CENTRAL BANK OF KENYA

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

30 JUNE 2005

CENTRAL BANK OF KENYA

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

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DIRECTORS, OFFICERS AND ADMINISTRATION

DIRECTORS

Dr Andrew K Mullei	Governor and Chairman
Mrs Jacinta W Mwatela	Deputy Governor and Vice Chairman (Appointed 12 May 2005)
Dr Edward Sambili	Deputy Governor and Vice Chairman (Retired 2 May 2005)
Mr Joseph K Kinyua	Permanent Secretary – Treasury, Member
Mr George Ongaya-Okoth	Member
Prof Henry K Maritim	Member
Mr Paul A Spence	Member
Mr Owen N Koimburi	Member

SENIOR MANAGEMENT

Dr Andrew K Mullei	Governor
Mrs JW Mwatela	Deputy Governor
Mr John M Gikonyo	Director Governor's Office & Board Secretary
Mr Aggrey JK Bett	Director – Banking Services & National Payments Systems & Ag. Director – External Payments and Foreign Reserves
Mr Jackson M Kitili	Director –National Debt & Financial Markets
Mr Jones M Nzomo	Director – Accounting, Budget & Expenditure Control
Mr Charles K Chepkwony	Ag. Director – Information Technology
Mr Lawrence C Kungu	Director – Estates, Supplies and Services
Mr Gerald A Nyaoma	Director – Financial Institutions Supervision Department
Mr James Ogundo	Executive Director – Kenya School of Monetary Studies
Mr Edwin L Ogola	Director – Internal Audit & Risk Management
Mr Nicholas Korir	Director – Policy Analysis & Research & Ag. Director – International Relations & Regional Co-operation
Mr Hezbon Mariwa	Director – Currency operations and Branch Administration
Dr Alloys B Ayako	Director – Rural Finance Development
Mr Charles O Maranga	Director – Administration and Human Resources
Mr Daniel K Kiangura	Advisor to the Governor on National Payment Systems

REGISTERED OFFICE

Central Bank of Kenya Building
Haile Selassie Avenue
PO Box 60000
00200 Nairobi City Square, Kenya

BRANCHES

Mombasa
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PO Box 86372
80100 Mombasa, Kenya

Eldoret
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Uganda Road
PO Box 2710
30100 Eldoret, Kenya

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Central Bank of Kenya Building
Jomo Kenyatta Highway
PO Box 4
40100 Kisumu, Kenya

Kenya School of Monetary Studies
Kenya School of Monetary Studies
Thika Road
PO Box 65041
00200 Nairobi City Square, Kenya

AUDITORS

KPMG Kenya
Lonrho House
Standard Street
PO Box 40612
00100 Nairobi GPO, Kenya

LAWYERS

Oraro and Co Advocates
ACK Garden House
1st Ngong Avenue
PO Box 51236
00200 Nairobi City Square, Kenya

BANK SECRETARY

Mr John M Gikonyo
Central Bank of Kenya
Haile Selassie Avenue
PO Box 60000
00200 Nairobi City Square, Kenya

CENTRAL BANK OF KENYA

DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2005

The directors submit their report together with the audited financial statements for the year ended 30 June 2005, incorporating Kenya School of Monetary Studies Limited, a company limited by guarantee and wholly owned by the Bank.

1. Establishment

The Bank was established under the Central Bank of Kenya Act (the Act), Cap.491.

2. Principal activities

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

3. Results

The results for the year are set out on page 9.

4. Dividend

The board of directors do not recommend the payment of a dividend (2004 – KShs 4,500 million)

5. Directors

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

6. Auditors

KPMG Kenya were appointed in the year in place of Ernst & Young, and will continue in office upto the conclusion of the financial statements for the year ending 30 June 2006.

7. Approval of financial statements

The financial statements were approved at a meeting of the directors held on 9 September 2005.

BY ORDER OF THE BOARD

John M Gikonyo
Board Secretary

Date: 9 September 2005

CENTRAL BANK OF KENYA

STATEMENT OF DIRECTORS' RESPONSIBILITIES

We, the directors certify that:

1. We are responsible for the preparation of financial statements for each financial year which present a true and fair view of the state of affairs of the Bank and of its operating results for that year. We are also responsible to ensure that the Bank keeps proper accounting records which disclose with reasonable accuracy, the financial position of the Bank.

2. We accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgement and estimates, in accordance with International Financial Reporting Standards and in the manner required by the Central Bank of Kenya Act.

3. We are responsible for safeguarding the assets of the Bank.

4. We are responsible for establishing and maintaining systems of internal control designed to provide reasonable assurance as to the integrity and reliability of the Bank's financial reporting.

5. We are of the opinion that the financial statements for the year ending 30 June 2005 fairly present the financial position and operating results of the Bank.

