CENTRAL BANK OF KENYA

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

30 JUNE 2007

ERNST & YOUNG

CENTRAL BANK OF KENYA
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

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BANK INFORMATION
FOR THE YEAR ENDED 30 JUNE 2007

DIRECTORS

Prof.Njuguna Ndungu	-	Governor and Chairman (Appointed on 4 March 2007)
Mrs Jacinta W. Mwatela	-	Deputy Governor and Deputy Chairman
Mr Joseph K. Kinyua	-	Permanent Secretary-Treasury, Member
Mr Joseph K. Waiguru	-	Member–Appointed on 28 September 2006
Dr. William O. Ogara	-	Member–Appointed on 28 September 2006
Mr. Nicholas A. Nesbitt	-	Member– Appointed on 28 September 2006
Mr. George Ongaya-Okoth	-	Member– Retired on 15 August 2006
Prof. Henry K. Maritim	-	Member– Retired on 19 August 2006
Mr. Paul A. Spence	-	Member– Retired on 19 August 2006
Mr. Owen N. Koimburi	-	Member– Retired on 19 August 2006
Ms Agnes Wanjiru	-	Member –Appointed on 4 January 2007
Ms Wanza Kioko	-	Member –Appointed on 4 January 2007

SENIOR MANAGEMENT

Prof. Njuguna Ndungu	-	Governor
Mrs Jacinta W. Mwatela	-	Deputy Governor
Mr John M. Gikonyo	-	Director –Governor's office & Board Secretary
Mr Aggrey J.K. Bett	-	Director – Finance, Resource Planning and Strategy Management
Mr Jones M. Nzomo	-	Director – Human Resources and Services Department
Ms Rose Detho	-	Director – Banking Supervision Department
Ms Elizabeth C. A. Omolo	-	Executive Director – Kenya School of Monetary Studies
Mr Nicholas M. Kiritu	-	Director – Internal Audit & Risk Management
Mr Nicholas N. B. T. Korir	-	Director –Research Department
Mr Edwin L. Ogola	-	Director – Currency Operations and Branch Administration
Mr Gerald Nyaoma	-	Director – Banking Department
Mr Jackson M. Kitili	-	Director – Monetary Operations & Debt Management
Mr Charles O. Maranga	-	Director – Human Resources (Performance Management System)

REGISTERED OFFICE

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

BRANCHES

Mombasa
Central Bank of Kenya Building
Nkrumah Road
PO Box 86372
80100 Mombasa, Kenya

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

Eldoret
Kiptagich House
Uganda Road
PO Box 2710
30100 Eldoret, Kenya

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

AUDITORS

Ernst & Young
Kenya - Re Towers, Upperhill
Off Ragati Road
PO Box 44286
00100 Nairobi, Kenya

LAWYERS

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

CENTRAL BANK OF KENYA
DIRECTORS' REPORT
FOR THE YEAR ENDED 30 JUNE 2007

The directors submit their report together with the audited financial statements for the year ended 30 June 2007, which shows the state of affairs of the Bank.

1. INCORPORATION

The Bank is incorporated under the Central Bank of Kenya Act Cap 491(the Act).

2. PRINCIPAL ACTIVITIES

The Bank is established and administered under the 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 as set out on page 8 show that the Bank recorded a deficit of KShs 386 million after a foreign exchange translation loss of KShs 9,845 million. The foreign exchange loss is attributed to appreciation of the Kenya Shilling during the year against foreign reserve currencies of the Bank namely the USA Dollar, the Sterling Pound and the Euro.

4. DIVIDEND

The Board of Directors do not recommend payment of dividend for the year ended 30 June 2007 (2006: KShs 2 billion).

5. DIRECTORS

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

6. AUDITORS

The auditors, Ernst & Young, were appointed during the year in line with the Public Procurement and Disposal Act, 2005 for a period of three years.

By order of the Board

J.M. Gikonyo
BOARD SECRETARY

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CENTRAL BANK OF KENYA
STATEMENT OF DIRECTORS' RESPONSIBILITIES
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2007

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 in ensuring 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. The directors are of the opinion that the financial statements for the year ended 30 June 2007 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**

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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 of the laws of Kenya. 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 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 who is ex-officio, 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.

