

CENTRAL BANK OF KENYA

ANNUAL REPORT

AND

FINANCIAL STATEMENTS

30 JUNE 2004

**Ernst & Young
Kenya-Re Towers, Upperhill
PO Box 44286
00100 NAIROBI**

**CENTRAL BANK OF KENYA
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004**

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**CENTRAL BANK OF KENYA
BANK INFORMATION**

DIRECTORS

Dr Andrew K Mullei	-	Governor and Chairman
Dr Edward C Sambili	-	Deputy Governor and Vice Chairman
Mr Joseph K Kinyua	-	Permanent Secretary-Treasury, Member Appointed 4 July ,2004
Mr Joseph M Magari	-	Permanent Secretary-Treasury, Member Retired 4 July ,2004
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
Dr Edward Sambili	-	Deputy Governor
Mr John M Gikonyo	-	Director & Board Secretary
Mr Aggrey JK Bett	-	Director – Banking Services & National Payments Systems
Miss Eunice W Kagane	-	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 Kakai Cheloti	-	Director-External Payments and Foreign Reserves
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
Mr Hezbon Mariwa	-	Director -Currency operations and Branch Administration
Mr Jackson M Kitili	-	Director - International Relations & Regional Co-operation
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

CENTRAL BANK OF KENYA
BANK INFORMATION (continued)

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

Eldoret

Kiptagich House
Uganda Road
PO Box 2710
30100 Eldoret, Kenya

Kisumu

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, 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 2004**

The directors submit their report together with the audited financial statements for the year ended 30 June 2004, which disclose the state of affairs of the Bank.

INCORPORATION

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

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.

RESULTS

The results for the year are set out on page 6.

DIVIDEND

The Board of Directors recommends the payment of a dividend of KShs 4,500 million (2003: KShs 3,500 million) to the Government of Kenya of which KShs 2,000 million is proposed to be applied to recover the amounts due from the Government of Kenya in respect of revaluation account (KShs 1,000 million) and pre-1997 government overdrawn account (KShs.1,000 million).

DIRECTORS

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

AUDITORS

The auditors of the Bank for the year ended 30 June 2004 were Ernst & Young. In line with the Exchequer and Audit Act (Public Procurement Regulations, 2001), Ernst & Young, having to retire at the conclusion of the current audit, have indicated their willingness to tender for the provision of audit services for the year to 30 June 2005.

By order of the Board

J.M. Gikonyo

BOARD SECRETARY

10th September, 2004

**CENTRAL BANK OF KENYA
STATEMENT OF DIRECTORS' RESPONSIBILITIES
ON THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004**

We, the directors certify that:

1. We are responsible for the preparation of financial statements which present a true and fair view of the state of affairs of the Bank and of its operating results.
2. The financial statements have been prepared in accordance with International Financial Reporting Standards and 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 2004 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

10th September, 2004

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

We have audited the financial statements of the Central Bank of Kenya set out on pages 6 to 24. The balance sheet of the Bank is in agreement with the books of account. 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.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements as set out on page 4. Our responsibility is to express an independent 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 our audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statements presentation. 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, which are in agreement therewith, give a true and fair view of the state of the Bank's financial affairs at 30 June 2004 and of its profit and cash flows for the year then ended and comply with International Financial Reporting Standards and the Central Bank of Kenya Act.

ERNST & YOUNG
Certified Public Accountants

NAIROBI

13th September, 2004

**CENTRAL BANK OF KENYA
PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 30 JUNE 2004**

	Note	2004 KShs million	2003 KShs million
Interest income	1	3,844	3,170
Interest expense	2	<u>(130)</u>	<u>(1,547)</u>
Net interest income		3,714	1,623
Fee and commission income	3	4,374	5,416
Foreign exchange income	4	12,781	1,501
Other operating income	5	<u>274</u>	<u>316</u>
Operating income		21,143	8,856
Operating expenses	6	(4,333)	(4,383)
Impairment losses	8	<u>(11,677)</u>	<u>(25)</u>
Profit for the year		<u>5,133</u>	<u>4,448</u>
Dividends:			
Proposed dividend for the year	9	<u>4,500</u>	<u>3,500</u>