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

Signed on behalf of the Board of Directors by:

___________________________	________________________
Governor	Director

Date: 9 September 2005

CENTRAL BANK OF KENYA

STATEMENT OF CORPORATE GOVERNANCE

The Central Bank of Kenya is wholly owned by the Government of Kenya. The Bank is established by and derives its authority and accountability from CBK Act Cap 491. The Bank is committed to maintaining the highest standards of integrity, professionalism and business ethics in all its operations.

Board of Directors

Section 11 of the CBK Act Cap 491 provides that the Board of Directors shall constitute of the Governor who is also the Chairman, Deputy Governor, who shall also be the Deputy Chairman, the Permanent Secretary to the Treasury, who is a non-voting member and five Non-Executive Directors. Other than the Permanent Secretary to the Treasury, all the others are appointed by the President of the Republic of Kenya for terms of four years each and are eligible for reappointment provided that no Governor, Deputy Governor or director shall hold office for more than two terms.

The current Governor, Dr. Andrew K. Mullei, took up his appointment on 4th March 2003 while Mrs. Jacinta W. Mwatela was appointed Deputy Governor on 12th May 2005 replacing Dr. Edward Sambili. Currently there are four Non-Executive Directors who are all serving their first term. All the Non-Executive Directors are independent of management and free from any business or other relationship, which could interfere with the exercise of their independent judgement.

Board Meetings

The Board meets once every six weeks and has a formal schedule of matters reserved for it. The Directors are given appropriate and timely information so that they can maintain full and effective control over strategic, financial and operational issues. The Board is not involved in the conduct of day-to-day business as this is a responsibility given to the Governor by the CBK Act Cap 491. It however, retains responsibility for determining the policy of the Bank.

The Board has appointed two sub committees with specific responsibilities and the chairmen of these sub-committees submit regular reports to the Board through the secretariats. The committees and their respective responsibilities are as follows:

Audit Committee

The Audit Committee is chaired by Mr. Paul Spence and has three other members who are Non-Executive Directors having experience in Accounting, Auditing, Banking and Financial Management. The committee currently meets on a monthly basis and as necessary. Its responsibilities are to:-

- Keep under review the efficiency and effectiveness of internal controls in the Bank;
- Keep under review financial information and improving the quality of financial reporting with particular attention to compliance with legal and reporting requirements;
- Receive and consider the Bank's annual budget;
- Review the effectiveness of the Internal Audit Function and reports received there-from;
- Review the External Auditors Audit scope timetables and approach; their performance and their findings;
- Recommend on the appointment of the external auditors and their fees;
- Review the Bank's annual financial statements prior to their submission to the Board;
- Review the Banks' Risk Management Policies and Procedures.

Tender Committee

The Committee is presently chaired by Mr. Owen N. Koimburi and membership includes two other Non-Executive Directors, the Governor and the Deputy Governor together with three Heads of Departments. The Committee meets on monthly basis and as need arises. The roles and responsibilities of the Committee are as under:

- To award contracts through open tender, restricted tenders, request for proposals or direct procurement where the contract value per item exceeds five hundred thousand shillings per item;
- To approve bids through open tender for sale of Central Bank stores;
- To approve variations of contract conditions previously awarded by the Committee.
- To review tender documents and request for proposals where the estimated contract value exceeds KShs 1 million.

Functionally, the Committee formulates and oversees the implementation of all the procurement and disposal policies of the Central Bank and ensures that all the procurement regulations, standards and best practices are fully complied with in accordance with the Exchequer and Audit Act – Procurement Rules and Regulations (2002).

Management Structure

The Central Bank's Senior Management team is made up of the Governor, the Deputy Governor and the heads of the Bank's various departments as indicated on page 1. The posts of Governor and Deputy Governor are set out by statute in the CBK Act Cap 491 of the Laws of Kenya. The Senior Management meets regularly to review the overall performance of the Bank.

There are various other Management Committees, which advise the Governor on specific issues in order to enable him to discharge his responsibilities as the CEO.

Directors Emoluments and Loans

The remuneration paid to the Directors for services rendered during the financial year 2004/2005 is disclosed in a note 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.

Code of Ethics

The Bank is committed to the highest standards of integrity, behavior 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 conflicts of interest with their responsibilities in the Bank. Strict rules of conduct apply to the entire Bank's staff under the staff rules and regulations.

Internal Controls

The management of the Bank has put in place a series of internal control mechanisms to ensure the reporting of complete and accurate accounting information. Procurement of goods and services is strictly done under the Exchequer and Audit Rules and Regulations (2002). In all operational areas of the Bank, workflows have been structured in a manner that allows adequate segregation of duties.

Authorizations and Internal Audit

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

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

Transparency

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

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF
CENTRAL BANK OF KENYA

We have audited the financial statements set out on pages 9 to 28 for the year ended 30 June 2005. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit. The financial statements are in agreement with the books of account.

Respective responsibilities of directors and independent auditors

As stated on page 4, the directors are responsible for the preparation of financial statements that give a true and fair view of the state of affairs of the Bank and its operating results. Our responsibility is to express an opinion on the financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, proper books of account have been kept and the financial statements give a true and fair view of the state of the Bank's financial position at 30 June 2005 and of its operating results and cash flows for the year then ended and comply with International Financial Reporting Standards and the Central Bank of Kenya Act.

