SPECIAL ISSUE

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THE CENTRAL BANK OF KENYA

ANNUAL REPORT AND FINANCIAL STATEMENTSFOR THE YEAR ENDED 30 JUNE, 2015

Board of Directors

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

Senior Management

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

Registered office and principal place of business

Central Bank of Kenya Building
Haile Selassie Avenue
P.O. Box 60000–00200, Nairobi, Kenya
Tel.(+254) (02) 2860000

Branches

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

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

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

Currency Centres

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

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

Nakuru Currency Centre
Central Bank of Kenya Building
George Morara Street
P.O. Box 14094
20100 Nakuru

Subsidiary

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

Main Lawyers

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

Auditor

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

Delegated/Authorised Auditor:

PricewaterhouseCoopers
Certified Public Accountants
PwC Tower, Waiyaki Way / Chiromo Road, Westlands
P.O. Box 43963–00100, Nairobi

1. Statement of Corporate Governance

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

1.1. Board of Directors

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

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

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

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

No	Name	Position	Discipline	Date of appointment / Retirement	Meetings attended
1	Mr. Mohammed Nyaoga	Chairman	Lawyer	Appointed—19th June, 2015	–
2	Dr. Patrick Njoroge	Governor	Economist	Appointed—19th June, 2015	–
3	Principal Secretary/ National Treasury	Executive Officer	Economist	Permanent (Ex-Officio)	5
4	Dr. Mbui Wagacha	Interim Chairperson	Economist	Retired—13th March, 2015	6
5	Prof. Njuguna Ndungu	Governor	Economist	Retired—4th March, 2015	6
6	Prof. William Ogara	Member	Professional Accountant	Retired—13th March, 2015	6
7	Mr. John Msafari	Member	Business Management	Retired—31st May, 2015	6
8	Ms. Vivienne Apopo	Member	Lawyer and Banker	Retired—13th March, 2015	4
9	Dr. Florence Muindi	Member	Human Resource	Retired—31st May, 2015	6

The remuneration paid to the Directors for services rendered during the financial year 2014/2015 is disclosed in Note 27 to the financial statements. The Non-Executive Directors are paid a monthly retainer fee and a sitting allowance for every meeting attended. There were no loans to Non-Executive Directors during the year while Executive Directors are paid a monthly salary and are eligible for staff loans.

1.2. Secretary to the Board

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

1.3 Audit Committee

The members of the Audit Committee in the year ended 30 June 2015 were Dr William Otiende Ogara (Chairman), Mr. John Gerin Msafari, Ms. Florence Muindi and Ms. Vivienne Yeda Apopo. The members are all Non-Executive Directors having experience in Accounting, Auditing, Economics, Banking, Financial and Business Management, Human Resource Management and Legal matters. The Committee met once every two months and as necessary. The Terms of Reference of the Audit Committee cover five major areas, namely, Internal Control, Financial Reporting, Risk Management, Internal Audit and External Audit.

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

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

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

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

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

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

1.4 Monetary Policy Committee (MPC)

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

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

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

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

1.5 Human Resources Committee of the Board (HRCB)

The HRCB performs an advisory role to the Board in fulfilment of the Board's Human Resource (HR) oversight responsibility. Consequently meets once every two months and when need arises to review HR policies and make suitable recommendations to the Board. The HRCB also performs any other HR related function assigned by the Board. During financial year 2014/15, the HRCB recommended to the Board, policies on Occupation

Health and Safety; Disability mainstreaming; Gender Mainstreaming; Alcohol and Drug Abuse; HIV & AIDS; Sexual Harassment and the Organizational Development Review framework.

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

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

1.6 Financial Stability and Investment Committee

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

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

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

1.7 Management Structure

The positions of Governor and Deputy Governors are set out in the CBK Act Cap 491 of the Laws of Kenya. The Governor and the Deputy Governors make up the Central Bank's Senior Management and meet regularly with the heads of the Bank's various departments as indicated above, to review the overall performance of the Bank.

There are several other management committees, which advise the Governor on specific issues to enable him to discharge his responsibilities efficiently as the Chief Executive Officer of the Bank.

1.8 Code of Ethics

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

1.9 Internal Controls

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

1.10 Authorizations

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

1.11 Internal Audit and Risk Management

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

1.12 Transparency

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

2. Financial Performance

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

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

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

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

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

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

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

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

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

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

Incorporation

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

Principal activities

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

Results and dividend

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

Board of Directors

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

Auditor

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

By order of the Board

KENNEDY ABUGA
Board Secretary

25th September, 2015.

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

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

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

(ii) Selecting and applying appropriate accounting policies; and

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

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

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

Signed on behalf of the Board of Directors by:

MR. MOHAMMED NYAOGA
Chairman of the Board

DR. PATRICK NJOROGE
Governor, Central Bank of Kenya

25th September, 2015

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

Report on the Financial Statements

The accompanying financial statements of Central Bank of Kenya set out below which comprise the statement of financial position as at 30th June, 2015, and the consolidated statement of comprehensive income , consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by PricewaterhouseCoopers, auditors appointed under Section 39 of the Public Audit Act, 2003 and in accordance with the provisions of Article 229 of the Constitution of Kenya. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Management,s Responsibility for the Financial Statements

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

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

Auditor-General‘s Responsibilities

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

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

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

Opinion

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

EDWARD R.O OUKO,
Auditor-General

29 September 2015

Consolidated statement of comprehensive income

	Notes	**Year ended 30 June 2015**	**2014 Restated**
		Shs' million	**Shs' million**
Interest income	4	6,230	5,828
Interest expense	5	(1,977)	(1,069)
Net interest income		4,253	4,759
Increase in loan impairment	15	(8)	(2)
		4,245	4,757
Fees and commission income	2 (r)	3,000	3,000
Net trading income	6	8,198	2,125
Other income	7	686	803
Operating income		16,129	10,685
Operating expenses	8	(8,762)	(11,436)
Operating surplus/(deficit) before unrealised gains		7,367	(751)
Unrealized gains:			
Foreign exchange gain	2(d)	40,740	14,820
Fair value gain on financial assets held for trading		24	176

	Notes	Year ended 30 June 2015	2014 Restated
Surplus for the year		48,131	14,245
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Actuarial loss on retirement benefit asset	17	(4,343)	(1,126)
Land and buildings revaluation gain / (adjustment)	18	5,937	(46)
Total comprehensive income for the year		49,725	13,073

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

Consolidated statement of financial position

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

The financial statements below were authorised for issue by the Board of Directors on 25th September, 2015, and signed on its behalf by:

MR. MOHAMMED NYAOGA
Chairman of the Board

DR. PATRICK NJOROGE
Governor, Central Bank of Kenya

Consolidated statement of changes in equity

	Notes	Share Capital Shs' million	General Reserve Fund Shs' million	Revaluation reserve Shs' million	Total Shs' million
Year ended 30 June 2014					
Balance at 1 July 2013 as					

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

Note:

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

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

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

Note:

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

The share capital and proposed dividend reserve have been described in note 2 (n) and 2 (o) respectively

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

Consolidated statement of cash flows

	Notes	Year ended 30 June 2015 Shs' million	2014 Shs' million
Net cash (used in)/generated from operating activities	25	(44,802)	219,937
Cash flows from investing activities			
Purchase of property and equipment	18	(1,726)	(2,792)
Purchase of intangible assets	19	(98)	(9)
Proceeds from disposal of property and equipment		17	30
Net (purchase) / sale of financial assets			
- Fair value through profit or loss		(38,352)	12,126
- Held to maturity		(361,154)	(2,251)
- Available-for-sale		(3)	-
- Funds held with International Monetary Fund (IMF)		(3,693)	2,002
Net cash (used in)/from investing activities		(405,009)	9,106
Cash flows from financing activities			

	Notes	Year ended 30 June 2015 Shs' million	2014 Shs' million
(Repayments to) / proceeds from the International Monetary Fund (IMF)		(4,289)	11,496
Net cash (used in) / generated from financing activities		(4,289)	11,496
(Decrease)/increase in cash and cash equivalents		(454,100)	240,539
Cash and cash equivalents at start of year		648,965	408,426
Cash and cash equivalents at end of year	26	194,865	648,965

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

1 General information

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

2 Summary of significant accounting policies

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

(a) Basis of preparation

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

Changes in accounting policy and disclosures

New standards, amendments and interpretations adopted by the Bank

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

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

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

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

New and revised standards and interpretations not yet adopted

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

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

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

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

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

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

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

(b) Accounting for currency expenses

The cost of unissued bank note stocks is recognised in the statement of financial position as deferred currency costs under 'other assets'. Bank note costs are charged to profit or loss in the year in which the bank notes are issued.

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

(c) Consolidation

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

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

The excess of the aggregate of the consideration transferred and the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Bank's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group entities are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Bank.

(d) Functional currency and translation of foreign currencies

i. Functional and presentation currency

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

ii. Transactions and balances

Foreign currency transactions are translated into the Functional Currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. All foreign exchange gains and losses are presented in profit or loss within 'foreign exchange gains/(losses): The Bank's exposure to foreign currency exchange rate risk is presented in note 28 (ii).

(e) Sale and repurchase agreements

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

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

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

(f) Financial assets and liabilities

i. Financial assets

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest method.

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

Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value. Gains or losses arising from fair value re-measurements are included in other comprehensive income.

ii. Financial liabilities

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

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

iii. Determination of fair value

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

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

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

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

iv. De-recognition

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

v. Classes of financial instruments

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

vi. Impairment of financial assets

a. Loans and receivables

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

b. Available for sale financial assets

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

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

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

vii. Offsetting financial instruments

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

(g) Cash and cash equivalents

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

(h) Property and equipment

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

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

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

Leasehold land	Over the period of the lease
Buildings	20 years

Motor vehicles	4 years
Furniture and equipment	5 - 10 years

(i) Intangible assets

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

i. it is technically feasible to complete the software product so that it will be available for use;
ii. management intends to complete the software product and use or sell it;

- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and

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

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

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

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

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

(j) Impairment of non-financial assets

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

(k) Employee benefits

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

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

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

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

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

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

Past service costs are recognised immediately in income.

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

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

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

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

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

(l) Income tax

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

(m) Provisions

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

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

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

(n) Dividend payable

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

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

(o) Share capital

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

(p) Leases

Bank as lessee

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

Bank as lessor

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

(q) Interest income and expense

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

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

(r) Fee and commission income

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

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

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

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

(t) Currency in circulation

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

(u) Inventories

The Bank's inventory is comprised of new currency not issued. Inventories are stated at the sum of the production costs. Cost is determined using the first-in, first-out (FIFO) method.
Bank notes printing expenses and coin minting costs for each denomination which include ordering, printing, minting, freight, insurance and handling costs are initially deferred. Based on the currency issued into circulation, the respective proportional actual costs incurred are

released to the profit or loss from the deferred costs account. The deferred amount is recognised as prepayment and represents un-issued bank notes and coins stock.

(v) Loan due from the Government of Kenya

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

On 24 July 2007, a deed of guarantee was signed between the Government of Kenya and Central Bank of Kenya in which the Government agreed to repay the loan at Shs 1.11 billion per annum over 32 years at 3% interest per annum. The security held is lien over cash balances, stock, treasury bonds and such other government securities as are specified in Section 46(5) of the Central Bank of Kenya Act.

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

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

Kenya has been a member of the International Monetary Fund (IMF) since 1966. The Bank is the designated depository for the IMF's holdings of Kenya's currency. IMF currency holdings are held in the No. 1 and No. 2 Accounts, which are deposit accounts of the IMF with the Bank. Borrowings from and repayments to the IMF are denominated in Special Drawing Rights (SDRs). The SDR balances in IMF accounts are translated into Shillings at the prevailing exchange rates and any unrealized gains or losses are accounted for in accordance with accounting policy on foreign currencies.

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

(x) Comparatives

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

3 Critical accounting estimates and judgements in applying accounting policies

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

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

a. ***Post-retirement benefits***

Post-retirement benefits are long term liabilities whose value can only be estimated using assumptions about developments over a long period. The Bank has employed actuarial advice in arriving at the figures in the financial statements (Note 17 which includes assumptions). The Board of Directors considers the assumptions used by the actuary in their calculations to be appropriate for this purpose.

b. ***Loans and advances***

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

c. ***Fair value of financial assets***

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

d. ***Property and equipment***

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

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

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

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

4 Interest income

	2015 Shs' million	2014 Shs' million
Financial assets - held to maturity	1,878	1,353
Loans and advances	3,860	4,116
Financial assets at fair value through profit or loss	492	359
	6,230	5,828

Interest income from loans and advances comprises:

Due from Government of Kenya - loan	825	858
Due from Government of Kenya - overdraft	2,240	2,263

4 Interest income

	2015 Shs' million	2014 Shs' million
Staff loans and advances	260	255
Advances to banks	204	506
Local commercial banks overnight loans	65	71
Other interest income	266	163
	3,860	4,116

5 Interest expense

Interest on monetary policy issues – investments by banks	1,894	1,029
Interest paid to IMF	83	40
	1,977	1,069

6 Net trading income

Net gain on sale of foreign exchange currencies	8,169	2,182
Net gain/(loss) on held for trading financial assets	29	(57)
	8,198	2,125

7 Other income

Licence fees from commercial banks and foreign exchange bureaux	248	220
Penalties from commercial banks and foreign exchange bureaux	16	21
Rent income from Thomas De La Rue Kenya Limited	2	2
Kenya School of Monetary Studies operating income - hospitality services and tuition fee	372	467
Gain on disposal of property and equipment	17	30
Miscellaneous income	31	63
	686	803

8 Operating expenses

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

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

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

	2014 Shs' million	2013 Shs' million

9 Employee benefits

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

10 Balances due from banking institutions

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

Special project accounts relate to amounts received by the Government of Kenya (or its ministries) for specific projects or purposes. An equal and corresponding liability is recorded and disclosed under "Deposits from banks and government (note 22)". The movement in the year is mainly attributable to the drawdown of the proceeds of the U.S. Dollar 2 billion Euro bond by the Government of Kenya.

11 Financial assets at fair value through profit or loss

	2015 Shs' million	2014 Shs' million
a. Designated at initial recognition		
Gold holdings	66	65

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

b. Held for trading		
Fixed income securities	84,118	52,136
Fixed income securities under World Bank RAMP	28,822	25,989
	112,940	78,125
	113,006	78,190

12 Investments securities – Available-for-sale

	2015 Shs' million	2014 Shs' million
Unlisted equity securities	9	6

	2015 Shs' million	2014 Shs' million
At start of year		

	6	**-**
Additions	3	6
At end of year	9	6

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

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

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

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

Kenya's quota in IMF of SDR 271.4 million (2014: SDR 271.4 million) and allocations of SDR 258.3 million (2014: 258.3 million) are not included in the financial statements of the Bank as these are booked in the National Treasury with the Government of Kenya's Fiscal Agent.

14 Advances to banks

	2015 **Shs' million**	2014 **Shs' million**
Treasury bonds discounted	38	38
Treasury bills discounted	36	11
Accrued interest	1	1
	75	50

All advances to banks are recoverable within one year.

15 Loans and advances

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

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

16 Other assets

	2015	2014	2013

	Shs' million	Restated Shs' million	Restated Shs' million
Prepayments	526	688	115
Deferred currency expenses	3,704	3,766	4,252
Sundry debtors	5,102	5,218	5,212
Items in the course of collection	82	70	154
	9,414	9,742	9,733
Provision for impairment	(4,883)	(4,860)	(4,839)
	4,531	4,882	4,894

All other assets balances are recoverable within one year.

