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CENTRAL BANK OF KENYA

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2020

Board of Directors

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

Senior Management

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

Heads of Department

Kennedy Abuga	Director – Governor's Office (Board Secretary)
Rose Detho (Ms)	Director - Strategic Management Department - Retired on 1 June 2020
William Nyagaka	Director - Financial Markets Department - Until 31 March 2020 Director - Kenya School of Monetary Studies - Appointed on 2 June 2020
David Luusa	Director - Financial Markets Department - Appointed on 1 April 2020
Gerald Nyaoma	Director - Bank Supervision Department
Antony Gacanja	Director - Information Technology Department
Stephen Muriu	Director - General Services Department - Appointed on 25 November 2019
Terry Nganga (Ms.)	Acting Director - Human Resource and Administration Department
Paul Wanyagi	Acting Director - Currency Operations and Branch Administration Department
Mwenda Marete	Acting Director - Banking, National Payments Department
Moses Ngotho	Acting Director - Finance Department
Raphael Otieno	Acting Director - Research Department
Matilda Onyango (Mrs.)	Acting Director - Internal Audit Department and Risk Management
Joshua Kimoro	Acting Director - Kenya School of Monetary Studies - Until 1 June 2020
Patrice Odude	Acting Director- Strategic Management Department - Appointed on - 2 June 2020

Registered office and principal place of business

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Tel.(+254) (020) 2860000

Branches

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

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

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

Currency Centres

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

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

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

Subsidiary

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Off Thika Road
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00618 Nairobi

Principal Lawyers

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ACK Garden House
1st Ngong Avenue
P.O. Box 51236
00200 Nairobi

Principal Auditor

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

Delegated Auditor

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

1. Statement of Corporate Governance

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

1.1. Board of Directors

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

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

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

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

Name	*Position*	*Discipline*	*Date of Appointment*	*Contract end date*
Mohammed Nyaoga	Chairman	Lawyer	Reappointed on 18 June 2019	17 June 2023
Patrick Njoroge (Dr.)	Governor	Economist	Reappointed on 18 June 2019	17 June 2023
Principal Secretary/ The National Treasury	Executive Officer	Economist	Permanent	Permanent
Nelius Kariuki (Mrs.)	Member	Economist	Appointed on 4 November 2016	3 November 2020
Ravi Ruparel	Member	Financial Sector Expert	Appointed on 4 November 2016	3 November 2020
Samson Cherutich	Member	Accountant	Appointed on 5 December 2016	4 December 2020
Rachel Dzombo (Mrs.)	Member	Management Expert	Appointed on 5 December 2016	4 December 2020

The Members of the Board (all Kenyans) in the year ended 30 June 2020 and their attendance and the number of meetings held in the year were as follows:

Name	*Position*	*Discipline*	*Meetings Attended*
Mohammed Nyaoga	Chairman	Lawyer	12
Patrick Njoroge (Dr.)	Governor	Economist	12
Principal Secretary/ The National Treasury	Executive Officer	Economist	8
Nelius Kariuki (Mrs.)	Member	Economist	12
Mr. Ravi Ruparel	Member	Financial Sector Expert	12
Mr. Samson Cherutich	Member	Accountant	12
Rachel Dzombo (Mrs.)	Member	Management Expert	12

The remuneration paid to the Directors for services rendered during the financial year 2019/2020 is disclosed in Note 29 to the financial statements. The Non-Executive Directors are paid a monthly retainer fee and a sitting allowance for every meeting attended. There were no loans to Non-Executive Directors during the year while Executive Directors are paid a monthly salary and are eligible for staff loans.

1.2. Secretary to the Board

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

1.3. Audit Committee

The members of the Audit Committee in the year ended 30 June 2020 were Mr. Samson K. Cherutich (Chairman), Mr. Ravi J. Ruparel, Mrs. Nelius W. Kariuki and Mrs. Rachel Dzombo. The members are all Non-Executive Directors with experience in Accounting, Auditing, Financial and Management. The Committee meets once every two (2) months and as necessary. The Terms of Reference of the Audit Committee cover five (5) major areas, namely; Internal Control System, Risk Management, Financial Reporting and Related Reporting Practices, External and Internal Audits.

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

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

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

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

The Committee Members' positions, disciplines and number of meetings attended for the year ended 30 June 2020 were as follows:

Name	*Position*	*Discipline*	*Meetings Attended*
Samson Cherutich	Chairman	Accountant	8
Ravi Ruparel	Member	Financial Sector Expert	8
Nelius Kariuki (Mrs.)	Member	Economist	8
Rachel Dzombo (Mrs.)	Member	Management Expert	8

1.4. Human Resources Committee (HRC)

The members of the HRC in the year ended 30 June 2020 were Mrs. Nelius Kariuki (Chairman), Mr. Samson Cherutich, Mrs. Rachel Dzombo and Mr. Ravi Ruparel. The members are all Non-Executive Directors with experience in Accounting, Management and Business.

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

(a) Monitor the formulation and implementation of Human Resource Policies in the Bank;

(b) In relation to staff matters, they ensure the Bank's compliance with the Kenyan Constitution, Laws of Kenya, CBK regulations and its own code of conduct;

(c) Perform any other Human Resource related functions as assigned by the Board.

(d) Monitor the implementation of Board resolutions relating to the HRC of the Board.

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

The members of the Human Resources Committee in the year ended 30 June 2020 and their attendance of the meetings held in the year were as follows:

Name	*Position*	*Discipline*	*Meetings attended*
Nelius Kariuki (Mrs.)	Chairman	Economist	6
Samson Cherutich	Member	Accountant	5
Rachel Dzombo (Mrs)	Member	Management Expert	6
Ravi Ruparel	Member	Financial Sector Expert	6

1.5. Monetary Policy Committee (MPC)

Section 4D of the Central Bank of Kenya (Amendment) Act 2008 establishes the Monetary Policy Committee (MPC). The MPC is responsible for formulating monetary policy and is required to meet at least once every two (2) months. The MPC comprises the Governor who is the Chairman, the Deputy Governor who is the Deputy Chairperson, two (2) members appointed by the Governor from the CBK, four (4) external members appointed by the Cabinet Secretary for The National Treasury, and the Principal Secretary for the National Treasury or his Representative. External members of the MPC are appointed for an initial period of three (3) years each and may be reappointed for another final term of three (3) years. The quorum for MPC meetings is five (5) members, one of whom must be the Chairman or Deputy Chairperson.

During the financial year 2019/20, the MPC formulated monetary policy aimed at maintaining overall inflation within the target of 5 percent with a flexible margin of 2.5 percent on either side. The MPC adopted an accommodative monetary policy stance to support economic activity, by lowering the Central Bank Rate (CBR) from 9.00 percent in June 2019 to 8.50 percent in November 2019 and to 8.25 percent in January 2020. The economy witnessed a severe shock in the second half of the period, attributed to the adverse impact of the global COVID-19 (coronavirus) pandemic. Global financial markets witnessed significant volatility due to heightened uncertainties with regard to the pandemic.

The MPC moved quickly to implement policy measures aimed at preventing the pandemic from becoming a severe economic crisis. In March 2020, the Committee augmented its accommodative policy stance by lowering the CBR to 7.25 percent. The Committee also reduced the Cash Reserve Ratio (CRR) to 4.25 percent from 5.25 percent during its March meeting, releasing KES.35.2 billion as additional liquidity availed to banks to directly support borrowers that were distressed as a result of the pandemic. Additionally, the MPC extended the maximum tenor of Repurchase Agreements (REPOs) from 28 to 91 days in order to provide flexibility on liquidity management facilities provided to banks by CBK, and to enable banks access longer term liquidity secured on their holdings of government securities without having to discount them. The MPC shifted to monthly meetings in order to closely monitor market developments and the impact of its previous policy decisions on the economy. In view of a worsening global economic outlook, the MPC augmented its accommodative policy stance by lowering the CBR further to 7 percent in April 2020.

Overall inflation remained within the target range during the year, supported by declines in food prices due to favourable weather conditions, lower international oil prices, a reduction in the Value Added Tax (VAT) rate to 14 percent from 16 percent, and muted demand pressures. The inflation rate stood at 4.6 percent in June 2020 compared to 4.3 percent in June 2019. Non-food-non-fuel (NFNF) inflation remained stable below 5 percent over the period, indicating that demand pressures were muted. The stability of the foreign exchange market in the period minimized the threat of imported inflation. The CBK foreign exchange reserves, which stood at USD9,503.5 million (5.71 months of import cover) (2019: USD 9,108.6 million (equivalent to 5.8 months of import cover)) at the end of June 2020, continued to provide adequate cover and a buffer against short-term shocks in the foreign exchange market.

The repeal of the interest rate caps on commercial bank loans in November 2019, restored the clarity of monetary policy decisions and was expected to strengthen the transmission of monetary policy. The caps had led to a significant rationing of credit, particularly to the most vulnerable. The adoption by banks of the Banking Sector Charter during the period is a commitment to entrench a responsible and disciplined banking sector which is cognisant of, and responsive to, the needs of their customers.

After every MPC Meeting, the Governor held meetings with Chief Executive Officers of banks to discuss the background to the MPC decisions and to obtain feedback from the market. Additionally, the Governor held press conferences with the media to brief them on the background of the MPC decisions and developments in the financial sector and the economy. These forums continued to improve the public's understanding of monetary policy decisions.

The MPC held eight (8) meetings in the year ended 30 June 2020, and attendance was as follows:

Name	*Position*	*Discipline*	*Meetings Attended*
Patrick Njoroge (Dr.)	Chairman	Economist	8
Sheila M'Mbijjewe (Ms.)	Deputy Chairperson	Finance/ Accountancy	8
Margaret Chemengich (Dr.)	Member (External)	Economist	8
Jane Kabubo-Mariara (Prof.)	Member (External)	Economist	7
Benson Ateng' (Dr.)	Member (External)	Economist	8
Humphrey Muga	Member (External)	Economist	8
Musa Kathanje	Representative of the Principal Secretary, The National Treasury	Economist	7
William Nyagaka*	Member (Internal)	Finance/ Accountancy	4
David Luusa*	Member (Internal)	Economist	3
Raphael Otieno	Member (Internal)	Economist	8

*Mr. David Luusa replaced Mr. William Nyagaka as a member of the MPC in April 2020 following the appointment of Mr. Luusa as the Director of Financial Markets Department.