Date: 9 September 2005

CENTRAL BANK OF KENYA

PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 KShs million	2004 KShs million
Interest income	2	5,033	3,844
Interest expense	3	(364)	(130)
Net interest income		**4,669**	**3,714**
Fee and commission income	4	3,783	4,374
Foreign exchange (expenses)/income	5	(3,071)	12,781
Other operating income	6	184	274
Operating income		**5,565**	**21,143**
Operating expenses	7	(5,685)	(4,333)
Impairment losses	9	(4,014)	(11,677)
(Loss)/profit for the year		**(4,134)**	**5,133**
Dividends:			
Proposed dividend for the year	10	**-**	**4,500**

The notes set out on pages 13 to 28 form an integral part of these financial statements.

CENTRAL BANK OF KENYA

BALANCE SHEET
AS AT 30 JUNE 2005

	Note	2005 KShs million	2004 KShs million
ASSETS			
Balances due from banking institutions and gold holdings	11	119,757	109,856
Items in the course of collection		5,468	4,622
Investment in government securities	12	7	3
Loans and advances	13	9,414	13,446
Other assets	14	2,810	442
Retirement benefit asset	15	478	511
Property and equipment	16	1,193	625
Prepaid operating lease rentals	17	289	292
Due from Government of Kenya	18	35,917	41,917
TOTAL ASSETS		**175,333**	**171,714**
LIABILITIES			
Currency in circulation	19	67,322	62,621
Deposits	20	79,897	75,776
International Monetary Fund	21	14,873	10,630
Amounts repayable under repurchase agreements	22	5,334	6,144
Other liabilities	23	1,009	1,011
TOTAL LIABILITIES		**168,435**	**156,182**
EQUITY AND RESERVES (Page 11)			
Share capital	24	1,500	1,500
General reserve fund	25	5,398	9,532
Proposed dividend		-	4,500
TOTAL EQUITY AND RESERVES		**6,898**	**15,532**
TOTAL LIABILITIES AND EQUITY		**175,333**	**171,714**

The financial statements set out on pages 9 to 28 were approved by the Board of Directors for issue on 9 September 2005 and signed on its behalf by:

____________________________ Governor

____________________________ Director

The notes set out on pages 13 to 28 form an integral part of these financial statements.

CENTRAL BANK OF KENYA

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2005

	Share capital KShs million	General reserve fund KShs million	Proposed dividend KShs million	Total KShs million
Year ended 30 June 2004				
Balance at start of the year	1,500	8,899	3,500	13,899
Profit for the year	-	5,133	-	5,133
Dividends:				
- For 2003 paid	-	-	(2,500)	(2,500)
- 2003 Applied to amounts due from Government of Kenya (Note 18)	-	-	(1,000)	(1,000)
- Proposed for 2004	-	(4,500)	4,500	-
Balance at end of the year	**1,500**	**9,532**	**4,500**	**15,532**
Year ended 30 June 2005				
Balance at start of the year	1,500	9,532	4,500	15,532
Loss for the year	-	(4,134)	-	(4,134)
Dividends:				
- For 2004 paid	-	-	(2,500)	(2,500)
- 2004 Applied to amounts due from Government of Kenya (Note 18)	-	-	(2,000)	(2,000)
Balance at end of the year	**1,500**	**5,398**	**-**	**6,898**

The notes set out on pages 13 to 28 form an integral part of these financial statements.

CENTRAL BANK OF KENYA

CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2005

	Note	2005 KShs million	2004 KShs million
Operating activities			
Net cash generated by operating activities	26 (a)	11,142	11,677
Investing activities			
Liquidation of government securities		-	402
Purchase of property and equipment		(1,177)	(189)
Proceeds from disposal of property and equipment		9	3
Investment in International Monetary Fund-SDR accounts		(9)	(9)
Net cash (utilised)/generated from investing activities		**(1,177)**	**207**
Financing activities			
Dividends paid		(2,500)	(2,500)
Currency in circulation		4,701	7,390
Net cash from financing activities		**2,201**	**4,890**
Net increase in cash and cash equivalents		12,166	16,774
Cash and cash equivalents at start of year		101,940	85,166
Cash and cash equivalents at end of year	26(b)	**114,106**	**101,940**

The notes set out on pages 13 to 28 form an integral part of these financial statements.

CENTRAL BANK OF KENYA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2005

1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) Basis of preparation and form of presentation

(i) Basis of preparation

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards (IFRS). The financial statements are presented in Kenya Shillings (KShs) and are prepared under the historical cost convention except for measurement at fair value of certain investments.

The preparation of financial statements in conformity with International Accounting Standards (IAS) requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates.