Professor Njuguna Ndungu was appointed Governor on 4th March, 2007 following the expiry of the tenure of Dr. Andrew K. Mullei. Currently there are five Non-Executive Directors namely Messrs Waiguru, Nesbitt, Ogara, Kioko and Wanjiru 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 agenda items due for deliberations. The Directors are given appropriate and timely information to maintain full and effective control over strategic, financial and operational issues. The Board is not involved in the conduct of day-to-day business as this is a responsibility given to the Governor by the CBK Act Cap 491. It, however, retains responsibility for determining the policy of the Bank.

Monetary Policy Advisory Committee (MPAC)

Section 4D of the CBK Act establishes the Monetary Policy Advisory Committee. Members were appointed by the Minister for Finance on 29 July 2005 for three years with effect from 1 August 2005. Sections 4D2(d) require that the six independent members shall have knowledge, experience and expertise in matters relating to finance, banking, fiscal and monetary policy. The Secretariat of this Committee is based in the Research Department of the Bank and Members have unlimited access to the Bank for purposes of research in any area which they consider useful. The law requires that the Committee meets at least once every two months.

The main duties of the Committee are to:

(a) Advise the Bank with respect to Monetary Policy and;
(b) Perform such other functions as the Minister for Finance may prescribe by regulations.

The Committee is currently made up of the following:

(1) The Governor who is also the Chairman
(2) The Deputy Governor who is the Deputy Chairman
(3) Permanent Secretary to the Treasury or his alternative
(4) Professor T. C. Ryan
(5) Professor Francis Mwega
(6) Dr. Rose W. Ngugi
(7) Mrs. Sheila S.M.R. M'Mbijjewe
(8) Mr. Wycliffe Mukulu
(9) Mr. John Randa

However, there are proposals in the Finance Bill, which if enacted, will change the MPAC in three main aspects:-

1) The Committee members will no longer be 'advisory' to the Bank. The law proposes to delete the word "Advisory" from MPAC, to have the Committee as Monetary Policy Committee(MPC) as is the case in many other countries.

2) The MPC will be more entrenched with two additional CBK staff, unlike currently where only the Governor and Deputy Governor are official members. One of the additional CBK staff will be required to have knowledge in monetary policy formulation and the other to have knowledge/be responsible for monetary policy operations.

3) The Treasury will no longer be represented in the MPC.

The Board of Directors has 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 Dr. William O. Ogara 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 improves 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.

Human Resources Committee

The Committee is presently chaired by Ms Agnes Wanjiru and membership includes three other Non-Executive Directors with the Governor and the Deputy Governor in attendance. The Committee meets regularly as and when need arises to review human resource policies and make suitable recommendations to the Board.

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 positions 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 Chief Executive Officer of the Bank.

Directors' Emoluments and Loans

The remuneration paid to the Directors for services rendered during the financial year 2006/2007 is disclosed in note 27 (iv) of the financial statements. The Non Executive Directors are paid a monthly retainer fee and a sitting allowance for every meeting attended. There were no loans to Non-Executive Directors during the year while Executive Directors are paid monthly and are eligible for the staff loans.

Code of Ethics

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

Internal Controls

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

Authorizations

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

Internal Audit

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 Releases, Statistical Bulletin and Bi-annual Monetary Policy Statement which explains current monetary policy and also provides the expected monetary policy stance. In addition, the Bank issues policy briefs to the Treasury on both the monetary and fiscal policies. On an annual basis, the Financial Report is published in the Kenya Gazette.

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

Report on the Financial Statements

We have audited the financial statements of the Central Bank of Kenya set out on pages 8 to 31 which comprise the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes. We have obtained all the information and explanations which to the best of our knowledge and belief, were necessary for the purpose of our audit. The financial statements are in agreement with the books of accounts. The financial statements for the year ended 30 June 2006 were audited by another auditor, whose report dated 17 October 2006 expressed unqualified opinion on the financial statements.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the Bank as at 30 June 2007 and of the loss and cash flows for the year then ended in accordance with the International Financial Reporting Standards and the requirements of the Central Bank of Kenya Act.