Movement in the impairment allowance is as follows:			
At start of year	4,860	4,839	4,686
Increase in impairment allowance	23	21	153
At end of year	4,883	4,860	4,839

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

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

17 Retirement benefit asset

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

Reconciliation of asset in the statement of financial position

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

Movements in the plan benefit obligation are as follows:	**2015 Shs' million**	**2014 Shs' million**
At start of year	17,006	13,065
Current service cost net of employees' contributions	404	457
Interest cost	2,160	1,779
Employee contributions	55	55
Actuarial (loss)/gain	(863)	2,318
Benefits paid	(942)	(668)
At end of year	17,820	17,006

Movements in the plan benefit obligation are as follows:	**2015** **Shs' million**	**2014** **Shs' million**

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

The amounts recognised in profit or loss for the year are as follows:		
Expected return on scheme assets	3,205	2,858
Adjustment for previous year values	600	(57)
Current service cost net of employees' contributions	(404)	(457)
Interest cost	(2,160)	(1,779
Net charge for the year included in employee benefits (Note 9)	1,241	565

Plan assets are distributed as follows:

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

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

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

Sensitivity analysis

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

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

	Base	Discount rate -1%	Discount rate +1%	Salary rate -1%	Salary rate +1%	Demographic assumptions +10%	Demographic assumptions -10%
	Shs million	Shs million	Shs million	Shs million	Shs million	Shs million	Shs million
Net asset at end of year	4,668	3,869	5,351	4,762	4,569	4,753	4,577

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

18 Property and equipment

	Freehold land and Buildings Shs' million	Leasehold land and buildings Shs' million	Work in progress Shs' million	Motor vehicles Shs' million	Furniture and equipment Shs' million	T Shs' mil
Year ended 30 June 2014						
Opening net amount	2,897	4,353	2,108	136	2,296	12,
Additions	-	-	2,373	71	348	2,
Disposals	-	-	-	(35)	(4)	(
Charge for the year	(71)	(340)	-	(66)	(580)	(9
Reversal of charge on disposals	-	-	-	35	4	
Adjustment to revaluation reserve	(46)	-	-	-	-	(
At end of year	2,774	4,353	4,481	141	2,064	13,
At 30 June 2014						
Cost or valuation	2,929	4,893	4,481	364	3,972	16,
Accumulated depreciation	(155)	(540)	-	(223)	(1,908)	(2,8
Net book amount	2,774	4,353	4,481	141	2,064	13,
Year ended 30 June 2015						
Opening net amount	2,774	4,363	4,481	141	2,064	13,
Additions	-	-	1,437	40	249	1,
Revaluation gain	3,346	1,564	-	-	-	4,
Disposals	-	-	-	(34)	-	(
Charge for the year	(73)	(259)	-	(93)	(308)	(7
Reversal of charge on revaluation	228	799	-	-	-	1,
Reversal of charge on disposals	-	-	-	34	-	
At end of year	6,275	6,457	5,918	88	2,005	20,
At 30 June 2015						
Cost or valuation	6,275	6,457	5,918	370	4,221	23,
Accumulated depreciation	-	-	-	(282)	(2,216)	(2,4
Net book amount	6,275	6,457	5,918	88	2005	20,

Land and buildings were revalued by internal professional valuers in 2015 on an open market basis and the revaluation has been included in the revaluation reserve. Land and buildings are included in the level 2 of the fair valuation hierarchy (that is, the fair value is based on inputs other than quoted prices that are observable). The methods and significant assumptions applied in arriving at the revalued amounts are as follows:

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

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

19 Intangible assets	**Software**	**Work-in-Progress**	**Total**

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

20 Due from Government of Kenya

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

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

Section 46(3) of the Central Bank of Kenya Act sets the limit of the Government of Kenya's overdraft facility at the Bank at 5% of the Gross Recurrent Revenue as reported in the latest Government of Kenya audited financial statements. The limit for the year ended 30 June 2015 was Shs 39,123 million (2014: Shs 34,187 million) based on the gross recurrent revenue for the year ended 30 June 2013 (which were the latest audited financial statements at the start of the year), which was Shs 782,466 million, and interest is charged at the Central Bank Rate currently at 11.5%.

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

21 Currency in circulation

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

22 Deposits from banks and government	**2015**	**2014**

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

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

23 Other liabilities

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

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

24 Equity and reserves

(a) Share capital

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

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

(b) General reserve fund

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

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

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

Capital reserve account

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

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

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

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

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

(c) Revaluation reserve

The revaluation reserve relates to unrealized gains on valuation of land and buildings that will not be recycled into profit or loss. See also note 18.

25 Cash generated from operations

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

26 Cash and cash equivalents

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

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

27 Related party transactions

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

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

(i) Loans

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

	2015	**2014**

Loans to executive director	**Shs' million**	**Shs' million**
At start of the year	8	13
Loan repayments	(8)	(5)
At end of the year	-	8

Loans to key management personnel		
At start of the year	71	77
Loans advanced during the year	-	17
Loan repayments	(23)	(23)
At end of the year	48	71

(ii) Directors' emoluments:		
Fees to non-executive directors	20	15
Other remuneration to executive directors	20	30
Gratuity for the Governor, who retired in the year	22	-
	62	45
(iii) Remuneration to senior management	171	196
(iv) Post–employment pension to senior management	10	10

(v) Government of Kenya		
Due from Government of Kenya (Note 20)	63,163	66,138

Transactions entered into with the Government include:

(i) Banking services;

(ii) Management of issue and redemption of securities at a commission and;

(iii) Foreign currency denominated debt settlement and other remittances at a fee.

(vi) Kenya Deposit Insurance Corporation (KDIC)

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

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

(vii) Kenya School of Monetary Studies (KSMS)

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

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

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

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

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

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

28 Financial risk management objectives and policies

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

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

Unit.

(a) Strategy in using financial instruments

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

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

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

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

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

(b) Risks facing the Bank

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

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

i. Credit risk

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

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

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

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

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

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

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

No.	List of Foreign Correspondent Banks - Current Accounts Balances	Type of Institution	Credit Ratings as of 30th June 2015		
			Fitch	S & P	Moody's
1	Reserve Bank of Australia	Central Bank	NR	NR	NR
2	Bank of Canada	Central Bank	NR	NR	NR
3	Schwerizerische National	Central Bank	NR	NR	NR
4	Bank of China	Commercial Bank	A	A	A1
5	Danmarks National Bank	Central Bank	NR	NR	NR

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

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

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

ii. *Market risk*

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

Market risks arising from trading and non-trading activities are concentrated in Bank Treasury and are monitored by management with oversight from the Monetary Policy Committee.

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

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

Interest rate risk

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

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

At 30 June 2015	1 – 3 months Shs' million	3-12 months Shs' million	1 - 5 years Shs' million	Over 5 years Shs' million	Non-interest Bearing Shs' million	Total Shs' million
Assets						
Balances due from banking institutions	513,096	53,088	-	-	25,778	591,962
Advances to banks	75	-	-	-	-	75
Financial assets at FVTPL	-	84,164	-	28,776	66	113,006
Funds held with International Monetary Fund (IMF)	-	-	-	-	4,531	4,531
Investments securities – Available-for-sale	-	-	-	-	9	9
Loans and advances	22	84	656	1,571	-	2,333
Other assets	-	-	-	-	4,531	4,531
Due from Government of Kenya	-	36,483	4,440	22,240	-	63,163

At 30 June 2015	1 – 3 months Shs' million	3-12 months Shs' million	1 - 5 years Shs' million	Over 5 years Shs' million	Non-interest Bearing Shs' million	Total Shs' million
Total financial assets	513,193	173,819	5,096	52,587	34,915	779,610
Liabilities						
Deposits from banks and government	-	-	-	-	331,316	331,316
Due to International Monetary Fund (IMF)	-	-	-	-	125,775	125,775
Other liabilities	-	-	-	-	4,467	4,467
Total financial liabilities	-	-	-	-	461,558	461,558
Interest sensitivity gap	513,193	173,819	5,096	52,587	(426,643)	318,052

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

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

Foreign exchange risk

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

The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 30 June 2015. Included in the table are the Bank's financial instruments categorised by currency:

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

	USD Shs' million	GBP Shs' million	EUR Shs' million	SDR Shs' million	Others Shs 'million	Total Shs' million
Net position	425,277	157,112	33,725	(121,390)	46,863	541,587

	USD Shs' million	GBP Shs' million	EUR Shs' million	SDR Shs' million	Others Shs 'million	Total Shs' million
At 30 June 2014						
Assets						
Balances due from banking institutions – Local	476,823	99,833	53,589	-	51,152	681,397
Financial assets at fair value	78,190	-	-	-	-	78,190
Funds held with International Monetary Fund (IMF)	-	-	-	692	-	692
Total financial assets	555,013	99,833	53,589	692	51,152	760,279
Liabilities						
Due to International Monetary Fund (IMF)	-	-	-	130,064	-	130,064
Deposits from banks and government	207,337	1,207	1576	-	160	210,280
Total financial liabilities	207,337	1,207	1,576	130,064	160	340,344
Net position	347,676	98,626	52,013	(129,372)	50,992	419,935

As at 30 June 2015, if the shilling had weakened/strengthened by 5% against the major currencies with all other variables held constant, the impact on the Bank's profit would have been:

USD Shs 21,264 million (2014: Shs 27,328 million)

British Pound Shs 7,856 million (2014: Shs 4,931 million)

Euro Shs 1,686 million (2014: Shs 2,601 million)

SDR Shs 6,070 million (2014: Shs 5,794 million)

iii. Liquidity risk

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

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

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

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

Fair value of financial instruments

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Bloomberg).

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

	Level 1 Shs' million	Level 2 Shs' million	Level 3 Shs' million	Total Shs' million
At 30 June 2015:				
Financial assets at fair value	**112,940**	**66**	**-**	**113,006**
Investment securities – Available-for-sale	**-**	**-**	**9**	**9**
Total assets	**112,940**	**66**	**9**	**113,015**
As at 30 June 2014:				
Financial assets at fair value	**78,125**	**65**	**-**	**78,190**
Investment securities – Available-for-sale	**-**	**-**	**6**	**6**
Total assets	**78,125**	**65**	**6**	**78,196**

Changes in level 3 instrument are disclosed in Note 13 to the financial statements.

29 Contingent liabilities and commitments

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

At 30 June 2015, the Bank had capital commitments of Shs 2,921 million (2014: Shs 40 million) in respect of property and equipment purchases.

Operating lease commitments – Bank as lessee

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

30 Prior year adjustments

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

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

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

On the statement of financial position at 30 June 2014:

Total equity and liabilities:

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

GAZETTE NOTICE NO. 7241

THE CENTRAL BANK OF KENYA

(*Cap*. 491)

MONETARY POLICY STATEMENT, JUNE, 2015

The Principal Objectives of the Central Bank of Kenya

The principal objectives of the Central Bank of Kenya (CBK) as established in the CBK Act are:

1. To formulate and implement monetary policy directed to achieving and maintaining stability in the general level of prices;
2. To foster the liquidity, solvency and proper functioning of a stable, market-based, financial system;
3. Subject to (1) and (2) above, to support the economic policy of the Government, including its objectives for growth and employment.

Without prejudice to the generality of the above, the Bank shall:

- Formulate and implement foreign exchange policy;
- Hold and manage Government foreign exchange reserves;
- License and supervise authorised foreign exchange dealers;
- Formulate and implement such policies as best promote the establishment, regulation and supervision of efficient and effective payment, clearing and settlement systems;
- Act as banker and adviser to, and as fiscal agent of, the Government; and
- Issue currency notes and coins.

The CBK therefore, formulates and conducts monetary policy with the aim of keeping overall inflation within the allowable margin (currently 2.5 percent) on either side of the target prescribed by the National Treasury after the annual Budget Policy Statement. The achievement and maintenance of a low and stable inflation rate together with ensuring adequate liquidity in the market facilitates higher levels of domestic savings and private investment, leading to improved economic growth, higher real incomes and increased employment opportunities.

In this regard, the Bank's monetary policy is designed to support the Government's desired growth in the production of goods and services and employment creation through achieving and maintaining a low and stable rate of inflation.

Instruments and Transmission of Monetary Policy

The CBK pursues its monetary policy objectives using the following instruments:

- **Open Market Operations (OMO)** refers to actions by the CBK through purchases and sales of eligible securities to regulate the money supply and the credit conditions in the economy. OMO can also be used to stabilise short-term interest rates. When the Central Bank buys securities on the open market, it increases the reserves of commercial banks, making it possible for them to expand their loans and hence increase the money supply. To achieve the desired level of money supply, OMO is conducted using:

  (i) Repurchase Agreements (Repos): Repos entail the sale of eligible securities by the CBK to reduce commercial banks' deposits held at CBK. Repos (often called *Vertical Repos*) have fixed tenors of 3 and 7 working days. *Reverse Repos* are purchases of securities from commercial banks and hence an injection of liquidity by the CBK during periods of tighter than desired liquidity in the market. The *Late Repo*, sold in the afternoon, has a 4-day tenor and is issued at an interest rate 100 basis points below the Repo on that day. When a weekend or public holiday coincide with the maturity date of the Repo, the tenor is extended to the next working day.

  (ii) Term Auction Deposit (TAD): The TAD is used when the securities held by the CBK for Repo purposes are exhausted or when CBK considers it desirable to offer longer tenor options. The CBK seeks to acquire deposits through a transfer agreement from commercial banks at an auction price but with no exchange of security guarantee. Currently, the tenors for such deposits at CBK are 14, 21, or 28 day periods. At maturity, the proceeds revert to the respective commercial banks.

  (iii) Horizontal Repos: While not being strictly monetary policy instruments, Horizontal Repos are modes of improving liquidity distribution between commercial banks under CBK supervision. They are transacted between commercial banks on the basis of signed agreements using government securities as collateral, and have negotiated tenors and yields. Commercial banks, short of deposits at the CBK, borrow from banks with excess deposits on the security of an appropriate asset, normally a government security. Horizontal Repos help banks overcome the problem of limits to lines of credit, thus promoting more efficient management of interbank liquidity.

- **Central Bank Rate (CBR)**: The CBR is reviewed and announced by the Monetary Policy Committee (MPC) at least every two months and its movements, both in direction and magnitude, signal the monetary policy stance. In order to enhance clarity and certainty in monetary policy implementation, the CBR is the base for all monetary policy operations. Whenever the Central Bank is injecting liquidity through a Reverse Repo, the CBR is the lowest acceptable rate by law. Likewise whenever the Bank wishes to withdraw liquidity through a Vertical Repo, the CBR is the highest rate that the CBK will pay on any bid received. However, to ensure flexibility and effectiveness of monetary policy operations in periods of volatility in the market, the CBK can raise the maximum acceptable interest rates on TAD to above the CBR. Movements in the CBR are transmitted to changes in short-term interest rates. A reduction of the CBR signals an easing of monetary policy and a desire for market interest rates to move downwards. Lower interest rates encourage economic activity and thus growth. When interest rates decline, the quantity of credit demanded should increase.

  The efficiency in the Repo and interbank markets is crucial for the transmission of monetary policy decisions. The CBK monitors, but does not intervene, in the overnight interbank money market which is conducted by the banking industry. It responds to the tightness or slackness in the interbank market liquidity through OMO. Short-term international flows of capital are affected by short-term interest rates in the country. These are, in turn, affected by movements in the CBR and hence indirectly, the exchange rate could also be affected.

- **Kenya Banks' Reference Rate (KBRR)**: The KBRR is the base rate for all commercial and microfinance banks' lending. The level of the KBRR is reviewed and announced by the Monetary Policy Committee at least every six months. The KBRR is computed as an average of the CBR and the weighted 2-month moving average of the 91-day Treasury bill rates.

- **Standing Facilities**: The CBK does not have automatic standing facilities with respect to overnight lending. The CBK, as lender of last resort, provides secured loans to commercial banks on an overnight basis at a penal rate that is over the CBR. This facility is referred to as the Discount Window. Access to the Window is governed by rules and guidelines which are reviewed from time to time by the Bank. Banks making use of this facility more than twice in a week are scrutinised and supervisory action taken.

- **The Cash Reserves Ratio (CRR)**: In accordance with the law, the CRR is the proportion of a commercial bank's total deposit liabilities which must be deposited at CBK. These deposits are held in the CRR Account at no interest. The ratio is currently 5.25 percent of the total of a bank's domestic and foreign currency deposit liabilities. To facilitate commercial banks' liquidity management, commercial banks are currently required to maintain their CRR based on a daily average level from the 15th of the previous month to the 14th of the current month and not to fall below a CRR of 3 percent on a daily basis.

- **Foreign Exchange Market Operations**: The CBK can also inject or withdraw liquidity from the banking system by engaging in foreign exchange transactions. A sale of foreign exchange to banks withdraws liquidity from the system while the purchase of foreign exchange injects liquidity into the system. Participation by the CBK in the foreign exchange market is usually motivated by the need to acquire foreign exchange to service official debt and to build-up its foreign exchange reserves in line with the statutory requirement of reserves equivalent to four months' import cover. The CBK does not participate in the foreign exchange market to defend a particular value of the Kenya shilling but may intervene in the exchange market to stabilise it in the event of excess volatility. The following regulatory measures have been introduced, through Prudential Guidelines of banks, to support stability of the exchange rate:

  (i) Limiting the tenor of swaps and Kenya Shilling borrowing where offshore banks are involved to a tenor of not less than one year.

  (ii) Limiting the tenor of swaps between residents to not less than seven days.

  (iii) Reduction of the foreign exchange exposure ratio of core capital from 20 percent to 10 percent. The foreign exchange limits should not exceed the 10 percent overall limit at any time during the day.

  (iv) Requiring that local banks obtain supporting documents for all transactions in the Nostro accounts of offshore banks.

- **Licensing and Supervision of Financial Institutions**: The CBK uses the licensing and supervision tools to ensure the health and efficiency of the banking system; this includes vetting potential managers for suitability both with respect to qualifications and character.

- **The National Payments System**: The modernisation of the National Payments System has, and will continue to, reduce transaction costs and improve the effectiveness of monetary policy instruments.

- **Communication**: The increasing use of communication media ensures a wider dissemination of monetary policy decisions and background data thereby increasing the efficiency of information transmission. The regular interaction between the MPC and the Chief Executive Officers of commercial banks through the Kenya Bankers Association (KBA) has ensured that monetary policy decisions are transmitted to the banking sector. The CBK website is an important source of up-to-date data on all aspects of the financial market including interest rates, exchange rates, results of auctions of government securities, and the MPC releases. The CBK also participates in the regional and National Agricultural Society of Kenya Shows in order to sensitise the public on its functions.