1.6. Management Structure

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

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

1.7. Code of Ethics

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

1.8. Internal Controls

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

1.9. Authorizations

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

1.10. Internal Audit and Risk Management

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

1.11. Transparency

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

2.0. Financial Performance

The Bank's financial performance is affected by the Monetary Policy stance undertaken, interest rates and changes in exchange rate. The Bank's financial performance is presented on pages below of these financial statements.

During financial year ended 30 June 2020, the Bank recorded a net surplus of KShs 41,530 million compared to KShs 26,138 million in financial year ended 30 June 2019. The surplus is included as part of the General Reserve Fund.

During the financial year ended 30 June 2020, the Bank’s operating surplus before unrealized gains was KShs 17,055 million (2019: KShs 21,016 million). Interest income of KShs 22,308 million (2019: KShs 23,347 million) declined due to lower rates offered on foreign deposit placements and a decline in fixed income yields respectively as a result of global monetary policy easing cycles. An unrealised foreign exchange gain of KShs 24,475 million was recorded during the year ended 30 June 2020 (2019: KShs 5,122 million) due to the impact of USD strength. The Bank also recorded a fair value gain on fixed income securities of KShs 8,452 million (2019: KShs 7,005 million). The gain recorded during the year has been presented in other comprehensive income.

In addition, an actuarial gain of KShs 1,949 million (2019: loss of KShs 2,928 million) was also earned. There was no revaluation gain on land and buildings recorded during the year. This valuation is performed every 3 years in line with the Bank’s Fixed assets management policy.

The Bank’s assets increased to KShs 1,350,434 million (2019: KShs 1,239,158 million) mainly attributed to net inflows from development partners and changes in the value of securities maintained for monetary policy implementation.

Liabilities increased to KShs 1,154,419 million (2019: KShs 1,080,683 million) as a result of an increase in deposits from banks and government largely attributed to proceeds to mitigate the impact of the COVID-19 pandemic.

Central Bank of Kenya Report of the Directors for the Year Ended 30 June 2020

The Directors submit their report together with the audited financial statements for the year ended 30 June 2020, which shows performance of the Bank during the year and the state of affairs of Central Bank of Kenya (the “Bank”/” CBK”) as at the year end.

1. Incorporation

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

2. Principal Activities

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

3. Results and Surplus

The surplus for the year was KShs 41,530 million (2019: KShs 26,138 million) made up of KShs 17,055 million (2019: KShs 21,016 million) realized surplus and KShs 24,475 million unrealized surplus (2019: KShs 5,122 million). The surplus has been included as part of the General Reserve Fund. On 20 March 2020, the Directors approved a transfer of KShs 7,388 million to the Consolidated Fund from the General Reserve Fund. This transfer represented a one-off surplus arising from the demonetization exercise carried out by the CBK in the year. The transfer of this surplus to the Government of Kenya revenues was done to support their efforts in the COVID-19 pandemic crisis. The directors recommend a transfer of operational surplus in the year to 30 June 2020 of KShs 2,500 million (2019: KShs 4,000 million).

4. Board of Directors

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

5. Auditor

The Auditor-General is responsible for statutory audit of the Bank’s Financial Statements in accordance with Section 35 of the Public Audit Act, 2015. Section 23(1) of Act empowers the Auditor-General to appoint other auditors to carry out the audit on his behalf. Accordingly, Ernst & Young LLP were appointed to carry out audit for the year ended 30 June 2020 and report to the Auditor - General.

By Order of the Board

Kennedy Abuga
Board Secretary

Dated the 2nd September, 2020

Central Bank of Kenya Statement of Directors responsibilities for the year ended 30 June 2020

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

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

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

(ii) Selecting and applying appropriate accounting policies; and

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

The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial position of the Bank as at 30 June 2020 and of the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the *Central Bank of Kenya Act*.

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

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

Chairman, Board of Directors
Mohammed Nyaoga

Dated the 2nd September, 2020.

Governor
Patrick Njoroge (Dr.)

Dated the 2nd September, 2020.

REPORT OF THE AUDITOR-GENERAL ON CENTRAL BANK OF KENYA FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying consolidated financial statements of Central Bank of Kenya set out below, which comprise the consolidated statement of financial position as at 30 June, 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by Ernst and Young LLP auditors appointed under Section 23 of the Public Audit Act, 2015 and in accordance with the provisions of Article 229 of the Constitution of Kenya. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Central Bank of Kenya as at 30 June, 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRs) and comply with the Central Bank of Kenya Act, Cap 491 of the Laws of Kenya.

Basis for Opinion

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

Key Audit Matters

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

Other Matter

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

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

2. Lack of the Second Deputy Governor

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

Other Information

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

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

Responsibilities of Management and those charged with Governance

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them in accordance with the provisions of Article 229(6) of the constitution and submit the audit report in compliance with Article 229(7) of the constitution.

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Nancy Gathungu,
AUDITOR GENERAL,

Nairobi

22nd September, 2020.

Consolidated Statement of Comprehensive Income for the Year Ended 30th June, 2020

	Notes	*2020* *KShs' million*	*2019* *KShs' million*
Interest income	4	22,308	23,347
Interest expense	5	(4,618)	(1,492)
Net interest income		17,690	21,855
Fees and commission income	6(a)	3,000	3,000
Net trading income	6(b)	11,753	10,099
Other income	7(a)	982	1,371
Demonetization of old currency	7(b)	7,388	-
Operating income		40,813	36,325
Credit loss expense on financial assets	8	(8,627)	(2,365)
Operating expenses	9(a)	(15,131)	(12,944)
Operating surplus before unrealized gains		17,055	21,016
Unrealised gains:			
Foreign exchange gain		24,475	5,122
Surplus for the year		41,530	26,138
Other comprehensive income			
Other comprehensive income that will be reclassified to profit or loss:			
Debt instruments at fair value through other comprehensive income:			
Net change in fair value during the year	10(a)	8,452	7,005
Reclassification to income statement	10(b)	(3,020)	-
Changes in allowance for expected credit losses	8	17	2
Net gains on debt instruments at fair value through other comprehensive income		5,449	7,007
Total items that will be reclassified to profit or loss		5,449	7,007
Other comprehensive income that will not be reclassified to profit or loss:			
Actuarial gain/(loss) in retirement benefit asset	20	1,949	(2,928)
Total items that will not be reclassified to profit or loss		1,949	(2,928)
Other comprehensive income for the year		7,398	4,079
Total comprehensive income for the year		48,928	30,217

Consolidated Statement of Financial Position as at 30th June, 2020

	Notes	*2020* *KShs' million*	*2019* *KShs' million*
Assets			
Balances due from banking institutions	11	369,505	542,849
Funds held with International Monetary Fund (IMF)	12(a)	3,255	1,008
Securities and advances to banks	13	55,561	66,909
Loans and advances	14	3,274	3,363
Debt instruments at fair value through other comprehensive income	15	724,892	504,533
Equity instruments at fair value through other comprehensive income	16	10	9
Other assets	17(a)	5,595	5,684
Gold holdings	17(b)	106	81
Right-of-use assets	18(a)	222	-
Property and equipment	18(b)	31,618	30,001
Intangible assets	19	1,224	837
Retirement benefit asset	20	6,537	4,328
IMF On-Lent to GOK	21(a)	79,702	-
Due from Government of Kenya	21(b)	68,933	79,556
Total Assets		1,350,434	1,239,158
Liabilities			
Currency in circulation	22	257,792	249,509
Investment by banks	23	6,997	-
Deposits from Banks and Government	24	732,187	741,000
Due to IMF	12(b)	151,841	83,653

	Notes	2020 KShs' million	2019 KShs' million
Other liabilities	25	5,602	6,521
Total Liabilities		1,154,419	1,080,683
Equity			
Share capital	26(a)	35,000	20,000
General reserve fund	26(b)	128,199	109,608
Fair value reserve	26(c)	12,515	7,066
Revaluation reserve	26(d)	17,801	17,801
Consolidated fund	26(e)	2,500	4,000
Total Equity		196,015	158,475
Total Liabilities and Equity		1,350,434	1,239,158

The financial statements were authorised for issue by the Board of Directors on 2nd September, 2020. and signed on its behalf by:

Chairman of the Board
Mohammed Nyaoga

Governor
Patrick Njoroge (Dr.)

Consolidated Statement of Changes in Equity for the Year Ended 30th June, 2020

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

Year ended 30 June 2019	**Notes**	Share Capital **KShs' million**	General reserve **KShs' million**	Revaluation reserve **KShs' million**	Fair value reserve **KShs' million**	Consolidated fund **KShs' million**	Total **KShs' million**
At 1 July 2018							
- As previously stated		5,000	106,162	17,801	-	800	129,763
- Impact of adopting IFRS 9		-	(764)	-	59	-	(705)
Restated opening balance under IFRS 9		5,000	105,398	17,801	59	800	129,058
Surplus for the year		-	26,138	-	-	-	26,138
Net change in fair value of debt instrument at FVOCI		-	-	-	7,005	-	7,005
Net change in allowance for expected credit losses on debt instruments at FVOCI		-	-	-	2	-	2
Actuarial loss on retirement benefit asset	20	-	(2,928)	-	-	-	(2,928)
Total comprehensive income for the year		-	23,210	-	7,007	-	30,217
Additional share capital	26(a)	15,000	(15,000)	-	-	-	-
Transactions with owners							
-Transfer to consolidated fund	26(e)	-	(4,000)	-	-	4,000	-
-Payments out of consolidated fund	26(e)	-	-	-	-	(800)	(800)
At 30 June 2019		20,000	109,608	17,801	7,066	4,000	158,475

Consolidated Statement of Cash Flows for the Year Ended 30th June, 2020

	Notes	*2020 KShs' million*	*2019 KShs' million*
Operating Activities			
Cash (used in)/ generated from operating activities	27	(43,555)	146,941
Interest received		22,308	23,347
Interest paid		(4,618)	(1,492)
Interest paid on lease liabilities	18(a)	(7)	-

