total financial assets	741,870		62,196		24,900		13,792		34,575		334,814		213,371		1,425,518

CENTRAL BANK OF KENYA
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2021

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Concentrations of credit risk (continued)

A segregation of the financial assets by geography is set out below:

Year ended 30 June 2020

	United States of America KShs' million	Germany KShs' million	United Kingdom KShs' million	Singapore KShs' million	Canada KShs' million	Kenya KShs' million	Others KShs' million	Total KShs' million
Balances due from banking institutions	49,793	54,072	55,934	28,616	14,274	17,227	149,617	369,533
Funds held with IMF	3,255	-	-	-	-	-	-	3,255
IMF On-Lent to GOK	-	-	-	-	-	79,702	-	79,702
Securities and advances to banks	-	-	-	-	-	67,261	-	67,261
Loans and advances	-	-	-	-	-	6,727	-	6,727
Debt instruments at fair value through OCI	604,561	21,573	-	-	3,320	-	95,438	724,892
Other assets - Sundry debtors	-	-	-	-	-	5,462	-	5,462
Due from Government of Kenya	-	-	-	-	-	68,933	-	68,933
Total financial assets	657,609	75,645	55,934	28,616	17,594	245,312	245,055	1,325,765

CENTRAL BANK OF KENYA
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2021

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Concentrations of credit risk (continued)

A segregation of the financial assets by counterparty type is set out below:

Year ended 30 June 2021

	Balances due from financial institutions KShs' million	Securities and advances KShs' million	Fund held with IMF KShs' million	IMF-On Lent to Gok KShs' million	Loans and advances KShs' million	Fixed Income securities KShs' million	Due from GOK KShs' million	Other assets KShs' million	Total KShs' million
Central Banks	32,777	-	-	-	-	-	-	-	32,777
Foreign Governments	-	-	-	-	-	587,336	-	-	587,336
Supranational Institutions	62,699	-	2,201	-	-	50,600	-	-	115,500
Commercial Banks	335,503	67,450	-	-	3,400	-	-	-	406,353
Foreign Agencies	-	-	-	-	-	18,205	-	-	18,205
Government of Kenya	-	8,064	-	160,638	-	-	79,288	-	247,990
Others	-	-	-	-	3,179	8,850	-	5,328	17,357
	<u>430,979</u>	<u>75,514</u>	<u>2,201</u>	<u>160,638</u>	<u>6,579</u>	<u>664,991</u>	<u>79,288</u>	<u>5,328</u>	<u>1,425,518</u>

CENTRAL BANK OF KENYA
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2021

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Concentrations of credit risk (continued)

A segregation of the financial assets by counterparty type is set out below:

Year ended 30 June 2020	Balances due from financial institutions		Securities and advances KShs' million	Fund held with IMF KShs' million	IMF-On Lent to Gok KShs' million	Loans and advances KShs' million	Fixed Income securities KShs' million	Due from GOK KShs' million	Other assets KShs' million	Total KShs' million
	KShs' million	KShs' million								
Central Banks	37,054	-	-	-	-	-	-	-	-	37,054
Foreign Governments	-	-	-	-	-	-	614,959	-	-	614,959
Supranational Institutions	54,484	-	-	3,255	-	-	79,352	-	-	137,091
Commercial Banks	277,995	-	59,392	-	-	3,400	-	-	-	340,787
Foreign Agencies	-	-	-	-	-	-	30,581	-	-	30,581
Government of Kenya	-	-	7,869	-	79,702	-	-	68,933	-	156,504
Others	-	-	-	-	-	3,327	-	-	5,462	8,789
	<u>369,533</u>		<u>67,261</u>	<u>3,255</u>	<u>79,702</u>	<u>6,727</u>	<u>724,892</u>	<u>68,933</u>	<u>5,462</u>	<u>1,325,765</u>

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Market risk

The Bank takes on exposure to market risk, which is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk arises 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 exposure to market risk into either trading or non-trading portfolios. Market risk 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 internally managed debt instruments at amortised cost and World Bank RAMP financial assets.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Bank's interest rate risk arises from balances due from banking institutions, securities and advances to banks, debt instruments at FVOCI, loans and advances, due from the Government of Kenya and deposits from bank and Government. 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.