Legal Status of the Monetary Policy Statement

1. Section 4B (1) of the CBK Act requires the Bank to submit to the Cabinet Secretary for The National Treasury, at intervals of not more than six months, a Monetary Policy Statement for the next twelve months which shall:

   (i) Specify policies and the means by which the Bank intends to achieve its policy targets;

   (ii) State reasons for adopting such monetary policies and means; and

   (iii) Contain a review and assessment of the progress made in the implementation of monetary policy by the Bank during the period to which the preceding Monetary Policy Statement relates.

2. The Cabinet Secretary shall – by law – lay every Statement submitted under subsection (1) before the appropriate committee of the National Assembly not later than the end of the subsequent session of Parliament after the Statement is so submitted.

3. (a) The Bank shall – by law – publish in the Kenya Gazette:

   (i) Its Monetary Policy Statement; and

   (ii) Its Monthly Balance Sheet.

   (b) The Bank is further required to disseminate key financial data and information on monetary policy to the public.

4. In subsection (2), the expression "appropriate committee" means the committee of the National Assembly appointed to investigate and inquire into matters relating to monetary policy.

Executive Summary

This Monetary Policy Statement provides the direction of monetary policy for the Fiscal Year 2015/16. It also reviews the outcome of the monetary policy stance adopted in the first half of 2015.

Overall month-on-month inflation remained within the Government target range in the first half of 2015. However, it rose towards the upper bound, from 5.5 percent in January 2015 to 7.1 percent in April 2015 mainly reflecting increases in prices of food, and pass-through effects of exchange rate depreciation. Overall inflation eased marginally thereafter to 7.0 percent in June 2015. Similarly, the 12-month non-food-non-fuel inflation (NFNF) rose to 4.6 percent in June 2015 from 3.5 percent in January 2015, indicating moderate demand pressure in the economy.

The Kenya Shilling exchange rate against the U.S. dollar weakened gradually during the first half of 2015. This largely reflected the global strengthening of the U.S. dollar which resulted in depreciation of most currencies against the U.S. dollar during the period. The strengthening of the U.S. dollar reflected in part, the uncertainty on the timing of the first U.S. interest rate increase since 2008 coupled with the debt crisis in Greece. In addition, domestic factors attributed mainly to a wide current account deficit on account of increased imports of capital goods and transport equipment, against lower than expected earnings from traditional exports, exacerbated the pressure on the Shilling exchange rate. However, diaspora remittances remained strong during the period. The Central Bank of Kenya (CBK) interventions through direct sales of foreign exchange to commercial banks dampened short-term volatility in exchange rate in the period.

The Monetary Policy Committee (MPC) augmented its tight policy stance by raising the Central Bank Rate (CBR) to 10.0 percent in June 2015 from 8.50 percent, which had prevailed since May 2013, in order to anchor inflationary expectations which were attributed to the depreciation of the Kenya Shilling and demand driven inflation threats. Consequently, movements in short-term interest rates were aligned to the Central Bank Rate (CBR) during the period. Consistent with the tight monetary policy stance adopted, liquidity management operations were aimed at maintaining the interbank rate above the CBR.

The monetary policy stance in the Fiscal Year 2015/16 will aim at maintaining overall month-on-month inflation rate within the Government's target range of 2.5 percent on either side of the 5 percent target. The price stability objective aims at supporting sound and sustained economic growth. The level of foreign exchange reserves and the precautionary facility with the International Monetary Fund (IMF) blending the non-concessionary Stand By Arrangement and the concessional Stand By Credit Facility will provide an adequate buffer against short-term shocks. The coordination between monetary and fiscal policies will be strengthened in order to support overall macroeconomic stability and to maintain the sustainability of public debt.

Consistent with the government growth and inflation targets in the Fiscal Year 2015/16, monetary policy will aim at constraining the annual growth in broad money, M3, to 17.3 percent by September 2015, 17.2 percent by December 2015, 17.5 percent by March 2016 and 13.8 percent by June 2016. The Net Domestic Assets (NDA) of the Bank is targeted at Ksh.-167.1 billion in September 2015, Ksh.-187.2 billion in December 2015, Ksh.-

214.0 billion in March 2016 and Ksh.-203.7 billion in June 2016. However, the annual growth in credit to the private sector is projected at 19.1 percent in September 2015, 18.4 percent in December 2015, 18.3 percent in March 2016 and 15.5 percent in June 2016. The Net International Reserves (NIR) of the CBK are targeted at USD 5,308.2 million in September 2015, USD 5,986.6 million in December 2015, USD 6,005.0 million in March 2016 and USD 6,055.2 million in June 2016. The monetary policy stance will aim at ensuring that movements in the short-term interest rates support the Bank's primary objective of price stability. The Bank will also continue to enhance the effectiveness and efficiency of its monetary policy instruments.

The CBK will continue to monitor liquidity conditions in the market, and the risks posed by developments in the global and domestic economies and will take appropriate actions to maintain price stability. Global economic growth is projected to pick up gradually in the second half of 2015 through 2016. However, the uncertainty around the timing of the increase in U.S. interest rates, coupled with the debt crisis in Greece indicate possible instability in the financial markets.

The Bank will continue its regular interactions with stakeholders in the financial and real sectors to obtain feedback, and ensure the timely release of relevant monetary and financial data. Specifically, the Bank will continue to work with stakeholders to ensure effective implementation of the Kenya Banks' Reference Rate (KBRR) framework. This will enhance transparency in credit pricing and improve the transmission of monetary policy effects through commercial and microfinance banks' lending rates.

1. Introduction

This Monetary Policy Statement (MPS) provides the direction of monetary policy for the Fiscal Year 2015/16. It also reviews the outcome of the monetary policy stance adopted in the first half of 2015.

On the domestic scene, overall inflation remained within the Government target range in the first half of 2015 despite pressures from the pass-through effects of exchange rate depreciation and the supply side shocks. The rise in international oil prices coupled with depreciation of the Kenya Shilling increased the risks of imported inflation. The Kenya Shilling remained under pressure mainly reflecting the strengthening of the US dollar against most currencies, and the widening of the domestic current account deficit. On the global scene, the recovery of the global economy in 2015 has been gradual, driven mainly by the U.S. economy.

The precautionary arrangement with the International Monetary Fund (IMF) blending the non-concessionary Stand By Arrangement and the concessional Stand By Credit Facility (SBA/SCF) was approved in February 2015. The facility provides a cushion to the economy through access to SDR 488.52 million (about USD 688.3 million) of IMF resources in the event of exogenous shocks. This will support exchange rate stability. Price stability remains the primary objective of monetary policy formulation and implementation. The CBK targets for Net Domestic Assets (NDA) and Net International Reserves (NIR) are the operational parameters. The Bank also continues to monitor targets for key monetary aggregates such as broad money (M3) and credit to the private sector. The Central Bank Rate (CBR) signals the monetary policy stance, and is the base for all monetary policy operations. The Bank's participation in the foreign exchange market will continue to be guided by the need to maintain adequate level of foreign exchange reserves, meeting the Government's external obligations, and ensuring stability of the value of the Kenya Shilling. The rest of this Policy Statement is organized as follows. Section 2 reviews the outcome of the monetary policy stance proposed in the December 2014 MPS while Section 3 describes the current economic environment and outlook for the Fiscal Year 2015/16. Section 4 concludes by outlining the specific monetary policy path for the Fiscal Year 2015/16.

2. Actions and Outcomes of Policy Proposals in the December 2014 Monetary Policy Statement

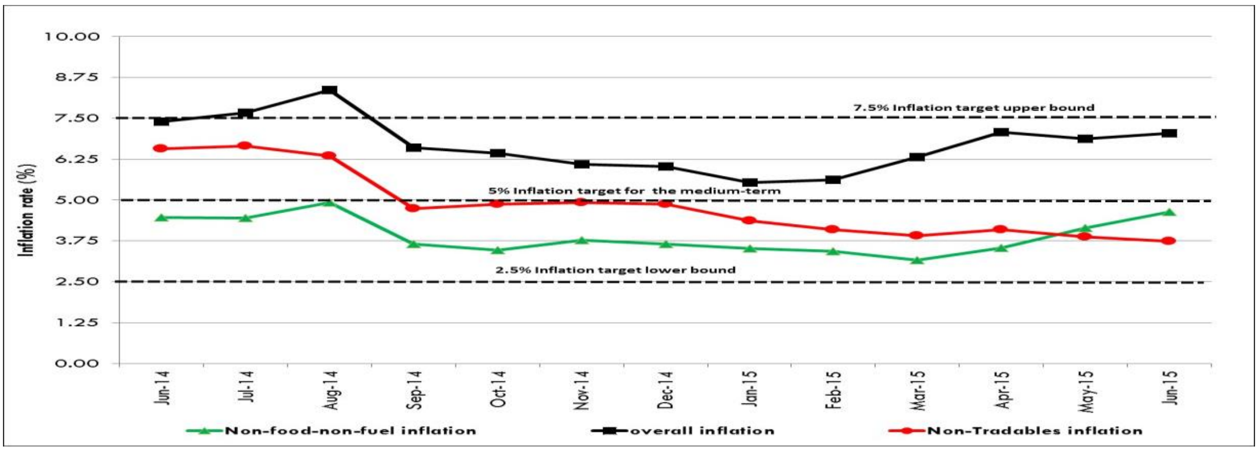
The overall aim of the Monetary Policy Statement for December 2014 (35th MPS) was to set monetary policy targets that would ensure low and stable inflation, encourage growth, support long-term sustainability of public debt through stable interest rates and, by enhancing financial access within the economy, contribute to lowering the cost of doing business in Kenya. The following are the specific outcomes of the policy proposals in the 35th MPS:

a. Inflation

Overall month-on-month inflation remained within the Government target range of 2.5 percent range on either side of the 5 percent target during the first half of 2015 (Chart 1a). It rose gradually from 5.5 percent in January 2015 to 7.1 percent in April 2015 largely reflecting increases in the prices of food, and tradable goods. The rise in tradable goods inflation mainly reflected pass-through effects of exchange rate depreciation on domestic prices (Chart 1b). Overall inflation eased marginally thereafter to 7.0 percent in June 2015 on account of a decrease in food prices.

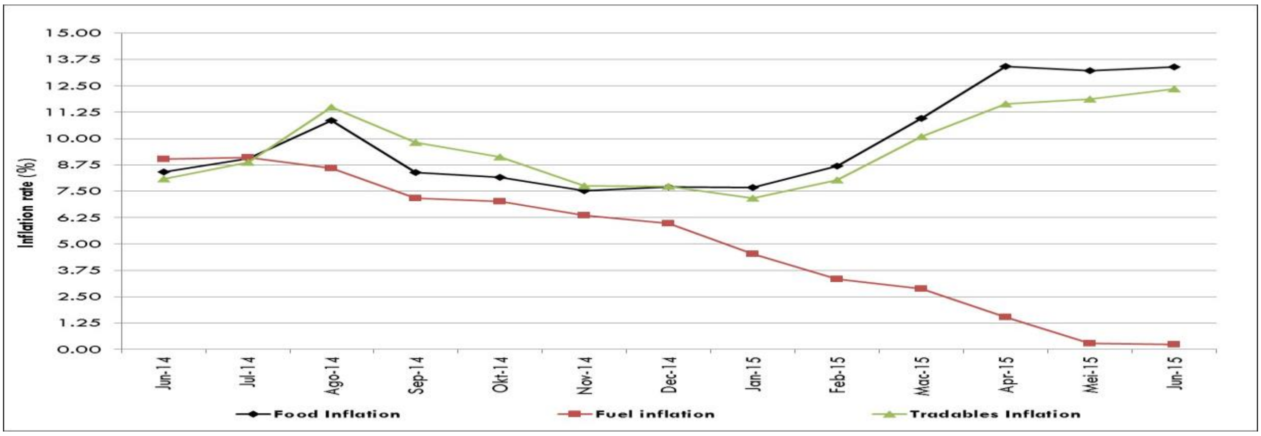
The depreciation in the Kenya Shilling heightened the threat of imported inflation in the period. The 12-month non-food-non-fuel (NFNF) inflation rose to 4.6 percent in June 2015 from 3.5 percent in January 2015 indicating demand driven inflationary pressure in the economy.

Chart 1a: 12-Month Inflation in Broad Measures (%)



Source: Kenya National Bureau of Statistics and Central Bank of Kenya

Chart 1b: 12-Month Inflation in Broad Categories (%)



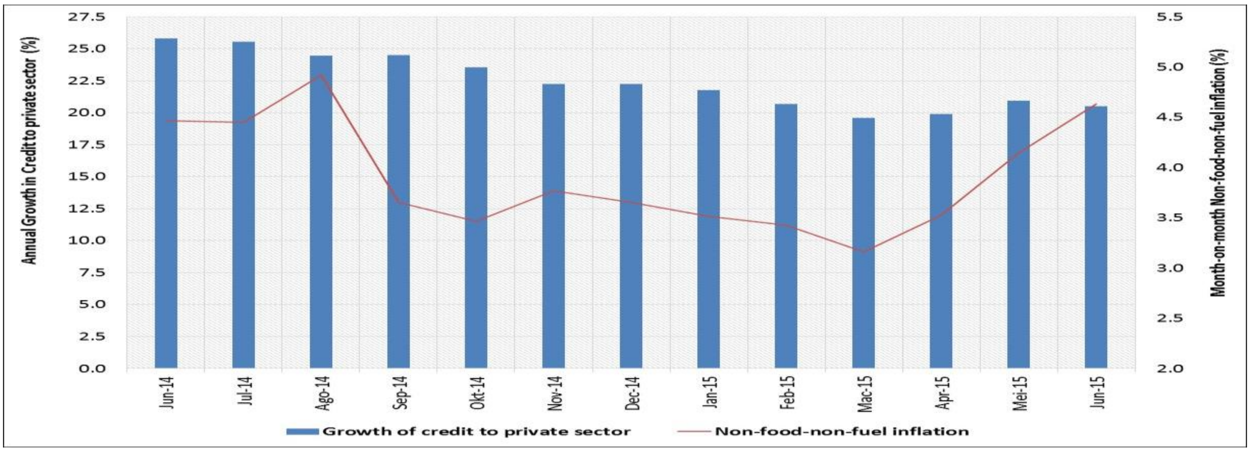
Source: Kenya National Bureau of Statistics and Central Bank of Kenya

i. Credit to Private Sector

The growth in credit to private sector remained strong in the first half of 2015 reflecting sustained demand with improved economic activity. Consistent with the projected growth path to deliver a stable inflation, the 12-month growth in credit declined gradually from 22.2 percent in December 2014 to 20.5 percent in June 2015. The trend in the growth of private sector credit was reflected in the 12-month NFNF during the period (Chart 2). The rise in NFNF inflation from March 2015 was partly explained by pass-through effects of the depreciation in the Kenya Shilling and moderate demand pressure in the economy.

However, the growth in private sector credit in the period was channelled largely towards key sectors of the economy. These sectors include agriculture, manufacturing, trade, transport and communication, finance and insurance, real estate, construction and business services.

Chart 2: Annual Growth in Private Sector Credit (%)



Source: Central Bank of Kenya

ii. Developments in the Monetary Aggregates and Impact of Financial Innovations

Broad money (M3) and credit to private sector were slightly above their targets in the first half of 2015 (Table 1). The conduct of monetary policy by CBK in order to achieve its price stability target was on the basis of the monetary aggregate targeting framework. The aggregates of NDA and NIR of the CBK have been the operational parameters. The CBR signalled the monetary policy stance and formed the base for all subsequent monetary policy operations. The NDA and NIR indicative targets for June 2015 were not met. The breach of the NIR target was attributed to drawdown of foreign exchange reserves through market interventions by the CBK in June 2015 to stem the excessive volatility in the exchange rate.

Table 1: Actual and Targeted Growth in Key Monetary Aggregates

	Dec-14	Jan-15	Feb-15	Mac-15	Apr-15	Mei-15	Jun-15
Actual Broad Money,M3 (Ksh Billion)	2,330.0	2,350.8	2,407.8	2,398.8	2,464.5	2,501.6	2,553.0
Target Broad Money,M3 (Ksh Billion)	2,320.5	2,343.3	2,366.0	2,388.7	2,411.6	2,434.3	2,457.2
Actual Reserve Money (Ksh Billion)	379.7	350.2	351.6	346.3	353.1	362.7	372.0
Target Reserve Money (Ksh Billion)	353.7	338.3	341.2	347.6	342.2	345.3	354.6
Actual Net Foreign Assets of CBK (Ksh Billion)	588.8	567.8	574.8	569.6	562.6	567.3	565.2
Targets for Net Foreign Assets of CBK (Ksh Billion)	601.4	597.1	592.9	589.4	587.0	585.1	575.0
Actual Net Domestic Assets of CBK (Ksh Billion)	-209.1	-217.6	-223.2	-223.3	-209.5	-204.6	-193.2
Target Net Domestic Assets of CBK (Ksh Billion)	-247.7	-258.8	-251.7	-241.9	-244.8	-239.8	-220.4
Actual Credit to private sector (Ksh Billion)	1,884.5	1,903.3	1,915.8	1,930.7	1,970.8	2,023.4	2,072.2
Target Credit to private sector (Ksh Billion)	1,873.8	1,893.1	1,912.7	1,938.2	1,958.8	1,984.3	2,028.1
Memorandum Items							
12-month growth in actual RM (Percent)	18.4	15.8	11.5	11.8	12.0	15.0	14.9
12-month growth in Broad Money, M3 (Percent)	16.7	16.0	18.6	16.4	17.3	16.5	18.6
12-month growth in actual credit to private sector (Percent)	22.2	21.8	20.7	19.6	19.9	20.9	20.5

Source: Central Bank of Kenya

The predictability of money demand continued to be affected by an unstable money multiplier and the long-term decline in the velocity of money in circulation. The money multiplier remained unstable in the period, fluctuating between 6.1 and 7.2 while the velocity of money declined from 2.3 in June 2014 to 2.2 in June 2015. These outcomes on velocity of money and money multiplier are associated largely with financial innovations such as the mobile phone platforms which have continued to affect the design and conduct of monetary policy.