	Notes	2020 KShs' million	2019 KShs' million
Cash (used in)/ generated from operating activities		(25,872)	168,796
Investing Activities			
Purchase of property and equipment	18(b)	(3,394)	(4,098)
Purchase of intangible assets	19	(546)	(806)
Proceeds from disposal of property and equipment		64	14
Net change in debt instruments at fair value through other comprehensive income		(181,615)	(93,786)
Net change in securities and advances to Banks		(31,979)	(2,263)
Net change in funds held with International Monetary Fund (IMF)		(2,247)	1,004
Net cash used in investing activities		(219,717)	(99,935)
Financing Activities			
Payment of principal portion of lease liabilities	18(a)	(158)	-
Receipts during the year	28(b)	79,702	-
Repayments to the International Monetary Fund (IMF)	28(b)	(11,634)	(16,615)
Net cash generated from/(used in) financing activities		67,910	(16,615)
Net (decrease)/ increase in cash and cash equivalents		(177,679)	52,246
Cash and cash equivalents at the beginning of the year		628,833	577,327
Effect of IFRS 9 on cash and cash equivalents balances		-	(740)
Cash and Cash Equivalents at the end of the year	28(a)	451,154	628,833

Notes to the Financial Statements for the year ended 30th June, 2020

1. ***General Information***

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

(b) Changes in accounting policies and disclosures

New and amended standards and interpretations

The following new standards and amendments became effective as of 1 January 2019:

- IFRS 16 Leases
- IFRIC Interpretation 23 Uncertainty over Income Tax Treatments
- Prepayment Features with Negative Compensation – Amendments to IFRS 9
- Long-term Interests in Associates and Joint Ventures – Amendments to IAS 28
- Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
- AIP IFRS 3 Business Combinations – Previously held Interests in a joint operation
- AIP IFRS 11 Joint Arrangements – Previously held Interests in a joint operation
- AIP IAS 12 Income Taxes – Income tax consequences of payments on financial instruments classified as equity
- AIP IAS 23 Borrowing Costs – Borrowing costs eligible for capitalization

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the financial statements of the Bank. The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective

IFRS 16 Leases

The Bank applied IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 does not have an impact for leases where the Bank is the lessor.

The Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 July 2019. Under this method, the right-of-use asset was measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. The Bank reassessed whether a contract is or contains a lease on the date of initial application as defined under IFRS 16.

The Bank has lease contracts for various items of buildings and equipment. Before the adoption of IFRS 16, the Bank classified each of its leases (as lessee) at the inception date as operating leases. Refer to Note 2 (q) Leases for the accounting policy prior to 1 July 2019.

Upon adoption of IFRS 16, the Bank applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 2 (q) Leases for the accounting policy beginning 1 July 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Bank.

Leases previously accounted for as operating leases

The Bank recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for all leases were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Bank also applied the available practical expedients wherein it:

- Measured the right-of-use asset at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application
- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at 1 July 2019:

- Right-of-use assets of KShs 352 million were recognised and presented separately in the statement of financial position.
- Additional lease liabilities of KShs 350 million (included in Other liabilities) were recognised.
- Prepayments of KShs 2 million related to previous operating leases were derecognised.

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019, as follows:

	KShs 'million
Assets	
Operating lease commitments as at 30 June 2019	186
Weighted average incremental borrowing rate as at 1 July 2019	9%
Discounted operating lease commitments as at 1 July 2019	154
Less:	
Contracts reassessed as non-lease contracts	(59)
Add:	
Contract reassessed as lease contracts (adjustment as result of newly identified leases)	255
Lease liabilities as at 1 July 2019	350

Standards issued but not yet effective

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

Effective for annual periods beginning on or after 1 January 2020

- Definition of a Business - Amendments to IFRS 3
- Definition of Material - Amendments to IAS 1 and IAS 8
- The Conceptual Framework for Financial Reporting
- Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7

Effective for annual periods beginning on or after 1 Jun 2020

- COVID-19-Related Rent Concessions – Amendment to IFRS 16

Effective for annual periods beginning on or after 1 January 2022

- Classification of Liabilities as Current or Non-current - Amendments to IAS 1
- Reference to the Conceptual Framework – Amendments to IFRS 3
- Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16
- Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
- AIP IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first- time adopter

- AIP IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
- AIP IAS 41 Agriculture – Taxation in fair value measurements

Effective for annual periods beginning on or after 1 January 2023

- IFRS 17 Insurance Contracts

Effective date postponed indefinitely

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

None of the standards and interpretations listed above are expected to have a significant impact on the Bank's financial statements when they become effective.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary, Kenya School of Monetary Studies, as at 30 June 2020. Kenya School of Monetary Studies is a subsidiary of the Bank. The Bank has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank.

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

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

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

(d) Functional currency and translation of foreign currencies

(i) Functional and presentation currency

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

(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.

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

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

(e) Deferred currency expenses

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

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

(f) Financial instruments

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

Financial assets

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

Financial assets at fair value through OCI (debt instruments)

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

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

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

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

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

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

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

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

Financial assets at fair value through profit or loss

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

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

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

Classes of financial instruments

Category (as defined by IFRS 9)		Class (as determined by the Bank)		2020	2019
				KShs' million	KShs' million
Financial assets	Financial assets at amortized cost	Securities and advances to banks		55,561	66,909
		Funds held with IMF		3,255	1,008
		Net advances to staff and banks under liquidation		3,274	3,363
		Other assets (classified as financial assets)		500	330
		Due from Government	Government term loan	21,783	22,229
			IMF On-Lent to GOK	79,702	-
			GOK Overdraft facility	47,150	57,327
		Balances due from banking institutions	Foreign currency denominated term deposits and current account	369,505	542,849

			balances		
	Financial assets at Fair value through other comprehensive income	Fixed income securities	World Bank managed and internally managed fixed income portfolios	724,892	504,533
		Equity	Investment securities	10	9
Financial liabilities	Financial liabilities at amortised cost	Deposits from banks	Cash reserve ratio and current account deposits	450,764	403,551
		Due to IMF		151,841	83,653
		Investments by banks		6,997	-
		Other liabilities		5,343	6,324
		Deposits from Government institutions		281,423	337,449

Impairment of financial assets

Overview of Expected Credit Loss (ECL) principles

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

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

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

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

Measurement of ECL

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

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

Credit impaired financial assets

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

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

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

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

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

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

Derecognition

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

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

Or

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

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

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

Write-offs

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

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

Loans and borrowings

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

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

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

Derecognition

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

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

Offsetting financial instruments

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

(g) Sale and repurchase agreements

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

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

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

(h) Cash and cash equivalents

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

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

(i) Property and equipment

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

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

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

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

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

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

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

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

(j) Intangible assets

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

(i) It is technically feasible to complete the software product so that it will be available for use;

(ii) Management intends to complete the software product and use or sell it;

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

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

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

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

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

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

(k) Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs of disposal and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost of disposal or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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

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

(l) Employee benefits

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

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

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

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

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

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

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

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

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

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

(m) Income tax

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

(n) Provisions

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

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

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

(o) Surplus funds

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

(p) Share capital

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

(q) Leases

Policy before 1 July 2019

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

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 profit or loss on a straight-line basis over the period of the lease.

Bank as lessor

The Bank 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 profit or loss on a straight-line basis over the period of the lease.

Policy after 1 July 2019

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

Bank as a lessee

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

Right-of-use assets

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

Lease asset classification	*Lease term*
Buildings	1 to 5 years
Equipment	1 to 5 years

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

Lease liabilities

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

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

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

Short-term leases and leases of low-value assets

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

Bank as a lessor

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

(r) Interest income and expense

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

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

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

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

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

(s) Fee and commission income

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

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

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

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

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

(u) Currency in circulation

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

(v) Loan due from the Government of Kenya

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

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

The loan due from the Government of Kenya is categorised as a debt instrument at amortised cost.

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

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

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

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

(x) Fair value measurement

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

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

- In the principal market for the asset or liability

Or

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

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

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

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

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

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

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

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

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

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

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

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

3. Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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

Impairment losses on financial assets

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

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

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

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

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

Post-retirement benefits

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

Fair value of financial assets

The fair value of financial instruments that are not traded in an active market and off market loans are determined by using valuation techniques. See Note 31 for additional disclosures.

Property and equipment

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

Policy applicable after 1 July 2019

Leases - Estimating the incremental borrowing rate

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

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

Determining the lease term of contracts with renewal and termination options – Bank as lessee

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

4. Interest Income	*2020* *KShs' million*	*2019* *KShs' million*
Interest income calculated using the effective interest method		
Financial assets – debt instruments at amortised cost	11,587	15,768
Financial assets at fair value through other comprehensive income	10,721	7,579
	22,308	23,347
Interest income from debt instruments at amortised cost		
Interest on term deposits	4,856	8,048
Interest on Government of Kenya loan	666	695
Interest on Government of Kenya overdraft	3,245	2,523
Interest on staff loans and advances	104	104
Interest on advances to banks	2,142	3,373
Other interest income*	574	1,025
	11,587	15,768

Interest income from debt instruments at fair value through other comprehensive income comprises:		
Internally managed portfolio	10,093	6,938
Externally managed portfolio – RAMP	628	641
	10,721	7,579

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

Interest from debt instruments at fair value through other comprehensive income went up by KShs 3,142 million and interest on term deposit went down by KShs 3,192 million due to an alignment of securities given market operating conditions.

Overall, total interest income declined by KShs 1,039 million due to drop in interest rates offered on term deposits, lower volume of term deposits and lower rates of interest on fixed income securities as a consequence of COVID-19 global disruptions.

	2020	*2019*
5. Interest Expense	*KShs' million*	*KShs' million*
Interest expense calculated using the effective interest method		
Interest on monetary policy issues – investments by banks	4,355	1,089
Interest expense – IMF	263	403
	4,618	1,492
6. (a) Fees And Commission Income	3,000	3,000

Fees and commission relate to income the Bank earns from the Government of Kenya through its agency role in the issuance of Treasury bills and bonds.