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

(ii) Form of presentation

In exceptional circumstances, as allowed by Section 36 of the Act, the Bank may act as the "lender of last resort" to financial institutions in difficulty in order to prevent a loss of confidence spreading through the financial system as a whole. In some cases, confidence can best be sustained if the Bank's support is disclosed only when the conditions giving rise to potential instability in the economy have improved. Although the financial effects of such operations are included in the financial statements of the Bank, these statements may not explicitly identify such support.

(b) Consolidation principle

The financial statements include the operations of the Bank and its subsidiary, Kenya School of Monetary Studies, which is a company limited by guarantee and where Central Bank of Kenya has full control.

(c) Revenue recognition

Income is recognised in the period in which it is earned. Income is not accrued if its recoverability is considered doubtful.

Interest income and expense are recognised in the profit and loss account for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments. When loans and advances become impaired, they are written down to their recoverable amounts.

Rental income from lease of property is recognised in the profit and loss account on a straight-line basis over the term of the lease.

(d) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the profit and loss account in the year in which they arise.

(e) Employee benefits

(i) Retirement benefits

The Bank's employees are eligible for retirement benefits under a defined benefit plan provided through a separate fund scheme administered by Trustees and funded by the Bank. Deposit Protection Fund Board, a related party, reimburses the Bank the costs of contributions relating to staff seconded to it by the Bank.

The Bank's net obligation in respect to the plan is calculated by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the Projected Unit Credit Method.

Where the calculation results in a benefit to the Bank, the recognised asset is limited to the net total of any unrecognised actuarial losses and past service costs and the present value of any future refunds from the plan or reduction in future contributions to the plan. Actuarial gains and losses are charged to the profit and loss account over the remaining working lives of the employees participating in the scheme.

The Bank also makes contributions to a statutory pension scheme, the National Social Security Fund (NSSF). Contributions to the scheme are determined by local statute and are shared between the employer and employee.

(ii) Other employee benefits

The Bank provides free medical treatment to staff and their dependants.

Contracted staff are eligible to a gratuity based on the employment terms. A provision is made for the estimated liability of such gratuity payable and charged to the profit and loss account.

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

(f) Property and equipment

Property and equipment are stated at purchase price less accumulated depreciation and impairment losses.

Depreciation is charged to the profit and loss account on a straight-line basis at the following rates:

Building improvements	10%
Motor vehicles, furniture and equipment	50%

(g) Financial assets and liabilities

The Bank presents financial assets and liabilities, and the associated income and expense streams, by distinguishing between foreign currency and local currency activities. Foreign currency activities mainly arise from the Bank's foreign reserves management function. Local currency activities mainly reflect the assets and liabilities associated with monetary policy implementation, issuance of currency in circulation and banking activities.

All financial assets and liabilities are recognised on a trade date basis. The purchases and sales of financial assets and liabilities are recognised from the date the Bank commits to purchase/sell the financial instrument.

(i) Investment securities

Investment securities include debt securities which management intends to hold until maturity and are stated at cost adjusted for amortisation of premiums and discounts over the period to maturity. Premium and discounts earned on investment securities are reported as interest income.

(ii) Currency in circulation

Currency issued by the Bank represents a claim on the Bank in favour of the holder. The liability for currency in circulation is recorded at face value on the balance sheet.

(iii) Repurchase and reverse-purchase transactions

Securities issued by the Bank for monetary policy operations with an agreement to repurchase are disclosed in the balance sheet as liabilities and are stated at sales price. The difference between the sales price and the face value (repurchase price) represents interest expense and is accrued and amortised over the term of the contract.

(h) Loans and provisions for loan impairment

Loans are stated at outstanding amount less provision for impairment.

As the lender of last resort, the Bank may grant loans or advances for fixed periods not exceeding six months to commercial banks that pledge Government securities specified by the Bank.

In its capacity as the fiscal agent and banker to the Government, the Bank may make direct advances to the Government for the purpose of offsetting fluctuations between receipts from the budgeted revenue and the payments of the Government. The total amount of advances to the Government outstanding shall not exceed five percent of the gross recurrent revenue of the Government as shown in the Appropriation Accounts for the latest year for which those financial statements have been audited by the Controller and Auditor-General.

The Bank also operates a staff loans scheme for its employees for the provision of facilities such as house and car loans.

The Bank determines the terms and conditions for granting of the above loans with reference to the prevailing market interest rates and may determine different rates for different classes of transactions and maturities.

(h) Loans and provisions for loan impairment (continued)

Specific provisions for loan impairment are made in respect of advances. The provisions are based on periodic evaluations of advances and take account of past loss experience, economic conditions and the estimated value of any underlying collateral, and are charged to the profit and loss account.

When a loan is deemed uncollectible, it is written off against the related provision for impairment. Subsequent recoveries are credited to the income statement if previously written off.

(i) Dividends payable

Dividends are recognised as a liability in the period in which they are declared. Proposed dividends are disclosed as a separate component of equity until they are declared.