The CBK continued to implement measures aimed at improving the efficiency of the banking sector as well as financial inclusion in order to enhance the monetary policy transmission mechanism. Notably, the commercial banks' branch network increased from 1,443 in December 2014 to 1,476 in June 2015; this increase was distributed across all the counties in the country. Similarly, the Agency Banking model continued to expand; a total of 17 commercial banks had been licensed by the CBK to undertake Agency banking by June 2015 compared with 16 banks in December 2014. The banks have contracted 36,080 active agents facilitating over 175.4 million transactions valued at Ksh. 930.1 billion by June 2015. This was a notable increase from December 2014 when the number of Agents stood at 35,789, and the number of transactions at 139.0 million valued at Ksh. 752.5 billion.

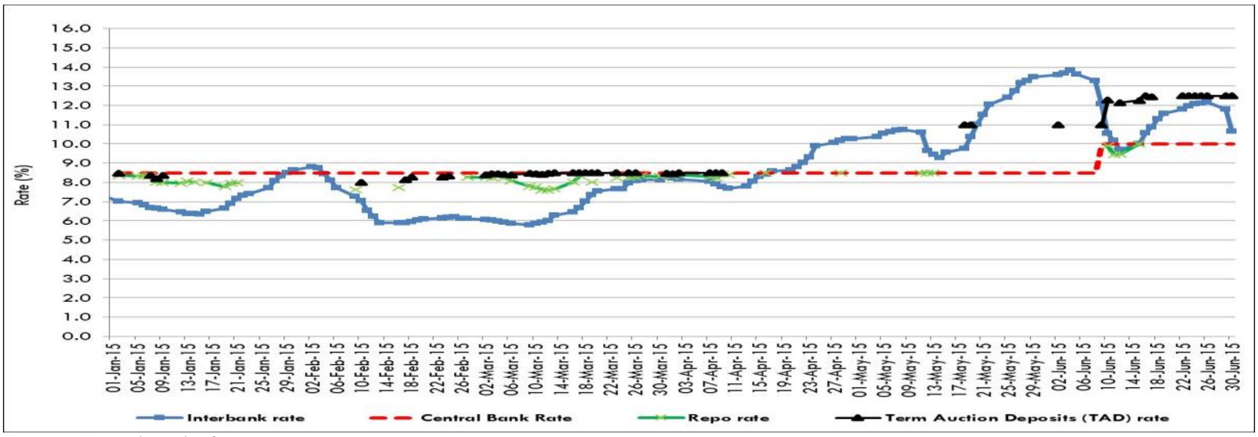
The mobile phone continued to be an important platform for financial services thereby reducing transaction costs. Mobile phone money transactions were estimated at Ksh. 7.6 billion per day in June 2015 compared with Ksh. 7.3 billion in December 2014. This points to the potential of technology-led delivery channels in increasing access to financial services.

iii. Interest Rates and Liquidity

Overall liquidity conditions were tight in the first half of 2015 with the interbank interest rate rising above the CBR from April 2015. Liquidity management by the CBK through Open Market Operations (OMO) ensured general stability in the interbank market in the period, and was consistent with the monetary policy tightening bias stance adopted by the MPC (Chart 3). The interbank rate was volatile between April and June 2015 reflecting changes in liquidity conditions as government deposits at the CBK declined towards the end of the Fiscal Year 2014/15.

The MPC raised the CBR to 10.0 percent in June 2015 from 8.50 percent in order to anchor inflationary expectations and curtail demand pressures in the economy. Consequently, the OMO activities were enhanced to withdraw excess liquidity through Repos and Term Auction Deposits (TAD) so as to move and sustain the interbank rate above the CBR. In particular, the effectiveness of the TAD instrument was enhanced by raising the maximum acceptable rate on the instrument to 250 basis points above the CBR from 150 basis points.

Chart 3: Trends in Short Term Interest Rates (%)



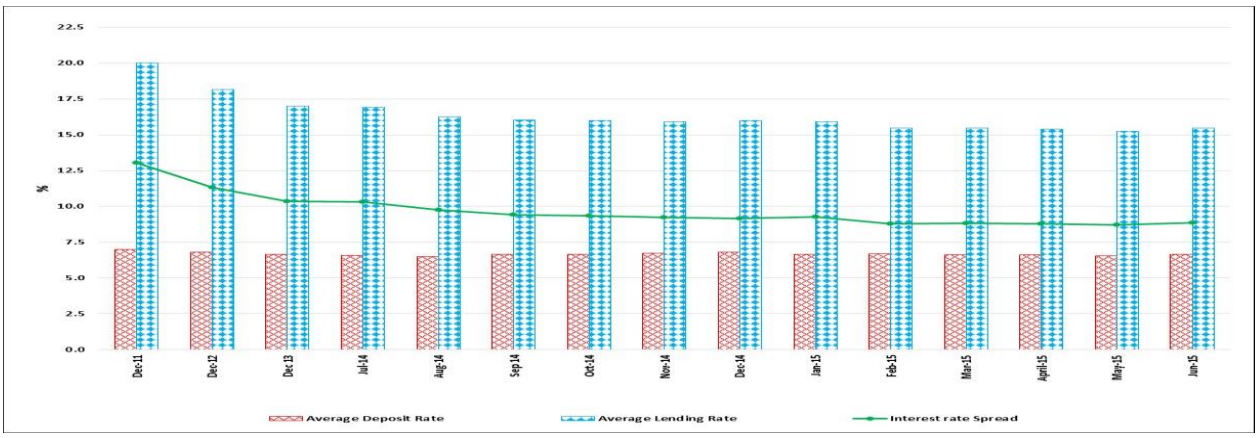
Source: Central Bank of Kenya

The CBK continued to work with the Kenya Bankers Association (KBA) to implement initiatives in the banking sector aimed at reducing the cost of doing business and promoting transparency in the banking sector. The use of mobile phone financial platforms that leverage on technology, roll-out of internet banking by CBK, adoption of the Agency Banking framework, and Credit Reference Bureaus have contributed to reduction of the cost of doing business in the banking sector. In addition, the Kenya Banks' Reference Rate (KBRR) and the Annual Percentage Rate (APR) frameworks introduced in July 2014 have improved transparency in credit pricing.

The CBK revised the KBRR from 9.13 percent to 8.54 percent in January 2015. Consequently, the commercial banks' average lending rate declined from 16.0 percent in December 2014 to 15.5 percent in June 2015 (Chart 4). The average deposit rate decreased from 6.8 percent to 6.6 percent during the period. The spread between average commercial banks' lending rate and deposit rate declined from 9.2 percent to 8.8 percent in the period. The full effect of KBRR will be assessed after all loans have been converted into the KBRR framework.

The MPC continued to engage the Chief Executive Officers of commercial banks through the KBA on various issues through regular forums after MPC meetings. This has facilitated a platform for moral suasion and provided a regular feedback mechanism.

Chart 4: Trends in Commercial Bank Interest Rates (%)



Source: Central Bank of Kenya

b. Exchange Rates and Foreign Exchange Reserve Developments

(i) Exchange Rate Developments

The Kenya Shilling weakened gradually against the US Dollar in the first half of 2015 reflecting the stronger US Dollar in the global currency market, the widening of Kenya's current account deficit and high demand for foreign exchange witnessed in April and May 2015. However, sustained Open Market Operations (OMO) led to tight liquidity conditions in the interbank market in the period and helped curtail arbitrage activities between the interbank and foreign exchange markets. The tight liquidity conditions coupled with sales of foreign exchange by the CBK stemmed the volatility of the Kenya Shilling.

The uncertainty around the timing of the increase in U.S. interest rates, the removal of the Swiss Franc cap against the Euro, and the debt crisis in Greece contributed to increased instability in the financial markets in the first half of 2015. Most currencies remained volatile against the U.S. dollar during the period (Chart 5a and 5b). Consequently, the changing global risk perceptions saw net sales of equity by foreign investors in most emerging market economies, further exacerbating pressure on the exchange rate. However, the foreign exchange inflows through diaspora remittances remained strong during the period.

Chart 5a: Rate of Depreciation of the Kenya Shilling and Major International Currencies against the U.S. dollar (2nd January 2015 = 1)

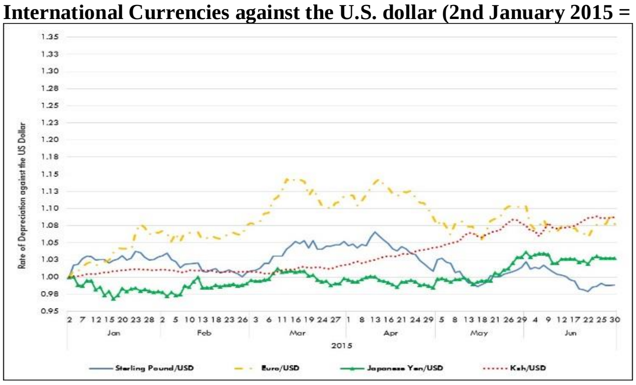
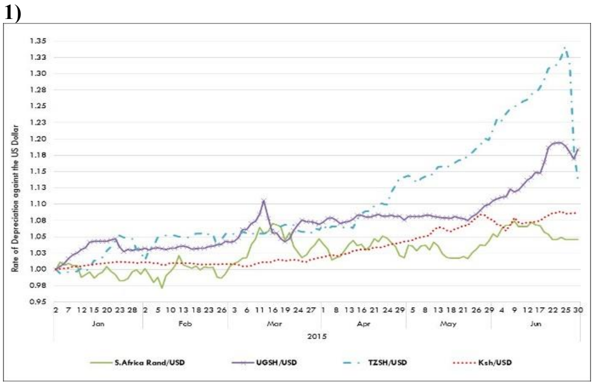


Chart 5b: Rate of Depreciation of the Kenya Shilling and Regional Currencies against the U.S. dollar (2nd January 2015 = 1)

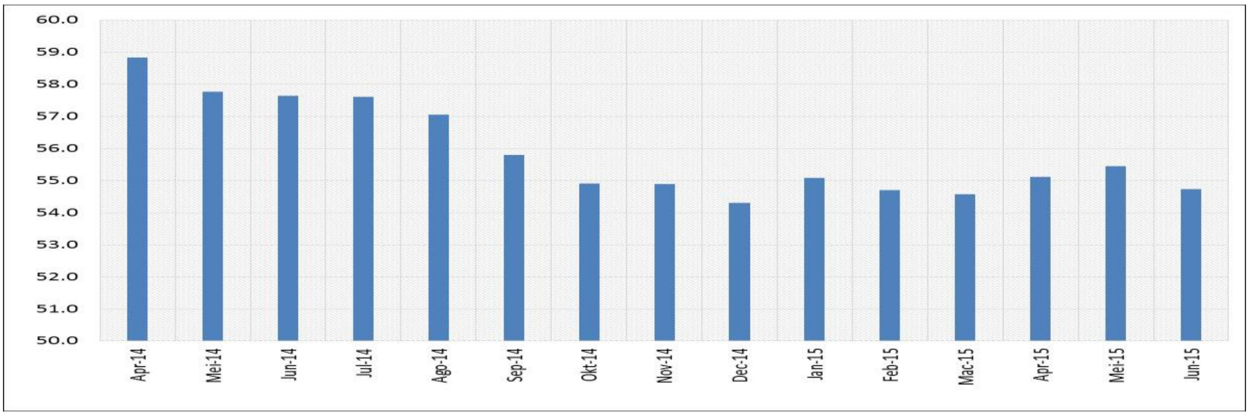


Source: Central Bank of Kenya

The movements in the exchange rate of the Kenya Shilling vis-à-vis the U.S. dollar in the first half of 2015 also reflected the higher demand for the U.S. dollar arising from increased imports coupled with lower than expected foreign exchange earnings from exports (Chart 5c). The 12-month cumulative proportion of imports of goods and services financed by exports of goods and services decreased from an average of 55.8 percent in the second half of 2014 to 54.9 percent in the first half of 2015.

Foreign exchange earnings from tea and tourism which are Kenya's main foreign exchange earners declined in the period mainly on account of the weak global demand and lower tea prices. The higher import bill in the period was as a result of enhanced demand to finance imports of machinery and equipment the bulk of which was towards infrastructure development and modernisation of the aircraft fleet at Kenya Airways. Imports of aircraft equipment increased by USD 1.03 billion to USD 1.42 billion in the 12-months to June 2015 from USD 381 million in the 12-months to June 2014. Imports of machinery and other equipment accounted for about 34.3 percent of total imports in the 12-months to June 2015. These imports are essential for enhancing the future productive capacity of the economy.

Chart 5c: 12-Month Cumulative Exports/12-Month Cumulative Imports (%)



Note: Exports and imports comprise goods and services

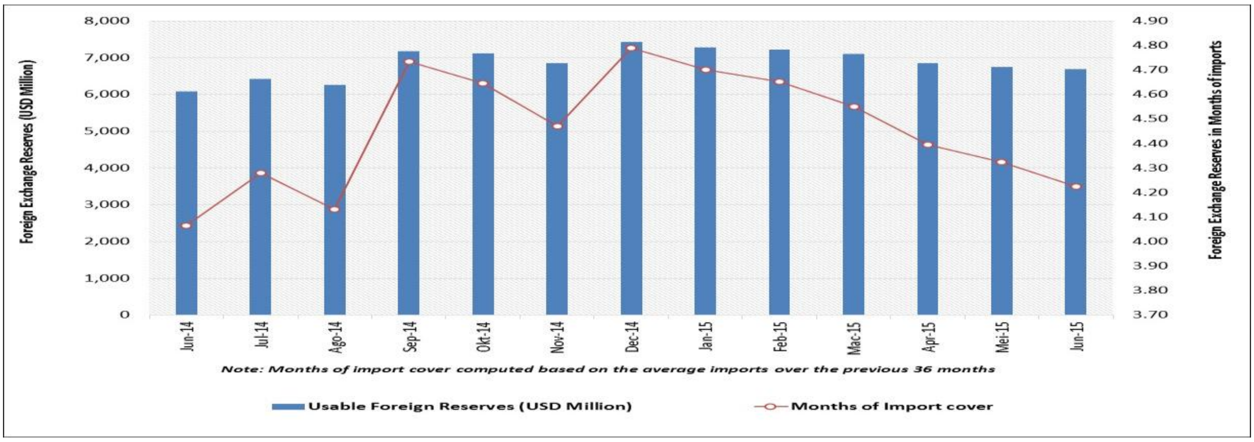
Source: Central Bank of Kenya and Kenya Revenue Authority

(ii) Foreign Exchange Reserves

The CBK level of usable foreign exchange reserves decreased from USD 7,424.7 million (equivalent to 4.79 months of import cover) at the end of December 2014 to USD 6,682.5 million (equivalent to 4.22 months of import cover) at the end of June 2015 (Chart 6). The decline in foreign exchange reserves largely reflected CBK interventions to dampen short-term volatility in exchange rate, and payments of Government external obligations.

The current level of reserves together with the precautionary facility with the IMF provides an adequate buffer against short-term shocks.

