SPECIAL ISSUE

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THE CENTRAL BANK OF KENYA

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30TH JUNE, 2013

Board of Directors

Dr. Mbui Wagacha	Interim Chairperson – Elected on 11 February, 2013
Prof. NjugunaNdung'u	Governor
Dr. Kamau Thugge Principal Secretary, Treasury	Appointed on 7 June, 2013
Mr. Joseph K. Kinyua Permanent Secretary, Treasury	Retired on 7 June, 2013
Dr. William O. Ogara	
Ms. Vivienne Y. Apopo	
Ms. Florence K. Muindi	
Mr. John G. Msafari	

Senior Management

Prof. Njuguna Ndung'u	Governor
Dr. HaronSirima	Deputy-Governor
Mr. Kennedy K. Abuga	Director – Governors' Office and Board Secretary
Mr. Aggrey J.K. Bett	Director –Special Projects - Appointed 5 November, 2012
Mr. Fredrick Pere	Director – Bank Supervision Department
Prof. KinanduMuragu	Executive Director – Kenya School of Monetary Studies
Mr. William Nyagaka	Director – Internal Audit Department
Mr. Charles Koori	Director – Research Department
Mr. Cassian J. Nyanjwa	Director – Department of Estates, Supplies and Transport
Mr. James T. Lopoyetum	Director – Currency Operations and Branch Administration Department - Resigned 26 June, 2013
Mr. Paul K. Wanyagi	Ag. Director – Currency Operations and Branch Administration Department - Appointed 12 July, 2013
Mr. Gerald Nyaoma	Director – Financial Markets Department
Mr. Peter K. Rotich	Director – Finance & IMS Department - Appointed 5 November, 2012
Mr. Mark Lesiit	Director – Banking & Risk Management Department
Ms. Mary Waceke	Director – Human Resources and Administration Department - Appointed 3 June, 2013

Registered office and principal place of business

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

Branches

Mombasa Branch	**Kisumu Branch**	**Eldoret Branch**
Central Bank of Kenya Building	Central Bank of Kenya Building	Kiptagich House
Nkrumah Road	Jomo Kenyatta Highway	Uganda Road
P.O. Box 86372	P.O. Box 4	P.O. Box 2710
80100 Mombasa	40100 Kisumu	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
NjuriNcheke 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

PricewaterhouseCoopers
Certified Public Accountants
PwC Tower, Chiromo Road
P.O. Box 43963
00100 GPO Nairobi

On behalf of
Auditor-General
Anniversary Towers
P.O. Box 30084–00100 GPO
Nairobi

1. Statement of Corporate Governance

The Central Bank of Kenya 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 KenyaAct provides that the Board of Directors shall be composed of a Chairperson, a Governor, The Principal Secretary to the National Treasury, who is a non-voting member and five Non-Executive Directors. Previously, all the Board members were appointed by the President. With effect from 2 May 2012 however, the Act was amended and now requires that the President appoints the Governor after the conduct of a competitive process and following the approval of Parliament. The proposed procedure for appointing the Chairperson, although not yet enacted, is intended to be similar to the appointment procedure applicable to the Governor. Other than the Principal Secretary to the Treasury who is ex-officio, all the non-executive Directors of the Board are appointed by the President of the Republic of Kenya. All the Board members are appointed for terms of four years each and are eligible for reappointment provided that no Board Member holds office for more than two terms.

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

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

The Members of the Board as at 30 June 2013 and their attendance of the 5 meetings held in the year were as follows:

No.	Name	Position	Discipline	Date of appointment	Nationality	Meetings attended
1	Dr. MbuiWagacha	Interim Chairperson	Economist	14 March 2011	Kenyan	5
2	Prof. Njuguna Ndungu	Governor, Member	Economist	14 March 2011	Kenyan	5
3	Dr William Otiende Ogara	Member	Professional Accountant	14 March 2011	Kenyan	5
4	Mr. JohnGerin Msafari	Member	Business management	1 June 2011	Kenyan	5
5	Ms. Vivienne Yeda Apopo	Member	Lawyer and banker	14 March 2011	Kenyan	4
6	Ms. Florence KagendoMuindi	Member	Human Resource	1 June 2011	Kenyan	5
7	Principal Secretary/National Treasury	Executive Officer	Economist	Permanent	Kenyan	2

The remuneration paid to the Directors for services rendered during the financial 2013/2012 is disclosed in Note 29 of the financial statements. The Non-Executive Directors are paid a monthly retainer fee and a sitting allowance for every meeting attended. There were no loans to Non-Executive Directors during the year while Executive Directors are paid a monthly salary and are eligible for staff loans.

1.2 Audit Committee

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

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

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

With regard to **External Audit**, the Audit Committee reviews the external auditors' proposed audit scope, approach and audit deliverables; and review draft accounts before submission to the External Auditors for audit.

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

The Members of the Audit Committee as at 30 June 2013 and their attendance of the 15 meetings held in the year were as follows:

No	Name	Position	Discipline	Nationality	Meetings attended
1	Dr. William Otiende Ogara	Chairman	Professional Accountant	Kenyan	15
2	Mr. John Gerin Msafari	Member	Business management	Kenyan	15
3	Ms. Florence Muindi	Member	Human resource	Kenyan	8
4	Ms. Vivienne Yeda Apopo	Member	Lawyer and banker	Kenyan	7
5	Dr. Mbui Wagacha	Member	Economist	Kenyan	5

1.3 Monetary Policy Committee (MPC)

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

The Members of the MPC as at 30 June 2013 and their attendance of the 6 meetings held in the year were as follows:

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

1.4 Human Resources Committee

The Committee meets once every two months and when need arises to review human resource policies and make suitable recommendations to the Board. The Governor and the Deputy Governor attend the meetings as and when necessary.

The Members of the Human Resources as at 30 June 2013 and their attendance of the 8 meetings held in the year were as follows:

No	Name	Position	Discipline	Nationality	Meetings attended
1	Ms Florence K. Muindi	Chairperson	Human Resource	Kenyan	8
2	Dr William Otiende Ogara	Member	Finance	Kenyan	8
3	Mr John Gerin Msafari	Member	Business management	Kenyan	8
4	Ms Vivienne Yeda Apopo	Member	Lawyer and banker	Kenyan	2

1.5 Financial Stability and Investment Committee

The Committee meets regularly and as and when need arises to review financial stability issues and 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	Nationality	Meetings attended
1	Ms. Vivienne Yeda Apopo	Chairperson	Lawyer and banker	Kenyan	5
2	Dr. William Otiende Ogara	Member	Finance	Kenyan	5
3	Dr. Mbui Wagacha	Member	Economist	Kenyan	5

1.6 Management Structure

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

There are several other Management Committees, which advise the Governor on specific issues in order to enable him to discharge his responsibilities as the Chief Executive Officer of the Bank.

1.7 Code of Ethics

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

1.8 Internal Controls

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.

1.9 Authorizations

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

1.10 Internal Audit and Risk Management

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

1.11 Transparency

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

2. Financial Performance

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

During the financial year ended 30 June 2013, the Bank's net interest income after impairment charge was Shs 1,912 million (2012: Shs 7,422 million). The decline is due to monetary policy undertaken in the year due to mop-up of excess liquidity in the economy. The reduction was further compounded by the low interest rates recorded on the foreign denominated deposits and investments.

The Bank's unrealized foreign exchange gains were Shs 5,623 million (loss 2012: Shs27,993 million) due to favourable movements in major foreign exchange rates.

Trading income mainly generated from sale of foreign currency reduced to Shs1,699 million (2012: Shs2,902 million). The decrease in trading income is due to favourable movements in major foreign exchange rates.

Administrative expenses decreased to Shs 9,325 million (2012: Shs 12,058 million) as a result of the one off provision of Shs 4,686 million recorded in 2012. The one off provision posted in 2012 was offset by increases in staff expenses at Shs 3,483 million (2012: Shs 2,908 million) as the Bank introduced a defined contribution retirement benefit scheme. Currency costs increased to Shs 2,396 million (2012: Shs 1,216 million) as the Bank makes investments in the new generation currency to comply with Constitutional requirements. Administrative expenses were further reduced by actuarial gain of Shs 600 million (loss 2012: Shs 69 million) from revaluation of the Retirement Benefit Asset.

The Bank revalues its leasehold land and buildings every three years. The last valuation was in 2012 which resulted in gains of Shs 7,498million.

The outcome of the Bank's operations was a net surplus of Shs 3,652 million (deficit 2012: Shs18,356 million) that has been added to the general reserve fund.

The financial position for the year is set out below. The Bank's assets increased to Shs 590,389 million (2012: Shs 509,498 million) fostered by favorable exchange rates compared to the previous year. Excess liquidity mop-up activities resulted in a decrease in advances to banks to Shs 351 million (2012: Shs 9,973 million).

Liabilities on the other hand increased to Shs 537,470 million (2012: Shs 458,731 million) due to higher liquidity as evidenced by higher deposits from banks and government at Shs 191,671 million (2012: 160,642 million) and currency in circulation at Shs 183,047 million (2012: Shs 159,216 million). The Bank instituted excess liquidity mop-up monetary policy measures resulting in investments by banks of Shs 41,589 million (2012: Shs 35,368 million). The increase was further fostered by favorable exchange rates compared to the previous year.