Nairobi

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ERNST & YOUNG
Certified Public Accountants

CENTRAL BANK OF KENYA
INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 KShs million	2006 KShs million
Interest income	2	9,872	6,943
Interest expense	3	(1,016)	(1,039)
Net interest income		**8,856**	**5,904**
Fee and commission income	4	5,243	4,968
Foreign exchange loss	5	(9,337)	(109)
Other operating income	6	321	255
Operating income		**5,083**	**11,018**
Operating expenses	7	(5,469)	(6,267)
Impairment losses	8	-	(4)
(Loss)/profit for the year		(386)	4,747
Dividends:			
Proposed dividend for the year	9	-	2,000

CENTRAL BANK OF KENYA
BALANCE SHEET
AS AT 30 JUNE 2007

ASSETS	Note	2007 KShs million	2006 KShs million
Balances due from banking institutions and gold holdings	10	180,883	172,997
Items in the course of collection		589	537
Investment in government securities	11	4	1
Loans and advances	12	3,742	9,283
Other assets	13	1,562	6,851
Retirement benefit asset	14	240	394
Property and equipment	15	591	694
Prepaid operating lease rentals	16	282	285
Intangible assets	17	49	12
Due from Government of Kenya	18	35,549	35,549
TOTAL ASSETS		223,491	226,603
LIABILITIES			
Currency in circulation	19	89,799	76,207
Deposits	20	91,345	100,824
International Monetary Fund	21	15,740	13,588
Amounts repayable under repurchase agreements	22	15,626	23,342
Other liabilities	23	1,722	997
TOTAL LIABILITIES		214,232	214,958
EQUITY AND RESERVES			
Share capital	24	1,500	1,500
General reserve fund	25	7,759	8,145
Proposed dividend		-	2,000
TOTAL EQUITY AND RESERVES		9,259	11,645
TOTAL LIABILITIES AND EQUITY		223,491	226,603

The financial statements were approved by the Board of Directors for issue on -----------------2007 and signed on its behalf by:

Governor **Director**

CENTRAL BANK OF KENYA
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2007

	Share capital KShs million	General reserve fund KShs million	Proposed dividend KShs million	Total KShs million
Year ended 30 June 2006				
Balance at start of the year	1,500	5,398	-	6,898
Profit for the year	-	4,747	-	4,747
Proposed dividends for 2006/(Note 9)	-	(2,000)	2,000	-
Balance at end of the year	1,500	8,145	2,000	11,645
Year ended 30 June 2007				
Balance at start of the year	1,500	8,145	2,000	11,645
Loss for the year	-	(386)	-	(386)
2006 dividends paid	-	-	(2,000)	(2,000)
Balance at end of the year	1,500	7,759	-	9,259

CENTRAL BANK OF KENYA
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2007

	Note	2007 KShs million	2006 KShs million
Operating activities			
Net cash (absorbed)/generated by operating activities	26 (a)	(2,826)	43,526
Investing activities			
Receipts of government loan		-	368
Purchase of property and equipment		(151)	(227)
Purchase of intangible assets		(55)	(14)
Proceeds from disposal of property and equipment		6	10
Proceeds in International Monetary Fund -SDR accounts		8	37
Net cash (used in)/from investing activities		(192)	174
Financing activities			
Dividends paid		(2,000)	-
Currency in circulation		13,592	8,885
Net cash from financing activities		11,592	8,885
Net increase in cash and cash equivalents		8,574	52,585
Cash and cash equivalents at start of year		166,691	114,106
Cash and cash equivalents at end of year	26 (b)	175,265	166,691

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 millions of Kenya Shillings (KShs million) and are prepared under the historical cost convention except for measurement at fair value of certain investments.

(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) Significant accounting judgement and estimates

The preparation of financial statements in conformity with IFRS 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. The most significant use of judgement and estimates are as follows:

(i) Impairment losses on loans and advances

The Bank reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recognised in the income statement. In particular, judgement by the directors is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on the assumptions about a number of factors and actual results may differ, resulting in future changes in the allowance.

In addition to specific allowances against individual significant loans and advances, the Bank makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration such factors as any deterioration in industry, technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

(ii) Pensions

The actuarial valuation cost of the defined benefit pension plan is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long nature of these plans, such estimates are subject to significant uncertainty. See note 14 for assumptions used.