Chart 6: CBK Usable Foreign Exchange Reserves



Note: *The CBK usable foreign exchange reserves refer to reserves available for use without any restrictions held by the Central Bank. They exclude reserves held by CBK on behalf of the Government or commercial banks.*

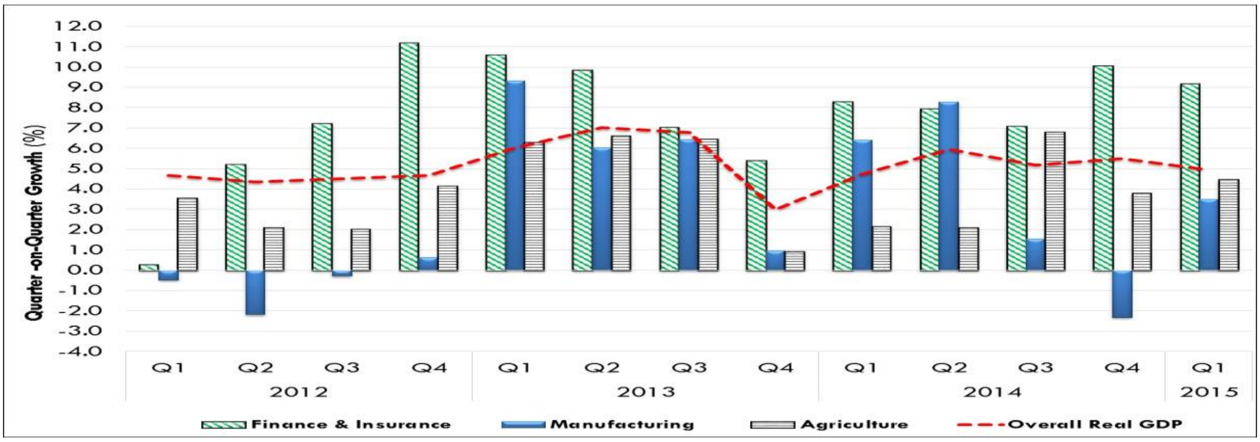
Source: Central Bank of Kenya

c. Economic Growth

The Kenya National Bureau of Statistics (KNBS) data for the first quarter of 2015 shows that the economy remains robust. It grew by 4.9 percent during the period compared with 4.7 percent in a similar period of 2014 (Chart 7). The finance and insurance sector which grew by 9.2 percent offered strong support to the growth performance.

In addition, the strong performance of the construction, information and communication, wholesale and retail trade, electricity and water supply, and agriculture and forestry sectors during the period was an indication of the continued recovery of the economy supported by macroeconomic stability.

Chart 7: 12-Month Sectoral and Overall Real GDP growth rates (%)



Source: Kenya National Bureau of Statistics

d. Fiscal Developments and Debt

The fiscal measures implemented by the Government in the second half of Fiscal Year 2014/15 were broadly consistent with the monetary policy objectives. The Government borrowing was anchored in the Medium-Term Debt Management Strategy which aims at maintaining public debt at sustainable levels.

e. Stakeholder Forums, MPC Market Perception Surveys and Communication

The MPC held regular stakeholder forums with Chief Executive Officers of commercial banks through the KBA Governing Council during the first half of 2015. The Committee also continued to improve on the information gathering processes through the bi-monthly Market Perception Surveys and communication with key stakeholders on the MPC decisions to obtain feedback. The Market Perceptions Surveys cover all commercial and microfinance banks, and a national sample of the non-bank private firms. The MPC Press Releases were continuously reviewed to make them better focused to the public, media, financial sector and other stakeholders. As a result, the media and public understanding of monetary policy decisions and their expected impact on the economy continued to be enhanced.

The CBK also participated in the Agricultural Society of Kenya Shows in order to sensitise the public on its functions. MPC members also held meetings with various investors during the period in order to brief them on economic developments and the outlook for the economy.

3. The Current Economic Environment and Outlook for the Fiscal Year 2015/16

a. International Economic Environment

Global growth is projected to rise from 3.3 percent to 3.8 percent between 2015 and 2016 supported mainly by growth in both advanced and emerging market economies (Table 2). Growth in advanced economies is expected to be supported by the accommodative monetary policy and the relatively lower international oil prices. Notably, the growth recovery in the U.S. and Europe is expected to boost tourism and horticultural exports in Kenya. The growth outlook for the emerging market economies is weak with significant slowdown expected in China and some oil exporting economies. Growth in Sub-Saharan Africa (SSA) and East African Community (EAC) countries excluding Kenya is projected to remain strong. This is expected to boost Kenya's exports and support the exchange rate.

Although the growth momentum of the global economy is projected to pick-up between 2015 and 2016, there are near term risks including financial markets volatility attributed largely to the expected normalisation of U.S. monetary policy. The debt crisis in Greece and fall in equity prices in China also present risks to the global financial markets.

Global inflation is projected to remain low in 2015 and 2016 largely reflecting the slow global economic recovery. In addition, the relatively lower oil prices and declining international food prices are expected to dampen any upside risks on inflation. This will provide monetary policy space for the countries to support growth and employment.

Table 2: Performance and Outlook for the Global Economy

	Growth (%)			Inflation (%)		
	2014 Act.	2015 Proj.	2016 Proj.	2014 Act.	2015 Proj.	2016 Proj.
World	**3.3**	**3.3**	**3.8**	**3.5**	**3.2**	**3.3**
Advanced Economies	**1.8**	**2.1**	**2.4**	**1.4**	**0.4**	**1.4**
United States	2.4	2.5	3.0	1.6	0.1	1.5
Japan	-0.1	0.8	1.2	2.7	1.0	0.9
Euro Area	0.8	1.5	1.7	0.4	0.1	1.0
United Kingdom	2.9	2.4	2.2	1.5	0.1	1.7
Other Advanced economies	2.8	2.7	3.1	1.4	1.1	1.9
Emerging and developing economies	**4.6**	**4.2**	**4.7**	**5.1**	**5.4**	**4.8**
Sub-Sahara Africa	5.0	4.4	5.1	6.3	6.6	7.0
East African Community (Excl.Kenya)	6.0	6.1	6.2	4.3	4.3	4.7
Developing Asia	6.8	6.6	6.4	3.5	3.0	3.1
China	7.4	6.8	6.3	2.0	1.2	1.5
India	7.3	7.5	7.5	6.0	6.1	5.7
Middle East and North Africa	2.7	2.6	3.8	6.5	6.2	6.4

Source: IMF World Economic Outlook

b. Domestic Economic Environment

i. Economic Growth

The Bank's price stability objective aims at supporting sound and sustained economic growth. The Government Budget Policy Statement for 2015/16 projects growth at 6.9 percent in 2015 and 7.0 percent in 2016. The growth outlook is expected to be supported by activities generated in the construction of Standard Gauge Railway, increased production in agriculture following various agriculture reforms, irrigation and value addition, continued investment in infrastructure projects such as roads, energy and port, expansion of activities in other sectors of the economy such as building and construction, manufacturing, retail and wholesale and financial intermediation among others. The growth is also expected to benefit from increased investments and domestic demand following investor confidence and the ongoing initiatives to deepen regional integration.

The MPC Market Perceptions Survey of June 2015 showed optimism by private sector firms for a higher growth in 2015 relative to 2014 on account of: expected increase in foreign direct investment and public investment in infrastructure; increased investor confidence and enhanced security which is expected to support recovery of the tourism sector; strong growth in the construction, communications and financial sectors; positive effects of the long-rains on agriculture production; expected recovery of the global economy which will benefit exports; and, the impact of devolution which will spur growth in counties. However, there are downside risks to growth including: inflationary pressure attributed to depreciation of exchange rate, expected rise in fuel prices, sluggish recovery of the global economy, threats to security, and possible spill-over of risks in Greece to the Eurozone which could slowdown recovery of the Eurozone economy.

ii. Foreign Exchange Market

The Kenya Shilling is expected to be stable in the Fiscal Year 2015/16 on account of the monetary policy measures adopted by the CBK, the resilient diaspora remittance inflows, expectations for increased foreign direct investment in infrastructure, increased investor confidence in the economy, and the Government measures in the Fiscal Year 2015/16 Budget to bolster security and tourism. In addition, the projected resilient growth of SSA economies and that of Kenya's main trading partners is expected to boost regional trade. The Kenya Shilling will also be supported by the adequate buffer of foreign exchange reserves and the precautionary facility with the IMF.

However, the uncertainty around the timing of the increase in U.S. interest rates, the wide current account deficit, and possible instability in the Eurozone due to the Greek debt crisis remain the main risks to the Kenya Shilling.

iii. Inflation

Overall inflation is expected to remain within the Government's medium term target range in the Fiscal Year 2015/16 supported by the monetary policy measures in place, lower international oil prices, the declining international food prices which have dampened any upside risks to domestic food prices in the case of imports, and moderate electricity prices with increased output of geothermal power generation. However, the main risks to the inflation outlook include possibility of imported inflation attributed to depreciation in Kenya Shilling in case of a protracted global strengthening of the U.S. dollar. In addition, given the dominance of food in the consumer basket there remains a vulnerability to short-falls in the rains, and volatility in international oil prices.

iv. Interest Rates

Interest rates are expected to rise in the Fiscal Year 2015/16 in line with the tight monetary policy stance adopted by the MPC to contain inflationary expectations. Liquidity in the money market is expected to be supported by the normalization of absorption of devolved funds, and spending by the national government. In addition, the KBRR framework is expected to continue improving transparency in credit pricing. The promotion of full disclosure of bank charges through the Annual Percentage Rate (APR) for loans will also facilitate informed banking decisions by the public. The main risk to the outlook on interest rates is the international economic developments or supply side factors which could prompt additional measures by CBK to alleviate any adverse expectations with respect to inflation and /or exchange rate movements.

v. Fiscal Policy

The fiscal measures announced by the Government during the Budget Statement for the Fiscal Year 2015/16 remain consistent with the monetary policy objectives. The CBK will work with the National Treasury to strengthen the coordination between monetary and fiscal policies. Government borrowing is anchored in the Medium-Term Debt Management Strategy which aims at maintaining public debt at sustainable levels. The increased budgetary allocations towards bolstering security and facilitating the recovery of the tourism sector will support the long-term stability of the exchange rate.

vi. Confidence in the Economy

Confidence in the economy is expected to improve in the Fiscal Year 2015/16 due to improved security and Kenya's global positioning. Diaspora remittances are expected to remain strong on account of increased investment opportunities in Kenya and gradual pick-up in the growth of the global economy. Diaspora remittances recorded the highest ever inflow of USD 136.0 million in June 2015. Despite a net outflow of foreign investors in the NSE, there were noteworthy increases in foreign purchases in the first half of 2015.

The MPC Market Perception Survey conducted of June 2015 showed increased optimism by private sector firms for the business environment to improve in the remainder of 2015 on account of the expected decline in electricity prices which are expected to benefit the manufacturing sector, increased budget allocations to key sectors of the economy including security and tourism, high profile visits by international personalities indicating confidence, sustained public investment in infrastructure which is expected to lower the cost of doing business, government efforts to encourage investors and address governance, increased financial inclusion and access to credit, and improved spending in the counties.

4. Direction of Monetary Policy in the Fiscal Year 2015/16

Monetary policy in the Fiscal Year 2015/16 will focus on: setting monetary targets which are consistent with the objective of achieving and maintaining a low and stable inflation, encouraging growth, and supporting the long-term sustainability of public debt; and, enhancing financial inclusion.

(a) Monetary Programme and Foreign Exchange Reserves

The monetary targets for the Fiscal Year 2015/16 are consistent with the indicators in the Medium-Term Government Budget Policy Statement for 2015 summarised in Annex 1. The monetary targets for the period are presented in Table 3. Monetary policy will seek to constrain the annual growth in broad money (M3) to 17.3 percent by September 2015, 17.2 percent by December 2015, 17.5 percent by March 2016 and 13.8 percent by June 2016. NDA of the Bank is projected at Ksh.-167.1 billion in September 2015, Ksh.-187.2 billion in December 2015, Ksh.-214.0 billion in March 2016 and Ksh.-203.7 billion in June 2016. However, the annual growth in credit to the private sector is projected at 19.1 percent in September 2015, 18.4 percent in December 2015, 18.3 percent in March 2016 and 15.5 percent in June 2016. The NIR targets of the CBK are USD 5,308.2 million in September 2015, USD 5,986.6 million in December 2015, USD 6,005.0 million in March 2016 and USD 6,055.2 million in June 2016. The monetary policy stance will aim at ensuring that movements in the short-term interest rates are supportive to the Bank's primary objective of price stability.

These monetary targets are expected to enable the Bank maintain overall inflation within the current allowable margin of 2.5 percent on either side of the Government's medium-term target of 5 percent in order to anchor inflation expectations. The CBK foreign exchange reserves and the precautionary facility with the IMF will provide a buffer against short-term shocks in the foreign exchange market. Appropriate regulatory measures will also be implemented to enhance the efficiency and integrity of the foreign exchange market. The programme targets are consistent with the performance criteria under the precautionary arrangement with the IMF blending the non-concessionary Stand-By Arrangement and the concessional Stand-By Credit Facility to cushion the economy by providing it with access to SDR 488.52 million (about USD 688.3 million) of IMF resources in the event of exogenous shocks.

The monetary policy stance will aim at ensuring that short-term interest rates remain stable which will support growth and ensure the long-term sustainability of public debt. The coordination of monetary and fiscal policies will be enhanced to maintain a sustainable public debt. The Bank will also continue to enhance the effectiveness and efficiency of its monetary policy instruments.

Table 4: Monetary Targets for the Fiscal Year 2015/16

	Jul-15	**Aug-15**	**Sep-15**	**Oct-15**	**Nov-15**	**Dec-15**
Broad Money, M3 (Ksh Billion)	2,582.5	2,611.9	2,641.5	2,671.0	2,700.5	2,730.1
Reserve Money, RM (Ksh Billion)	353.6	364.5	353.4	360.9	373.3	400.1
Credit to Private Sector (Ksh Billion)	2,096.5	2,123.3	2,150.1	2,173.2	2,198.3	2,227.1
NFA of CBK (Ksh Billion)	527.3	523.9	520.5	517.7	514.7	587.3
NDA of CBK (Ksh Billion)	-173.7	-159.4	-167.1	-156.7	-141.5	-187.2
12-month growth in RM (Percent)	16.1	2.1	9.5	3.5	14.3	5.4
12-month growth in M3 (Percent)	17.9	15.9	17.3	18.2	17.7	17.2
12-month growth in Credit to Private Sector (Percent)	20.4	19.7	19.1	19.0	18.6	18.4
12-month growth in Real GDP (Percent)						6.5
Medium-Term 12-month overall Inflation (Percent) Target	5.0	5.0	5.0	5.0	5.0	5.0

	Jan-16	**Feb-16**	**Mar-16**	**Apr-16**	**May-16**	**Jun-16**
Broad Money, M3 (Ksh Billion)	2,759.4	2,788.7	2,817.9	2,847.4	2,876.8	2,906.2
Reserve Money, RM (Ksh Billion)	368.5	379.2	375.1	370.4	382.7	390.2
Credit to Private Sector (Ksh Billion)	2,245.0	2,262.6	2,280.3	2,305.6	2,346.9	2,388.6
NFA of CBK (Ksh Billion)	587.9	588.5	589.1	590.2	591.3	593.9
NDA of CBK (Ksh Billion)	-219.4	-209.3	-214.0	-219.8	-208.7	-203.7
12-month growth in RM (Percent)	5.2	7.8	8.3	4.9	5.5	4.9

	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
12-month growth in M3 (Percent)	17.4	15.8	17.5	15.5	15.0	13.8
12-month growth in Credit to Private Sector (Percent)	18.2	18.3	18.3	17.2	16.2	15.5
12-month growth in Real GDP (Percent)						6.8
Medium-Term 12-month overall Inflation (Percent) Target	5.0	5.0	5.0	5.0	5.0	5.0

Source: Central Bank of Kenya and the National Treasury

The Bank will continue to monitor developments with respect to the Monetary Targets and make any necessary reviews. The achievement of the targets set will depend on stability in the international prices of oil, favourable weather conditions, and continued commitment by the Government to operate within the domestic borrowing target for the Fiscal Year 2015/16. The information will be reviewed and incorporated in the data so as to inform the MPC decision process accordingly.

Monetary policy implementation will be based on monthly targets for NDA, NIR, RM and broad money (M3) to be achieved through OMO. The Repurchase agreements (Repos) and Term Auction Deposits instruments will be used to withdraw any excess liquidity in the banking system on a timely basis and where necessary Reverse Repos will be used to inject liquidity. Specifically, OMO will be used to ensure that short-term interest rates continue to be aligned to the CBR. The success of CBK's monetary policy measures to fight inflation will also depend on the effectiveness of the institutions charged with the responsibility of managing the supply side of economy that would have a direct impact on food and fuel prices.

(b) Measures to Extend Access to Financial Services and Enhance Market Efficiency

The CBK will continue to support development of new products and innovations towards enhancing financial access in order to encourage economic growth. It will continue to propose suitable legislation and regulations aimed at ensuring that such innovations are operationalized accordingly so as to enhance market confidence. The Bank will also continue to monitor any new financial derivatives and /or innovations in the market that could have adverse effects on market stability. It will continue to work with stakeholders in the banking and real sectors in order to enhance the monetary policy transmission mechanism.

Initiatives aimed at engaging stakeholders and obtaining feedback on the impact of MPC decisions will be enhanced. In addition, the CBK will work closely with the institutions and other stakeholders to facilitate the effective implementation of the KBRR that facilitates a transparent credit pricing framework, and to ensure a wide dissemination of the framework to the public.

The CBK will continue to work with stakeholders to identify and implement measures to enhance redistribution of liquidity in the interbank market. Forums with Chief Executive Officers will continue to be held both to obtain feedback and to explain the background to MPC decisions. These initiatives will support improvements in the financial sector that contribute to the lowering of the cost of doing business. The CBK will also continue with its transparency through the timely dissemination of all the requisite data through its website.