(j) Provisions

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

(k) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount reported on the balance sheet when there is a legally enforceable right to set-off the recognised amount and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(l) Impairment

The carrying amounts of the Bank's assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If such condition exists, the asset's recoverable amount is estimated and an impairment loss recognised whenever the carrying amount of an asset exceeds its recoverable amount.

(m) Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

(n) Receivables

Amounts due from Government of Kenya and other assets are stated at their cost less impairment losses.

(o) Cash and cash equivalents

Cash and cash equivalents comprises of cash balances, bank deposits, current accounts, gold holding, government securities with maturity of upto 3 months from the date of issue.

(p) Comparatives

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

		2005 KShs million	2004 KShs million
2.	**INTEREST INCOME**		
	Foreign investments earnings	3,299	2,556
	Local investments earnings	1,672	1,220
	Other interest earnings	62	68
		5,033	**3,844**
3.	**INTEREST EXPENSE**		
	Interest on monetary policy issues	323	102
	Interest paid to International Monetary Fund	40	27
	Interest on customer deposits	1	1
		364	**130**
4.	**FEES AND COMMISSION INCOME**		
	Commission on sale of government securities	3,782	4,316
	Special projects agency fees	1	58
		3,783	**4,374**
5.	**FOREIGN EXCHANGE (EXPENSES)/INCOME**		
	Gains on sale of foreign exchange	566	848
	Foreign exchange translation gain	(3,637)	11,933
		(3,071)	**12,781**
6.	**OTHER OPERATING INCOME**		
	Rent received	15	16
	Proceeds from disposal of property and equipment	9	3
	Tuition fees and other charges	125	87
	Miscellaneous income	35	168
		184	**274**
7.	**OPERATING EXPENSES**		
	Currency expenses	1,925	1,145
	Depreciation	609	281
	Property maintenance expenses	331	262
	Auditors' remuneration	4	4
	Banking expenses	4	5
	Operating lease rentals	3	3
	Staff costs	2,130	2,128
	Other expenses	679	505
		5,685	**4,333**

		2005 KShs million	2004 KShs million
8.	**STAFF COSTS**		

The following items are included within staff costs:

	2005	2004
Retirement benefit costs - defined benefit scheme (Note 15)	271	230

9. IMPAIRMENT LOSSES

	2005	2004
Losses and write-offs of loans	14	35
Impairment loss on amount due from Government of Kenya (Note 18)	4,000	11,642
	4,014	**11,677**

10. DIVIDENDS

The board of directors do not recommend the payment of a dividend in respect of the year ended 30 June 2005 (2004 – KShs 4,500 million).

11. BALANCES DUE FROM BANKING INSTITUTIONS AND GOLD HOLDINGS

	2005 KShs million	2004 KShs million
Current accounts	3,059	2,202
Term deposits	109,858	99,718
Domestic forex currency cheque clearing	1,164	-
Forex travellers cheques	2	2
Gold holdings	16	15
Cash and cash equivalents	114,099	101,937
Accrued interest on foreign investments	446	301
Special Drawing Rights	50	41
Total own resources	114,595	102,279
Special project accounts	5,162	7,577
	119,757	**109,856**

12. INVESTMENT IN GOVERNMENT SECURITIES

	2005	2004
Treasury bills	**7**	**3**

All the government securities held have a maturity date of within 90 days from the date of acquisition.

13. LOANS AND ADVANCES

	2005 KShs million	2004 KShs million
Advances to banks under liquidation	8,259	8,259
Government overdraft account (see below and Note 27)	5,225	9,232
Advances to employees (Note 27)	1,998	1,915
IMF funds on-lent to the Government (Note 27)	2,221	2,331
	17,703	21,737
Provision for loan impairment	(8,289)	(8,291)
Net advances as at 30 June	**9,414**	**13,446**

Movement in the provision for loan impairment is as follows:

	2005 KShs million	2004 KShs million
At start of the year	(8,291)	(8,263)
Additional provisions made in the year	(13)	(28)
Recoveries in the year	15	-
At end of the year	**(8,289)**	**(8,291)**

Section 46(3) of the Central Bank of Kenya Act sets the limit of the Government of Kenya's overdraft facility at 5% of the Gross Recurrent Revenue as reported in the latest audited financial statements. The limit stands at KShs 8,908,699,851 based on the Government financial statements for 2001/2002, which are the latest audited financial statements at the date of approval of these financial statements. The limit for the previous year was KShs 9,232,144,274 based on the Government financial statements for 2000/2001.

14. OTHER ASSETS

	2005 KShs million	2004 KShs million
Impersonal accounts	1,864	-
Sundry debtors	946	442
	2,810	**442**

15. RETIREMENT BENEFIT ASSET

The Bank's employees are eligible for retirement benefits under a defined benefit plan provided through a separate fund. The defined benefit plan is funded by the Bank and the Deposit Protection Fund Board, a related party. The retirement benefit asset is wholly recognised in the financial statements of the Bank while the Deposit Protection Fund Board recognises contributions to the fund as if it were a defined contribution scheme.