	2020	2019
(b) Net Trading Income	KShs' million	KShs' million
Net gain on sale of foreign exchange currencies	7,437	8,933
Net gain on disposal of financial assets at fair value through other comprehensive income	4,316	1,166
	11,753	10,099

Net trading income increased by KShs 1,654 million to KShs 11,753 million (2019: Increased by KShs 5,854 million to KShs 10,099 million) following sale and maturity of debt instruments at fair value through other comprehensive income.

	2020	2019
7. (a) Other Income	KShs' million	KShs' million
Licence fees from commercial banks and foreign exchange bureaus	291	281
Penalties from commercial banks and foreign exchange bureaus	36	420
Rental income	57	2
Kenya School of Monetary Studies operating income - hospitality services and tuition fee	271	371
Gain on disposal of property and equipment	-	10
KEPSS Billing revenue	301	280
Miscellaneous income	26	7
	982	1,371
(b) Demonetization of Old Currency	7,388	-

This amount relates to 7,388,000 pieces of older series of KShs 1,000 note that were not returned on conclusion of demonetisation exercise on 30 September 2019.

	2020	2019
8. Credit Loss Expense on Financial Assets	KShs' million	KShs' million
The table below shows the ECL charges on financial instruments:		
Impairment losses on staff loans (Note 14)	3	12
Impairment losses on balances due from banking institutions (Note 11)	87	(49)
Impairment losses on securities and advances to banks (Note 13)	(8,700)	(2,326)
Impairment losses on debt instruments at fair value through other comprehensive income	(17)	(2)
	(8,627)	(2,365)

	2020	2019
9. (a) Operating Expenses	KShs' million	KShs' million
Employee benefits (Note 9(b))	5,121	4,570
Currency production expenses	3,047	2,214
Property maintenance and utility expenses	1,910	1,602
Depreciation of property and equipment (Note 18(b))	1,695	1,246
Amortisation of intangible assets (Note 19)	159	134
Amortization of right -of -use asset (Note 18(a)	133	-
Interest on leases liabilities	21	-
Provision for impairment loss on other assets (Note 17(a))	17	16
Auditor's remuneration	11	11
Transport and travelling	197	229
Office expenses	216	303
Postal service expense	208	214
Legal and professional fees	500	517
Loss on disposal of property and equipment	18	-
Other administrative expenses	1,878	1,888
	15,131	12,944

(b) Employee Benefits

Wages and salaries	4,181	4,036
Pension costs – Defined contribution plan	421	388
Medical expenses	342	330
Other staff costs	291	313
Directors' emoluments (Note 29(ii))	60	79
Net income relating to the retirement benefit asset (Note 20)	(174)	(576)
	5,121	4,570

10. (a) Changes in Fair Value of Investments

Fair value changes on debt instruments at fair value through other comprehensive income:

Internally managed portfolio	8,183	6,468
Externally managed portfolio – RAMP	269	537
	8,452	7,005

(b) Reclassification to the Income Statement

Net amount reclassified to the income statement on sale and maturity of debt instruments at FVOCI:

Internally managed portfolio	2,680	-
Externally managed portfolio – RAMP	340	-
	3,020	-

This amount relates to reclassification on sale or maturity of debt instruments.

	2020	2019
11. Balances Due From Banking Institutions	KShs' million	KShs' million
	39,341	67,162
Foreign currency denominated term deposits	243,473	354,329
Accrued interest on term deposits	60	743
Special project accounts	57,520	95,282
Domestic foreign currency cheque clearing	28,426	25,107
Repss clearing and regional central banks	713	341
	369,533	542,964
Allowance for impairment losses	(28)	(115)
	369,505	542,849

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

	2020	2019
	KShs' million	KShs' million
At the beginning of the year	115	-
IFRS 9 adjustment on 1 July 2018	-	66
Charge to the profit or loss (Note 8)	(87)	49
At 30 June	28	115

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

Special project accounts relate to amounts received by the Government of Kenya (or its ministries) for specific projects or purposes. An equal and corresponding liability is recorded and disclosed under "Deposits from banks and government" (Note 24).

12. Funds Held At/Due to International Monetary Fund (IMF)

	2020	*2020*	*2019*	*2019*
	SDR million	*KShs' million*	*SDR million*	*KShs' million*
(a) Assets				
IMF balances (SDR asset account)	22	3,255	8	1,008
(b) Liabilities				
International Monetary Fund Account No. 1	20	2,886	20	2,766
International Monetary Fund Account No. 2	-	4	-	12
International Monetary Fund – PRGF Account	212	31,124	310	43,990
Rapid Credit Facility	543	79,702	-	-
IMF - SDR Allocation account	260	38,125	260	36,885
	1,035	151,841	590	83,653

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

Kenya's quota in IMF of SDR 542.8 million (2019: SDR 542.8 million) is not included in the financial statements of the Bank as these are booked in the National Treasury who are the Government of Kenya's Fiscal Agent. Allocations of SDR 260 million (2019: SDR 260 million) are included in the financial statements of the Bank as the custodian of the Government of Kenya. The repayment of IMF facilities is currently bi-annual and Poverty Reduction Growth Facility (PRGF) attracts nil interest until advised by IMF. The Rapid Credit Facility will be paid within a period of ten years from November 2025 to May 2030.

13. Securities And Advances To Banks

	2020	*2019*
	KShs' million	*KShs' million*
Treasury bonds discounted	7,513	8,454

Treasury bills discounted	116	2,524
Accrued interest bonds discounted	241	257
Repo treasury bills (Injection)	21,041	20,100
Accrued interest repo	214	46
Liquidity support framework	36,949	37,110
Due from commercial banks	1,187	1,418
	67,261	69,909
Allowance for impairment losses	(11,700)	(3,000)
	55,561	66,909

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

	2020	*2019*
	KShs' million	*KShs' million*
At 1 July	3,000	-
IFRS 9 adjustment on 1 July 2018	-	674
Charge to profit or loss (Note 8)	8,700	2,326
At 30 June	11,700	3,000

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

The carrying amount of securities and advances to banks has reduced by KShs 11,348 million due to liquidity needs in the market.

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

Year ended 30 June 2019	Maturity period			
	1-3 months	*4-12 months*	*Over 1 year*	*Total*
	KShs' million	*KShs' million*	*KShs' million*	*KShs' million*
Treasury bills discounted	569	1,955	-	2,524
Treasury bonds discounted	911	100	7,433	8,454
Accrued interest bonds discounted	-	257	-	257
Repo treasury bills & bonds (Injection)	20,100	-	-	20,100
Accrued interest repo	46	-	-	46
Due from commercial banks	1,418	-	-	1,418
Liquidity support framework	34,110	-	-	34,110
	57,154	2,312	7,443	66,909

14. Loans and Advances	2020	2019
	KShs' million	KShs' million
Due from banks under liquidation	3,400	3,400
Advances to employees	3,327	3,419
	6,727	6,819
Allowance for impairment losses	(3,453)	(3,456)
Net advances	3,274	3,363
The movement in the allowance for impairment losses is as follows:		
At 1 July	3,456	3,503
Reversal of impairment losses on adoption of IFRS 9 on 1 July 2018	-	(35)
Reversal of impairment allowance (Note 8)	(3)	(12)
At 30 June	3,453	3,456

15. Debt Instruments Measured at Fair Value Through other Comprehensive Income

	2020	*2019*
	KShs' million	*KShs' million*
Fixed income securities – Internally managed portfolio	690,431	471,929
Fixed income securities under World Bank RAMP	34,461	32,604
	724,892	504,533

Maturity analysis	*Maturity period*			
	0-3 months	*4-12 months*	*Over 1 year*	*Total*

Year ended 30 June 2020	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*
Fixed income securities – Internally managed Portfolio	57,638	375,418	257,375	690,431
Fixed income securities under World Bank RAMP	1,484	10,104	22,873	34,461
	59,122	385,522	280,248	724,892

Maturity analysis		*Maturity period*		
	0-3 months	4-12 months	*Over 1 year*	Total
At 30 June 2019	KShs' million	KShs' million	KShs' million	KShs' million
Fixed income securities – Internally managed Portfolio	27,453	130,798	313,678	471,929
Fixed income securities under World Bank RAMP	1,377	8,982	22,245	32,604
	28,830	139,780	335,923	504,533

Fixed income securities increased by KShs 220,359 million to KShs 724,892 million (2019: KShs 504,533 million) mainly due to a shift in investment strategy from money markets to fixed income securities during the year under review.

16. Unlisted Equity Investments	*2020* *KShs' million*	*2019* *KShs' million*
Unquoted equity securities at fair value through other comprehensive income	10	9

"Unlisted equity securities" relate to the Bank's investment in shares of the Society for Worldwide Interbank Financial Telecommunication (SWIFT) which is a member-owned co-operative with its headquarters in Belgium. The Bank held 24 (2019: 24) SWIFT shares at 30 June 2020.

17. (a) Other Assets	2020 *KShs' million*	2019 *KShs' million*
Prepayments	1,930	2,686
Deferred currency expenses	2,933	2,165
Sundry debtors	5,462	5,275
Items in the course of collection	211	467
Uncleared effects	21	36
	10,557	10,629
Allowance for impairment losses	(4,962)	(4,945)
	5,595	5,684

All other assets balances are recoverable within one year.