The directors submit their report together with the audited financial statements for the year ended 30 June 2013, which shows the state of affairs of Central Bank of Kenya (the "Bank").

Incorporation

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

Principal activities

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

Results and dividend

The surplus for the year of Shs 3,652 million (deficit 2012: Shs 25,854 million) has been added to the general reserve fund. The directors do not recommend the payment of a dividend. (2012: Shs 1.5 billion).

Board of Directors

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

Auditors

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

By order of the Board

K. K. Abuga
BOARD SECRETARY
23rd September, 2013.

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. 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 annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Central Bank of Kenya 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 Bank and of the Bank's surplus in accordance with International Financial Reporting Standards. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

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.

PROF. NJUGUNA NDUNGU
Governor
23rd September 2013

DR. WILLIAM O. OGARA
Director

REPORT OF THE AUDITOR GENERAL ON THE CENTRAL BANK OF KENYA FOR THE YEAR ENDED 30 JUNE 2013

Report on the financial statements

The accompanying financial statements of Central Bank of Kenya set out on below, which comprises the consolidated statement of financial position as at 30th June, 2013, 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

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

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

An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor condisders internal statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes 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 reasonables of accounting estimates made by the management, 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 the Banks as at 30th June, 2013, 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 of Kenya Act, Cap. 491 of of the laws of Kenya.

EDWARD R. O. OUKO
Auditor-General
Nairobi
26th September, 2013.

Consolidated statement of comprehensive income

		Year ended 30 June	
	Notes	**2013**	**2012**
		Shs' million	**Shs' million**
Interest income	4	5,904	8,308
Interest expense	5	(4,037)	(888)

	Notes	Year ended 30 June 2013 Shs' million	2012 Shs' million
Net interest income		1,867	7,420
Decrease in loan impairment	16	45	2
Net interest income after loan impairment charges		1,912	7,422
Fees and commission income	2(q)	3,000	3,000
Net trading income	6	1,699	2,902
Other income	7	798	893
Operating income/(loss)		7,409	14,217
Operating expenses	8	(9,325)	(12,058)
Operating (deficit)/surplus before unrealised gains/(losses)		(1,916)	2,159
Unrealized gains and losses:			
Foreign exchange gain/(loss)		5,623	(27,993)
Fair value loss on financial assets held for trading		(55)	(20)
Surplus/(deficit) for the year		3,652	(25,854)
Other comprehensive income			
Fair value gain on land and buildings		-	7,498
Total comprehensive income for the year		3,652	(18,356)

Consolidated statement of financial position

	Notes	As at 30 June 2013 Shs' million	2012 Restated Shs' million
Assets			
Balances due from banking institutions- Local	10	55,200	60,008
Advances to banks	15	351	9,973
Balances due from banking institutions- Foreign	12	395,493	335,275
Funds held with International Monetary Fund (IMF)	14(a)	2,694	2,200
Loans and advances	16	2,645	3,560
Financial assets at fair value through profit or loss	11	77,929	42,678
Investments securities – Available-for-sale	13	6	-
Other assets	17	4,119	2,557
Property and equipment	19	12,052	11,651
Intangible assets	20	973	1,272
Retirement benefit asset	18	2,967	2,193
Due from Government of Kenya	21	35,960	38,131
Total assets		**590,389**	**509,498**
Liabilities			
Currency in circulation	22	183,047	159,216
Deposits from banks and government	23	191,671	160,642
Due to International Monetary Fund (IMF)	14(b)	118,568	101,868
Investments by banks	24	41,589	35,673
Other liabilities	25	2,595	1,332
Total liabilities		**537,470**	**458,731**
Equity and reserves			
Share capital	26	5,000	5,000
General reserve fund		39,020	35,368
Revaluation reserve		8,899	8,899
Proposed dividend		-	1,500
Total equity		**52,919**	**50,767**
Total equity and liabilities		**590,389**	**509,498**

The financial statements above were authorised for issue by the Board of Directors on 23rd September, 2013 and signed on its behalf by:

PROF. NJUGUNA NDUNGU
Governor

DR. WILLIAM O. OGARA
Director

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

Consolidated statement of changes in equity

	Share capital Shs' million	Accumulated surplus Shs' million	Revaluation reserve Shs' million	Proposed dividend Shs' million	Total Shs' million
Balance at 1 July 2011	5,000	62,722	1,401	-	69,123
Deficit for the year	-	(25,854)	-	-	(25,854)
Other comprehensive income:					
Fair value on valuation of leasehold land	-	-	7,498	-	7,498
Total comprehensive income for the year	-	(25,854)	7,498	-	(18,356)
Transactions with owners					
Proposed dividends	-	(1,500)	-	1,500	-
Balance at 30 June 2012	5,000	35,368	8,899	1,500	50,767
Balance at 1 July 2012	5,000	35,368	8,899	1,500	50,767
Surplus for the year	-	3,652	-	-	3,652
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the year	-	3,652	-	-	3,652
Transactions with owners					
Dividends paid	-	-	-	(1,500)	(1,500)
Balance at 30 June 2013	5,000	39,020	8,899	-	52,919

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

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

Consolidated statement of cash flows

	Notes	Year ended 30 June 2013 Shs' million	2012 Shs' million
Net cash generated from operating activities	27	65,029	61,786
Cash flows from investing activities			
Purchase of property plant and equipment	19	(1,230)	(1,924)
Purchase of intangible assets	20	(46)	(319)
Proceeds from disposal of property and equipment		11	5
Net (purchase)/sale of financial assets			
- held for trading		(30,173)	(19,630)
- held to maturity		(7,331)	(7,211)
- available-for-sale		(6)	-
- funds held with International Monetary Fund (IMF)		(494)	531
Net cash used in investing activities		(39,269)	(28,548)
Cash flows from financing activities			
Proceeds from due to International Monetary Fund (IMF)		16,700	15,353
Dividends paid		(1,500)	(2,641)
Net cash from financing activities		15,200	12,712

	Notes	Year ended 30 June 2013 Shs' million	2012 Shs' million
Increase in cash and cash equivalents		40,960	45,950
Cash and cash equivalents at start of year		367,466	321,516
Cash and cash equivalents at end of year	28	408,426	367,466

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

Notes

1 General information

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

2 Summary of significant accounting policies

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

(a) Basis of preparation

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

Changes in accounting policy and disclosures

(i) New and amended standards adopted by the Bank

Amendment to IAS 1, 'Presentation of Financial Statements' as regards presentation of other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The application of this amendment will not have a material impact on the Bank's financial statements.

There are no other IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on 1 July 2012 that would be expected to have a material impact on the Bank.

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 July 2012, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Bank, except the following:

Standard	Title	Applicable for financial years beginning on/after
IFRS 9	Financial instruments	1 January 2015
IFRS 10	Consolidated financial statements	1 January 2013
IFRS 12	Disclosure of interests in other entities	1 January 2013
IAS 19 (R)	Employee benefits	1 January 2013
IFRS 13	Fair value measurement	1 January 2013

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

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

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

The revised definition of control focuses on the need to have both power and variable returns before control is present. The Bank will need to consider the new guidance.

IFRS 12, ‘Disclosure of Interests in other entities’- includes the disclosure requirements for all forms of interests in other entities, including interests in subsidiaries, associates, joint arrangements, special purpose entities and other off balance sheet vehicles. The Bank is yet to assess IFRS 12s full impact.

IAS 19 (Revised), ‘Employee benefits’, was amended in June 2011. The impact on the Bank will be to immediately recognise all past service costs and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit asset. The adoption of the standard will result in a significant increase in the retirement benefits asset on the Bank’s statement of financial position when the unrecognised actuarial gains are recognised on 1 July 2013.

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

Other amendments and interpretations to standards became mandatory for the year beginning after
1 July 2012 but had no significant effect on the Bank’s financial statements.

(b) Consolidation

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

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

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

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

(c) Functional currency and translation of foreign currencies

i. Functional and presentation currency

Items included in the financial are measured using the currency of the primary economic environment in which the Bank operates (‘the functional currency’). The financial statements are presented in Kenya Shillings (“Shs”) which is the Bank’s functional currency.

ii. Transactions and balances

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

(d) Sale and repurchase agreements

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

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

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

(e) Financial assets and liabilities

i. Financial assets

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

Financial assets at fair value through profit or loss

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

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

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

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

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

Loans and receivables

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

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

The Bank operates a staff loans scheme for its employees for the provision of facilities such as house and car loans. The loans are granted to staff at an interest rate of 3% per annum which 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 remeasurements are included in other comprehensive income.

ii Financial liabilities

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

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

iii Determination of fair value

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

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

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

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

iv De-recognition

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

v Classes of financial instruments

Category (as defined by IAS 39)		**Class (as determined by the Bank)**		**2013**	**2012**
				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	26,263	25,765

Category (as defined by IAS 39)		Class (as determined by the Bank)		2013	2012
				Shs' million.	Shs' million.
			Fixed income securities	51,608	16,839
		Designated at initial recognition	Gold holdings	58	74
	Loans and receivables	Loans and advances to banks		-	-
		Loans and advances to staff		2,645	3,560
		Due from Government	Government loan	28,960	30,874
			Overdraft facility to Government	7,000	7,257
		Investment in debt securities	Term deposits	395,493	335,275
	Available-for-sale	Investment securities	SWIFT shares	6	-
Financial liabilities	Financial liabilities at amortised cost	Deposits from banks	Term auction deposits	30,983	22,064
			Cash reserve ratio and current account deposits	113,647	105,371
			Repurchase agreements	10,606	13,609
		Deposits from Government institutions		78,024	55,271

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.