The amounts recognised in the balance sheet are determined on the basis of an actuarial review carried out by Alexander Forbes Financial Services Limited as at 30 June 2005.

	2005 KShs million	**2004 KShs million**
Present value of funded obligations	7,062	5,932
Fair value of plan assets	(8,075)	(7,146)
Present value of net asset	(1,013)	(1,214)
Unrecognised actuarial gain	535	703
Asset in the balance sheet	**(478)**	**(511)**

The amounts recognised in the profit and loss account are as follows:

	2005 KShs million	**2004 KShs million**
Current service costs	375	323
Interest costs	541	459
Expected return on plan assets	(645)	(552)
Total expenses included in operating expenses	**271**	**230**

Movements in the net asset recognised in the balance sheet are as follows:

	2005 KShs million	**2004 KShs million**
Net expense recognised in the profit and loss account	271	230
Employer contributions	(238)	(321)
Movement in the asset recognised in the balance sheet	33	(91)
Actual return on plan assets	**899**	**934**

The principal actuarial assumptions at the balance sheet date were:

	2005	**2004**
Discount rate (p.a)	9%	9%
Salary increase (p.a)	7%	7%
Expected return on plan assets (p.a)	9%	9%
Future pension increases	0%	0%

16. PROPERTY AND EQUIPMENT

	Land and buildings KShs million	Motor vehicles KShs million	Furniture and equipment KShs million	Total KShs million
Cost				
At start of year	1,004	179	1,448	2,631
Additions	-	41	1,136	1,177
Disposals	-	(27)	-	(27)
At end of the year	1,004	193	2,584	3,781
Depreciation				
At start of the year	750	164	1,092	2,006
Charge for the year	85	16	508	609
On disposal	-	(27)	-	(27)
At end of the year	835	153	1,600	2,588
Net book value				
At 30 June 2005	**169**	**40**	**984**	**1,193**
At 30 June 2004	**254**	**15**	**356**	**625**

17. PREPAID OPERATING LEASE RENTALS

Operating lease rentals are carried at historical cost less amortisation over the period of the lease. The breakdown is as follows:

	2005 KShs million	2004 KShs million
Cost		
At beginning and end of the year	300	300
Amortisation		
At start of the year	8	5
Amortisation charge for the year	3	3
At end of year	11	8
Net carrying value at end of the year	**289**	**292**

18. DUE FROM GOVERNMENT OF KENYA

	2005	2004
Recoverable from dividends:		
Revaluation account	16,642	17,642
Loan due from Government	36,917	36,917
Impairment loss	(15,642)	(11,642)
Recovery in the year	(2,000)	(1,000)
	35,917	**41,917**
Impairment provision:		
Balance at start of the year	11,642	-
Additions in the year	4,000	11,642
Balance at end of the year	**15,642**	**11,642**

The loan due from 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 Cap 491. The loan which stood at KShs 35,917 million at 30 June 2005 bears interest at the rate of 3% per annum from 1 July 2003. The repayment period is 36 years from 1 July 2004.

19. CURRENCY IN CIRCULATION

	2005 KShs million	2004 KShs million
Kenya notes	64,416	59,973
Kenya coins	2,901	2,643
Commemorative coins	5	5
	67,322	**62,621**

20. DEPOSITS

	2005 KShs million	2004 KShs million
Banks – Kenya	27,127	27,491
– External	19	29
Domestic forex cheques clearing	949	-
Non-bank financial institutions	113	124
Other public entities and project accounts	7,914	10,491
Government of Kenya	43,775	37,641
	79,897	**75,776**

21. INTERNATIONAL MONETARY FUND

Kenya has been a member of the International Monetary Fund (IMF) since 1966. The Central Bank of Kenya (CBK) 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 CBK.

	2005		2004	
	SDRs million	KShs million	SDR's million	KShs million
International Monetary Fund Account no.1	20	2,259	20	2,376
International Monetary Fund Account no.2	-	1	-	-
International Monetary Fund – PRGF Account	94	10,392	51	5,923
International Monetary Fund – On lent to Government of Kenya	20	2,221	20	2,331
	134	**14,873**	**91**	**10,630**

On a custodial basis, CBK holds a non-negotiable, non-interest bearing and encashable on demand security issued by the Treasury in the favour of the IMF in its capacity as the IMF's depository.

Security at 30 June	**238**	**27,690**	**216**	**24,552**

22. AMOUNTS REPAYABLE UNDER REPURCHASE AGREEMENTS

These are securities issued and utilised by the Bank for monetary policy purposes and are shown as a liability to the buyers.

23. OTHER LIABILITIES

	2005 KShs million	2004 KShs million
Impersonal accounts	-	478
Sundry creditors	564	407
Refundable deposits	258	58
Development deposits	155	36
Amount pending litigation	32	32
	1,009	**1,011**

24. SHARE CAPITAL

	2005	2004
Authorised share capital	**5,000**	**5,000**
Issued and fully paid	**1,500**	**1,500**

25. GENERAL RESERVE FUND

The general reserve fund is a reserve fund where at least 10% of the net annual profits of the Bank has been transferred at the end of each financial year. This is after allowing for expenses for operation and after provision has been made for bad and doubtful debts, depreciation in assets, contribution to staff benefit fund, and such other contingencies and accounting provisions as the Bank deems appropriate.