CENTRAL BANK OF KENYA
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2021

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Market risk (continued)

Interest rate risk (continued)

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

At 30 June 2021	1 - 3 months KShs' million	4-12 months KShs' million	1 - 5 years KShs' million	Over 5 years KShs' million	Non-interest bearing KShs' million	Total KShs' million
Assets						
Balances due from banking institutions	430,979	-	-	-	-	430,979
Securities and advances to banks	12,678	143	39,752	22,941	-	75,514
Debt instruments at FVOCI	46,020	200,012	418,959	-	-	664,991
Funds held with International Monetary Fund (IMF)	-	-	-	-	2,201	2,201
Loans and advances	159	473	1,856	691	3,400	6,579
Other assets	-	-	-	-	5,328	5,328
IMF On-lent to GOK	-	-	-	-	160,638	160,638
Due from Government of Kenya	59,279	1,110	4,440	14,459	-	79,288
Total financial assets	549,115	201,738	465,007	38,091	171,567	1,425,518
Liabilities						
Deposits from banks and government	73,589	-	-	-	654,412	728,001
Other liabilities	-	-	-	-	5,952	5,952
Investment by banks	-	-	-	-	-	-
Due to International Monetary Fund (IMF)	-	-	-	-	221,174	221,174
Total financial liabilities	73,589	-	-	-	881,538	955,127
Interest sensitivity gap	475,526	201,738	465,007	38,091	(709,971)	470,391

As at 30 June 2021, increase of 10 basis points would have resulted in a decrease/increase in profit and equity of KShs 470 million (2020: KShs 429 million).

CENTRAL BANK OF KENYA
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2021

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Market risk (continued)

Interest rate risk (continued)

At 30 June 2020	1 - 3 months KShs' million	4-12 months KShs' million	1 - 5 years KShs' million	Over 5 years KShs' million	Non-interest bearing KShs' million	Total KShs' million
Assets						
Balances due from banking institutions	369,533	-	-	-	-	369,533
Securities and advances to banks	59,477	552	2,471	4,761	-	67,261
Debt instruments at FVOCI	59,122	385,521	280,249	-	-	724,892
Funds held with International Monetary Fund (IMF)	-	-	-	-	3,255	3,255
Loans and advances	163	428	1,741	995	3,400	6,727
Other assets	-	-	-	-	5,462	5,462
IMF On-lent to GOK	-	-	-	-	79,702	79,702
Due from Government of Kenya	47,259	1,110	4,440	16,124	-	68,933
Total financial assets	535,554	387,611	288,901	21,880	91,819	1,325,765
Liabilities						
Deposits from banks and government	176,494	-	-	-	555,693	732,187
Other liabilities	-	-	-	-	5,343	5,343
Investment by banks	6,997	-	-	-	-	6,997
Due to International Monetary Fund (IMF)	-	-	-	-	151,841	151,841
Total financial liabilities	183,491	-	-	-	712,877	896,368
Interest sensitivity gap	352,063	387,611	288,901	21,880	(621,058)	429,397

As at 30 June 2020, increase of 10 basis points would have resulted in a decrease/increase in profit and equity of KShs 429 million (2019: KShs 379 million).