(f) Cash and cash equivalents

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

(g) Property and equipment

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

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

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in 'other income' in profit or loss. When revalued assets are sold, the amounts included in other reserves are transferred to the general reserve.

(h) Intangible assets

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

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

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

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

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

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

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

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

(i) Impairment of non-financial assets

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

(j) Employee benefits

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

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

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

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

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

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to profit or loss over the employees' expected average remaining working lives.

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

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

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

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

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

(k) Income tax

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

(l) Provisions

Provisions are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.
Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

(m) 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.

(n) Share capital

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

(o) Leases

Bank as lessee

The leases entered into by the Bank are primarily operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the 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.

(p) Interest income and expense

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

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

(q) Fee and commission income

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

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

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

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

(s) Currency in circulation

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

(t) 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.

Banknotes printing expenses for each denomination which include ordering, printing, 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 over the useful period (life span) of each banknote denomination. The deferred amount is recognised as prepayment and represents un-issued banknotes (currency) stock. Cost of coins minted is expensed in full on delivery in the year of purchase/acquisition.

Useful lives of the various banknotes denominations are currently estimated as follows:

Shs 1,000	2 years
Shs 500	2 years
Shs 200	2 years

The useful life for all other denominations is estimated at 1 year.

(u) Loan due from the Government of Kenya

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

On 24 July 2007, a deed of guarantee was signed between the Government of Kenya and Central Bank of Kenya in which the Government agreed to repay the loan at Shs 1.11 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.

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

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

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

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

(w) Comparatives

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

3 Critical accounting estimates and judgements in applying accounting policies

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

i. Post-retirement benefits

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

ii. Loans and advances

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

iii. Fair value of financial assets

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

iv. Property and equipment

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

(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	**2013 Shs' million**	**2012 Shs' million**
Cash and cash equivalents	-	32
Financial assets - held to maturity	1,150	1,194
Loans and advances	4,479	6,778
Financial assets - held for trading	275	304
	5,904	8,308
Interest income from loans and advances comprises:		
Loan due from Government Debt	892	929
Government overdraft	2,960	3,664
Staff loans	113	103
Reverse repos	368	1,403

	2013 Shs' million	2012 Shs' million
Local commercial banks overnight loans	6	521
Foreign commercial banks overnight loans	29	8
Other interest income	111	150
	4,479	6,778

5 Interest expense

Interest on monetary policy issues – investments by banks	4,033	880
Interest paid to IMF	4	8
	4,037	888

6 Net trading income

Net gain on sale of foreign exchange currencies	1,772	3,116
Net loss on held for trading financial assets trading	(73)	(214)
	1,699	2,902

7 Other income

Licence fees from commercial banks and foreign exchange bureaux	218	181
Penalties from commercial banks and foreign exchange bureaux	17	34
Rent income	2	1
Kenya School of Monetary Studies operating income-hospitality services and tuition fee	416	444
Gain on disposal of property and equipment	11	27
Miscellaneous income	134	206
	798	893

8 Operating expenses

Employee benefit expenses (Note 9)	3,566	3,838
Currency production expenses	2,396	1,216
Property maintenance and utility expenses	903	765
Depreciation (Note 19)	823	191
Amortisation (Note 20)	345	78
Provision for impairment loss on other assets (Note 17)	153	4,686
Auditors' remuneration	6	6
Banking expenses	-	1
Loss on financial assets at fair value through profit or loss	16	2
Transport and travelling	178	161
Office expenses	190	199
Postal service expense	136	131
Legal and professional fees	112	102
Other administrative expenses	501	682
	9,325	12,058

9 Employee benefits expense

Wages and salaries	3,483	2,908
Medical expenses	168	229
Other staff costs	447	563
Directors' emoluments (Note 29)	68	69
Net cost on retirement benefit obligations (defined benefit) (Note 18)	(600)	69
	3,566	3,838

10 Balances due from banking institutions - Local

	2013 Shs' million	2012 Shs' million
Current accounts	31,995	39,031
Special project accounts	13,240	12,878
Domestic foreign currency cheque clearing	9,965	8,099
	55,200	60,008

All balances due from banking institutions – local are recoverable within one year

11 Financial assets at fair value through profit or loss
a. Designated at initial recognition

Gold holdings	58	74

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

b. Held for trading

Fixed income securities	51,608	16,839
Fixed income securities under World Bank RAMP	26,263	25,765
	77,871	42,604
	77,929	42,678

12 Balances due from banking institutions- Foreign

Foreign denominated term deposits	395,347	335,227
Accrued interest on term deposits	146	48
	395,493	335,275

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

13 Investments securities – Available-for-sale

Unlisted equity securities	6	-
At start of year	-	-
Additions	6	-
At end of year	6	-

The fair value of the investment in unlisted company is estimated as being equivalent to the purchase price. The investment in available for sale securities isrecoverable after a year.

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

	2013 SDR million	2013 Shs' million	2012 SDR million	2012 Shs' million
(a) Assets				
IMF balances (SDR asset account)	16	2,694	17	2,200
(b) Liabilities				
International Monetary Fund Account No. 1	19	2,531	21	2,711
International Monetary Fund Account No. 2	-	1	-	1
International Monetary Fund – PRGF Account	634	82,493	521	66,183
IMF-SDR Allocation account	260	33,543	260	32,973
	913	118,568	802	101,868

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

Kenya's quota in IMF of SDR 271.4 million (2012: SDR 271.4 million) and allocations of SDR 258.3 million (2012: 259.6 million)are not included in the financial statements of the Bank as these are booked in the National Treasury with the Government fiscal agent.

15 Advances to banks

	2013 Shs' million	2012 Shs' million
Treasury bonds discounted	333	3,298
Treasury bills discounted	8	6,578
Accrued interest	10	97
	351	9,973

All advances to banks are recoverable within one year

16 Loans and advances

Due from banks under liquidation	3,656	3,706
Advances to employees	2,667	3,577
	6,323	7,283
Allowance for impairment	(3,678)	(3,723)
Net advances	2,645	3,560
Movement in the loan impairment allowance is as follows:		
At start of year	3,723	3,725
Decrease in impairment allowance	(45)	(2)
At end of year	3,678	3,723

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 (2012: Nil). The overnight lending attracts an interest at the CBR rate plus a margin determined by the Bank.

17 Other assets

Prepayments	115	250
Deferred currency expenses	3,477	1,659
Sundry debtors	5,212	5,001
Items in the course of collection	154	333
	8,958	7,243
Provision for impairment	(4,839)	(4,686)
	4,119	2,557

All other assets balances are recoverable within one year

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

18 Retirement benefit asset

Present value of funded obligations	13,065	12,673
Fair value of plan assets	(21,173)	(17,103)
Present value of net asset	(8,108)	(4,430)
Unrecognised actuarial gains	5,141	2,237
	(2,967)	(2,193)

The amounts recognised in statement of comprehensive income are as follows:	2013 Shs' million	2012 Shs' million
Current service costs	311	565
Interest costs	1,707	1,071
Expected return on plan assets	(2,358)	(1,492)
Net actuarial (gains)/losses recognised	(79)	24
Past service costs	-	625
Adjustment for previous year values	(181)	(724)
Total expenses included in employee benefits expense (Note 9)	(600)	69

Movements in the net defined benefit asset recognised are as follows:		
At start of year	2,193	1,897
Net income/(expense) recognised in the profit or loss (Note 9)	600	(69)
Employer contributions (Note 9)	174	365
At end of year	2,967	2,193
Actual return on plan assets	4,082	608

Movements in the plan assets are as follows:		
At start of year	17,103	15,872
Expected return on scheme assets	2,358	1,492
Actuarial gain	2,087	565
Employer contributions (Note 9)	174	365
Employee contributions	60	-
Benefits expenses paid	(428)	(467)
Adjustment for previous year values	(181)	(724)
At end of year	21,173	17,103

Movements in the plan benefit obligation are as follows:		
At start of year	12,673	12,137
Current service cost net of employees' contributions	311	565
Interest cost	1,707	1,072
Employee contributions	60	-
Actuarial gain	(1,258)	(1,259)
Past service cost	-	625
Benefits paid	(428)	(467)
At end of year	13,065	12,673

18 Retirement benefit asset (continued)

The principal actuarial assumptions at the reporting date were:		
Discount rate (p.a.)	13.7%	12.5%
Salary increase (p.a.)	13.7%	10.5%
Expected return on plan assets (p.a.)	11.7%	12.5%
Future pension increases	3.0%	3.0%