ANNEX TABLE 1: MAIN MACROECONOMIC INDICATORS, 2014/15-2017/18

	2014/15		2015/16	2016/17	2017/18
	Budget	*Rev. Proj.*	*Projections*		
Annual percentage change, unless otherwise indicated					
National account and prices					
Real GDP	6.1	6.1	7.0	7.1	7.0
GDP deflator	7.2	6.7	6.5	6.4	6.2
CPI Index (eop)	5.3	5.3	5.0	5.0	5.0
CPI Index (avg)	5.7	5.7	5.0	5.0	5.0
Terms of trade (-deterioration)	5.1	0.2	0.3	0.2	0.2
In percentage of GDP, unless otherwise indicated					
Investment and saving					
Investment	22.4	24.6	26.9	25.2	25.6
Gross National Saving	15.3	16.6	19.7	18.0	18.2
Central government budget					
Total revenue	21.0	20.4	20.7	21.5	21.8
Total expenditure and net lending	28.4	29.2	28.8	27.6	26.6
Overall balance (commitment basis) excl. grants	-7.4	-8.8	-8.2	-6.2	-4.8
Overall balance (commitment basis) incl. grants	-6.4	-8.0	-7.4	-5.4	-4.0
Nominal public debt, net	43.8	43.9	43.7	42.6	41.3
External sector					
Current external balance, including official transfers	-7.1	-8.0	-7.2	-7.2	-7.4

Source: Budget Policy Statement 2015, National Treasury

ANNEX 2: CHRONOLOGY OF EVENTS OF PARTICULAR RELEVANCE TO MONETARY POLICY (JANUARY – JUNE 2015)

Date	Events
January 2015	a) The CBK revised the KBRR from 9.13 percent to 8.54 percent. b) The European Central Bank announced that it would commence Quantitative Easing in the Eurozone. c) The Swiss Central Bank removed the cap of the Swiss Franc to the Euro.
February 2015	The precautionary facility amounting to SDR 488.52 million (about USD 688.3 million) under a blended Stand-By Arrangement and Standby Credit Facility was approved by the IMF.
April 2015	The Garissa terrorist attack on 2nd April, 2015 had implications on tourism performance.
May 2015	The effectiveness of the TAD instrument was enhanced by raising the maximum acceptable rate on the instrument to 250 basis points above the CBR.
June 2015	a) The CBR was raised from 8.5 percent to 10.0 percent to anchor inflation expectations. b) Appointment of the new CBK Governor.

GLOSSARY OF KEY TERMS

Overall Inflation

Overall inflation is a measure of price change in the economy calculated as the weighted year-on-year movement of the indices of the prices charged to consumers of goods and services in a representative basket in a base year. It is derived from data collected monthly by the Kenya National Bureau of Statistics. The inflation measure is affected by the commodities in the basket some of which may experience sudden price spikes such as food or energy. It may therefore present a distorted picture of the true state of the economy.

Reserve Money

Reserve Money is computed as the CBK's monetary liabilities comprising currency in circulation (currency outside banks and cash held by commercial banks in their tills) and deposits of both commercial banks and non-bank financial institutions (NBFIs) held by the CBK. It excludes Government deposits.

Money Supply

Money supply is the sum of currency outside banks and deposit liabilities of commercial banks. Deposit liabilities are defined in narrower and broader senses as follows: narrow money (M1); broad money (M2); and extended broad money (M3). These aggregates are computed as follows:

M0: Currency outside the banking system

M1: M0 + demand deposits of banks (or depository corporations).

M2: M1 + quasi (long term) money deposits i.e. time and savings deposits of banks and non-bank financial institutions.

M3: M2 + resident foreign currency deposits.

L: M3 + non-bank holdings of Government Paper. This however, is not a monetary aggregate.

Kenya Banks' Reference Rate (KBRR)

The KBRR is the base rate for all commercial and microfinance banks' lending. It is computed as an average of the CBR and the weighted 2-month moving average of the 91-day Treasury bill rates.

GAZETTE NOTICE NO.7242

KENYA DEPOSIT INSURANCE CORPORATION

(Formerly Deposit Protection Fund Board)

REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE, 2015

DIRECTORS AND STATUTORY INFORMATION

DIRECTORS

Chairman	Vacant
Dr. Patrick Njoroge	Governor, Central Bank of Kenya—w.e.f 19 June, 2015
Prof. Njuguna Ndung'u	Governor, Central Bank of Kenya—up to 4 March, 2015
Dr. Kamau Thugge	Principal Secretary, National Treasury
Mr. Martin S. O. Gumo	Alternate to Principal Secretary, National Treasury
Tom Odede	Alternate to the Attorney-General
Mrs. Nasim Devji*	Member
Dr. Julius K. Kipng'etich	Member
Mr. Jeremy I. Ngunze	Member
Mr. Samuel N. Kimani	Member
Mr. Aggrey. J. K. Bett	KDIC Acting Chief Executive Officer (*Ex officio*)
Ms. Jane K. Ikunyua	KDIC Acting Board Secretary

* British

BOARD AUDIT COMMITTEE

Mrs. Nasim Devji	Chairperson
Dr. Julius K. Kipng'etich	Member
Mr. Jeremy I. Ngunze	Member
Mr. Samuel N. Kimani	Member
Mr. Martin S. O. Gumo	Alternate to Principal Secretary, Treasury
Mrs. Edith M. Kagasi	Board Audit Committee Secretary

SENIOR MANAGEMENT

Mr. Aggrey J. K. Bett	Acting Chief Executive Officer
Mr. Stephen M. Thuo	Assistant Director – Finance & Administration
Ms. Jane K. Ikunyua	Assistant Director – Legal
Mr. Mohamud A. Mohamud	Assistant Director – Liquidations
Dr. Walter O. Onyino	Assistant Director – ICT

PRINCIPAL PLACE OF BUSINESS

CBK Pension House (formerly Marshall House)
Harambee Avenue
PO Box 45983 - 00100
Nairobi

AUDITORS

KPMG Kenya
8th Floor, ABC Towers
Waiyaki Way
PO Box 40612 - 00100
Nairobi GPO

On behalf of:

The Auditor-General
Kenya National Audit Office
Anniversary Towers
University Way
PO Box 30084 - 00100
Nairobi GPO

BANKERS

Central Bank of Kenya
Central Bank of Kenya Building
Haile Selassie Avenue
PO Box 60000 - 00200
Nairobi

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 30 June 2015, which disclose the state of affairs of the Corporation.

1. **Change of name**

   The Corporation changed its name from Deposit Protection Fund Board to Kenya Deposit Insurance Corporation (the 'Corporation') on 1 July 2014.

2. **Incorporation**

   The Kenya Deposit Insurance Corporation (formerly Deposit Protection Fund Board) is established under the Kenya Deposit Insurance Act, 2012 (KDI Act 2012).

3. **Principal activities**

The Corporation is established and administered under the KDI Act, 2012.

   The Corporation commenced operations on 1 July, 2014, with a transition period of one year, to 30 June 2015. The objectives of the Corporation is to provide deposit insurance scheme for depositors of member institutions, monitor the soundness of institutions through analysis, and undertake problem bank resolution through receivership, liquidation and winding up of collapsed bank institutions in accordance with the KDI Act.

4. **Results**

   The results for the year are set out below.

5. **Directors**

   The directors who served during the year and up to the date of this report are set out above.

6. **Auditors**

   The Auditor-General is responsible for the statutory audit of the Corporation's books of account in accordance with section 14 and 39(i) of the Public Audit Act. This Act empowers the Auditor-General to appoint other auditors to carry out the audit on his behalf.

   KPMG Kenya, who were appointed by the Auditor-General, carried out the audit of the Corporation's financial statements for the year ended 30th June, 2015.

7. **Approval of financial statements**

   The financial statements were approved at a meeting of the directors held on 27th August, 2015,

By Order of the Board.

Dated the 27th August, 2015.

Ms. JANE K. IKUNYUA,
AG. BOARD SECRETARY.

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2015

The directors are responsible for the preparation and presentation of the financial statements of Kenya Deposit Insurance Corporation (formerly Deposit Protection Fund Board) set out on pages 8 to 35 which comprise the statement of financial position at 30 June 2015, the statement of profit or loss and other comprehensive income, statement of changes in fund balance and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

The directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Banking Act and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenya Deposit Insurance Corporation Act, the directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Corporation as at the end of the financial year and of the operating results of the Corporation for that year. It also requires the directors to ensure the Corporation keeps proper accounting records which disclose with reasonable accuracy the financial position of the Corporation.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenya Deposit Insurance Corporation Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Corporation and of its operating results.

The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The directors have made an assessment of the Corporation's ability to continue as a going concern and have no reason to believe the Corporation will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved by the board of directors on 27th August, 2015, and were signed on its behalf by:

DR. JULIUS K. KIPNG'ETICH — MRS. NASIM DEVJI
Chairman — Member

STATEMENT OF CORPORATE GOVERNANCE

The Kenya Deposit Insurance Corporation (KDIC) is a body corporate established under the Kenya Deposit Insurance Act, 2012. The Corporation is committed to maintaining the highest standards of integrity, professionalism and business ethics in all its operations.

Board of directors

The Kenya Deposit Insurance Corporation Act Section 7(1 & 2) provides that the Board of Directors shall be composed of five members not being public officers, appointed by the Cabinet Secretary of the National Treasury, three of whom shall be from the Institutions, one of whom shall be appointed as a non-executive Chairperson by the President on the recommendation of the Minister, provided that the Chairperson appointed shall not be from the member institutions of the Corporation, the Governor of Central Bank of Kenya, Principal Secretary to the National Treasury, the Attorney-General representing the member institutions and the Chief Executive Officer who shall be an ex-officio member. The members representing the institutions during the period under review are: Mrs. Nasim Devji, Dr. Julius Kipng'etich, Mr. Jeremy Ngunze and Mr. Samuel Kimani.

Board meetings

The Board meets every quarter and has a formal schedule of agenda items due for deliberations. The directors are given appropriate and timely information to maintain full and effective control over strategic, financial and operational issues. The Board is not involved in the conduct of day-to-day business as this is a responsibility given to the Ag. Chief Executive Officer (Ag. CEO) of KDIC. It however retains responsibility for determining the policies of the Corporation.

Audit committee

The members of the Audit Committee are Mrs. Nasim Devji, Mr. Martin Gumo, Dr.Julius Kipng'etich, Mr.Jeremy Ngunze and Mr. Samuel Kimani. They are all non-Executive Directors and have experience in Banking, Finance, Accounting, Administration and Management. The committee meets every quarter, and as necessary, two weeks before the full Board meeting. The committee's responsibilities are to review the efficiency and effectiveness of Internal Controls, Financial Reporting, Internal Audit function, External audit work, and Risk Management policies and procedures. Towards this end, a self-evaluation tool which measures the committee's performance has been developed and implemented.

Management structure

The KDIC senior management is made up of the Ag. CEO, four Assistant Directors, each heading the Division of Finance & Administration, Legal, ICT and Liquidations. The KDIC senior management meets regularly to review overall performance of the Corporation. Decision making is through several management committees which meet regularly to deliberate and advise the Ag. CEO on specific issues. All KDIC staff are employees of Central Bank of Kenya seconded to the Corporation.

Directors' emoluments and loans

The remuneration paid to the directors for services rendered during the financial year 2014/2015 is disclosed in Note 8 of the financial statements. The directors, who are all non-executive, 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.

STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)

Code of ethics

The Corporation is committed to the highest standards of integrity, behavior and ethics. A formal code of ethics for all employees of Central Bank of Kenya exists and is fully implemented. All employees of the Corporation are expected to avoid activities and financial interests which could give rise to conflict of interest with their responsibilities. Strict rules of conduct apply to the staff of CBK, including those in KDIC, under the staff rules and regulations.

Internal controls

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

Authorizations

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

Internal audit and risk management

The Internal Audit function is performed by Internal Audit Unit, which is responsible for monitoring and providing advice on the internal control framework. All reports of the Internal Audit are available to the Audit Committee of the Board.

Transparency

The Corporation publishes an Annual Report which explains the performance of the Banking sector, membership status and other pertinent information. On an annual basis, the Financial Statements are published in the Kenya Gazette and placed in the website of the Corporation. KDIC shared its 2015/2018 Strategic Plan with the stakeholders and will carry out a mid-term review of the implementation status at the end of 2015/2016 financial year.

REPORT OF THE OF THE AUDITOR-GENERAL ON KENYA DEPOSIT INSURANCE CORPORATION FOR THE YEAR ENDED 30TH JUNE, 2015

Report on the Financial Statements

The accompanying financial statements of Kenya Deposit Insurance Corporation set out below which comprise the statement of financial position as at 30th June, 2015, and the statement of profit or loss and other comprehensive income, statement of changes in fund balance and 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 KPMG Kenya, auditors appointed under section 39 of the Public Audit Act, 2003 and in accordance with the provisions of Article 229 of the Constitution of Kenya. The auditors have duly reported to me the results of their audit and on the basis of their report. I am satisfied that all the information and explanations which to be best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Management's Responsibility for the Financial Statement

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

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

Auditor-General's Responsibility

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

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

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Kenya Deposit Insurance Corporation as at 30th June, 2015, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and the Kenya Deposit Insurance Act, 2012.

EDWARD R. O. OUKO,
Auditor-General.

28th September, 2015

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2015

	Note	2015 KShs'000	2014 KShs'000
REVENUE			
Assessment income	6(a)	3,033,387	2,675,853
Investment income	6(b)	5,466,351	4,675,863
Other income	7	111,044	19,172
		8,610,782	7,370,888
EXPENSES			
Administration and establishment	8	280,424	251,196
SURPLUS FOR THE YEAR		**8,330,358**	**7,119,692**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		**8,330,358**	**7,119,692**

The notes set out on pages 12 to 35 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2015

ASSETS	Note	2015 KShs'000	2014 KShs'000
Non-current assets			
Property and equipment	10	70,526	59,921
Prepaid operating lease rentals	11	3,218	3,317
Investment	12	100	100
Government securities	13	28,640,558	26,803,199
		28,714,402	26,866,537
Current assets			
Receivables and prepayments	9(a)	10,838	9,563
Government securities	13	26,120,916	19,766,387
Cash and bank balance	17	115,375	1,025
		26,247,129	19,776,975
TOTAL ASSETS		**54,961,531**	**46,643,512**
FUND BALANCE AND LIABILITIES			
Fund balance (Page 10)		54,914,117	46,583,759
Current liabilities			
Payables and accruals	14	20,858	10,966
Due to related party	15(a)	2,609	18,911
Deferred income	16	23,947	29,876
		47,414	59,753
TOTAL FUND BALANCE AND LIABILITIES		**54,961,531**	**46,643,512**

The financial statements on pages 8 to 35 were approved by the Board of Directors on and were signed on its behalf by:

DR. JULIUS K. KIPNG'ETICH
Chairman

MRS. NASIM DEVJI
Member

The notes set out on pages 12 to 35 form an integral part of these financial statements.

STATEMENT OF CHANGES IN FUND BALANCE FOR THE YEAR ENDED 30 JUNE 2015

	Fund balance KShs'000
2015:	
Balance at 1 July 2014	46,583,759
Surplus for the year	8,330,358
Balance at 30 June 2015	**54,914,117**
2014:	
Balance at 1 July 2013	39,464,067
Surplus for the year	7,119,692
Balance at 30 June 2014	**46,583,759**

The notes set out on pages 12 to 35 form an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2015

	Note	2015 KShs'000	2014 KShs'000
Cash flows from operating activities			
Surplus for the year		8,330,358	7,119,692
Adjustment for:			
Depreciation of property and equipment		10,011	11,775
Amortisation of prepaid operating lease rentals		99	99
Gain on disposal		(679)	-
Interest income		(5,466,351)	(4,675,863)
Operating surplus before working capital changes		**2,873,438**	**2,455,703**

Change in working capital			
Receivables and prepayments		(1,275)	(2,478)
Payables and accruals		9,892	3,970
Deferred income		(5,929)	(7,811)
Due to related party		(16,302)	(2,365)
Net cash flows generated from operating activities		**2,859,824**	**2,447,019**
Cash flows from investing activities			
Net movement in government securities		(8,203,598)	(7,489,772)
Purchase of property and equipment		(20,967)	(2,001)
Proceeds from disposals		1,030	-
Interest received		5,466,351	4,675,863
Net cash flows from investment activities		**(2,757,184)**	**(2,815,910)**
Net increase/(decrease) in cash and cash equivalents		102,640	(368,891)
Cash and cash equivalents at the beginning of the year		45,961	414,852
Cash and cash equivalents at the end of the year	17	**148,601**	**45,961**

The notes set out on pages 12 to 35 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2015

1. REPORTING ENTITY

The Corporation is established under the Kenya Deposit Insurance Act 2012 and is domiciled in Kenya. The address of its registered office is as follows:

CBK Pension House (formerly Marshall House)
Harambee Avenue
PO Box 45983 - 00100
Nairobi

2. BASIS OF PREPARATION

(a) Basis of accounting

The financial statements have been prepared on the historical cost convention.