CENTRAL BANK OF KENYA
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2021

30. 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 2021. Included in the table are the Bank's financial instruments categorised by currency:

At 30 June 2021	USD	GBP	EUR	SDR	Others	Total
	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million
Assets						
Balances due from banking institutions	207,710	26,124	21,539	-	175,614	430,987
Debt instruments at FVOCI	664,991	-	-	-	-	664,991
Funds held with International Monetary Fund (IMF)	-	-	-	2,201	-	2,201
Total financial assets	872,701	26,124	21,539	2,201	175,614	1,098,179
Liabilities						
Due to International Monetary Fund (IMF)	-	-	-	221,174	-	221,174
Deposits from banks and government	81,804	3,051	4,519	-	526	89,900
Total financial liabilities	81,804	3,051	4,519	221,174	526	311,074
Net position	790,897	23,073	17,020	(218,973)	175,088	787,105

CENTRAL BANK OF KENYA
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2021

30. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Market risk (continued)

Foreign exchange risk (continued)

At 30 June 2020	USD KShs' million	GBP KShs' million	EUR KShs' million	SDR KShs' million	Others KShs' million	Total KShs' million
Assets						
Balances due from banking institutions	150,714	24,093	33,791	-	160,935	369,533
Debt instruments at FVOCI	724,892	-	-	-	-	724,892
Funds held with International Monetary Fund (IMF)	-	-	-	3,255	-	3,255
Total financial assets	875,606	24,093	33,791	3,255	160,935	1,097,680
Liabilities						
Due to International Monetary Fund (IMF)	-	-	-	151,841	-	151,841
Deposits from banks and government	43,431	2,354	10,641	-	319	56,745
Total financial liabilities	43,431	2,354	10,641	151,841	319	208,586
Net position	832,175	21,739	23,150	(148,586)	160,616	889,094

As at 30 June 2021, if the shilling had weakened/strengthened by 5% against the major currencies with all other variables held constant, the impact on the Bank's surplus and equity would have been:

- USD KShs 39,545 million (2020: KShs 41,609 million)
- British Pound KShs 1,154 million (2020: KShs 1,087 million)
- Euro KShs 851 million (2020: KShs 1,158 million)
- SDR KShs 10,949 million (2020: KShs 7,429 million).

CENTRAL BANK OF KENYA
NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2021

30. 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 flows.

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 reporting 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 amounts, as the impact of discounting is not significant.

	On demand KShs' million	0 - 3 months KShs' million	4-12 months KShs' million	1 - 5 years KShs' million	Over 5 years KShs' million	Total KShs' million
At 30 June 2021						
Deposits from banks and government	654,412	73,589	-	-	-	728,001
Due to International Monetary Fund (IMF)	-	-	10,264	23,324	187,586	221,174
Lease liability	-	19	21	19	-	59
Other liabilities	-	-	5,952	-	-	5,952
Total financial liabilities	654,412	73,608	16,237	23,343	187,586	955,186
At 30 June 2020						
Investment by banks	-	6,997	-	-	-	6,997
Deposits from banks and government	555,693	176,494	-	-	-	732,187
Due to International Monetary Fund (IMF)	-	963	15,661	16,879	118,338	151,841
Lease liability	-	25	162	32	-	219
Other liabilities	-	-	5,343	-	-	5,343
Total financial liabilities	555,693	184,479	21,166	16,911	118,338	896,587

31. FAIR VALUE OF ASSETS AND LIABILITIES

a) Comparison by class of the carrying amount and fair values of the financial instruments

The fair values of fixed income securities, equity investments and securities and advances to banks (rediscounted treasury bonds) are based on price quotations at the reporting date.

Management assessed that the fair value of balances due from banking institutions, funds held with International Monetary Fund, securities and advances to banks (Treasury bills discounted, accrued interest bonds discounted, repo treasury bills & bonds, accrued interest repo, liquidity support framework and due from commercial banks), other assets (sundry debtors), deposits from government and banks and other liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Fair values of the Bank's staff loans and due from Government of Kenya and due to International Monetary Fund are determined by using Discounting Cash Flows (DCF) method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. This is shown in the table below:

	2021		2020	
	Carrying Amount KShs' million	Fair value KShs' million	Carrying amount KShs' million	Fair value KShs' million
Financial assets				
Securities and advances to banks (rediscounted treasury bonds)	7,299	7,909	7,513	8,137
Loans and advances	3,131	3,271	3,274	2,218
Due from Government of Kenya	<u>79,288</u>	<u>74,951</u>	<u>68,933</u>	<u>62,992</u>
Financial liabilities				
Due to International Monetary Fund	<u>221,174</u>	<u>90,522</u>	<u>151,841</u>	<u>45,338</u>

b) Fair value hierarchy

The table below shows an analysis of all assets and liabilities measured at fair value in the financial statements or for which fair values are disclosed in the financial statements by level of the fair value hierarchy. These are grouped into levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes equity securities and debt instruments on recognized exchanges.
- 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).
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and land and buildings with significant unobservable components.