26. NOTES TO THE CASH FLOW STATEMENT

	2005 KShs million	2004 KShs million
(a) Cash flows from operating activities		
(Loss)/profit for the year	(4,134)	5,133
Adjustments for:		
Impairment losses on amount due from Government of Kenya	4,000	11,677
Depreciation	609	281
Amortization of prepaid operating leases	3	3
Decrease/(increase) in defined benefit scheme asset	33	(91)
Gain on disposal of property and equipment	(9)	(3)
Operating profit before working capital changes	502	17,000
Net decrease/(increase) in loans and advances	4,032	(1,453)
Decrease in amounts repayable under repurchase agreements	(810)	(6,524)
Increase in deposits	4,121	1,319
Increase in balance with International Monetary Fund	4,243	2,542
Decrease/(increase) in project accounts	2,415	(635)
Increase in accrued interest on balances due from banking institutions	(145)	(114)
Increase in items in the course of collection	(846)	(585)
Increase in other assets	(2,368)	(324)
(Decrease)/increase in other liabilities	(2)	451
Net cash generated by operations	11,142	11,677

(b) Cash and cash equivalents

Cash and cash equivalents included in the cash flow statement comprise the following:

	2005 KShs million	2004 KShs million
Term deposits	109,858	99,718
Current accounts	3,059	2,202
Domestic forex cheques clearing	1,164	-
Travellers cheques	2	2
Gold holdings	16	15
	114,099	101,937
Investment in Government securities	7	3
	114,106	**101,940**

27. RELATED PARTY TRANSACTIONS

In the course of its operations, the Bank enters into transactions with related parties, which include the Government of Kenya, the ultimate owner of the Bank, and The Deposit Protection Fund Board. Unless otherwise stated, all transactions between these entities take place at arm's length.

(i) Loans

The Bank extends loan facilities to its members of staff, the Governor and the Deputy Governor. Loans and advances (Note 13) include advances to employees that as at 30 June 2005 amounted to KShs 1,998 million (2004 - KShs 1,915 million). The advances are at preferential rates of interest determined by the Bank.

	2005 KShs million	2004 KShs million
(ii) Loans to executive directors		
At start of the year	16	9
Loans advanced during the year	-	11
Loan repayments	(10)	(4)
At end of the year	**6**	**16**
(iii) Director's emoluments		
Fees to non executive directors	9	4
Remuneration to executive directors	36	26

(iv) Government of Kenya

Transactions entered into with the Government include:

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

As at the close of business on 30 June, the following balances, which are included in various balance sheet categories, were outstanding:

	2005 KShs million	2004 KShs million
Due from Government of Kenya (Note 18)	35,917	41,917
Overdraft account (Note 13)	5,225	9,232
IMF funds on-lent to the Government (Note 13)	2,221	2,331
Government of Kenya deposits (Note 20)	43,775	37,641
Investments in Government of Kenya securities (Note 12)	7	3

(v) Deposit Protection Fund Board

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

The balance outstanding from The Deposit Protection Fund Board and included in other assets as at year end was KShs 4 million (2004: KShs 8 million).

(vi) Kenya School of Monetary Studies

The Kenya School of Monetary Studies is a registered legal entity incorporated under the Companies Act as a company limited by guarantee and is wholly owned by the Bank. The School is operated as a department and results of its operations are incorporated in the financial statements of the Bank.

28. LIQUIDITY RISK

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 30 June 2005 to the contractual maturity date.

ASSETS	On demand KShs million	Due within 3 months KShs million	Due between 3-12 months KShs million	Due between 1-5yrs KShs million	Due after 5 years KShs million	Total KShs million
Balances due from banking institutions and gold holdings	9,849	109,858	-	-	50	119,757
Loans and advances	5,225	546	333	1,808	1,502	9,414
Investments in government securities	-	7	-	-	-	7
Items in the course of collection	5,468	-	-	-	-	5,468
Other assets	-	2,809	-	-	1,483	4,292
Retirement benefit asset	-	-	-	-	478	478
Due from Government of Kenya	-	-	-	5,000	30,917	35,917
TOTAL ASSETS	20,542	113,220	333	6,808	34,430	175,333
LIABILITIES						
Currency in circulation	67,322	-	-	-	-	67,322
Deposits	79,897	-	-	-	-	79,897
International Monetary Fund	-	-	413	1,808	12,652	14,873
Amounts repayable under repurchase agreements	-	5,334	-	-	-	5,334
Other liabilities	-	1,009	-	-	-	1,009
Equity and reserves	-	-	-	-	6,898	6,898
TOTAL LIABILITIES AND EQUITY	147,219	6,343	413	1,808	19,550	175,333
Liquidity gap 2005	**(126,677)**	**106,877**	**(80)**	**5,000**	**14,880**	**-**
As at 30 June 2004:						
Total assets	23,649	102,586	314	10,324	34,841	171,714
Total liabilities and equity	138,397	11,655	1,031	9,323	11,308	171,714
Liquidity gap 2004	**(114,748)**	**90,931**	**(717)**	**1,001**	**23,533**	**-**