(iii) Property, equipment and intangible assets

Critical estimates are made by the management in determining depreciation and amortisation rates for property, equipment and intangible assets. The rates used are set out in the accounting policy (f) and (g) below.

(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 expenses

Interest income and expense are recognised in the income statement 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.

Fees and Commission income

Fees and commissions are recognised on an accruals basis as the service is provided.

(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 income statement in the year in which they arise.

(e) Employee benefits

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.

(e) Employee benefits (continued)

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 income statement 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.

Other employee benefits

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

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. Depreciation is computed on the straight line basis over the estimated useful lives of the assets at the following rates:

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

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any loss or gain on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in other operating income in the income statement in the year the asset is derecognised

(g) Intangible assets

Intangible assets include the value of computer software. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and any accumulated impairment loss.

The useful lives of intangible assets are assessed to be finite and are amortised over the useful economic life. The amortisation period with a finite useful life are reviewed at least at each financial year end. The amortisation expense on intangible assets with finite lives is recognised in the income statement
Amortisation is calculated using the straight line method to write down the cost of intangible assets to the residual values over the estimated useful life as follows:

Computer software	50%

(h) Financial assets and liabilities

Classification

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

The Bank classifies its financial assets in the following categories: financial assets at fair value through income statement, loans and advances, investments that are held to maturity, and financial assets that are available for sale. The Bank determines the classification of its investments at initial recognition.

(i) Financial assets at fair value through income statement

A financial asset is classified in this category if it is acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are classified as held at fair value through income statement. The Bank does not currently hold financial assets for trading.

(ii) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money or services directly to counterparty with no intention of trading the receivable.

(iii) Held to maturity

Investments classified as held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's has the intention and ability to hold to maturity. Were the Bank to sell other than an insignificant amount of such assets, the entire category would be reclassified as available for sale. The Bank currently classifies repurchase and reverse purchase instruments as held to maturity.

(iv) Available for sale

These investments are those intended to be held for an indefinite period of time, which may be sold as part of the Bank's operations or otherwise. The Bank does not currently have any assets classified as available for sale.

Recognition and measurement

Loans are recognized when cash is advanced to the borrowers. Purchases and sales of other financial assets are recognized on trade date, the date on which the Bank commits to purchase or sell the asset. Financial assets are initially recognized at fair value, plus transaction costs for financial assets not carried at fair value through the income statement. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all of the risks and rewards of ownership. Financial assets that are available for sale and financial assets at fair value through income statement are subsequently carried at fair value.

Loans and advances and investments that are held to maturity are carried at amortised cost using the effective interest method, less provision for impairment.

(i) 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.

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 income statement.

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

(j) 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.

(k) Provisions

Provisions are recognised when the Bank has a present obligation / (legal or constructive) 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 can be made of the amount of the obligation.

(l) 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.

(m) 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. Impairment losses are recognised through the income statement.

(n) 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 income statement on a straight-line basis over the period of the lease.

(o) Receivables

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

(p) 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.

		2007 KShs million	2006 KShs million
2	**INTEREST INCOME**		
	Foreign investments earnings	8,440	5,372
	Local investments earnings	1,363	1,506
	Other interest earnings	69	65
		9,872	6,943
3	**INTEREST EXPENSE**		
	Interest on monetary policy issues	968	991
	Interest paid to IMF	48	48
		1,016	1,039
4	**FEES AND COMMISSION INCOME**		
	Commission on sale of government securities	5,236	4,967
	Special projects agency fees	7	1
		5,243	4,968
5	**FOREIGN EXCHANGE LOSS**		
	Gains on sale of foreign exchange	508	378
	Foreign exchange translation loss	(9,845)	(487)
		(9,337)	(109)
6	**OTHER OPERATING INCOME**		
	Rent received	17	14
	Proceeds from disposal of property and equipment	6	10
	Tuition fees and other charges	43	32
	Hospitality services	156	103
	Miscellaneous income	99	96
		321	255
7	**OPERATING EXPENSES**		
	Currency expenses	1,248	2,027
	Depreciation on property and equipment	254	721
	Property maintenance expenses	388	371
	Auditors' remuneration	4	5
	Banking expenses	4	3
	Operating lease rentals	3	4
	Amortisation on intangible assets	19	7
	Staff costs	2,956	2,654
	Other expenses	593	475
		5,469	6,267

8 IMPAIRMENT LOSSES

	2007 KShs million	2006 KShs million
Losses and write-offs of loans	-	4

9 DIVIDENDS

The directors do not recommend the payment of dividends for the year ended 30 June 2007 (2006: KShs 2 billion).