(b) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

(c) Functional and presentation currency

These financial statements are presented in Kenya Shillings (KShs), which is the Corporation's functional currency.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and assumptions are based on the directors' best knowledge of current events, actions, historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of the assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation and critical judgement in applying accounting policies that have the most significant effect on the amount recognised in the financial statement is described in Note 5.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Revenue recognition

Assessed income comprises contributions levied to the contributory institutions and is recognized in the period when they are receivable. Such contributions are assessed at a rate of 0.15 per cent of the average of the institutions' total deposit liabilities during the period of 12 months prior to the date of levy notice.

Interest income is recognized in the profit or loss for all interest earning instruments on an accrual basis using the effective interest method based on the actual purchase price. Interest income includes coupon earned and unamortised discount and premium.

(b) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the exchange rate ruling at the reporting date. Resulting exchange differences are recognised in profit or loss for the year.

Non-monetary assets and liabilities denominated in foreign currency are recorded at the exchange rate ruling at the date of transaction.

(c) Provisions for payments to depositors

Provisions for payments to protected depositors are recognized in the financial statements in the period the contributory institutions are placed under liquidation. Any payments that exceed the provisions made are taken into account in determining operating profit. Provisions that relate to unclaimed protected deposits are written back to income on expiry of the statutory notice period.

(d) Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Payments made under operating leases are recognized as an expense in the profit or loss on a straight-line basis over the lease term.

(e) Employee entitlements

Employee entitlements are recognized when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the reporting date. The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognized as an expense accrual.

(e) Employee entitlements (continued)

The Corporation's employees are eligible for retirement benefits under a defined benefit plan provided through a separate fund. The defined benefit plan is funded by the Corporation and the Central Bank, the main sponsor. The retirement benefit asset is wholly recognized in the financial statements of the Central Bank while the Corporation recognizes contributions to the fund as if it were a defined contribution scheme by charging them to the profit and loss account in the year to which they relate.

The Corporation also contributes to a statutory defined contribution Pension Scheme, the National Social Security Fund (NSSF). The Corporation's contributions are charged to the profit or loss in the year to which they relate. The Corporation has no further obligation once the contributions have been paid.

(f) Taxation

The Corporation's income is not subject to corporation tax as it has been granted exemption by the statute. Therefore no provision for current tax or deferred tax is made in the financial statements.

(g) Financial assets and liabilities

(i) Recognition

The Corporation recognizes all financial assets and liabilities on the trade date at which the Corporation becomes a party to the contractual provision of the instrument. A financial asset or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

Subsequently, held-to-maturity investments and loans and receivables are measured at amortised cost.

(ii) Classification

The Corporation classifies its financial assets in the held-to-maturity and loans and receivables category. The Corporation classifies its financial liabilities as measured at amortised cost. Management determines the classification of its investments at initial recognition.

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Corporation's management has the positive intention and ability to hold to maturity. Were the Corporation to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale. These include investment in government securities.

(ii) Classification (continued)

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. Loans and receivables comprise receivables and prepayments and cash and bank balances.

They arise when the Corporation provides money directly to borrowers, other than those created with the intention of short-term profit taking. They are recognised at the date money is disbursed to the borrower or when they are transferred to the Corporation from a third party.

Subsequent to initial recognition, these are carried at amortised cost, which is the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Loan origination fees together with related direct costs are treated as part of the cost of the transaction.

Amortised cost is calculated using the effective interest rate method. The amortisation and accretion of premiums and discounts is included in interest income.

Other financial liabilities
Other financial liabilities are measured at amortised cost. These include other payables and amounts due to related companies.

(iii) Identification and measurement of impairment of financial assets

At each reporting date the Corporation assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the carrying amount.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account. Interest on the impaired asset continues to be recognized through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

(iv) Derecognition

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Corporation is recognized as a separate asset or liability.

The Corporation derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Corporation enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized from the statement of financial position.

(v) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported on 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 to realize the asset and settle the liability simultaneously.
Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Corporation's trading activity.

(vi) Fair value of financial assets and liabilities

Fair value of financial assets and financial liabilities is the price that would be received to sell an asset or paid to transfer a liability respectively in an orderly transaction between market participants at the measurement date.

(h) Impairment for non-financial assets

The carrying amounts of the Corporation's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the assets' recoverable amount is estimated.

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(i) Investment held for sale

Investment held for sale relates to investment in a subsidiary which is accounted for under IFRS 5 'Non-current assets held for sale and discontinued operations'. The investment is stated at the lower of its carrying amount and the fair value less costs to sell.

(j) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, bank balances and government securities maturing within 91 days from the date of issue.

(k) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

(ii) Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight line basis over the estimated useful lives of each part of an item of property and equipment as follows:

Long term leasehold land	Over the lease period
Buildings	2%
Computer equipment	33.33%
ICT Equipment	20%
Office equipment, furniture and fittings	20%
Motor vehicles	25%

Depreciation methods, useful lives and residual values are reassessed and adjusted, if appropriate, at each reporting date.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are recognized in profit or loss in the year in which they arise.

(l) Related parties

In the normal course of business, the Corporation has entered into transactions with related parties. The related party transactions are at arm's length.

(m) Grants

Other grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Corporation will comply with the conditions. The grants are amortised at the rate of 20% per annum on a reducing balance over a useful life of 5 years.

(n) New standards, amendments and interpretations

a. Standards, amendments and interpretations to existing standards effective in 2015 and relevant to the Corporation

New standard or amendments	Effective for annual periods beginning on or after
• Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities (2011)	1 January 2014
• Investment Entities- Amendments to IFRS 10, IFRS 12, and IAS 27 (2012)	1 January 2014
• Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets (2013)	1 January 2014
• Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)	1 January 2014
• IFRIC 21 Levies (2013)	1 January 2014
• Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)	1 July 2014

Impact of relevant new and amended standards and interpretations to published standards on the financial statements for the year ended 30 June 2015 are as follows:

- **Amendments to IAS 32: Offsetting Financial Assets and Financial Liabilities** *(effective for annual periods beginning on or after 1 January 2014)*

  The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement.

  The Corporation's policy is to offset financial assets and financial liabilities when there is a legally enforceable right to offset the recognised amount and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The clarification contained in these amendments reinforces the Corporation's policy and would not alter the manner in which offsetting arrangements are accounted for.

- **Amendments to IFRS 10, IFRS 12 and IAS 27: *Investment entities* (***effective for annual periods beginning on or after 1 January 2014)*

  The amendments clarify that a qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss; the only exception would be subsidiaries that are considered an extension of the investment entity's investment activities. The consolidation exemption is mandatory and not optional.

The application of these amendments have had no material impact on the disclosures or on the amounts recognised in the Corporation's financial statements.

(n) New standards, amendments and interpretations (continued)

(i) Standards, amendments and interpretations to existing standards effective in 2015 and relevant to the Corporation - continued

- **Amendments to IAS 36:** ***Recoverable Amount Disclosures for Non-Financial Assets*** *(effective for annual periods beginning on or after 1 January 2014)*

  The amendments reverse the unintended requirement in IFRS 13 Fair Value Measurement to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed.

  The application of this amendment has had no material impact on the disclosures or on the amounts recognised in the Corporation's financial statements.

- **Amendments to IAS 39:** ***Novation of Derivatives and Continuation of Hedge Accounting*** *(effective for annual periods beginning on or after 1 January 2014)*
  The amendments permit the continuation of hedge accounting in a situation where a counterparty to a derivative designated as a hedging instrument is replaced by a new central counterparty (known as 'novation of derivatives'), as a consequence of laws or regulations, if specific conditions are met.

  The application of this amendment has had no material impact on the disclosures or on the amounts recognised in the Corporation's financial statements.

- **IFRIC 21:** ***Levies*** *(effective for annual periods beginning on or after 1 January 2014)*

  IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognises a liability for a levy when – and only when – the triggering event specified in the legislation occurs.
  The application of this interpretation has had no material impact on the disclosures or on the amounts recognised in the Corporation's financial statements.

- ***Defined benefit plans – Employee contributions (Amendments to IAS 19)***

  The amendments introduce relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. Such contributions are eligible for practical expedient if they are:

  set out in the formal terms of the plan;

  linked to service; and

  independent of the number of years of service.

  When contributions are eligible for the practical expedient, a Company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

  The amendments apply retrospectively for annual periods beginning on or after 1 July 2014 with early adoption permitted.

  The application of this amendment will have no material impact on the disclosures or on the amounts recognised in the Corporation's financial statements.

(n) New standards, amendments and interpretations (continued)

b. ***New standards, amendments to standards and interpretations not yet effective***

New standard or amendments	Effective for annual periods beginning on or after
(a) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	1 January 2016
1. Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	1 January 2016
1. Amendments to IAS 41 - Bearer Plants (Amendments to IAS 16 and IAS 41)	1 January 2016
2. Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciations and Amortisation	1 January 2016
3. Equity Method in Separate Financial Statements (Amendments to IAS 27)	1 January 2016
4. IFRS 14 Regulatory Deferral Accounts	1 January 2016
5. Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	1 January 2016
6. Disclosure Initiative (Amendments to IAS 1)	1 January 2016
7. IFRS 15 Revenue from Contracts with Customers	1 January 2018
8. IFRS 9 Financial Instruments (2014)	1 January 2018

All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the Corporation).

- ***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)***

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 *Business Combinations*. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

The amendments will be effective from annual periods commencing on or after 1 January 2016.

The application of these amendments will have no material impact on the disclosures or on the amounts recognised in the Corporation's financial statements.

- ***Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)***

  The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business.

  Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be re-measured.

  The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

  The application of this amendment will have no material impact on the disclosures or on the amounts recognised in the Corporation's financial statements.

- ***Amendments to IAS 41- Bearer Plants (Amendments to IAS 16 and IAS 41)***

  The amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture require a bearer plant (which is a living plant used solely to grow produce over several periods) to be accounted for as property, plant and equipment in accordance with IAS 16 Property, Plant and Equipment instead of IAS 41 Agriculture. The produce growing on bearer plants will remain within the scope of IAS 41.

  The new requirements are effective from 1 January 2016, with earlier adoption permitted.

  The application of these amendments will have no material impact on the disclosures or on the amounts recognised in the Corporation's financial statements.

- ***Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to IAS 16 and IAS 38)**

  The amendments to IAS 16 *Property, Plant and Equipment* explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

  The amendments to IAS 38 *Intangible Assets* introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

- ***Clarification of Acceptable Methods of Depreciation and Amortisation* (Amendments to IAS 16 and IAS 38) - *continued***

  The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

  The application of these amendments will have no material impact on the disclosures or on the amounts recognised in the Corporation's financial statements.

- ***Equity Method in Separate Financial Statements (Amendments to IAS 27)***

  The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures but also for subsidiaries.

  The amendments apply retrospectively for annual periods beginning on or after 1 January 2016 with early adoption permitted.

  The application of this amendment will have no material impact on the disclosures or on the amounts recognised in the Corporation's financial statements.

- **IFRS 14 *Regulatory Deferral Accounts***

  IFRS 14 provides guidance on accounting for regulatory deferral account balances by first-time adopters of IFRS. To apply this standard, the entity has to be rate-regulated i.e. the establishment of prices that can be charged to its customers for goods and services is subject to oversight and/or approval by an authorised body.

  The standard is effective for financial reporting years beginning on or after 1 January 2016 with early adoption is permitted.

  The application of this standard will have no material impact on the disclosures or on the amounts recognised in the Corporation's financial statements.

- ***Investment Entities: Applying the Consolidation Exception* (Amendments to IFRS 10, IFRS 12 and IAS 28)**

  The amendment to IFRS 10 *Consolidated Financial Statements* clarifies which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit and loss. The amendment also modifies the condition in the general consolidation exemption that requires an entity's parent or ultimate parent to prepare consolidated financial statements.

  The amendment clarifies that this condition is also met where the ultimate parent or any intermediary parent of a parent entity measures subsidiaries at fair value through profit or loss in accordance with IFRS 10 and not only where the ultimate parent or intermediate parent consolidates its subsidiaries.

- ***Investment Entities: Applying the Consolidation Exception*** **(Amendments to IFRS 10, IFRS 12 and IAS 28) - *continued***

  The amendment to IFRS 12 *Disclosure of Interests in Other Entities* requires an entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 to make disclosures required by IFRS 12 relating to investment entities.

  The amendment to IAS 28 *Investments in Associates and Joint Ventures* modifies the conditions where an entity need not apply the equity method to its investments in associates or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements. The amendments introduce relief when applying the equity method which permits a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

  The amendments apply retrospectively for annual periods beginning on or after 1 January 2016, with early application permitted.

  The application of these amendments will have no material impact on the disclosures or on the amounts recognised in the Corporation's financial statements.

- ***Disclosure Initiative (Amendments to IAS 1)***

  The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements.

  The amendments apply for annual periods beginning on or after 1 January 2016 and early application is permitted.

  Management is currently assessing the impact of the adoption of these amendments to the Corporation's financial statements.

- ***IFRS 15 Revenue from Contracts with Customers***

  This standard replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers* and SIC-31 *Revenue – Barter of Transactions Involving Advertising Services*. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being:

  Identify the contract(s) with a customer; Identify the performance obligations in the contract; Determine the transaction price; Allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

  IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption is permitted.

  Management is currently assessing the impact of the new standard to the Corporation's financial statements.

- ***IFRS 9: Financial Instruments (2014)***

  On 24 July 2014 the IASB issued the final IFRS 9 *Financial Instruments* Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*.

  This standard introduces changes in the measurement bases of the financial assets to amortized cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

  The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted.

  Management is currently assessing the impact of the new standard to the Corporation's financial statements.

4. RISK MANAGEMENT

Structure and reporting
The Board of Directors are responsible for the overall risk management approach and for approving the risk management policy and strategies. There are other organs that monitor the assessment and management of risks within the Corporation including;

Audit Committee of the Board
The Audit Committee assists the Board in the fulfillment of its oversight responsibilities. The Committee guides and monitors the implementation of controls by the Corporation.

Deposit Insurance and Risk Management Section
The Corporation has an established Deposit Insurance & Risk Management Section that receives off-site information on deposits from member institutions for analysis and works closely with Central Bank of Kenya to monitor the performance of the Banking industry.

Internal Audit and Risk Management Unit
The operations of the Corporation are subject to internal audit by the Internal Audit Unit of the Kenya Deposit Insurance Corporation (formerly Deposit Protection Fund Board). The Internal Audit Unit employs full scope audit approach in planning and carrying out its audit engagements. The business processes are assessed with regard to business continuity procedures, physical safety, system safety, conformity to legal requirements and regulations, sufficiency of human resources and information safety. In addition, the financial risks and reputation risks are also determined.

Controls that are designed to reduce these risks to acceptable levels are assessed in terms of sufficiency and effectiveness; additional controls are recommended in order to increase effectiveness.

The main risks faced by the Corporation in respect of its principal non-derivative financial instruments are interest rate risk and liquidity risk. The directors review and agree on policies for managing these risks. The Corporation maintains a conservative policy regarding interest rate and liquidity risks. The Corporation does not engage in speculation in the markets. In addition, the Corporation does not speculate or trade in derivative financial instruments.

The Corporation's principal financial instruments comprise investments held to maturity; cash and cash equivalents; receivables; payables and accruals and amounts due to related parties.

(a) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's receivables, government securities and cash and bank balances.

The Corporation's exposure to credit risk is influenced mainly by the individual characteristics of each customer and investment.

The Corporation establishes an allowance for impairment that represents its estimate of incurred losses in respect of receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2015 KShs'000	**2014 KShs'000**
Receivable	10,838	111,908
Impairment losses recognised in the year (Note 8(b)	-	(102,345)
	10,838	**9,563**

The aging of receivables at the reporting date was:

Not past due	6,061	9,556
Past due 0 – 30 days	3,299	2
Past due 31 – 90 days	357	-
Past due above 90 days	1,121	102,350
	10,838	**111,908**

The movement in the allowance for impairment in respect of receivables during the year was as follows:

	2015 KShs'000	**2014 KShs'000**
Balance at 1 July	102,345	102,345
Made in the year	-	-
Write backs	(102,345)	-
Balance at 30 June	**-**	**102,345**

(b) Market Risk

(i) Interest rate risk management

Interest rate risk is the risk that the value and cash flows of a financial instrument will fluctuate due to changes in market interest rates. Excess funds held by the Corporation are invested in Treasury bills and Treasury bonds.

The following table sets out the carrying amount by maturity, of the Corporation's financial instruments that are exposed to interest rate risk:

2015:	**Effective interest rate**	**Upto 1 year KShs'000**	**1 – 5 years KShs'000**	**6 – 10 years KShs'000**	**Over 10 years KShs'000**	**Total KShs'000**
Investments held to maturity	10.79%	26,120,916	6,424,662	15,204,124	7,011,772	54,761,474
Interest sensitivity gap At 30 June 2015		**26,120,916**	**6,424,662**	**15,204,124**	**7,011,772**	**54,761,474**
2014:						
Investments held to maturity	10.88%	19,766,387	10,785,237	11,317,539	4,700,423	46,569,586
Interest sensitivity gap At 30 June 2014		**19,766,387**	**10,785,237**	**11,317,539**	**4,700,423**	**46,569,586**

The following table demonstrates the sensitivity to a reasonably possible change in the interest rates, with all other variables held constant, on the Corporation's surplus. The sensitivity computations assume that financial assets maintain a constant rate of return from one year to the next.