Historical information	**2013 Shs' million**	**2012 Shs' million**	**2011 Shs' million**	**2010 Shs' million**	**2009 Shs' million**
Fair value of plan assets	21,173	17,103	15,872	14,868	11,678
Present value of funded obligations	(13,065)	(12,673)	(12,137)	(11,550)	(9,582)
Retirement benefit asset	8,108	4,430	3,735	3,318	2,096
Unrecognised actuarial gains	(5,141)	(2,237)	(1,838)	(1,424)	(671)
	2,967	2,193	1,897	1,894	1,425

19 Property and equipment

Year ended 30 June 2012	Freehold land and Buildings Shs' million	Leasehold land and buildings Shs' million	Work in progress Shs' million	Motor Vehicles Shs' million	Furniture and Equipment Shs' million	Total Shs' million
Cost or valuation						
At start of year	1,010	-	325	263	5,444	7,042
Additions	25	300	869	102	196	1,492
On revaluation	5,057	1,455	-	-	-	6,512
Disposals	-	-	-	(55)	(2)	(57)
At end of the year	6,092	1,755	1,194	310	5,638	14,989
Accumulated depreciation						
At start of year	986	-	-	214	2,993	4,193
Charge for the year	19	6	-	24	142	191
On revaluation	(986)	-	-	-	-	(986)
On disposal	-	-	-	(58)	(2)	(60)
At end of the year	19	6	-	180	3,133	3,338
Net carrying value*	6,073	1,749	1,194	130	2,505	11,651
Year ended 30 June 2013						
Cost or valuation						
At start of year	6,092	1,755	1,194	310	5,638	14,989
Additions	-	-	819	63	348	1,230
Disposals	-	-	-	(21)	(2)	(23)
At end of year	6,092	1,755	2,013	352	5,984	16,196
Accumulated depreciation						
At start of year	19	6	-	180	3,133	3,338
Adjustments	-	-	-	2	4	6
Charge for the year	303	33	-	50	437	823
On disposal	-	-	-	(21)	(2)	(23)
At end of the year	322	39	-	211	3,572	4,144
Net carrying value	5,770	1,716	2,013	141	2,412	12,052

The net book value of freehold land, Leasehold land and buildings had they not been revalued would be immaterial.

*Opening net carrying value

	Shs' million
Net carrying value as previously stated	12,083
Prior year adjustment	(432)
Net carrying value as restated	11,651

The prior year adjustment relates to correction of errors in capitalisation of property and equipment items in FY 2012 and thus a third balance sheet is not presented.

Property and Equipment were revalued by internal professional valuers in the prior year on an open market basis and the revaluation has been included in the revaluation reserve.

The methods and significant assumptions applied in arriving at the revalued amounts are as follows:

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

20 Intangible assets

Year ended 30 June 2012	Software Shs' million	Work-in-Progress Shs' million	Total Shs' million
Cost			
At start of year	236	1,157	1,393
Additions	11	168	179
Transfer from work in progress	1,325	(1,325)	-
At end of the year	1,572	-	1,572

	Software Shs' million	Work-in-Progress Shs' million	Total Shs' million
Accumulated amortisation			
At the start of the year	222	-	222
Amortisation for the year	78	-	78
At end of the year	300	-	300
Net carrying value*	1,272	-	1,272

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

*Opening net carrying value

	Shs' million
Net carrying value as previously stated	1,412
Prior year adjustment	(140)
Net carrying value as restated	1,272

The adjustment relates to correction of errors in capitalisation of intangible assets items in FY 2012 and thus a third balance sheet is not presented.

21 Due from Government of Kenya

	2013 Shs' million	2012 Shs' million
Overdraft	7,000	7,257
Government loan	28,960	30,874
	35,960	38,131

Section 46(3) of the Central Bank of Kenya Act sets the limit of the Government of Kenya's overdraft facility at the Bank at 5% of the Gross Recurrent Revenue as reported in the latest Government of Kenya audited financial statements. The limit stands at Shs34,186,643,828 (2012: Shs 25,373,202,658) based on the Government financial statements for 2010/2011 (2012: 2009/2010), which are the latest audited financial statements at the date of approval of these financial statements.

22 Currency in circulation

	2013 Shs' million	2012 Shs' million
Kenya bank notes	177,488	154,325
Kenya coins	5,553	4,885
Commemorative coins	6	6
	183,047	159,216
Movement in the account was:		
At start of year	159,216	147,718
Deposits by banks	(403,689)	(385,210)
Withdrawals by banks	427,520	396,708
At end of year	183,047	159,216

23 Deposits

	2013 Shs' million	2012 Shs' million
Local commercial banks clearing accounts and cash ratio reserve	104,366	97,790
Local banks foreign exchange settlement accounts	9,248	7,541
External banks foreign exchange settlement accounts	33	40
Other public entities and project accounts	19,954	17,587
Government of Kenya	58,070	37,684
	191,671	160,642

24 Investment by banks

	2013 Shs' million	2012 Shs' million
Term auction deposits	30,983	22,064
Repos sold to commercial banks	10,606	13,609
	41,589	35,673

25 Other liabilities

	2013 Shs' million	2012 Shs' million
Impersonal accounts	248	204
Sundry creditors*	926	179
Bonds pending payables	620	214
Refundable deposits	677	586
Leave accrual	76	101
Gratuity to staff members	48	48
	2,595	1,332

*The sundry creditors balance as at 30 June 2012 has been restated to correct errors in the capitalisation of property and equipment and intangible assets as follows:

	Shs' million
As previously stated	751
Prior year adjustment on property and equipment	(432)
Prior year adjustment on intangible assets	(140)
As restated	179

26 Share capital

	Authorised share capital Shs' million	Ordinary shares Shs' million
Balance at 1 July 2011, 30 June 2012 and 30 June 2013	5,000	5,000

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

27 Cash generated from operations

Reconciliation of net surplus /(deficit) to cash flows from operations

	2013 Shs' million	2012 Shs' million
Surplus/(deficit) for the year	3,652	(25,854)
Adjustments for:		
Depreciation (Note 19)	823	191
Amortisation (Note 20)	345	78
Gain on disposal of property and equipment	(11)	(2)
Net interest income	(1,867)	(1,720)
Net cost on defined benefit asset (Note 9)	(600)	(69)
Interest received	5,893	8,223
Interest paid	(4,026)	(803)
Changes in working capital:		
Loans and advances	915	19,825
Other assets	(1,562)	3,237
Currency in circulation	23,831	11,498
Deposits	31,029	24,850
Other liabilities	691	(7,641)
Investments by banks	5,916	35,673
	65,029	61,786

28 Cash and cash equivalents

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

	2013 Shs' million	2012 Shs' million
Balances due from banking institutions - Local (Note 10)	55,200	60,008
Balances due from banking institutions- Foreign	347,349	294,462
	2013 Shs' million	**2012 Shs' million**
Financial assets - held for trading	5,526	3,023
Advances to banks (Note 15)	351	9,973
	408,426	367,466

29 Related party transactions

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

The main transactions include ordinary banking facilities to government ministries included in Note 23 and lending to government of Kenya included in Note 21.

(i) Loans

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

Loans to executive directors	**2013 Shs' million**	**2012 Shs' million**
At start of the year	6	3
Loans advanced during the year	11	6
Loan repayments	(4)	(3)
At end of the year	13	6
Loans to key management personnel		
At start of the year	87	76
Loans advanced during the year	20	44
Loan repayments	(30)	(33)
At end of the year	77	87

29 Related party transactions (continued)

	2013 Shs' million	**2012 Shs' million**
(ii) Directors' emoluments:		
Fees to non executive directors	15	16
Other remuneration to executive directors	53	53
	68	69
(iii) Remuneration to senior management	172	164
(iv) Post–employment pension to senior management	11	5
(v) Government of Kenya		
Due from Government of Kenya (Note 21)	35,960	38,131

Transactions entered into with the Government include:

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

(vi) Deposit Protection Fund Board

The Bank has a close working relationship with the Deposit Protection Fund Board, an entity incorporated under the Banking Act, and provides it with staff and office accommodation. Certain costs incurred on behalf of the Deposit Protection Fund Board are fully reimbursed to the Bank.
The balance outstanding from the Deposit Protection Fund Board and included in other assets as at year end was Shs 20 million (2012: Shs 14million).

(vii) Kenya School of Monetary Studies

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

30 Financial risk management objectives and policies

The Group'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 Group'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, short-term credit rating, composite rating and capital adequacy.

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

The Bank does not grade the credit quality of these assets. None of the balances have had their terms renegotiated. Management monitors the credit exposure of staff on a continuous basis, taking into account their financial position, past experience and other factors. Provisions of Shs 83 million (2012: Nil) 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.

	Neither past due nor impaired 2013 Shs' million	Individually impaired 2013 Shs' million	Neither past due nor impaired 2012 Shs' million	Individually impaired 2012 Shs' million
Advances to employees	2,646	22	3,560	67
Due from banks under liquidation	-	3,656	-	3,656
Sundry debtors	4,004	4,839	2,307	4,686
	6,650	8,617	5,867	8,409
Allowance for impairment				
- other assets (Note 17)	-	(4,839)	-	(4,686)
- loans and advances (Note 16)	-	(3,678)	-	(3,723)
	6,650	(8,517)	5,867	(8,409)
	6,650	-	5,867	-

There were no past due but not impaired balances as at 30 June 2013 (2012: Nil).

ii. Market risk

The Group 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 repricing.