10 BALANCES DUE FROM BANKING INSTITUTIONS AND GOLD HOLDINGS

	2007 KShs million	2006 KShs million
Current accounts	2,333	2,604
Term deposits	171,262	162,674
Domestic forex currency cheque clearing	1,641	1,386
Forex travellers cheques	5	5
Gold holdings	20	21
Cash and cash equivalents	175,261	166,690
Accrued interest on foreign investments	1,132	910
Special Drawing Rights	5	13
Total own resources	176,398	167,613
Special project accounts	4,485	5,384
	180,883	172,997

11 INVESTMENT IN GOVERNMENT SECURITIES

Treasury bills and treasury bonds discounted	4	1

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

12 LOANS AND ADVANCES

	2007 KShs million	2006 KShs million
Advances to banks under liquidation	8,259	8,259
Other advances to banks	-	5
Government overdraft account (see below and Note 27)	42	5,202
Advances to employees (Note 27)	2,312	2,150
IMF funds on-lent to the Government (Note 27)	1,410	1,948
	12,023	17,564
Provision for loan impairment	(8,281)	(8,281)
Net advances as at 30 June	3,742	9,283

Movement in the provision for loan impairment is as follows:

	2007	2006
At start of the year	(8,281)	(8,289)
Additional provisions made in the year	(2)	(2)
Recoveries in the year	2	10
At end of the year	(8,281)	(8,281)

12 LOANS AND ADVANCES (continued)

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 13,268,817,798 based on the Government financial statements for 2004/2005, which are the latest audited financial statements at the date of approval of these financial statements. The limit for the previous year was KShs 11,323,869,438 based on the Government financial statements for 2003/2004.

13 OTHER ASSETS

	2007 KShs million	2006 KShs million
Impersonal accounts	-	4,545
Sundry debtors	1,562	2,306
	1,562	6,851

14 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 as at 30 June 2007.

	2007 KShs million	2006 KShs million
Present value of funded obligations	9,416	8,126
Fair value of plan assets	(10,774)	(9,260)
Present value of net asset	(1,358)	(1,134)
Unrecognised actuarial gain	1,118	740
Asset in the balance sheet	(240)	(394)

The amounts recognised in the income statement are as follows:

	2007	2006
Current service costs	498	418
Interest costs	737	641
Expected return on plan assets	(845)	(725)
Total expenses included in operating expenses	391	334

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

	2007	2006
Net expense recognised in the income statement	391	334
Employer contributions	(237)	(250)
Movement in the asset recognised in the balance sheet	(154)	(84)
Actual return on plan assets	**1,451**	**1,235**

14 RETIREMENT BENEFIT ASSET (continued)

The principal actuarial assumptions at the balance sheet date were:

	2007	2006
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%

15 PROPERTY AND EQUIPMENT

	Land and buildings KShs million	Motor vehicles KShs million	Furniture and equipment KShs million	Total KShs million
30 JUNE 2007				
Cost				
At start of year	1,004	205	2,824	4,033
Additions	-	-	151	151
Adjustments	-	-	90	90
Disposals	-	(21)	-	(21)
At end of the year	1,004	184	3,065	4,253
Depreciation				
At start of the year	921	141	2,277	3,339
Charge for the year	21	37	196	254
Adjustments	-	-	90	90
Eliminated on disposal	-	(21)	-	(21)
At end of the year	942	157	2,563	3,662
Net book value At 30 June 2007	62	27	502	591
30 JUNE 2006				
Cost				
At start of year	1,004	193	2,474	3,671
Additions	-	45	182	227
Adjustments	-	-	247	247
Disposals	-	(33)	(79)	(112)
At end of the year	1,004	205	2,824	4,033
Depreciation				
At start of the year	835	153	1,495	2,483
Charge for the year	86	21	614	721
Adjustments	-	-	247	247
Eliminated on disposal	-	(33)	(79)	(112)
At end of the year	921	141	2,277	3,339
Net book value At 30 June 2006	83	64	547	694

During the year, the Bank carried out a physical verification of its property and equipment. As a result computer equipment previously written off from the books were reinstated.