**CENTRAL BANK OF KENYA
BALANCE SHEET
AS AT 30 JUNE 2004**

ASSETS	Note	2004 KShs million	2003 KShs million
Balances due from banking institutions and gold holdings	10	109,856	92,017
Items in the course of collection		4,622	4,037
Investment in government securities	11	3	713
Loans and advances	12	13,446	11,993
Other assets	13	442	118
Retirement benefit asset	14	511	420
Property and equipment	15	625	751
Prepaid operating lease rentals	16	292	295
Due from Government of Kenya	17	<u>41,917</u>	<u>54,559</u>
TOTAL ASSETS		<u>171,714</u>	<u>164,903</u>
LIABILITIES			
Currency in circulation	18	62,621	55,231
Deposits	19	86,406	82,545
Amounts repayable under repurchase agreements	20	6,144	12,668
Other liabilities	21	<u>1,011</u>	<u>560</u>
TOTAL LIABILITIES		<u>156,182</u>	<u>151,004</u>
EQUITY AND RESERVES			
Share Capital	23	1,500	1,500
General reserve fund		9,532	8,899
Proposed dividend		<u>4,500</u>	<u>3,500</u>
TOTAL EQUITY AND RESERVES		<u>15,532</u>	<u>13,899</u>
TOTAL LIABILITIES AND EQUITY		<u>171,714</u>	<u>164,903</u>

The financial statements were approved by the Board of Directors for issue on 10th September, 2004 and signed on its behalf by:

Governor

Director

**CENTRAL BANK OF KENYA
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2004**

	Share capital KShs million	General reserve fund KShs million	Proposed dividend KShs million	Total KShs million
Year ended 30 June 2003				
Balance at start of the year	1,500	7,951	2,110	11,561
Profit for the year	-	4,448	-	4,448
Dividends:				
-For 2002 paid	-	-	(1,110)	(1,110)
-Applied amounts due from Government of Kenya (Note 17)	-	-	(1,000)	(1,000)
-Proposed for 2003	<u>-</u>	<u>(3,500)</u>	<u>3,500</u>	<u>-</u>
Balance at end of the year	<u>1,500</u>	<u>8,899</u>	<u>3,500</u>	<u>13,899</u>
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)
- Applied to amounts due from Government of Kenya (Note 17)	-	-	(1,000)	(1,000)
- Proposed for 2004	<u>-</u>	<u>(4,500)</u>	<u>4,500</u>	<u>-</u>
Balance at end of the year	<u>1,500</u>	<u>9,532</u>	<u>4,500</u>	<u>15,532</u>

**CENTRAL BANK OF KENYA
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2004**

	Note	2004 KShs million	2003 KShs million
Operating activities			
Net cash absorbed by operating activities	22 (a)	(256)	(1,423)
Investing activities			
Liquidation of government securities		710	906
Purchase of property and equipment		(189)	(391)
Proceeds from disposal of property and equipment		3	1
(Investment in)/ liquidation of IMF-SDR accounts		<u>(9)</u>	<u>39</u>
Net cash generated from investing activities		<u>515</u>	<u>555</u>
Financing activities			
Dividends paid		(2,500)	(1,110)
Currency in circulation		<u>7,390</u>	<u>3,364</u>
Net cash from financing activities		<u>4,890</u>	<u>2,254</u>
Net increase in cash and cash equivalents		5,149	1,386
Cash and cash equivalents at start of year		84,855	82,683
Foreign exchange translation gains on cash and cash equivalents		<u>11,933</u>	<u>786</u>
Cash and cash equivalents at end of year	22 (b)	<u>101,937</u>	<u>84,855</u>

**CENTRAL BANK OF KENYA
ACCOUNTING POLICIES
FOR THE YEAR ENDED 30 JUNE 2004**

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.

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.

(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) 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.

(c) 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.

CENTRAL BANK OF KENYA
ACCOUNTING POLICIES (continued)
FOR THE YEAR ENDED 30 JUNE 2004

(d) 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.

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.

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.

(e) 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%

(f) 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.

**CENTRAL BANK OF KENYA
ACCOUNTING POLICIES (continued)
FOR THE YEAR ENDED 30 JUNE 2004**

(f) Financial assets and liabilities (continued)

(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.

(g) 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 profit and loss account.

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.

(h) 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.

CENTRAL BANK OF KENYA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004

	2004	2003
1 Interest Income	KShs million	KShs million
Foreign investments earnings	2,556	2,323
Local investments earnings	1,220	761
Other interest earnings	<u>68</u>	<u>86</u>
	<u>3,844</u>	<u>3,170</u>
2 Interest expense		
Interest on monetary policy issues	102	1,517
Interest paid to IMF	27	24
Interest on customer deposits	<u>1</u>	<u>6</u>
	<u>130</u>	<u>1,547</u>
3 Fees and commission income		
Commission on sale of government securities	4,316	5,360
Special projects agency fees	<u>58</u>	<u>56</u>
	<u>4,374</u>	<u>5,416</u>
4 Foreign exchange income		
Gains on sale of foreign exchange	848	715
Foreign exchange translation gain	<u>11,933</u>	<u>786</u>
	<u>12,781</u>	<u>1,501</u>
5 Other operating income		
Rent received	16	17
Proceeds from disposal of property and equipment	3	1
Tuition fees and other charges	87	101
Miscellaneous income	<u>168</u>	<u>197</u>
	<u>274</u>	<u>316</u>
6 Operating expenses		
Currency expenses	1,145	1,160
Depreciation	281	181
Property maintenance expenses	262	287
Auditors' remuneration	4	5
Banking expenses	5	6
Operating lease rentals	3	5
Provision for fraud, theft and forgery	-	254
Staff costs	2,128	1,992
Other expenses	<u>505</u>	<u>493</u>
	<u>4,333</u>	<u>4,383</u>