As at 30 June 2013	**1 – 3 months Shs' million**	**3-12 months Shs' million**	**1 - 5 years Shs' million**	**Over 5 years Shs' million**	**Non-interest Bearing Shs' million**	**Total Shs' million**
Assets						
Balances due from banking institutions - Local	-	-	-	-	55,200	55,200
Advances to banks	351	-	-	-	-	351
Financial assets at fair value	5,526	12,602	33,581	25,623	597	77,929
Balances due from banking institutions - Foreign	347,349	42,471	-	-	5,673	395,493
Funds held with International Monetary Fund (IMF)	-	-	-	-	2,694	2,694
Investments securities – Available-for-sale	-	-	-	-	6	6
Loans and advances	2	37	824	1,782	-	2,645
Other assets	-	-	-	-	4,004	4,004
Due from Government of Kenya	73	1,110	1,110	33,667	-	35,960
Total financial assets	353,301	56,220	35,515	61,072	68,174	574,282
Liabilities						
Deposits from banks and government	-	-	-	-	191,671	191,671
Due to International Monetary Fund (IMF)	-	-	-	-	118,568	118,568
Investments by banks	41,589	-	-	-	-	41,589
Other liabilities	-	-	-	-	2,595	2,595
Total financial liabilities	41,589	-	-	-	312,834	354,423
Interest sensitivity gap	311,712	56,220	35,515	61,072	(244,660)	219,859

As at 30 June 2012	**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 - Local	-	-	-	-	60,008	60,008
Advances to banks	9,973	-	-	-	-	9,973
Financial assets at fair value	3,023	6,895	18,372	14,019	369	42,678
Balances due from banking institutions - Foreign	294,462	36,004	-	-	4,809	335,275
Funds held with International Monetary Fund (IMF)	-	-	-	-	2,200	2,200
Loans and advances	3	50	1,109	2,398	-	3,560
Other assets	-	-	-	-	2,307	2,307
Due from Government of Kenya	881	1,110	1,110	35,030	-	38,131
Total financial assets	308,342	44,059	20,591	51,447	69,693	494,132
Liabilities						
Deposits from banks and government	-	-	-	-	160,642	160,642
Due to International Monetary Fund (IMF)	-	-	-	-	101,868	101,868
Investments by banks	35,673	-	-	-	-	35,673
Other liabilities	-	-	-	-	1,332	1,332
Total financial liabilities	35,673	-	-	-	263,842	299,515
Interest sensitivity gap	272,669	44,059	20,591	51,447	(194,149)	194,617

As at 30 June 2013, an increase/decrease of 10 basis points would have resulted in a decrease/increase in profit of Shs 700 million (2012: Shs630 million).

ii. Market risk

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 2013. Included in the table are the Bank's financial instruments categorised by currency:

	USD Shs' million	GBP Shs' million	EUR Shs' million	SDR Shs' million	Others Shs 'million	Total Shs' million
As at 30 June 2013						
Assets						
Balances due from banking institutions - Local	30,243	1,283	43	-	23,631	55,200
Financial assets at fair value	77,929	-	-	-	-	77,929
Balances due from banking institutions - Foreign	279,846	81,997	33,650	-	-	395,493
Funds held with International Monetary Fund (IMF)	-	-	-	2,694	-	2,694
Total financial assets	388,018	83,280	33,693	2,694	23,631	531,316
Liabilities						
Due to International Monetary Fund (IMF)	-	-	-	118,568	-	118,568
Deposits from banks and government	8,195	1,161	1,189	-	-	10,545
Total financial liabilities	8,195	1,161	1,189	118,568	-	129,113
Net position	379,823	82,119	32,504	(115,874)	23,631	402,203

	USD Shs' million	GBP Shs' million	EUR Shs' million	SDR Shs' million	Others Shs 'million	Total Shs' million
As at 30 June 2012						
Assets						
Balances due from banking institutions - Local	33,907	13,542	12,194	-	365	60,008
Financial assets at fair value	42,678	-	-	-	-	42,678
Balances due from banking institutions - Foreign	209,375	56,302	69,598	-	-	335,275
Funds held with International Monetary Fund (IMF)	-	-	-	2,200	-	2,200
Total financial assets	285,960	69,844	81,792	2,200	365	440,161
Liabilities						
Due to International Monetary Fund (IMF)	-	-	-	101,868	-	101,868
Deposits from banks and government	6,353	810	1,178	-	-	8,341
Total financial liabilities	6,353	810	1,178	101,868	-	110,209
Net position	279,607	69,034	80,614	(99,668)	365	329,952

As at 30 June 2013, 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 18,991 million (2012:Shs 13,980 million)
- Euro Shs 1,625 million (2012: Shs 4,031 million)
- British Pound Shs 4,106 million (2012: Shs 3,452 million)
- SDR Shs 5,794 million (2012: Shs 5,093 million)

iii. Liquidity risk

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

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

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

	On demand Shs' million	1 – 3 months Shs' million	3-12 months Shs' million	1 - 5 years Shs' million	Over 5 years Shs' million	Total Shs' million
As at 30 June 2013						
Currency in circulation	-	-	-	-	183,047	183,047
Deposits from banks and government	178,259	-	13,412	-	-	191,671
Due to International Monetary Fund (IMF)	-	-	-	-	118,568	118,568
Investments by banks	-	41,631	-	-	-	41,631
Other liabilities	-	-	2,595	-	-	2,595
Total financial liabilities	178,259	41,631	16,007	-	301,615	537,512
As at 30 June 2012						
Currency in circulation	-	-	-	-	159,216	159,216
Deposits from banks and government	147,764	-	12,878	-	-	160,642
Due to International Monetary Fund (IMF)	-	-	-	-	101,868	101,868
Investments by banks	-	35,710	-	-	-	35,710
Other liabilities	-	-	1,904	-	-	1,904
Total financial liabilities	147,764	35,710	14,782	-	261,084	459,340

Fair value of financial instruments

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

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

	Level 1 Shs' million	Level 2 Shs' million	Level 3 Shs' million	Total Shs' million
As at 30 June 2013:				
Financial assets at fair value	**77,871**	**58**	**-**	**77,929**
Investment securities – Available-for-sale	**-**	**-**	**6**	**6**
Total assets	**77,871**	**58**	**6**	**77,935**
As at 30 June 2012:				
Financial assets at fair value	**42,604**	**74**	**-**	**42,678**
Investment securities – Available-for-sale	**-**	**-**	**-**	**-**
Total assets	**42,604**	**74**	**-**	**42,678**

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

31 Contingent liabilities and commitments

The Bank is party to various legal proceedings with total claims up to Shs 7.3 billion (2012: Shs 267 million). 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 2013, the Bank did not have capital commitments (2012: Shs 53 million) in respect of property and equipment purchases.

Operating lease commitments – Bank as lessee

	2013 Shs' million	2012 Shs' million
Not later than 1 year	16	16
Later than 1 year and not later than 5 years	40	66
	66	82

GAZETTE NOTICE NO. 13443

DEPOSIT PROTECTION FUND BOARD

REPORT AND FINANCIAL STATEMENTS AT 30 JUNE 2013

DIRECTORS AND STATUTORY INFORMATION

DIRECTORS

Prof. Njuguna Ndung'u	Chairman	
Joseph Kinyua	Permanent Secretary, Treasury	
Martin Gumo	Alternate to Permanent Secretary, Treasury	
Terence Davidson*	Member	
James Macharia	Member	(Resigned on 21/05/2013)
Nasim Devji*	Member	
Richard Etemesi	Member	(Term expired on 14/06/2013)
Rose Detho	Director- DPFB	(Ex-officio Member)
Jane K. Ikunyua	Board Secretary	

* British

BOARD AUDIT COMMITTEE

Terence Davidson	Chairman	
Richard Etemesi	Member	(Term expired on 14/06/2013)
Martin Gumo	Alternate to Permanent Secretary, Treasury	
James Macharia	Member	(Resigned on 21/05/2013)
Nasim Devji	Member	

SENIOR MANAGEMENT

Rose Detho	Director	
Jane K. Ikunyua	Assistant Director - Legal	
Mohamud A. Mohamud	Assistant Director – Liquidations	
Walter Onyino	Assistant Director – ICT	
Kimani Mwega	Assistant Director- Fin. & Admin.	
Evaline Nafula	B. A. Comm. Secretary	(Transferred on 08/11 /2012)
Edith Kagasi	B. A. Comm. Secretary	(Posted on 08/11/2012)

PRINCIPAL PLACE OF BUSINESS

CBK Pension House (formerly Marshall House)
Harambee Avenue
P.O. Box 45983 - 00100
Nairobi

AUDITORS

KPMG Kenya
8th Floor, ABC Towers
Waiyaki Way
P.O. Box 40612 – 00100, Nairobi

BANKERS

Central Bank of Kenya
Central Bank of Kenya Building
Haile Selassie Avenue
P.O. Box 60000 - 00200
Nairobi

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2013

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 30 June 2013 which disclose the state of affairs of the Board.

1. Incorporation

The Board is incorporated under the Banking Act Cap 488 of the Laws of Kenya.