16 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:

	2007 KShs million	2006 KShs million
Cost		
At 30 June	300	300
Amortisation		
At 1 July 2006 and 2005	15	11
Amortisation for the year	3	4
At end of the year	18	15
Net carrying value at end of the year	282	285

17 INTANGIBLE ASSETS

	2007 KShs million	2006 KShs million
Cost		
At 1 July 2006 and 2005	125	110
Additions	55	14
At end of the year	180	124
Amortisation		
At 1 July 2006 and 2005	112	105
Amortisation for the year	19	7
At end of the year	131	112
Net carrying value at end of the year	49	12

18 DUE FROM GOVERNMENT OF KENYA

Loans due from the Government

	2007 KShs million	2006 KShs million
At start of the year	35,549	35,917
Receipts during the year	-	(368)
At end of the year	35,549	35,549

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. The loan stood at KShs 35,549 million as at 30 June 2007.

Subsequent to year end, on 24 July 2007, a deed of guarantee was signed between the Government of Kenya (GoK) and Central Bank of Kenya in which the Government agreed to repay KShs 1.11billion 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.

19 CURRENCY IN CIRCULATION

	2007 KShs million	2006 KShs million
Kenya notes	86,310	73,089
Kenya coins	3,484	3,113
Commemorative coins	5	5
	89,799	76,207

20 DEPOSITS

	2007	2006
Banks -Kenya	39,441	31,661
-External	25	20
Non-bank financial institutions	1,450	1,159
Other public entities and project accounts	119	119
International Monetary Fund	9,244	8,687
Government of Kenya	41,066	59,178
	91,345	100,824

21 INTERNATIONAL MONETARY FUND

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.

	2007		2006	
	SDR'	KShs	SDR'	KShs
International Monetary Fund Account No. 1	20	2,042	20	2,199
International Monetary Fund Account No. 2	-	1	-	1
International Monetary Fund–PRGF Account	122	12,287	87	9,440
International Monetary Fund On-lent to Government of Kenya	14	1,410	18	1,948
	156	**15,740**	**125**	**13,588**
On a custodial basis, the Bank holds a non-negotiable, non-interest bearing and en cashable on demand security issued by the Treasury in favour of the IMF in its capacity as the IMF's depository.				
Security at 30 June	**243**	**24,947**	**238**	**24,947**

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

	2007 KShs million	2006 KShs million
Impersonal accounts	985	-
Sundry creditors	513	542
Refundable deposits	187	237
Development deposits	37	186
Amount pending litigation	-	32
	1,722	**997**

24 SHARE CAPITAL

	2007	2006
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 is 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

(a) Cashflows from operating activities

	2007 KShs million	2006 KShs million
Net (loss)/profit for the year	(386)	4,747
Adjustments for:		
Depreciation of property and equipment	254	721
Amortization of prepaid operating leases	3	4
Amortization of intangible assets	19	7
Decrease in defined benefit scheme asset	154	84
Gain on disposal of property and equipment	(6)	(10)
Operating profit before working capital changes	**38**	**5,553**
Net decrease in loans and advances	5,541	131
(Decrease)/increase in amounts repayable under repurchase agreements	(7,716)	18,008
(Decrease)/increase in deposits	(9,479)	20,927
Increase/(decrease) in balance with International Monetary Fund	2,152	(1,285)
Decrease/(increase) in project accounts	899	(222)
Increase in accrued interest on balances due from banking institutions	(222)	(464)
(Increase)/decrease in items in the course of collection	(52)	4,931
Decrease/(increase) in other assets	5,289	(4,041)
Increase/(decrease) in other liabilities	724	(12)
Net cash (absorbed)/generated by operations	**(2,826)**	**43,526**

26 NOTES TO THE CASH FLOW STATEMENT (continued)

(b) Cash and cash equivalents

	2007 KShs million	2006 KShs million
Cash and cash equivalents included in the cash flow statement comprise the following:		
Term deposits	171,262	162,674
Current accounts	2,333	2,604
Domestic forex cheques clearing	1,641	1,386
Travellers Cheques	5	5
Gold holdings	20	21
	175,261	166,690
Investment in Government securities	4	1
	175,265	**166,691**

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.