The movement in the allowance for impairment losses is as follows:

At 1 July	4,945	4,929
Increase in impairment allowance (Note 9(a))	17	16
At 30 June	4,962	4,945

(b) Gold Holdings

Gold holdings	106	81

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

18(a) Right of use Assets

	Leases relating to buildings	*Leases relating to equipment*	*Total*
Year ended 30 June 2020	*KShs' million*	*KShs' million*	*KShs' million*
COST			
Effect of adoption of IFRS 16 on 1 July 2019 (Note 2(b))	148	204	352
Additions	3	-	3
At 30 June 2020	151	204	355
Accumulated Depreciation			
At 1 July 2019	-	-	-
Charge for the year	62	71	133
At 30 June 2020	62	71	133
Net Carrying Amount			
At 30 June 2020	89	133	222

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

	KShs 'million
At 1 July 2019 – effect of adoption of IFRS 16 (Note 2(b))	350
Additions	3
Accretion of interest	21
Payment of principal	(158)
Payment of interest	(7)
At 30 June 2020	209

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

	2020 KShs 'million
Depreciation expense for right-of-use assets	133
Interest expense on lease liabilities	21

Expense relating to short-term leases (included in Other administrative expenses)	5
Total amount recognised in profit or loss	159

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

18 (b). Property and Equipment

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

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

Land and building were revalued in 31 May 2018 by Lloyd Masika Limited, registered valuers, who has experience in valuing similar properties. Land was revalued on the basis of open market value, while building was valued on the basis of depreciated replacement cost. The directors believe the carrying values reflect the fair value as at 30 June 2020, after considering the actual market state and circumstances as of the reporting date.

Year Ended 30 June 2019	Freehold Land And Buildings	Leasehold Land And Buildings	Work In Progress	Motor Vehicles	Furniture And Equipment	Total
	Kshs' Million	*Kshs' Million*	*Kshs' Million*	*Kshs' Million*	*Kshs' Million*	*Kshs' Million*
At Cost Or Valuation						
At 1 July 2018	12,337	4,006	8,227	498	6,039	31,107
Additions	427	907	420	-	2,344	4,098
Capitalization Of Work In Progress	56	-	(68)	-	12	-
Disposals	-	-	-	(39)	(14)	(53)
At 30 June 2019	12,820	4,913	8,579	459	8,381	35,152
Depreciation						
At 1 July 2018	63	15	-	388	3,488	3,954
Charge For The Year	388	99	-	37	722	1,246
Disposals	-	-	-	(35)	(14)	(49)
At 30 June 2019	451	114	-	390	4,196	5,151
Net Carrying Amount						
At 30 June 2019	12,369	4,799	8,579	69	4,185	30,001

Work in progress relates to buildings under construction at Kenya School of Monetary Studies, integrated security management system and office modernisation Phase III at Head Office.

Land and building were revalued in 31 May 2018 by Lloyd Masika Limited, registered valuers, who has experience in valuing similar properties. Land was revalued on the basis of open market value, while building was valued on the basis of depreciated replacement cost.

The directors believe the carrying values reflect the fair value as at 30 June 2019, after considering the actual market state and circumstances as of the reporting date.

Land and buildings are included in the level 3 of the fair valuation hierarchy (that is, the fair value is not based on observable market data (unobservable inputs)).

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

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

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

19. INTANGIBLE ASSETS	Software KShs' million	Work in progress KShs' million	Total KShs' million
Year ended 30 June 2020			
COST			

At 1 July 2019	2,415	208	2,623
Additions	13	533	546
At 30 June 2020	2,428	741	3,169
ACCUMULATED AMORTISATION			
At 1 July 2019	1,786	-	1,786
Charge for the year	159	-	159
At 30 June 2020	1,945	-	1,945
NET CARRYING AMOUNT			
At 30 June 2020	483	741	1,224
Year ended 30 June 2019			
COST			
At 1 July 2018	1,817	-	1,817
Additions	598	208	806
At 30 June 2019	2,415	208	2,623
ACCUMULATED AMORTISATION			
At 1 July 2018	1,652	-	1,652
Charge for the year	134	-	134
At 30 June 2019	1,786	-	1,786
NET CARRYING AMOUNT			
At 30 June 2019	629	208	837

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

20. Retirement Benefit Asset	*2020* *KShs' million*	*2019* *KShs' million*
Present value of funded obligations	17,910	16,423
Fair value of plan assets	(30,270)	(30,640)
Net overfunding in funded plan	(12,360)	(14,217)
Limit on defined benefit asset	5,823	9,889
Asset in the statement of financial position	(6,537)	(4,328)
Movements in the net defined benefit asset recognised are as follows:		
At 1 July	4,328	6,584
Net income recognised in profit or loss (Note 9(b))	174	576
Net expense recognized in other comprehensive income (OCI)	1,949	(2,928)
Employer contributions	86	96
At 30 June	6,537	4,328
Movements in the plan assets are as follows:		
At 1 July	30,640	30,279
Interest income on plan assets	3,847	3,950
Employer contributions	86	96
Employee contributions	43	48
Benefits expenses paid	(1,601)	(1,299)
Return on plan assets excluding amount in interest income	(2,659)	(2,434)
Prior year adjustments	(86)	-
At 30 June	30,270	30,640
Movements in the plan benefit obligation are as follows:		
At 1 July	16,423	14,551
Current service cost net of employees' contributions	275	274
Interest cost	2,036	1,884
Employee contributions	43	48
Actuarial loss due to demographic assumptions	11	-
Actuarial (gain)/loss due to participants' movement	(1,004)	381
Actuarial loss due to change in financial assumptions	1,727	584
Benefits paid	(1,601)	(1,299)
At 30 June	17,910	16,423
The principal actuarial assumptions at the reporting date were:	2020	2019
Discount rate (p.a.)	11.50%	12.90%
Salary increase (p.a.)	7.00%	7.00%
Future pension increases	3.00%	3.00%

Five-year summary	2020 KShs' million	2019 KShs' million	2018 KShs' million	2017 KShs' million	2016 KShs' million
Fair value of plan assets	30,270	30,640	30,279	28,464	27,161
Present value of funded obligations	(17,910)	(16,423)	(14,551)	(13,440)	(17,623)
Adjustment to retirement benefit asset	(5,823)	(9,889)	(9,144)	(6,827)	(1,762)
Net retirement benefit asset	6,537	4,328	6,584	8,197	7,776

Plan assets are distributed as follows:

	2020 KShs' million	%	2019 KShs' million	%
Quoted shares	5,684	18.8%	6,992	22.8%
Investment properties	8,358	27.6%	7,573	24.7%
Government of Kenya treasury bills and bonds	14,667	48.5%	13,670	44.6%
Commercial paper and corporate bonds	219	0.7%	874	2.9%
Offshore investments	133	0.4%	109	0.4%
Fixed and term deposits	1,114	3.7%	1,107	3.6%
Fixed assets	1	-	1	-
Net current assets	94	0.3%	314	1.0%
	30,270	100%	30,640	100%

Sensitivity of principal actuarial assumptions:

If the discount rate is 1% lower (higher), the present value of funded obligations would be KShs 19,361 million (increase by KShs 1,451 million). This sensitivity analysis has been determined based on reasonably possible changes of the assumption occurring at the end of 30 June 2020, while holding all other assumptions constant.

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

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

The scheme is funded by contributions from employer and employees. The average duration of the defined benefit plan obligation at the end of the reporting period is 7.0 years (2019: 9.9 years). The Bank expects to pay KShs 133 million to its defined benefit plan in financial year ended 30 June 2021.

	2020 KShs' million	2019 KShs' million
21. (a) IMF On-Lent to GOK	79,702	-

The balance as at 30 June 2020 relates to IMF on-lent funds disbursed to the Government of Kenya by the International Monetary Fund (IMF) amounting SDR 542.8 million under Rapid Credit Facility to mitigate the impact of COVID-19 pandemic. The On-Lent to GOK will be paid half-yearly within a period of ten years from November 2025 to May 2030.

(b) DUE FROM GOVERNMENT OF KENYA	2020 KShs' million	2019 KShs' million
Overdraft	47,150	57,327
Government loan	21,783	22,229
	68,933	79,556

Movement in the government loan is as follows:

At 1 July	22,229	23,339
Principal repayment	(555)	(1,110)
Interest charged	666	665
Interest paid	(557)	(665)
At 30 June	21,783	22,229

Section 46(3) of the *Central Bank of Kenya Act* sets the limit of the Government of Kenya's overdraft facility at the Bank at 5% of the Gross Recurrent Revenue as reported in the latest Government of Kenya audited financial statements. The limit for the year ending 30 June 2020 is KShs 68,495 million (2019: KShs 65,716 million) based on the gross recurrent revenue for the year ended 30 June 2018, which are the latest audited financial statements at the date of approval of these financial statements. Interest is charged at the Central Bank Rate, currently at 7%.

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

22. Currency in Circulation	2020 KShs' million	2019 KShs' million
Kenya bank notes	248,373	240,264
Kenya coins	9,419	9,245
	257,792	249,509
Movement in the account was as follows:		
At 1 July	249,509	262,439
Deposits by commercial banks	(571,022)	(548,258)
Withdrawals by commercial banks	586,732	535,349
(Deposits)/withdrawals by CBK	(39)	(21)
Demonetization of old currency	(7,388)	-
At 30 June	257,792	249,509

23. Investment by Banks	2020 KShs' million	2019 KShs' million
REPO securities sold to banks	6,997	-

The balance on 30 June 2020 relates to repurchase agreements contracted by the Bank to address excess liquidity and matures within a short period of between 7 to 14 days.

24. Deposits from Banks and Government	*2020* *KShs' million*	*2019* *KShs' million*
Local commercial banks clearing accounts and cash ratio reserve	352,490	270,262
Local banks foreign exchange settlement accounts	25,824	24,511
External banks foreign exchange settlement accounts	2,620	183
Other public entities and project accounts	69,830	108,595
Government of Kenya	281,423	337,449
	732,187	741,000

25. Other Liabilities		
Impersonal accounts	1,412	2,587
Sundry creditors	3,489	3,513
Lease liability (Note 18(a))	209	-
Refundable deposits	233	224
Leave accrual	235	177
Gratuity to staff members	24	20
	5,602	6,521

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

26. (a) Share Capital	*2020* *KShs' million*	*2019* *KShs' million*
Authorised share capital:		
At 1 July	50,000	5,000
Additional share capital	-	45,000
At 30 June	50,000	50,000
Paid up share capital:		
At 1 July	20,000	5,000
Additional share capital	15,000	15,000
At 30 June	35,000	20,000

Ownership of the entire share capital is vested in the Principal Secretary to the National Treasury. During the year, the board of directors approved the increase of paid up share capital from KShs 20 billion to KShs 35 billion. The increase was paid up from the general reserve fund.