2. Principal activities

The Board is established and administered under the Banking Act with the principal object to provide a deposit insurance scheme for customers of member institutions and liquidate and wind up the operations of any institution in respect of which the Board is appointed as a liquidator in accordance with the Banking Act or any other written law.

The Kenya Deposit Insurance Act, 2012 (the "Act") signed into law by the President on May 9th 2012 establishes a Deposit Insurance Fund (the "Fund") to replace the Deposit Protection Fund currently governed by the Banking Act. The Act also establishes the Kenya Deposit Insurance Corporation ("KDIC") and has increased its mandate to include risk management and the promotion of a stable financial system. KDIC will be responsible for the administration of the deposit insurance scheme set up under the Act. The Act also bestows upon KDIC such powers as are necessary to attain the stated objectives. The commencement date for the Act will be gazetted once the subsidiary legislation is ready.

3. Results

The results for the year are set out below.

4. Directors

The directors who served during the year are set out above.

5. Auditors

The auditors, KPMG Kenya, continue in office in line with the Public Procurement and Disposal Act (2005).

6. Approval of financial statements

The financial statements were approved by the directors on 26th September, 2013.

BY ORDER OF THE BOARD

Date the 26th September, 2013

JANE K. IKUNYUA
BOARD SECRETARY

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2013

The Directors are responsible for the preparation and presentation of the financial statements of Deposit Protection Fund Board set out below which comprise the statement of financial position at 30 June 2013, the statement of 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 notes.

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 Banking 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 Board as at the end of the financial year and of the operating results of the Board for that year. It also requires the Directors to ensure the Board keeps proper accounting records which disclose with reasonable accuracy the financial position of the Board.

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 Banking 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 Board 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 Board's ability to continue as a going concern and have no reason to believe the Board 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 26th September, 2913, and were signed on its behalf by:

PROF. NJUGUNA NDUNGU
Chairman

TERENCE DAVIDSON
Member

STATEMENT OF CORPORATE GOVERNANCE

DPFB is a body corporate established by section 36 of the Banking Act, Cap 488 Laws of Kenya. The DPFB currently operates as a department of Central Bank of Kenya. DPFB is committed to maintaining the highest standards of integrity, professionalism and business ethics in all its operations.

Board of Directors

Section 36 (4) provides that the Board of directors shall be composed of the Governor of Central Bank of Kenya, as the Chairman, Permanent Secretary to the Treasury and five other members, appointed by the Minister for Finance, representing the member institutions. The members representing the Institutions, during the period under review, are: Mr. Terence Davidson, Mrs. Nasim Devji, Mr. James Macharia (Resigned on 21/05/2013) and Mr. Richard Etemesi (Term expired on 14/06/2013)

Board Meetings

The Board meets every 3 months and has a formal schedule of Agenda items due for deliberations. The Directors are given appropriate and timely information to maintain full and effective control over strategic, financial and operational issues. The Board is not involved in the conduct of day-to-day business as this is a responsibility given to the Director, DPFB by the Banking Act. It, however, retains responsibility for determining the policy of the Fund.

Audit Committee

The members of the Audit Committee are Mr. Terence Davidson, Mr. James Macharia (Resigned on 21/05/2013), Mrs. Nasim Devji, Mr. Martin Gumo and Mr. Richard Etemesi (Term expired on 14/06/2013). They are all non-Executive Directors and have experience in Banking, Finance, Accounting, Administration and Management. The committee meets every three months, 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 DPFB Senior Management is made up of the Director, four Assistant Directors, each heading the Division of Finance & Administration, Legal, ICT and Liquidations. The DPFB Senior Management meets regularly to review overall performance of the Fund. Decision making is through several management committees, which meet regularly to deliberate and advise the Director on specific issues. All DPFB staff are employees of Central Bank of Kenya seconded to the Fund.

Directors Emoluments and Loans

The remuneration paid to the Directors for services rendered during the financial year 2012/2013 is disclosed in Note 7 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.

Code of Ethics

The Fund 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 Fund 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 DPFB, under the staff rules and regulations.

Internal Controls

The management of the Fund 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 Fund, workflows have been structured in a manner that allows adequate segregation of duties.

Authorizations

All the expenditure of the Fund must be authorized in accordance with a comprehensive set of the Fund'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 Fund.

Internal Audit and Risk Management

The Internal Audit function is performed by Internal Audit Division, 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 Fund 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 Fund. DPFB was also in the process of sharing its Strategic Plan with the Stakeholders.

REPORT OF THE INDEPENDENT AUDITORS TO THE MINISTER FOR FINANCE ON THE FINANCIAL STATEMENTS OF THE DEPOSIT PROTECTION FUND BOARD

We have audited the financial statements of Deposit Protection Fund Board set out below which comprise the statement of financial position at 30 June 2013, the statement of 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 notes.

Directors' responsibility for the financial statements

As stated above, 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 the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we consider 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Board at 30 June 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Date the 26th September, 2013

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 KShs'000	2012 KShs'000
REVENUE			
Assessment income	5(a)	2,340,033	1,973,192
Investment income	5(b)	4,059,415	3,422,806
Other income	6	31,776	11,457
		6,431,224	5,407,455
EXPENSES			
Administration and establishment	7	250,368	208,199
Provision for doubtful debts	8(b)	1,370	2,844
		251,738	211,043
SURPLUS FOR THE YEAR		**6,179,486**	**5,196,412**

The notes set out below form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2013

ASSETS	Note	2013 KShs'000	2012 KShs'000
Non-current assets			
Property and equipment	9	69,695	43,044
Prepaid operating lease rentals	10	3,416	3,515
Investment held for sale	11	100	100
Government securities	12	27,325,123	26,249,260
		27,398,334	26,295,919
Current assets			
Receivables and prepayments	8(a)	7,085	5,143
Government securities	12	12,046,218	7,013,085
Cash and bank balance		78,389	3,882
		12,131,692	7,022,110
TOTAL ASSETS		**39,530,026**	**33,318,029**
FUND BALANCE AND LIABILITIES			
Fund balance (below)		39,464,067	33,284,581
Current liabilities			
Payables and accruals	13	6,996	6,334
Due to related party	14(a)	21,276	16,943
Deferred income	15	37,687	10,171
		65,959	33,448
TOTAL FUND BALANCE AND LIABILITIES		**39,530,026**	**33,318,029**

The financial statements below were approved by the Board of Directors on and were signed on its behalf by:

PROF. NJUGUNA NDUNGU
Chairman

TERENCE DAVIDSON
Member

The notes set out below form an integral part of these financial statements.

STATEMENT OF CHANGES IN FUND BALANCE FOR THE YEAR ENDED 30 JUNE 2013

	Fund balance KShs'000
2013:	
Balance at 1 July 2012	33,284,581
Surplus for the year	6,179,486
Balance at 30 June 2013	**39,464,067**
2012:	
Balance at 1 July 2011	28,088,169
Surplus for the year	5,196,412
Balance at 30 June 2012	**33,284,581**

The notes set out below form an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 KShs'000	2012 KShs'000
Cash flows from operating activities			
Surplus for the year		6,179,486	5,196,412
Adjustment for:			
Depreciation of property and equipment		11,333	5,077
Amortisation of prepaid operating lease rentals		99	99
Write offs		9,466	-
Gain on disposal		(1,568)	-
Interest income		(4,059,415)	(3,422,806)
Operating surplus before working capital changes		**2,139,401**	**1,778,782**
Change in working capital			
Receivables and prepayments		(1,942)	1,945
Payables and accruals		662	1,397
Deferred income		27,516	(345)
Due to related party		4,333	(24,649)
Net cash flows generated from operating activities		**2,169,970**	**1,757,130**
Cash flows from investing activities			
Net movement in government securities		(5,974,511)	(5,821,933)
Purchase of property and equipment		(49,165)	(11,365)
Proceeds from disposals		2,120	-
Transfers		1,163	-
Interest received		4,059,415	3,422,806
Net cash flows from investment activities		**(1,960,978)**	**(2,410,492)**
Net decrease in cash and cash equivalents		208,992	(653,362)
Cash and cash equivalents at the beginning of the year		205,860	859,222
Cash and cash equivalents at the end of the year	16	**414,852**	**205,860**

The notes set out below form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2013

1. REPORTING ENTITY

The Board is incorporated under the Banking Act Cap 488 of the Laws of Kenya 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 preparation

The financial statements have been prepared on the historical cost convention except for measurement at fair valuation of certain investments.

(b) Statement of compliance

The financial statements have been prepared in compliance with International Financial Reporting Standards (IFRSs) and interpretation of those standards.

(c) Functional and presentation currency

These financial statements are presented in Kenya Shillings (KShs), which is the Board'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. Although these estimates are based on the directors' best knowledge of current events, actual results may ultimately differ from those 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 4.

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 bearing 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 statement of comprehensive income 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.

The Board'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 Board and the Central Bank, the main sponsor. The retirement benefit asset is wholly recognized in the financial statements of the Central Bank while the Board 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 Board also contributes to a statutory defined contribution Pension Scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to KShs. 200 per employee per month. The contributions are charged to income and expenditure account in the year to which they relate.