(i) Loans

The Bank extends loan facilities to its members of staff, the Governor and the Deputy Governor. Loans and advances (Note 12) include advances to employees that as at 30 June 2007 amounted to KShs 2,312 million (2006: KShs 2,150 million). The advances are at preferential rates of interest determined by the Bank.

(ii) Loans to executive directors	2007 KShs million	2006 KShs million
At start of the year	6	12
Loans advanced during the year	14	-
Loan repayments	(4)	(6)
At end of the year	16	6

(iii) Loans to key management personnel

	2007 KShs million	2006 KShs million
At start of the year	32	30
Loans advanced during the year	8	19
Loan repayments	(22)	(17)
At end of the year	18	32

(iv) Directors' emoluments:

	2007 KShs million	2006 KShs million
Fees to non executive directors	4	9
Other remuneration to executive directors	26	41
Remuneration to senior management	109	105

(v) 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:

	2007 KShs million	**2006 KShs million**
Due from Government of Kenya (Note 18)	35,549	35,549
Overdraft account (Note 12)	42	5,202
IMF funds on-lent to the Government (Note 12)	1,410	1,948
Government of Kenya deposits (Note 20)	41,066	59,178
Investments in GOK Securities (Note 11)	4	1

(vi) Deposit Protection Fund Board

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

The balance outstanding from The Deposit Protection Fund Board and included in other assets as at year end was KShs 23 million (2006: KShs18 million).

(vii) Kenya School of Monetary Studies

The Kenya School of Monetary Studies is a registered legal entity 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.

27 LIQUIDITY RISK

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 30 June 2007 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	9,616	171,262	-	-	5	180,883
Loans and advances	41	118	702	1,772	1,109	3,742
Investments in government securities	-	4	-	-	-	4
Items in the course of collection	589	-	-	-	-	589
Other assets	-	1,562	-	-	-	1,562
Property, plant and equipment	-	148	367	76	-	591
Prepaid leasehold land	-	1	3	14	264	282
Intangible assets	-	8	24	17	-	49
Retirement benefit asset	-	-	-	-	240	240
Due from Government of Kenya	-	-	-	5,550	29,999	35,549
TOTAL ASSETS	10,246	173,103	1,096	7,429	31,617	223,491
LIABILITIES						
Currency in circulation	-	-	-	-	89,799	89,799
Deposits	91,345	-	-	-	-	91,345
International Monetary Fund	-	-	413	1,535	13,792	15,740
Amounts repayable under repurchase agreements	-	15,626	-	-	-	15,626
Other liabilities	-	1,722	-	-	-	1,722
Equity and reserves	-	-	-	-	9,259	9,259
TOTAL LIABILITIES AND EQUITY	91,345	17,348	413	1,535	112,850	223,491
Liquidity gap 2007	**(81,099)**	**155,755**	**683**	**5,894**	**(81,233)**	**-**
Total assets	16,054	169,822	1,278	7,001	32,448	226,603
Total liabilities and equity	100,824	24,339	413	1,535	99,492	226,603
Liquidity gap As at 30 June 2006	**(84,770)**	**145,483**	**865**	**5,466**	**(67,044)**	**-**

29 CURRENCY RISK

The various currencies to which the Bank is exposed at 30 June 2007 are summarised below (all expressed in KShs million):-