(b) General Reserve Fund
The general reserve fund represents accumulated surpluses arising from normal operations of the Bank and unrealized gains on exchange rate fluctuations.
(c) Fair Value Reserve
The fair value reserve represents cumulative gains and losses arising from revaluation of debt instruments from cost to fair value based on the market values at the end of the reporting date.
(d) Revaluation Reserve
The revaluation reserve relates to unrealized gains on valuation of land and buildings that will not be recycled into profit or loss. The reserve is non-distributable.
(e) Consolidated Fund
The Consolidated Fund represents amounts proposed for distribution to the Government of Kenya from the General Reserve Fund.

Movement in the consolidated fund is as follows:

	2020 *KShs' million*	*2019* *KShs' million*
At 1 July	4,000	800
Transfer from General reserve	9,888	4,000
Payments out of consolidated fund	(11,388)	(800)
At 30 June	2,500	4,000

27. Cash (Used In)/Generated From Operations	*2020* *KShs' million*	*2019* *KShs' million*
Surplus for the year	41,530	26,138
Adjustments for:		
Depreciation of property and equipment (Note 18(b))	1,695	1,246
Amortisation of intangible assets (Note 19)	159	134
Amortisation of right-of-use assets (Note 18(a))	133	-
Gain on disposal of property and equipment (Note 7)	-	(10)
Loss on disposal of property and equipment (Note 9(a))	18	
Credit loss expense on financial assets	8,714	2,082
Net interest income	(17,690)	(21,855)
Interest on lease liability (Note 9(a))	21	-
Provision for impairment loss on other assets (Note 9(a))	17	16
Net credit relating to the retirement benefit asset (Note 20)	(174)	(576)
Employer contributions on defined benefit asset (Note 20)	(86)	(96)
Demonetization of old currency (Note 7(b))	(7,388)	-
Reclassification from fair value reserve (Note 10(b))	(3,020)	-
Unrealised foreign exchange loss/(gain) on due to IMF	120	(16)

Operating surplus before working capital changes	24,049	7,063
Changes in working capital:		
Loans and advances	92	(731)
Other assets	70	(2,398)
Due from Government of Kenya	10,623	632
Currency in circulation	15,671	(12,930)
Deposits	(8,813)	156,713
Investment by banks	6,997	-
IMF on lend	(79,702)	-
Gold holdings	(25)	(10)
Consolidated fund (Note 26(e))	(11,388)	(800)
Other liabilities	(1,129)	(598)
Net cash (used in)/generated from operations	(43,555)	146,941

28. Cash And Cash Equivalents

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

	2020	*2019*
	KShs' million	*KShs' million*
Balances due from banking institutions (Note 11)	369,505	542,849
Financial assets – FVOCI (Note 15)	59,122	28,830
Securities discounted by banks and other advances (Note 13)	22,527	57,154
	451,154	628,833
(b) Changes in liabilities arising from financing activities		
At 1 July	83,653	100,284
Cash flow items:		
Repayments to IMF	(11,634)	(16,615)
Receipts during the year	79,702	-
Foreign exchange changes	120	(16)
At 30 June	151,841	83,653

29. Related Party Transactions

In the course of its operations, the Bank enters into transactions with related parties, which include the Government of Kenya (the ultimate owner of the Bank).

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

(i) Loans

The Bank extends loan facilities to the key management staff. The advances are at preferential rates of interest determined by the Bank. The repayment terms and collateral used are similar to those of loans and advances to other staff. Provisions on loans and advances to staff are arrived at using collective assessment approach. Provisions at 30 June 2020 are disclosed in Note 14. Collateral information is disclosed in Note 30. The repayment terms of the loans are between 2 years and 20 years.

		2020	*2019*
	Loans to key senior staff	*KShs' million*	*KShs' million*
	At 1 July	50	75
	Loans advanced during the year	23	12
	Loan repayments	(21)	(37)
	At 30 June	52	50
(ii)	Directors' emoluments:		
	Fees to non-executive directors	18	22
	Directors' travelling expenses	8	24
	Other remuneration to executive directors	34	33
		60	79
(iii)	Remuneration to senior staff	240	185
(iv)	Post–employment pension to senior management	4	4
(v)	Government of Kenya		
	Due from Government of Kenya (Note 21(b))	68,933	79,556
	Government of Kenya Deposits (Note 24)	281,423	337,449
	IMF On-lent to GOK (Note 21(a))	79,702	-
	Interest earned from Government of Kenya – Loan (Note 4)	666	695
	Interest earned from Government of Kenya - Overdraft (Note 4)	3,245	2,523
	Fees and commission income (Note 6(a))	3,000	3,000
	Loan principal repayment (Note 21(b))	555	1,110

Transactions entered into with the Government include:

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

(vi) Kenya School of Monetary Studies (KSMS)

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

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

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

	2020 KShs' million	2019 KShs' million
CBK-KSMS related transactions and balances		
Grants from CBK	468	471
Buildings	8,780	2,317
Land	4,250	4,250
Receivable from KSMS	59	59
Accumulated deficit	62	62

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

The pension schemes (that is, the defined benefit and defined contribution schemes) are managed and administered by the Secretariat appointed by the sponsor. The costs of their operations are fully reimbursed to the Bank on a regular basis.

30. Financial Risk Management Objectives And Policies

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

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

(a) Strategy in using financial instruments

The Bank holds foreign exchange reserves for the 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
- Liquidity risk

Non-financial risks include:

- Operational risk
- Human resource risk
- Legal risk
- Reputation risk

(i) Credit risk

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

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

Management of credit risk is carried out through the choice of counterparties. The Bank's choice of counterparties is confined to top international banks that meet the set eligibility criteria of financial soundness on long-term credit rating (A- or equivalent rating from Standard & Poor's, Moody's and Fitch), short-term credit rating (F1 or equivalent by the three internationally recognised credit rating agencies) and capital adequacy (8% and above by BIS).

The following table sets out the carrying amounts of the financial assets that are exposed to credit risk as at 30 June 2020 and 30 June 2019:

	2020	2019

	KShs' million	KShs' million
Balances due from banking institutions	369,505	542,849
Funds held with International Monetary Fund (IMF)	3,255	1,008
Securities and advances to banks	55,561	66,909
IMF On-Lent to GOK	79,702	-
Loans and advances	3,274	3,363
Debt instruments at fair value through other comprehensive income	724,892	504,533
Other assets – sundry debtors	500	330
Due from Government of Kenya	68,933	79,556
	1,305,622	1,198,548

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

Credit quality analysis

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

Explanation of the terms: ‘Stage 1’, ‘Stage 2’ and ‘Stage 3’ are included in Note 2(f). The credit ratings show the best-two rating amongst Standard & Poor’s, Moody’s and Fitch.

Year ended 30 June 2020

	Stage 1 KShs' million	Stage 2 KShs' million	Stage 3 KShs' million	Total KShs' million
Balance due from banking institutions				
Rated AAA	36,248	-	-	36,248
Rated AA- to AA+	146,509	-	-	146,509
Rated A- to A+	109,007	-	-	109,007
Rated BBB – BB	807	-	-	807
Unrated	76,962	-	-	76,962
Gross carrying amount	369,533	-	-	369,533
Impairment allowance	(28)	-	-	(28)
Net carrying amount	369,505	-	-	369,505
Debt instruments at fair value through OCI				
Rated AAA	715,417	-	-	715,417
Rated AA- to AA+	9,475	-	-	9,475
Carrying amount	724,892	-	-	724,892
Due from Government of Kenya				
Unrated	68,933	-	-	68,933
Funds with IMF				
Unrated	3,255	-	-	3,255
IMF On-Lent to GOK				
Unrated	79,702	-	-	79,702
Securities and advances to banks				
Unrated	65,114	-	2,147	67,261
Gross carrying amount	65,114		2,147	67,261
Impairment allowance	(9,553)	-	(2,147)	(11,700)
Net carrying amount	55,561	-	-	55,561
Loans and advances				
Unrated	3,166	11	3,550	6,727
Gross carrying amount	3,166	11	3,550	6,727
Impairment allowance	(3)	-	(3,450)	(3,453)
Net carrying amount	3,163	11	100	3,274
Other assets				
Unrated	-	-	5,462	5,462
Gross carrying amount	-	-	5,462	5,462
Impairment allowance	-	-	(4,962)	(4,962)
Net carrying amount	-	-	500	500

Year ended 30 June 2019	Stage 1 KShs’ million	Stage 2 KShs’ million	Stage 3 KShs’ million	Total KShs’ million
Balance due from financial institutions				
Rated AAA	2	-	-	2
Rated AA- to AA+	248,830	-	-	248,830
Rated A- to A+	175,335	-	-	175,335
No Rating	118,797	-	-	118,797
Gross carrying amount	542,964	-	-	542,964
Impairment allowance	(115)	-	-	(115)
Net carrying amount	542,849	-	-	542,849
Debt instruments at fair value through OCI				
Rated AAA	496,925	-	-	496,925
Rated AA- to AA+	7,608	-	-	7,608

Carrying amount	504,533	-	-	504,533
Due from Government of Kenya				
Unrated	79,556	-	-	79,556
Funds with IMF				
Unrated	1,008	-	-	1,008
Securities and advances to banks				
Unrated	68,698	-	1,211	69,909
Gross carrying amount	68,698	-	1,211	69,909
Impairment allowance	(2,092)	-	(908)	(3,000)
Net carrying amount	66,606	-	303	66,909
Loans and advances				
Unrated	3,237	25	3,557	6,819
Gross carrying amount	3,237	25	3,557	6,819
Impairment allowance	(7)	-	(3,449)	(3,456)
Net carrying amount	3,230	25	108	3,363
Other assets				
Unrated	-	-	5,275	5,275
Gross carrying amount	-	-	5,275	5,275
Impairment allowance	-	-	(4,945)	(4,945)
Net carrying amount	-	-	330	330

Collateral and other credit enhancements

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

	Notes	Percentage of exposure that is subject to collateral requirements		
		30 June 2020	30 June 2019	Principal type of collateral held
Advances to banks – Reverse repurchase arrangements and due from commercial banks	13	100	100	Kenya Government debt securities
Loans and advances – Loans to staff	14	100	100	Land and buildings, government securities, motor vehicles

At 30 June 2020, the Bank held advances to banks of KShs 22,228 million (2019: KShs 21,518 million), for which no loss allowance is recognised because of full collateral coverage. The fair value of the collateral held for Advances to banks was KShs 26,137 million (2019: KShs 26,268 million). These have been determined based on market price quotations at the reporting date.