(f) Taxation

The Board's income is not subject to 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) Recognition and measurement of financial instruments

The Board classifies its financial assets into four categories described below. Management determines the appropriate classification of its financial instruments at the time of purchase and re-evaluates its portfolio on a regular basis to ensure that all financial assets are appropriately classified.

(i) Financial assets at fair value through profit or loss

Financial assets in this category held for trading are those that the Board principally holds for the purpose of short-term profit taking and/or those designated at fair value through profit or loss at inception. These are recognised on the date the Board commits to acquire the instruments.

Trading instruments are initially recognised at cost, including transaction costs. Subsequent to initial recognition, trading instruments are stated at fair value based on quoted bid prices. Where the fair value cannot be reliably measured, the assets are stated at cost less impairment losses. Changes in fair value are recognised in profit or loss.

(ii) 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.

They arise when the Board 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 Board from a third party.

(g) Recognition and measurement of financial instruments (continued)

(ii) Loans and receivables (continued)

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.

(iii) Held-to-maturity

These are financial assets with fixed or determinable payments and fixed maturities that the Board's management has the positive intention and ability to hold to maturity. The sale of a significant amount of held-to-maturity assets would taint the entire category leading to reclassification as available-for-sale.
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.

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

(iv) Available-for-sale

Other financial assets held by the Board are classified as available-for-sale and are initially recognised at cost, including transaction costs. Subsequent to initial recognition, available-for-sale financial assets are stated at fair value based on quoted bid prices. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity in the fair value reserve, net of deferred tax. When these investments are derecognised, the cumulative gain or loss previously directly recognised in equity is recognised in profit or loss.

Derecognition

A financial asset is derecognised when the Board loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Board commits to sell the assets. The Board uses the specific identification method to determine the gain or loss on derecognition.

Held-to-maturity instruments and loans and receivables are derecognised on the day they are repaid in full or when they are transferred by the Board to a third party.

(h) 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.

(i) Cash and cash equivalents

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

(j) 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 Board 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%
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.

(k) Impairment of assets

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets

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

An impairment loss is recognised 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 recognised in profit or loss. Impairment losses recognised in respect of cash-generating units 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.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Provision

Provisions are recognised when the Board has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

(m) Related parties

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

(n) Grants

Other grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Board will comply with the conditions.

(o) Comparatives

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

(p) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2013 and have not been applied in preparing these financial statements. These are summarised below, and are not expected to have a significant impact on the financial statements of the Board:

- IFRS 9 *'Financial Instruments'*. IFRS 9 will become mandatory for the Board's 2015 financial statements.
- IFRS 10 *'Consolidated Financial Statements'* (effective for annual periods beginning on or after 1 January 2013).
- IFRS 11 *'Joint Arrangements'* (effective for annual periods beginning on or after 1 January 2013).
- IFRS 12 'Disclosure of Interests in Other Entities' (effective for annual periods beginning on or after 1 January 2013).
- IFRS 13 *'Fair Value Measurement'* (effective for annual periods beginning on or after 1 January 2013).
- IAS 19 *'Employee Benefits (Amended)'* (effective for annual periods beginning on or after 1 January 2013).
- IAS 27 (2011) Separate Financial Statements (effective 1 January 2013).
- IAS 28 (2011) Investments in Associates and Joint Ventures (effective 1 January 2013).
- Amendments to IAS 1 *'Presentation of items of other comprehensive income'* (effective 1 July 2012).
- Amendment to IFRS 7 and IAS 32 on offsetting of financial assets and financial liabilities (2011), (effective for annual periods beginning on or after 1 January 2014)

The Board does not plan to adopt any of the above standards early and the extent of the impact has not been determined.

4. 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, equipment.

(ii) Impairment of receivables

The Board 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.

(iii) Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

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

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

5. INCOME

	2013 KShs'000	2012 KShs'000
(a) Assessment income		
Total average deposits of institutions assessed as contributors	1,559,622,240	1,315,061,133
0.15% of total average deposits	2,339,433	1,972,592
Minimum contribution from 2 Deposit Taking Microfinance (DTM) (2012: 2)	600	600
Total assessment income	**2,340,033**	**1,973,192**

(b) Investment income

		2013	2012
(i)	***Interest earned on treasury bills received***		
	Discount on 91 day treasury bills	91,039	249,238
	Discount on 182 day treasury bills	293,130	209,919
	Discount on 364 day treasury bills	389,016	24,664
		773,185	483,821

		2013 KShs'000	2012 KShs'000
(ii)	***Interest earned on treasury bonds received***		
	Matured bonds	3,144,349	2,811,834
	Discount on purchase	160,165	149,304
	Amortisation of premium	(18,284)	(22,153)
		3,286,230	2,938,985
	Total investment income	**4,059,415**	**3,422,806**

6. OTHER INCOME

	2013	2012
Recoveries from subrogated claims	-	1,071
Gain on sale / Disposal of assets	1,568	-
Penalty charges on late contributions	285	2,680
Bad debts recovered	5	880
Recoveries from Institutions in liquidation	1,963	-
Grant income	27,955	6,826
	31,776	**11,457**

7. ADMINISTRATION AND ESTABLISHMENT EXPENSES

	2013 KShs'000	2012 KShs'000
Staff costs	144,987	130,679
Depreciation	11,333	5,077
Lease amortization	99	99
Auditors remuneration	1,017	925
Directors' emoluments - fees	8,046	6,513
Legal and professional fees	11,158	380
Occupancy costs	13,198	12,355
Other	60,530	52,171
	250,368	**208,199**

8. RECEIVABLES AND PREPAYMENTS

		2013 KShs'000	2012 KShs'000
(a)	**Receivables and prepayments**		
	Receivables and prepayments	109,430	109,269
	Provision for bad debts (Note 8(b))	(102,345)	(104,126)
		7,085	**5,143**

(b) **Provisions for impaired receivables**

As at 30 June 2013, receivables amounting to KShs 102 million (2012 - KShs 104 million) were fully impaired and provided for. Movements in the provisions for impairment of receivables were as follows:

	2013 KShs'000	2012 KShs'000
At 1 July	104,126	102,162
Additional provision	1,370	2,844
Write back-provision for bad debts	(3,151)	(880)
At 30 June (Note 18(a))	**102,345**	**104,126**

9. PROPERTY AND EQUIPMENT

2013: **KShs'000**	**Furniture** **Buildings** **KShs'000**	**Office** **and kitchen** **& fittings** **KShs'000**	**Motor** **equipment** **KShs'000**	**vehicle** **KShs'000**	**Work-In-** **Computers** **KShs'000**	**ICT** **Progress** **KShs'000**	**Equipment** **KShs'000**	**Total**
Cost								
At 1 July 2012	16,740	16,594	10,205	16,479	8,426	9,466	-	77,910
Additions	-	4,850	401	-	-	-	43,914	49,165
Less Disposals	-	-	-	(4,820)	-	-	-	(4,820)
Less write offs	-	-	-	-	-	(9,466)	-	(9,466)
Less Transfers/ write offs	-	-	-	-	(1,163)	-	-	(1,163)
At 30 June 2013	16,740	21,444	10,606	11,659	7,263	-	43,914	111,626

Depreciation								
At 1 July 2012	3,684	8,860	7,035	9,583	5,704	-	-	34,866
Charge for the year	367	1,471	682	1,586	640	-	6,587	11,333
Less Dep. On disposals	-	-	-	(4,268)	-	-	-	(4,268)
At 30 June 2013	4,051	10,331	7,717	6,901	6,344	-	6,587	41,931
Net book value								
At 30 June 2013	**12,689**	**11,113**	**2,889**	**4,758**	**919**	**-**	**37,327**	**69,695**
2012:								
Cost								
At 1 July 2011	16,740	16,130	9,659	8,713	5,837	-	-	57,079
Additions	-	464	546	7,766	2,589	9,466	-	20,831
At 30 June 2012	16,740	16,594	10,205	16,479	8,426	9,466	-	77,910

Depreciation

		Office						
	Furniture	**and kitchen**	**Motor**		**Work-In-**	**ICT**		
2013:	**Buildings**	**& fittings**	**equipment**	**vehicle**	**Computers**	**Progress**	**Equipment**	**Total**
KShs'000	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	
At 1 July 2011	3,317	7,755	6,243	7,284	5,190	-	-	29,789
Charge for the year	367	1,105	792	2,299	514	-	-	5,077
At 30 June 2012	3,684	8,860	7,035	9,583	5,704	-	-	34,866
Net book value								
At 30 June 2012	**13,056**	**7,734**	**3,170**	**6,896**	**2,722**	**9,466**	**-**	**43,044**

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. 5,341,968. (2012: KShs 4,392,930) 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 KShs. 1,780,655. (2012: KShs 1,464,309).

10. **PREPAID OPERATING LEASE RENTALS**	**2013**	**2012**
	KShs'000	**KShs'000**
Cost		
At 30 June	4,522	4,522
Amortisation		
At 1 July	1,007	908
Amortisation for the year	99	99
At 30 June	1,106	1,007
Net carrying value at 30 June	**3,416**	**3,515**

11. INVESTMENT HELD FOR SALE

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 Board owns 50.2% of the ordinary share capital of the Consolidated Bank of Kenya Limited. At the time of acquisition of the investment, the Banking Act allowed the Board to acquire, hold or dispose shares of an institution that would result in a loss to the Board. The Banking Act was later amended and now prevents the Board from holding investments other than in government securities. The Government, through Treasury plans to privatize Consolidated Bank and has therefore directed the Privatization Commission to explore and advice on how the shares are to be sold. A Consortium has been appointed to advice on the intended Privatization. Due to the above, the requirement for consolidation on IAS 27 does not apply.