CENTRAL BANK OF KENYA
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2021

31. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

b) Fair value hierarchy (continued)

Year ended 30 June 2021	Level 1 KShs' million	Level 2 KShs' million	Level 3 KShs' million
Assets measured at fair value:			
Land and buildings	-	-	24,946
Debt instruments at fair value through other comprehensive income	664,991	-	-
Equity instruments at fair value through other comprehensive income	-	-	10
Gold holdings	<u>106</u>	<u>-</u>	<u>-</u>
Assets for which fair values are disclosed:			
Securities and advances to banks (rediscounted treasury bonds)	7,909	-	-
Loans and advances	-	3,271	-
Due from Government of Kenya	<u>-</u>	<u>74,951</u>	<u>-</u>
Liabilities for which fair values are disclosed:			
Due to International Monetary Fund	<u>-</u>	<u>90,522</u>	<u>-</u>
Year ended 30 June 2020	Level 1 KShs' million	Level 2 KShs' million	Level 3 KShs' million
Assets measured at fair value:			
Property and equipment	-	-	23,537
Land and buildings	-	-	-
Debt instruments at fair value through other comprehensive income	724,892	-	-
Equity instruments at fair value through other comprehensive income	-	-	10
Gold holdings	<u>106</u>	<u>-</u>	<u>-</u>
Assets for which fair values are disclosed:			
Securities and advances to banks (rediscounted treasury bonds)	8,137	-	-
Loans and advances	-	2,218	-
Due from Government of Kenya	<u>-</u>	<u>62,992</u>	<u>-</u>
Liabilities for which fair values are disclosed:			
Due to International Monetary Fund	<u>-</u>	<u>45,338</u>	<u>-</u>

There were no transfers between levels 1, 2 and 3 in the year.

CENTRAL BANK OF KENYA
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2021

31. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

b) Fair value hierarchy (continued)

The Bank's land and buildings were revalued during the year. The method of valuation of land and buildings is disclosed in note 18(b).

Description of valuation techniques used and key inputs to valuation of assets and liabilities

LEVEL 2	Valuation technique	Significant observable inputs	Range (weighted average) Interest rate
Loans and advances Due from Government of Kenya	DCF	Interest rate	12%
Due to IMF	DCF	Interest rate	7%
		Interest rate	0.14%
LEVEL 3		Comparable sales of similar properties in the neighbourhood	
Land and buildings	Market/Income /cost approach		-

Reconciliation of the opening balances to the closing balances of the fair values of property and equipment: -

	1 July 2020	Additions	Change in Fair value	Depreciation charge to profit or loss	30 June 2021
	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million
Freehold land and buildings	18,354	1,031	869	(752)	19,502
Leasehold land and buildings	<u>5,183</u>	<u>(31)</u>	<u>450</u>	<u>(158)</u>	<u>5,444</u>
	<u>23,537</u>	<u>1,000</u>	<u>1,319</u>	<u>(910)</u>	<u>24,946</u>

The significant unobservable inputs used in the fair value measurement of the Bank's land and buildings are price per acre and estimated rental value per sqm per month and depreciated replacement cost. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement.

32. 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.

At 30 June 2021, the Bank had capital commitments of KShs 7,413 million (2020: KShs 5,610 million) in respect of property and equipment purchases.

All the commitments relate to future rent payable for various premises based on the existing contracts and projected renewals. The lease agreements are between the Bank and the landlords and have no provisions relating to contingent rent payable. The terms of renewal vary from one lease to another and may include a written notice to the lessors before the expiration of the leases and the lessors will grant to the lessee new leases of the said premises/properties for a further term as may be mutually agreed by the parties.