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

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

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

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

Credit risk grades/ratings

For assessing the risk of default, at initial recognition, the Bank assigns to each exposure in foreign currency the credit rating that shows the best-two rating amongst Standard & Poor's, Moody's and Fitch for that particular counterparty.

The Bank, at initial recognition, allocates each exposure to banks a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applies experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade/rating. The monitoring typically involves use of the following data.

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

PD estimation process

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

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

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

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

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure in foreign currency is deemed to have increased significantly since initial recognition if:

- the credit rating from all the three rating agencies (Standard & Poor's, Moody's and Fitch) falls below A- (or its equivalent); or
- the credit rating from one of the above agencies is downgraded to A-; or
- there is a delay in the repayment of an obligation to the Bank by more than or equal to 2 days. In this case, the credit risk will be deemed to have significantly increased for all exposures to that issuer.

The credit risk of a particular exposure in domestic currency for commercial banks is deemed to have increased significantly since initial recognition if one of the following criteria is met:

- Internal rating of the borrower indicating default or near-default
- Borrower requesting emergency funding from the Bank, the borrower having past due liabilities to public creditors or employees
- Material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral
- A material decreases in the borrower's turnover or the loss of a major customer
- A covenant breach not waived by the Bank
- The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection
- Debtor's listed debt or equity suspended at the primary exchange because of facts about financial difficulties
- The borrower having past due liabilities to public creditors or employees

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

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

Definition of default

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

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

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

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

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

Incorporation of forward-looking information

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

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

- Industry specific risk and broad economic factors that may affect the business cycle. The market data category includes two inputs: share price/ market cap and price volatility.
- Key performance indicators such as effective short-term debt, long-term debt, T12M interest expense and for financial firms, interest coverage fields are replaced with factors that are meaningful for that type of firm, for instance, non-performing loans and loan loss reserves for banks.

- Economic, regulatory and geopolitical influences, management and corporate governance attributes as well as income and economic structure.

Additionally, for Sovereign or national government, the analysis may take into consideration:

- Deficit levels, foreign currency reserves, non-performing bank loans, GDP growth and a political risk indicator. Country financials are obtained from the World Bank, Eurostat and the IMF.
- Fiscal and Economic performance such as GDP growth, Revenue as a percentage of GDP,
- Monetary Stability which reflects the price behaviour in the business cycles.
- EIU Political risk score which addresses the sovereign's willingness to repay debt. Willingness to pay is a qualitative issue that distinguishes sovereigns from most other types of issuers.

Measurement of ECL

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

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

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

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

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

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

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

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

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

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

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

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

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

Year ended 30 June 2020

	Stage 1 Gross carrying amount	ECL	Stage 2 Gross carrying amount	ECL	Stage3 Gross carrying amount	ECL	Total Gross carrying amount	ECL
Debt instruments at fair value through other comprehensive income	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*
At 1 July 2019	504,533	61	-	-	-	-	504,533	61
New assets originated or purchased	556,932	45	-	-	-	-	556,932	45
Asset derecognized or repaid	(365,842)	(17)	-	-	-	-	(365,842)	(17)
Accrued interest	775	-	-	-	-	-	775	-
Realised gains	1,296	-	-	-	-	-	1,296	-
Foreign exchange	18,746	-	-	-	-	-	18,746	-

adjustments								
Changes in risk parameters	-	(11)	-	-	-	-	-	(11)
Fair value changes	8,452	-	-	-	-	-	8,452	-
At 30 June 2020	724,892	78	-	-	-	-	724,892	78
Balances due from banking institutions								
At 1 July 2019	542,964	115			-		542,964	115
Net movement during the year	(173,431)	(87)	-	-	-	-	(173,431)	(87)
At 30 June 2020	369,533	28	-	-	-	-	369,533	28
Securities and advances to banks								
At 1 July 2019	68,698	2,092	-	-	1,211	908	69,909	3,000
New assets originated or purchased	199,313	-	-	-	-	-	199,313	-
Asset derecognized or repaid	(202,113)	-	-	-	-	-	(202,113)	-
Accrued interest	152	-	-	-	-	-	152	-
Transfer to Stage 3	(936)	-	-	-	936	-	-	-
Change in risk parameters	-	7,461	-	-	-	1,239	-	8,700
At 30 June 2020	65,114	9,553	-	-	2,147	2,147	67,261	11,700
Other assets								
At 1 July 2019	322	-	-	-	4,953	4,945	5,275	4,945
New assets originated or purchased	427	-	-		-	-	427	-
Asset derecognized or repaid	(240)	-	-	-	-	-	(240)	-
Transfer to Stage 3	(17)	-	-	-	17	17	-	17
At 30 June 2020	492	-	-	-	4,970	4,962	5,462	4,962
Loans and advances								
At 1 July 2019	3,237	7	25	-	3,557	3,449	6,819	3,456
New assets originated or purchased	812	1	-	-	-	-	812	1
Asset derecognized or repaid	(858)	(2)	(8)	-	(38)	-	(904)	(2)
Transfer to Stages	(19)	-	(6)	-	25	-	-	-
Changes in risk parameters	-	(2)	-	-	-	-	-	(2)
At 30 June 2020	3,172	4	11	-	3,544	3,449	6,727	3,453

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

Year ended 30 June 2019

	Stage 1 Gross carrying amount	ECL	Stage 2 Gross carrying amount	ECL	Stage3 Gross carrying amount	ECL	Total Gross carrying amount	ECL
Debt instruments at fair value through other comprehensive income	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*
At 1 July 2018	400,333	59	-	-	-	-	400,333	59
New assets originated or purchased	418,501	45	-	-	-	-	418,501	45
Asset derecognized or repaid	(328,580)	(36)	-	-	-	-	(328,580)	(36)
Accrued interest	778	-	-	-	-	-	778	-
Realised gains	1,166	-	-	-	-	-	1,166	-
Foreign exchange adjustments	5,330	-	-	-	-	-	5,330	-
Changes in risk parameters	-	(7)	-	-	-	-	-	(7)
Fair value changes	7,005	-	-	-	-	-	7,005	-
At 30 June 2019	504,533	61	-	-	-	-	504,533	61

Balances due from banking institutions								
At 1 July 2018	522,987	66	-	-	-	-	522,987	66
Net movement during the year	19,977	49	-	-	-	-	19,977	49
At 30 June 2019	542,964	115	-	-	-	-	542,964	115
Securities and advances to banks								
At 1 July 2018	37,609	3	-	-	894	671	38,503	674
New assets originated or purchased	529,744	2,326	-	-	-	-	529,744	2,326
Asset derecognized or repaid	(497,961)	-	-	-	(360)	-	(498,321)	-
Accrued interest	(17)	-	-	-	-	-	(17)	-
Transfer to Stage 3	(677)	(237)	-	-	677	237	-	-
At 30 June 2019	68,698	2,092	-	-	1,211	908	69,909	3,000
Other assets								
At 1 July 2018	960	-	-	-	4,937	4,929	5,897	4,929
New assets originated or purchased	46	-	-	-	-	-	46	-
Asset derecognized or repaid	(668)	-	-	-	-	-	(668)	-
Transfer to Stage 3	(16)	-	-	-	16	16	-	16
At 30 June 2019	322	-	-	-	4,953	4,945	5,275	4,945
Loans and advances								
At 1 July 2018	2,490	6	11	-	3,587	3,462	6,088	3,468
New assets originated or purchased	1,219	7	-	-	-	-	1,219	7
Asset derecognized or repaid	(455)	(6)	(3)	-	(30)	(13)	(488)	(19)
Transfer to Stages	(17)	-	17	-	-	-	-	-
At 30 June 2019	3,237	7	25	-	3,557	3,449	6,819	3,456

Concentrations of credit risk

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

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

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

Year ended 30 June 2020

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

Year ended 30 June 2019

	United States of America	Germany	United Kingdom	Singapore	Canada	Kenya	Others	Total
	KShs' million	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*
Balances due from banking	163,493	59,155	14,206	74,180	29,914	6,137	195,879	542,964

institutions								
Funds held with IMF	1,008	-	-	-	-	-	-	1,008
Securities and advances to banks	-	-	-	-	-	69,909	-	69,909
Loans and advances	-	-	-	-	-	6,819	-	6,819
Debt instruments at fair value through OCI	352,824	53,335	-	-	2,665	-	95,709	504,533
Other assets - Sundry debtors	-	-	-	-	-	5,275	-	5,275
Due from Government of Kenya	-	-	-	-	-	79,556	-	79,556
Total financial assets	517,325	112,490	14,206	74,180	32,579	167,696	291,588	1,210,064

A segregation of the financial assets by counterparty type is set out below:
Year ended 30 June 2020

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

A segregation of the financial assets by counterparty type is set out below:
Year ended 30 June 2019

	Balances due from financial institutions	Securities and advances	Fund held with IMF	Loans and Advances	Fixed income securities	Due from GOK	Other assets	Total
	KShs' million	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*
Central Banks	63,778	-	-	-	-	-	-	63,778
Foreign Governments	-	-	-	-	354,585	-	-	354,585
Supranational Institutions	54,137	-	1,008	-	89,492	-	-	144,637
Commercial Banks	425,049	58,674	-	3,400	-	-	-	487,123
Foreign Agencies	-	-	-	-	60,456	-	-	60,456
Government of Kenya	-	11,235	-	-	-	79,556	-	90,791
Others	-	-	-	3,419	-	-	5,275	8,694
	542,964	69,909	1,008	6,819	504,533	79,556	5,275	1,210,064

(ii) Market risk

The Bank takes on exposure to market risk, which is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk arises from open positions in interest rate, currency and equity, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. The Bank separates exposure to market risk into either trading or non-trading portfolios. Market risk arising from trading and non-trading activities are concentrated in Bank Treasury and are monitored by management with oversight from the Monetary Policy Committee.