	USD	GBP	EURO	SDR	GOLD	OTHER	TOTAL
Assets							
Balances due from banking institutions	90,458	69,003	21,365	-	-	32	180,858
Special Drawing Rights	-	-	-	5	-	-	5
Gold holdings	-	-	-	-	20	-	20
Total assets	90,458	69,003	21,365	5	20	32	180,883
Liabilities							
Balances due to IMF	-	-	-	15,740	-	-	15,740
Commissions for EEC Development Fund	-	37	-	-	-	-	37
Forex bureaux deposits	1,227	108	290	-	-	-	1,625
Total liabilities	1,227	145	290	15,740	-	-	17,402
Net balance sheet position 2007	**89,231**	**68,858**	**21,075**	**(15,735)**	**20**	**32**	**163,481**
As at 30 June 2006							
Total assets	87,890	58,568	26,362	13	21	53	172,907
Total liabilities	973	408	216	13,588	-	-	15,185
Net balance sheet position 2006	**86,917**	**58,160**	**26,146**	**(13,575)**	**21**	**53**	**157,812**

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 KShs million	Between 3-12 months KShs million	Over 1 year KShs million	Non- interest bearing KShs million	Total KShs million
Assets					
Balances due from banking institutions and gold holdings	176,398	-	-	4,485	180,883
Items in the course of collection	-	-	-	589	589
Investment in government securities	4	-	-	-	4
Loans and advances	74	934	2,734	-	3,742
Other assets	-	-	-	1,562	1,562
Property, plant and equipment	-	-	-	591	591
Prepaid leasehold land	-	-	-	282	282
Intangible assets	-	-	-	49	49
Retirement benefit asset	-	-	-	240	240
Due from Government of Kenya	-	1,110	34,439	-	35,549
Total assets	176,476	2,044	37,173	7,798	223,491
Liabilities and equity					
Currency in circulation	-	-	-	89,799	89,799
Deposits	91,345	-	-	-	91,345
International Monetary Fund	-	-	-	15,740	15,740
Amounts repayable under repurchase agreements	15,626	-	-	-	15,626
Other liabilities	-	-	-	1,722	1,722
Equity and reserves	-	-	-	9,260	9,260
Total liabilities and equity	106,971	-	-	116,520	223,491
Interest sensitivity gap 2007	**69,505**	**2,044**	**37,173**	**(108,722)**	**-**
Total Assets	172,939	1,746	37,761	14,157	226,203
Total liabilities and equity	124,166	-	-	102,437	226,203
Interest sensitivity gap 2006	**48,773**	**1,746**	**37,761**	**(88,280)**	**-**

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 2007 and 2006 were in the following ranges:

	2007	2006
Assets		
Government securities	6.64%	6.2%
Deposits with overseas correspondent banks		
- current accounts	0.0%	0.0%
- term deposits (USD)	5.29%	5.1%
- term deposits (Pounds Sterling)	5.65%	4.6%
- term deposits (Euro)	4.10%	2.9%
Loans and advances - Commercial banks	8.50%	9.75%
- Government of Kenya	8.50%	9.75%
- Employees	3.0%	3.0%
Due from Government of Kenya	3.0%	3.0%
Liabilities -Customer deposits	0%	0%

32 CONTINGENCIES

Pending legal suits

(i) There are several legal suits pending against the Bank relating to the Grand Regency Hotel. If the suits are successful, the Bank will be required to pay approximately KShs 8.1 billion excluding any interest awards on the claims. The Bank has however lodged counter-claims amounting to KShs 19.3 billion.
In view of observations by the Bank’s advocates and the findings of the Goldenberg Commission of inquiry, the directors are of the opinion that the cases are unlikely to be determined against the Bank.

(ii) The Bank is also party to various legal proceedings with potential liability of KShs 383 million at 30 June 2007. 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.

33 COMMITMENTS

	2007 KShs million	2006 KShs million
Contracted for	10	163

Capital commitments contracted for relates to currency disintegration and briquetting system for Kisumu and Eldoret bank notes and sorting system.

33 COMMITMENTS (continued)

OPERATING LEASE COMMITMENTS

AS LESSEE:

The total future minimum lease payments due to third parties under non-cancellable operating leases are as follows:

	2007 KShs million	2006 KShs million
One year	11	9
Between two and five years	7	7
Over five years	140	142
	158	**158**

Lease commitments relate to lease rentals for L.R No. 209/11441.

34 EMPLOYEES

The average number of employees during the year was 1,255 (2006: 1,265).

35 TAXATION

No provision for tax is made as 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.

36 COMPARATIVES

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