	2015 KShs'000	2014 KShs'000
Effect on surplus for the year of a +5% change in interest rates	2,738,074	2,328,479
Effect on surplus for the year of a -5% change in interest rates	(2,738,074)	(2,328,479)

(ii) ***Currency risk***

The Corporation operates wholly within Kenya and its assets and liabilities are reported in the local currency. It does not transact in foreign currencies.

(c) Liquidity risk management

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations from its financial liabilities. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Corporation's reputation. In the course of its operations the Corporation invests its capital in forms that vary in liquidity ranging from government securities that are readily convertible and sundry receivables. Simultaneously it carries current liabilities in form of provisions for protected deposits, sundry payables and related party liabilities. The entity matches its current assets to the current liabilities falling due to mitigate the risk of low liquidity.

The Corporation's financial liabilities amount to KShs 23,467,376 (2014 - KShs 29,877,000) and are all short term.

(d) Fair value

The fair value of financial assets and liabilities is the same as the carrying amounts as shown in the statement of financial position:

2015:	Other financial liability KShs '000	Loans and receivables KShs '000	Held to maturity KShs '000	Fair Value KShs '000	Total carrying value KShs '000	Fair Value KShs '000
Financial assets						
Government securities	-	-	54,761,474	-	54,761,474	54,761,474
Investment held for sale	-	-	-	100	100	100
Cash and bank balances	-	115,375	-	-	115,375	115,375
Receivables	-	10,838	-	-	10,838	10,838
	-	126,213	54,761,474	100	54,887,787	54,887,787
Financial liabilities						
Amounts due to group companies	2,609	-	-	-	2,609	2,609
Payables and accruals	20,858	-	-	-	20,858	20,858
	23,467	**-**	**-**	**-**	**23,467**	**23,467**
2014:						
Financial assets						
Government securities	-	-	46,569,586	-	46,569,586	46,569,586
Investment held for sale	-	-	-	100	100	100
Cash and bank balances	-	1,025	-	-	1,025	1,025
Receivables	-	9,563	-	-	9,563	9,563
	-	10,588	46,569,586	100	46,580,274	46,580,274
Financial liabilities						
Amounts due to group companies	18,911	-	-	-	18,911	18,911
Payables and accruals	10,966	-	-	-	10,966	10,966
	29,877	**-**	**-**	**-**	**29,877**	**29,877**

(e) Capital management

The primary objectives of the Corporation's capital management are to ensure that the Corporation maintains healthy capital ratios in order to support its business and to maximize the value for the insured depositors in member institutions. The Corporation manages its Fund and makes adjustments to it, as per the requirements of the Banking Act. The total accumulated Fund as at 30 June 2015 was KShs 54,914 million (2014 - KShs 46,584 million).

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

(i) ***Property and equipment***

Critical estimates are made by the management in determining depreciation rates for property and equipment. The rates used are set out in the accounting policy for property and equipment.

(ii) ***Impairment of receivables***

The Corporation reviews its receivables' portfolio regularly to assess the likelihood of impairment. This requires an estimation of the amounts that are irrecoverable especially debts incurred by institutions under liquidation.

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

In the process of applying the Corporation's accounting policies, management has made judgements in determining whether assets are impaired.

6. INCOME

(a) Assessment income	**2015 KShs'000**	**2014 KShs'000**
Total average deposits of institutions assessed as contributors	**2,020,657,850**	**1,782,902,148**
0.15% of total average deposits	3,030,987	2,674,353
Minimum contribution from 8 Deposit Taking Microfinance (DTM) (2014 – 5)	2,400	1,500
Total assessment income	**3,033,387**	**2,675,853**

6. INCOME

(b) Investment income	**2015 KShs'000**	**2014 KShs'000**
(i) Interest earned on treasury bills received		
Discount on 91 day treasury bills	18,481	34,330
Discount on 182 day treasury bills	5,647	33,963
Discount on 364 day treasury bills	1,734,468	1,207,278
	1,758,596	1,275,571
(ii) Interest earned on treasury bonds received		
Matured bonds	3,604,140	3,274,391
Discount on purchase	128,262	140,445
Amortisation of premium	(24,647)	(14,544)
	3,707,755	3,400,292
Total investment income	**5,466,351**	**4,675,863**

7. OTHER INCOME

Recoveries from subrogated claims	776	522	
Gain on sale/disposal of assets	738	-	
Penalty charges on late contributions		786	6,215
Miscellaneous Income		412	-
Recoveries from institutions in liquidation		102,345	198
Grant income		5,987	12,237
		111,044	**19,172**

8. ADMINISTRATION AND ESTABLISHMENT EXPENSES

Staff costs	180,557	157,710
Depreciation	10,011	11,775
Lease amortization	99	99
Auditors remuneration	1,481	1,100
Directors' emoluments - fees	7,699	5,301
Legal and professional fees	305	10
Occupancy costs	16,413	15,947
Other	63,859	59,254
	280,424	**251,196**

9. RECEIVABLES AND PREPAYMENTS

(a) Receivables and prepayments	**2015 KShs'000**	**2014 KShs'000**
Receivables and prepayments	10,838	111,908
Provision for impairment losses (Note 9(b))	-	(102,345)
	10,838	**9,563**

(b) Provisions for impaired receivables

As at 30 June 2015, there was no provision for receivables (2014 - KShs 102 million).

	2015 KShs'000	**2014 KShs'000**
At 1 July	102,345	102,345
Additional provision	-	-
Recoveries	(102,345)	-
At 30 June (Note 9(a))	**-**	**102,345**

10. **PROPERTY AND EQUIPMENT**

2015:	**Buildings KShs'000**	**Furniture & fittings KShs'000**	**Office and kitchen equipment KShs'000**	**Motor vehicle KShs'000**	**Computers KShs'000**	**Work-in-progress KShs'000**	**ICT Equipment KShs'000**	**Total KShs'000**
Cost:								
At 1 July 2014	16,740	21,769	11,151	11,659	8,394	-	43,914	113,627
Additions	325	1,339	288	-	1,800	17,215	-	20,967
Disposals	-	-	-	(3,893)	(59)	-	-	(3,952)
At 30 June 2015	17,065	23,108	11,439	7,766	10,135	17,215	43,914	130,642
Depreciation								
At 1 July 2014	4,418	11,720	8,339	8,090	7,087	-	14,052	53,706
Charge for the year	374	1,286	602	819	958	-	5,972	10,011

2015:	**Buildings KShs'000**	**Furniture & fittings KShs'000**	**Office and kitchen equipment KShs'000**	**Motor vehicle KShs'000**	**Computers KShs'000**	**Work-in-progress KShs'000**	**ICT Equipment KShs'000**	**Total KShs'000**
On disposal	-	-	-	(3,601)	-	-	-	(3,601)
At 30 June 2015	4,792	13,006	8,941	5,308	8,045	-	20,024	60,116
Carrying amount At 30 June 2015	**12,273**	**10,102**	**2,498**	**2,458**	**2,090**	**17,215**	**23,890**	**70,526**
2014:								
Cost								
At 1 July 2013	16,740	21,444	10,606	11,659	7,263	-	43,914	111,626
Additions	-	325	545	-	1,131	-	-	2,001
At 30 June 2014	16,740	21,769	11,151	11,659	8,394	-	43,914	113,627
Depreciation								
At 1 July 2013	4,051	10,331	7,717	6,901	6,344	-	6,587	41,931
Charge for the year	367	1,389	622	1,189	743	-	7,465	11,775
At 30 June 2014	4,418	11,720	8,339	8,090	7,087	-	14,052	53,706
Carrying amount At 30 June 2014	**12,322**	**10,049**	**2,812**	**3,569**	**1,307**	**-**	**29,862**	**59,921**

No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated assets with a cost of KShs 5,935,970 (2014 - KShs 5,836,970) and are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates it would have amounted to a charge to profit or loss of KShs 1,978,637 (2014 - KShs 1,945,637).

11. **PREPAID OPERATING LEASE RENTALS**	**2015 KShs'000**	**2014 KShs'000**
Cost		
At 1 July and 30 June	4,522	4,522
Amortization		
At 1 July	1,205	1,106
Amortization for the year	99	99
At 30 June	1,304	1,205
Carrying value at 30 June	**3,218**	**3,317**

12. **INVESTMENT**

Investment in Consolidated Bank of Kenya Limited		
10,000,000 ordinary shares of KShs 20 each	200,000	200,000
Provision for diminution in value	(199,900)	(199,900)
	100	**100**

The Corporation owns 10,000,000 ordinary shares of the Consolidated Bank of Kenya Limited that were acquired using a grant from the National Treasury for KDIC/DPFB to resolve a banking crisis at the time. At the time of acquisition of the investment, the Banking Act allowed the Corporation to acquire, hold or dispose shares of an institution that might otherwise result in a loss to the Corporation. The Banking Act was later amended and now prevents the Corporation from holding investments other than in government securities. The Government, through the National Treasury plans to privatize Consolidated Bank and has therefore directed the Privatization Commission to explore and advise on how the shares are to be sold. A Consortium has been appointed to guide on the intended Privatization. Due to the above, the requirement for consolidation on IAS 27 does not apply. The KDIC Board of Directors passed a resolution to transfer all the shares held in the Bank to the National Treasury pending their sale to third parties. The transfer is yet to be effected.

The investment was last valued in December 2004 by external consultants and the value of the shares was considered to be effectively nil. In the opinion of the directors, the additional diminution in value of KShs 100,000, based on this valuation, is not material for recognition in the financial statements.

It is to be noted that Section 6 of the KDI Act, 2012, allows the Deposit Insurer to acquire, hold shares, and make loans and advances for purposes of reducing or averting a risk to an institution or the financial system or a threatened loss to the Corporation.

13. GOVERNMENT SECURITIES

	2015 KShs'000	2014 KShs'000
Treasury bills maturing within 91 days of placement (Note 17)	33,226	44,936
Treasury bills maturing after 91 days from date of placement	20,584,469	14,179,524
Treasury bonds maturing within 1 year	5,503,221	5,541,927
Treasury bonds maturing after 1 year	28,640,558	26,803,199
	54,761,474	**46,569,586**
Comprising:		
Maturing within 1 year of the Statement of Financial Position date	26,120,916	19,766,387
Maturing after 1 year of the Statement of Financial Position date	28,640,558	26,803,199
	54,761,474	**46,569,586**

The weighted average effective interest rate on held to maturity investments as at 30 June 2015 was 10.79% (2014 – 10.88%).

14. PAYABLES AND ACCRUALS

	2015 KShs'000	2014 KShs'000
Sundry payables and accruals	**20,858**	**10,966**

15. RELATED PARTY TRANSACTIONS

The Central Bank of Kenya and the Corporation are related parties, performing connected duties of bank supervision and deposit protection respectively. No trading is carried with the Central Bank. The following transactions however take place between the two organisations:

		2015 KShs'000	2014 KShs'000
(a)	**Due to Central Bank of Kenya**	2,609	18,911
(b)	**Directors' emoluments and senior management remuneration**		
	Fees to directors	7,699	5,301
	Remuneration to senior management	55,718	54,947
(c)	**Cash and balances held with Central Bank of Kenya**	**115,375**	**1,025**

(d) The Central Bank pays some operating expenses on behalf of the Corporation. These are fully reimbursed.

(e) The staff of the Corporation are contractually employees of the Central Bank but seconded to the Corporation. Salaries of these staff are met by the Central Bank and fully reimbursed by the Corporation. In the year, salaries paid to staff by the Central Bank amounted to KShs 168.5 million (2014 - KShs 146.04 million).

(f) The Central Bank is also the sponsor of the CBK Staff Pension Fund to which the Corporation contributes on behalf of employees seconded to it from the Central Bank. In the year, the Corporation's contribution to the Fund amounted to KShs 12.06 million (2014 - KShs 10.98 million).

(g) The Central Bank provides the Corporation with office space and charges it rent. The Corporation also reimburses maintenance costs incurred by the Central Bank on its behalf. In the year, rent and maintenance costs charged amounted to KShs 16.41 million. (2014 - KShs 15.95 million).

16. DEFERRED INCOME

	2015 KShs'000	2014 KShs'000
Unamortized grant income	**23,947**	**29,876**

Amount relates to deferred grant income received under the Financial and Legal Sector Technical Assistance Project (FLSTAP) in relation to the ICT project. FLSTAP had purchased ICT servers for KDIC. The ICT servers shall be used in the ICT project commissioned in 2013/2014. The amounts are therefore amortised at the rate of 20% per annum on a reducing balance over a useful life of 5 years.

17. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise of the following statement of financial position amounts:

	2015 KShs'000	2014 KShs'000
Treasury bills maturing within 91 days from the date of placement (Note 13)	33,226	44,936
Cash and bank balance	115,375	1,025
	148,601	**45,961**

18. COMMITMENTS

(a) Capital commitments

	2015 KShs'000	2014 KShs'000
Authorised but not contracted for	**202,460**	**184,010**

Capital commitments authorised relates mainly to Office furniture, office equipment, ICT project infrastructure costs, motor vehicle, godown capital costs including the CCTV network connections.

		2015	2014
(b)	**Operating lease commitments**	**KShs'000**	**KShs'000**
	Falling due within one year	18,728	16,515
	Falling due between one and five years	19,007	16,515
		37,735	**33,030**

During the financial year ended 30 June 2015, KShs 16.4 million (2014 – KShs 15.9 million) was recognized as rental expense.

19. CONTIGENT LIABILITIES

Litigation

Mr. Ajay Shah (former Managing Director of Trust Bank Limited) filed a case in 2002 claiming general damages and special damages amounting to KShs 144 million against Trust Bank Limited (In Liquidation) and the Corporation on allegations of defamation and publication of malicious false statements. The suit is pending hearing. No provision has been made in the financial statements because, in the opinion of the directors, the claim is unlikely to succeed and KDIC is sued as the Liquidator of Trust Bank Ltd (IL). Therefore, in case judgment is entered against KDIC, the costs shall be paid by Trust Bank Ltd (IL).

20. SUBSEQUENT EVENTS

Pursuant to the provisions of Sections 43(1), 43(2) and 53(1) of the Kenya Deposit Insurance Act, 2012, Kenya Deposit Insurance Corporation was appointed by Central Bank of Kenya on 14 August 2015 as the receiver of Dubai Bank Kenya Limited and subsequently the liquidator. The Corporation is currently making arrangements to pay all insured deposits amounting to KShs 123 million in the financial year 2015/2016. In accordance with the law, a subrogated claim will be made by KDIC to recover this amount.

APPENDIX

COMMERCIAL BANKS AND OTHER FINANCIAL INSTITUTIONS
ASSESSED CONTRIBUTORS FOR THE YEAR ENDED 30 JUNE 2015

COMMERCIAL BANKS

1. African Banking Corporation Limited
2. Bank of Africa Kenya Limited
3. Bank of Baroda Kenya Limited
4. Bank of India
5. Barclays Bank of Kenya Limited
6. CfC Stanbic Bank Limited
7. Charterhouse Bank Limited (under statutory management)
8. Chase Bank Kenya Limited
9. Citibank N.A.
10. Commercial Bank of Africa Limited
11. Consolidated Bank of Kenya Limited
12. Co-operative Bank of Kenya Limited
13. Credit Bank Limited
14. Development Bank of Kenya Limited
15. Diamond Trust Bank of Kenya Limited
16. Dubai Bank Kenya Limited
17. Ecobank Kenya Limited
18. Equatorial Commercial Bank Limited
19. Equity Bank Limited
20. Family Bank Limited
21. Fidelity Commercial Bank Limited
22. Guaranty Trust Bank
23. First Community Bank Limited
24. Giro Commercial Bank Limited
25. Guardian Bank Limited
26. Gulf African Bank Limited
27. Habib Bank A.G. Zurich
28. Habib Bank Limited
29. Imperial Bank Limited
30. I&M Bank Limited
31. Jamii Bora Bank Ltd
32. Kenya Commercial Bank Limited
33. K-Rep Bank Limited
34. Middle East Bank Kenya Limited
35. National Bank of Kenya Limited
36. NIC Bank Limited
37. Oriental Commercial Bank Limited
38. Paramount Universal Bank Limited
39. Prime Bank Limited
40. Standard Chartered Bank of Kenya Limited
41. Transnational Bank Limited
42 UBA Kenya Bank Ltd
43. Victoria Commercial Bank Limited
44. Housing Finance Company of Kenya Limited

APPENDIX

COMMERCIAL BANKS AND OTHER FINANCIAL INSTITUTIONS
ASSESSED CONTRIBUTORS FOR THE YEAR ENDED 30 JUNE 2015
(CONTINUED)

MICRO FINANCE INSTITUTIONS

1. Faulu Kenya
2. Kenya Women Finance Trust
3. SMEP DTM
4. REMU DTM
5. Uwezo DTM
6. Rafiki DTM
7. Sumac DTM
8. Century DTM
9. U & I DTM
10. Daraja DTM
11. Choice DTM
12. Caritas DTM

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