29. CURRENCY RISK

The various currencies to which the bank is exposed at 30 June 2005are summarised in the below (all expressed in KShs million):

	USD	GBP	EURO	SDR	GOLD	OTHER	TOTAL
Assets							
Balances due from banking institutions	42,591	46,198	30,867	-	-	35	119,691
Special Drawing Rights	-	-	-	50	-	-	50
Gold holdings	-	-	-	-	16	-	16
Total assets	42,591	46,198	30,867	50	16	35	119,757
Liabilities							
Balances due to IMF	-	-	-	14,873	-	-	14,873
Commissions for EEC Development Fund	-	342	-	-	-	-	342
Forex bureaux deposits	783	-	231	-	-	-	1,014
Total liabilities	783	342	231	14,873	-	-	16,229
Net balance sheet position 2005	**41,808**	**45,856**	**30,636**	**(14,823)**	**16**	**35**	**103,528**
As at 30 June 2004							
Total assets	34,460	39,230	36,021	41	15	89	109,856
Total liabilities	52	36	-	10,630	-	-	10,718
Net balance sheet position 2004	**34,408**	**39,194**	**36,021**	**(10,589)**	**15**	**89**	**99,138**

30. INTEREST RATE RISK

This table shows the extent to which the Bank's interest rate exposures on assets and liabilities are matched. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and maturity date.

	3 months or less	Between 3-12 months	Over 1 year	Non- interest bearing	Total
	KShs million	KShs million	KShs million	KShs million	KShs million
Assets					
Balances due from banking institutions and gold holdings	114,577	-	-	5,180	119,757
Loans and advances	5,226	488	3,700	-	9,414
Investment in government securities	7	-	-	-	7
Items in the course of collection	-	-	-	5,468	5,468
Other assets	-	-	-	4,292	4,292
Retirement benefit asset	-	-	-	478	478
Due from Government of Kenya	-	-	35,917	-	35,917
Total assets	119,810	488	39,617	15,418	175,333
Liabilities and equity					
Currency in circulation	-	-	-	67,322	67,322
Deposits	-	-	-	79,897	79,897
International Monetary Fund	-	413	12,200	2,260	14,873
Amounts repayable under repurchase agreements	5,334	-	-	-	5,334
Other liabilities	-	-	-	1,009	1,009
Equity and reserves	-	-	-	6,898	6,898
Total liabilities and equity	5,334	413	12,200	157,386	175,333
Interest sensitivity gap 2005	**114,476**	**75**	**27,417**	**(141,968)**	**-**
As at 30 June 2004					
Total assets	112,714	405	39,509	19,086	171,714
Total liabilities and equity	6,144	1,186	6,838	157,546	171,714
Interest sensitivity gap 2004	**106,570**	**(781)**	**32,671**	**(138,460)**	**-**

31. FAIR VALUES AND EFFECTIVE INTEREST RATES OF FINANCIAL ASSETS AND LIABILITIES

In the opinion of the directors, the fair values of the Bank's financial assets and liabilities approximate their respective carrying amounts. Fair values are based on discounted cash flows using a discount rate based on the borrowing rate that directors expect would be available to the Bank at the balance sheet date.

The effective interest rates for the principal financial assets and liabilities at 30 June 2005 and 2004 were in the following ranges:

	2005	2004
Assets		
Government securities	4.9%	4.9%
Deposits with overseas correspondent banks		
– current accounts	0.0%	0.0%
– term deposits (USD)	2.2%	1.1%
– term deposits (Pounds Sterling)	4.8%	3.9%
– term deposits (Euro)	2.0%	2.1%
Loans and advances – Commercial banks	9.2 %	4.6%
– Government of Kenya	6.2%	1.6%
– Employees	3.0%	3.0%
Due from Government of Kenya	3.0%	3.0%
Liabilities		
Customer deposits	0%	0%

32. CONTINGENCIES AND COMMITMENTS

Contingencies

The Bank is party to various legal proceedings amounting to KShs 532 million at 30 June 2005 (2004 – KShs 334 million). Having regard to the legal advice received, and in all circumstances, the directors are of the opinion that these legal proceedings will not give rise to liabilities, which in aggregate, would otherwise have material effect on these financial statements.

Commitments	**2005 KShs million**	**2004 KShs million**
Contracted for	106	977
Authorised but not contracted for	42	-

33. EMPLOYEES

The average number of employees during the year was 1,253 (2004 – 1,255).

34. TAXATION

No provision for tax is made as Section 7 of the Income Tax Act (Cap.470) 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.