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

Non-trading portfolios primarily arise from the interest rate management of the Bank's investment and monetary policy assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's internally managed debt instruments at amortised cost and World Bank RAMP financial assets.

Interest rate risk

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

The Bank's interest rate risk arises from balances due from banking institutions, securities and advances to banks, debt instruments at FVOCI, loans and advances, due from the Government of Kenya and deposits from bank and Government. Borrowings issued at variable rates expose the Bank to cash flow interest rate risk which is partially offset by cash held at variable rates. Borrowings issued at fixed rates expose the Bank to fair value interest rate risk.

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

At 30 June 2020	1 – 3 months	4-12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
	KShs' million	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*
Assets						

Balances due from banking institutions	369,533	-	-	-	-	369,533
Securities and advances to banks	59,477	552	2,471	4,761	-	67,261
Debt instruments at FVOCI	59,122	385,521	280,249	-	-	724,892
Funds held with International Monetary Fund (IMF)	-	-	-	-	3,255	3,255
Loans and advances	163	428	1,741	995	3,400	6,727
Other assets	-	-	-	-	5,462	5,462
IMF On-lent to GOK	-	-	-	-	79,702	79,702
Due from Government of Kenya	47,259	1,110	4,440	16,124	-	68,933
Total financial assets	535,554	387,611	288,901	21,880	91,819	1,325,765
Liabilities						
Deposits from banks and government	176,494	-	-	-	555,693	732,187
Other liabilities	-	-	-	-	5,343	5,343
Investment by banks	6,997	-	-	-	-	6,997
Due to International Monetary Fund (IMF)	-	-	-	-	151,841	151,841
Total financial liabilities	183,491	-	-	-	712,877	896,368
Interest sensitivity gap	352,063	387,611	288,091	21,880	(621,058)	429,397

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

At 30 June 2019	1 – 3 months	4-12 months	1 - 5 years	Over 5 years	Non-interest bearing	Total
	KShs' million	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*
Assets						
Balances due from banking institutions	447,682	-	-	-	95,282	542,964
Securities and advances to banks	60,154	2,312	7,443	-	-	69,909
Debt instruments at FVOCI	28,830	139,780	335,923	-	-	504,533
Funds held with International Monetary Fund (IMF)	-	-	-	-	1,008	1,008
Loans and advances	225	387	1,626	1,181	3,400	6,819
Other assets	-	-	-	-	5,275	5,275
Due from Government of Kenya	-	58,437	4,440	16,679	-	79,556
Total financial assets	536,891	200,916	349,432	17,860	104,965	1,210,064
Liabilities						
Deposits from banks and government	-	-	-	-	741,000	741,000
Other liabilities	-	-	-	-	6,324	6,324
Due to International Monetary Fund (IMF)	-	-	-	-	83,653	83,653
Total financial liabilities	-	-	-	-	830,977	830,977
Interest sensitivity gap	536,891	200,916	349,432	17,860	(726,012)	379,087

As at 30 June 2019, increase of 10 basis points would have resulted in a decrease/increase in profit of KShs 379 million (2018: KShs 365 million).

Foreign exchange risk

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

The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 30 June 2020. Included in the table are the Bank's financial instruments categorised by currency:

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

	USD	GBP	EUR	SDR	Others	Total
At 30 June 2019	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*
Assets						
Balances due from banking institutions	332,164	25,362	13,560	-	171,878	542,964
Debt Instruments at FVOCI	504,533	-	-	-	-	504,533
Funds held with International Monetary Fund (IMF)	-	-	-	1,008	-	1,008
Total financial assets	836,697	25,362	13,560	1,008	171,878	1,048,505
Liabilities						
Due to International Monetary Fund (IMF)	-	-	-	83,653	-	83,653
Deposits from banks and government	15,906	2,310	6,295	-	128	24,639
Total financial liabilities	15,906	2,310	6,295	83,653	128	108,292
Net position	820,791	23,052	7,265	(82,645)	171,750	940,213

As at 30 June 2020, if the shilling had weakened/strengthened by 5% against the major currencies with all other variables held constant, the impact on the Bank's surplus and equity would have been:

- USD KShs 41,609 million (2019: KShs 41,040 million)
- British Pound KShs 1,087 million (2019: KShs 1,153 million)
- Euro KShs 1,158 million (2019: KShs 363 million)
- SDR KShs 7,429million (2019: KShs 4,132million).

(iii) Liquidity risk

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

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

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

	On demand	0 – 3 months	4-12 months	1 - 5 years	Over 5 years	Total
	KShs' million	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*	*KShs' million*
At 30 June 2020						
Investment by banks	-	6,997	-	-	-	6,997
Deposits from banks and government	555,693	176,494	-	-	-	732,187
Due to International Monetary Fund (IMF)	-	963	15,661	16,879	118,338	151,841
Lease liability	-	25	162	32	-	219
Other liabilities	-	-	5,343	-	-	5,343
Total financial liabilities	555,693	184,479	21,166	16,911	118,338	896,587
At 30 June 2019						
Deposits from banks and government	632,405	-	108,595	-	-	741,000
Due to International Monetary Fund (IMF)	-	1,542	15,158	66,953		83,653
Other liabilities	-	-	6,324	-	-	6,324
Total financial liabilities	632,405	1,542	130,077	66,953	-	830,977

31. Fair Value Of Assets And Liabilities

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

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

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

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

	2020		2019	
	Carrying Amount	Fair Value	Carrying amount	Fair Value
	KShs' million	*KShs' million*	*KShs' million*	*KShs' million*
Financial assets				
Securities and advances to banks (rediscounted treasury bonds)	7,513	8,137	8,454	9,158
Loans and advances	3,274	2,218	3,363	2,377
Due from Government of Kenya	68,933	62,992	79,556	71,419
Financial liabilities				
Due to International Monetary Fund	151,841	45,338	83,653	65,996

(b) Fair value hierarchy

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes equity securities and debt instruments on 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	Level 2	Level 3
Year ended 30 June 2020	*KShs' million*	*KShs' million*	*KShs' million*
Assets measured at fair value:			
Property and equipment			
Land and buildings	-	-	23,537
Debt instruments at fair value through other comprehensive income	724,892	-	-

Equity instruments at fair value through other comprehensive income	-	-	10
Gold holdings	106	-	-
Assets for which fair values are disclosed:			
Securities and advances to banks (rediscounted treasury bonds)	8,137	-	-
Loans and advances	-	2,218	-
Due from Government of Kenya	-	62,992	-
Liabilities for which fair values are disclosed:			
Due to International Monetary Fund	-	45,338	-

Year ended 30 June 2019	Level 1 *KShs' million*	Level 2 *KShs' million*	Level 3 *KShs' million*
Assets measured at fair value:			
Property and equipment			
-Land and buildings	-	-	17,168
Debt instruments at fair value through other comprehensive income	504,533	-	-
Equity instruments at fair value through other comprehensive income	-	-	9
Gold holdings	81	-	-
Assets for which fair values are disclosed:			
Securities and advances to banks (rediscounted treasury bonds)	9,158	-	-
Loans and advances	-	2,377	-
Due from Government of Kenya	-	71,419	-
Liabilities for which fair values are disclosed:			
Due to International Monetary Fund	-	65,996	-

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

The Bank's land and buildings were last revalued in the year ended 30 June 2018. The valuations were based on market value as follows:

Comparable method for valuation of land and buildings

Fair value of the land and buildings was determined by using market comparable method. This means that valuations performed by the valuer are based on active market prices, significantly adjusted for difference in the nature, location or condition of the specific property.

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

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

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

	Opening balance *KShs' million*	Additions *KShs' million*	Depreciation charge to profit or loss *KShs' million*	Closing balance *KShs' million*
Freehold land and buildings	12,369	6,462	(477)	18,354
Leasehold land and buildings	4,799	497	(113)	5,183
	17,168	6,959	(590)	23,537

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

32. Contingent Liabilities And Commitments

The Bank is party to various legal proceedings. Based on legal advice, the directors believe that no loss will arise from these legal proceedings.

At 30 June 2020, the Bank had capital commitments of KShs 5,610 million (2019: KShs 7,833 million) in respect of property and equipment purchases.

Operating lease commitments – Bank as lessee

	2019 *KShs' million*
Not later than 1 year	122
Later than 1 year and not later than 5 years	64
	186

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

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

Operating leases - Bank as a lessor

The Bank has entered into operating leases on its land and buildings consisting of certain office buildings. These leases have terms of between one and 30 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. The lessee is also required to provide a residual value guarantee on the properties. Rental income recognised by the Bank during the year is KShs 41 million (2019: KShs 2 million).

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

	2020 *KShs 'million*	2019 *KShs 'million*
Within one year	68	2
After one year but not more than five years	35	3
More than five years	-	-
	103	5

33. Maturity Analysis Of Assets And Liabilities

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

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

Year ended 30 June 2019	Within 12 months *KShs' million*	After 12 months *KShs' million*	Total *KShs' million*
ASSETS			
Balances due from banking institutions	542,849	-	542,849
Funds held with International Monetary Fund (IMF)	1,008	-	1,008
Securities and advances to banks	59,466	7,443	66,909
Loans and advances	612	2,751	3,363
Debt instruments at fair value through other comprehensive income	168,610	335,923	504,533
Equity instruments at fair value through other comprehensive income	-	9	9
Other assets	5,684	-	5,684
Gold holdings	-	81	81
Property and equipment	-	30,001	30,001
Intangible assets	-	837	837
Retirement benefit assets	-	4,328	4,328
Due from Government of Kenya	57,327	22,229	79,556
TOTAL ASSETS	835,556	403,602	1,239,158
LIABILITIES			
Currency in circulation	-	249,509	249,509
Deposits from Banks and Government	741,000		741,000
Due to IMF	16,700	66,953	83,653
Other liabilities	6,521	-	6,521
TOTAL LIABILITIES	764,221	316,462	1,080,683
NET ASSETS	71,335	87,140	158,475

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