The escalation rate varies from property to property and is factored into the operating lease commitment values presented above.

Operating leases - Bank as a lessor

The Bank has entered into operating leases on its land and buildings consisting of certain office buildings. These leases have terms of between one and 30 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. The lessee is also required to provide a residual value guarantee on the properties. Rental income recognised by the Bank during the year is KShs 49 million (2020: KShs 41 million).

Future minimum rentals receivable under non-cancellable operating leases as at 30 June are as follows:

	2021 KShs 'million	2020 KShs 'million
Within one year	35	68
After one year but not more than five years	-	35
More than five years	-	-
	<u>35</u>	<u>103</u>

CENTRAL BANK OF KENYA
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2021

33. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

Year ended 30 June 2021	Within 12 months KShs' million	After 12 months KShs' million	Total KShs' million
ASSETS			
Balances due from banking institutions	430,968	-	430,968
Funds held with International Monetary Fund (IMF)	2,201	-	2,201
IMF Funds on - lent to GOK	-	160,638	160,638
Securities and advances to banks	12,821	46,719	59,540
Loans and advances	625	2,506	3,131
Debt instruments at fair value through other comprehensive income	246,032	418,959	664,991
Equity instruments at fair value through other comprehensive income	-	10	10
Other assets	5,541	-	5,541
Gold holdings	-	106	106
Right-of-use asset - leases	-	114	114
Property and equipment	-	33,105	33,105
Intangible assets	-	1,784	1,784
Retirement benefit assets	-	7,639	7,639
Due from Government of Kenya	<u>60,389</u>	<u>18,899</u>	<u>79,288</u>
TOTAL ASSETS	<u>758,577</u>	<u>690,479</u>	<u>1,449,056</u>
LIABILITIES			
Currency in circulation	-	277,129	277,129
Deposits from Banks and Government	728,001	-	728,001
Due to IMF	10,264	210,910	221,174
Other liabilities	<u>6,239</u>	<u>19</u>	<u>6,258</u>
TOTAL LIABILITIES	<u>744,504</u>	<u>488,058</u>	<u>1,232,562</u>
NET ASSETS	<u>14,073</u>	<u>202,421</u>	<u>216,494</u>

CENTRAL BANK OF KENYA
 NOTES TO THE FINANCIAL STATEMENTS (continued)
 FOR THE YEAR ENDED 30 JUNE 2021

33. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

Year ended 30 June 2020	Within 12 months KShs' million	After 12 months KShs' million	Total KShs' million
ASSETS			
Balances due from banking institutions	369,505	-	369,505
Funds held with International Monetary Fund (IMF)	3,255	-	3,255
IMF Funds on - lent to GOK	-	79,702	79,702
Securities and advances to banks	23,080	32,481	55,561
Loans and advances	591	2,683	3,274
Debt instruments at fair value through other comprehensive income	444,643	280,249	724,892
Equity instruments at fair value through other comprehensive income	-	10	10
Other assets	5,595	-	5,595
Gold holdings	-	106	106
Right-of-use asset - leases	-	222	222
Property and equipment	-	31,618	31,618
Intangible assets	-	1,224	1,224
Retirement benefit assets	-	6,537	6,537
Due from Government of Kenya	<u>48,369</u>	<u>20,564</u>	<u>68,933</u>
TOTAL ASSETS	<u>895,038</u>	<u>455,396</u>	<u>1,350,434</u>
LIABILITIES			
Currency in circulation	-	257,792	257,792
Investments by banks	6,997	-	6,997
Deposits from Banks and Government	732,187	-	732,187
Due to IMF	16,624	135,217	151,841
Other liabilities	<u>5,570</u>	<u>32</u>	<u>5,602</u>
TOTAL LIABILITIES	<u>761,378</u>	<u>393,041</u>	<u>1,154,419</u>
NET ASSETS	<u>133,660</u>	<u>62,355</u>	<u>196,015</u>