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.

12. **GOVERNMENT SECURITIES**	**2013**	**2012**
	KShs'000	**KShs'000**
Treasury bills maturing within 91 days of placement (Note 16)	336,463	201,978
Treasury bills maturing after 91 days from date of placement	7,583,316	3,276,626
Treasury bonds maturing within 1 year	4,126,439	3,534,481
Treasury bonds maturing after 1 year	27,325,123	26,249,260
	39,371,341	**33,262,345**

Comprising:
Maturing within 1 year of the

Statement of Financial Position date	12,046,218	7,013,085
Maturing after 1 year of the Statement of Financial Position date	27,325,123	26,249,260
	39,371,341	**33,262,345**

The weighted average effective interest rate on held to maturity investments as at 30 June 2013 was 11.04% (2012 – 11.06%).

13. PAYABLES AND ACCRUALS

	2013 KShs'000	2012 KShs'000
Sundry payables and accruals	**6,996**	**6,334**

14. RELATED PARTY TRANSACTIONS

The Central Bank of Kenya and the Board 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:

		2013 KShs'000	2012 KShs'000
(a)	**Due to Central Bank of Kenya**	**21,276**	**16,943**
(b)	**Directors' emoluments and senior management remuneration**		
	Fees to directors	8,046	6,514
	Remuneration to senior management	57,087	55,608
(c)	**Cash and balances held with Central Bank of Kenya**	**78,389**	**3,882**

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

(e) The staff of the Board are contractually employees of the Central Bank but seconded to the Board. Salaries of these staff are met by the Central Bank and fully reimbursed by the Board. In the year, salaries paid to staff by the Central Bank amounted to KShs 135.9 million (2012 - KShs 125.4 million).

(f) The Central Bank is also the sponsor of the CBK Staff Pension Fund to which the Board contributes on behalf of employees seconded to it from the Central Bank. In the year, the Board's contribution to the Fund amounted to KShs. 9.1 million (2012 - KShs 5.6 million).

(g) The Central Bank provides the Board with office space and charges it rent. The Board also reimburses maintenance costs incurred by the Central Bank on its behalf. In the year, rent and maintenance costs charged amounted to KShs 13.2 million. (2012 - KShs 12.7 million).

15. DEFERRED INCOME

	2013 KShs'000	2012 KShs'000
Unamortized grant income	**37,687**	**10,171**

16. CASH AND CASH EQUIVALENTS

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

Treasury bills maturing within 91 days from the date of placement (Note 12)	336,463	201,978
Cash and bank balance	78,389	3,882
	414,852	**205,860**

17. COMMITMENTS

	2013 KShs'000	2012 KShs'000
Authorised but not contracted for	**29,180**	**207,438**

Capital commitments authorised relates mainly to Guard house, office equipment, ICT infrastructure, library access and network connections.

Operating lease commitments:	2013 KShs'000	2012 KShs'000
Falling due within one year	15,780	11,172
Falling due between one and five years	15,780	11,172
	31,560	**22,344**

18. RISK MANAGEMENT

Structure and reporting

The Board of Directors is 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 Board 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 Board.

Deposit Insurance and Risk Management Section

The Board 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 Board are subject to internal audit by the Internal Audit Unit of the 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 Board 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 Board maintains a conservative policy regarding interest rate and liquidity risks. The Board does not engage in speculation in the markets. In addition, the Board does not speculate or trade in derivative financial instruments.

The Board's principal financial instruments comprise investments held to maturity; cash and cash equivalents; receivables and prepayments; payables and accruals; provisions for protected deposit claims; and amounts due to related parties.

(a) Credit risk

Credit risk is the risk of financial loss to the Board if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Board's receivables from customers.

Trade and other receivables

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

The Board establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. 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:

	2013 KShs'000	2012 KShs'000
Trade receivable	109,430	109,269
Impairment losses recognised in the year (Note 9(b)	(102,345)	(104,126)
	7,085	**5,143**

The aging of trade receivables at the reporting date was:

Not past due	5,342	11,088
Past due 0 – 30 days	446	2,536
Past due 31 – 90 days	442	698
Past due above 90 days	103,141	104,413
	109,371	**118,735**

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

	2013 KShs'000	2012 KShs'000
Balance at 1 July	104,126	102,162
Made in the year	1,370	2,844
Write backs	(3,151)	(880)
Balance at 30 June	**102,345**	**104,126**

(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 Board are invested in Treasury bills and Treasury bonds.

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

2013:	Effective Interest rate	Upto 1 year KShs'000	1 – 5 years KShs'000	6 – 10 years KShs'000	Over 10 years KShs'000	Non interest bearing KShs'000	Total KShs'000
Receivables and prepayments	-	-	-	-	-	7,085	7,085
Cash and bank balance	-	-	-	-	-	78,389	78,389
Investments held to maturity	11.04%	12,046,218	7,877,825	13,756,000	5,691,298	-	39,371,341
Payables and accruals	-	-	-	-	-	(6,996)	(6,996)
Due to related party	-	-	-	-	-	(21,276)	(21,276)
Interest sensitivity gap At 30 June 2013		**12,046,219**	**7,877,825**	**13,756,000**	**5,691,298**	**(57,202)**	**39,428,543**
2012:							
Receivables and prepayments	-	-	-	-	-	5,143	5,143
Cash and bank balance	-	-	-	-	-	3,882	3,882
Investments held to maturity	11.06%	7,013,085	7,025,255	9,532,262	9,691,743	-	33,262,345
Payables and accruals	-	-	-	-	-	(6,334)	(6,334)
Due to related party	-	-	-	-	-	(16,943)	(16,943)
Interest sensitivity gap At 30 June 2012		**7,013,085**	**7,025,255**	**9,532,262**	**9,691,743**	**(14,252)**	**33,248,093**

(b) Market Risk – continued

(i) Interest rate risk management (continued)

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

	2013 KShs'000	2012 KShs'000
Effect on surplus for the year of a +5% change in interest rates	1,968,567	1,663,117
Effect on surplus for the year of a -5% change in interest rates	(1,968,567)	(1,663,117)

(ii) Currency risk

The Board 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 Board will encounter difficulty in meeting obligations from its financial liabilities. The Board'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 Board's reputation. In the course of its operations the Board 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 Board's financial liabilities amount to KShs. 28,282,000. (2012 - KShs 23,277,000) 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:

2013:	Other financial liability KShs '000	Loans and receivables KShs '000	Available for sale KShs '000	Held to maturity KShs '000	Total carrying value KShs '000	Fair Value KShs '000
Financial assets						
Government securities	-	-	-	39,371,341	39,371,341	39,371,341
Investment held for sale	-	-	-	-	100	100
Cash and bank balances	-	-	-	-	78,389	78,389
				39,371,341	**39,449,830**	**39,449,830**
Financial liabilities						
Amounts due to group companies	21,276	-	-	-	21,276	21,276
Trade and other payables	7,101	-	-	-	6,996	6,996
	28,377	-	-	-	**28,272**	**28,272**
2012:						
Financial assets						
Government securities	-	-	-	33,262,345	33,262,345	33,262,345
Investment held for sale	-	-	100	-	100	100
Cash and bank balances	-	-	3,882	-	3,882	3,882
	-	-	**3,982**	**33,262,345**	**33,266,327**	**33,266,327**

2013:	Other financial liability KShs '000	Loans and receivables KShs '000	Available for sale KShs '000	Held to maturity KShs '000	Total carrying value KShs '000	Fair Value KShs '000
Financial liabilities						
Amounts due to group companies	16,943	-	-	-	16,943	16,943
Trade and other payables	6,334	-	-	-	6,334	6,334
	23,277	-	-	-	**23,277**	**23,277**

(e) Capital management

The primary objectives of the Board's capital management are to ensure that the Board maintains healthy capital ratios in order to support its business and to maximize the value for the insured depositors in member institutions. The Board manages its Fund and makes adjustments to it, as per the requirements of the Banking Act. The total accumulated Fund as at 30 June 2013 was KShs 39,464 million (2012 - KShs 33,285 million).

19. CONTINGENT 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 Board 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 DPFB is sued as the Liquidator of Trust Bank Ltd (IL). Therefore incase judgment is entered against DPFB the costs shall be paid by Trust Bank Ltd (IL).

20. AMOUNTS HELD ON BEHALF OF THIRD PARTIES

As at the year end, the Board in its role as a liquidator, held an amount of KShs 415 million in an escrow account on behalf of third parties, pending the completion of the transactions in accordance with contractual agreements.

APPENDIX

COMMERCIAL BANKS AND OTHER FINANCIAL INSTITUTIONS ASSESSED CONTRIBUTORS FOR THE YEAR ENDED 30 JUNE 2013

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 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. FINA Bank Limited
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

OTHER FINANCIAL INSTITUTIONS

1. Housing Finance Company of Kenya Limited

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

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