CENTRAL BANK OF KENYA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004

7	Staff costs	2004 KShs million	2003 KShs million
	The following items are included within staff costs:		
	Retirement benefit costs - defined benefit scheme	<u>230</u>	<u>245</u>
8	Impairment losses		
	Losses and write-offs	35	25
	Impairment loss on amount due from government	<u>11,642</u>	<u>-</u>
		<u>11,677</u>	<u>25</u>
9	Dividends		
	The directors have proposed a dividend of KShs 4,500 million (2003: KShs 3,500 million) in respect of the year ended 30 June 2004.		
10	Balances due from banking institutions and gold holdings	2004 KShs million	2003 KShs million
	Current accounts	2,202	3,294
	Term deposits	99,718	81,549
	Forex travellers cheques	2	-
	Gold holdings	<u>15</u>	<u>12</u>
	Cash and cash equivalents	101,937	84,855
	Accrued interest on foreign investments	301	187
	Special Drawing Rights	<u>41</u>	<u>32</u>
	Total own resources	102,279	85,074
	Special project accounts	<u>7,577</u>	<u>6,943</u>
		<u>109,856</u>	<u>92,017</u>
11	Investment in government securities		
	Government stock	-	402
	Treasury bills	<u>3</u>	<u>311</u>
		<u>3</u>	<u>713</u>

All the government securities held have a maturity date of within 90 days from the date of acquisition. See note 28 for effective interest rate on government securities.

CENTRAL BANK OF KENYA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004

12 Loans and advances	2004	2003
	KShs million	KShs million
Advances to banks under liquidation	8,259	8,234
Other advances to banks	-	3,898
Government overdraft account (see below and Note 24)	9,232	4,319
Advances to employees (Note 24)	1,915	1,733
IMF funds on-lent to the Government (Note 24)	<u>2,331</u>	<u>2,072</u>
	21,737	20,256
Provision for loan impairment	<u>(8,291)</u>	<u>(8,263)</u>
Net advances as at 30 June	<u>13,446</u>	<u>11,993</u>

Movement in the provision for loan impairment is as follows:

At start of the year	(8,263)	(8,275)
Additional provisions made in the year	(28)	(25)
Recoveries in the year	<u>-</u>	<u>37</u>
At end of the year	<u>(8,291)</u>	<u>(8,263)</u>

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 9,232,144,273.60 based on the Government financial statements for 2000/2001, which are the latest audited financial statements at the date of approval of these financial statements. The limit for the previous year was KShs 8,270,571,883, based on the Government financial statements for 1998/1999.

13 Other assets	2004	2003
	KShs million	KShs million
Impersonal accounts	-	25
Sundry debtors	<u>442</u>	<u>93</u>
	<u>442</u>	<u>118</u>

**CENTRAL BANK OF KENYA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004**

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 2004.

	2004	2003
	KShs million	KShs million
Present value of funded obligations	5,932	4,942
Fair value of plan assets	<u>(7,146)</u>	<u>(5,933)</u>
Present value of net asset	(1,214)	(991)
Unrecognised actuarial gain	<u>703</u>	<u>571</u>
Asset in the balance sheet	<u>(511)</u>	<u>(420)</u>

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

Current service costs	323	277
Interest costs	459	403
Expected return on plan assets	<u>(552)</u>	<u>(435)</u>
Total expenses included in operating expenses	<u>230</u>	<u>245</u>

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

Net expense recognised in the profit and loss account	230	245
Employer contributions	<u>(321)</u>	<u>(378)</u>
Movement in the asset recognised in the balance sheet	<u>(91)</u>	<u>(133)</u>
Actual return on plan assets	<u>934</u>	<u>1,070</u>

The principal actuarial assumptions at the balance sheet date were:

	2004	2003
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%

CENTRAL BANK OF KENYA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2004

15 Property and equipment	Land and buildings	Motor vehicles	Furniture and equipment	Total
	KShs million	KShs million	KShs million	KShs million
Cost				
At start of year	1,004	169	1,310	2,483
Additions	-	17	172	189
Adjustments	-	-	(34)	(34)
Disposals	<u>-</u>	<u>(7)</u>	<u>-</u>	<u>(7)</u>
At end of the year	<u>1,004</u>	<u>179</u>	<u>1,448</u>	<u>2,631</u>
Depreciation				
At start of the year	665	145	922	1,732
Charge for the year	85	26	170	281
Eliminated on disposal	<u>-</u>	<u>(7)</u>	<u>-</u>	<u>(7)</u>
At end of the year	<u>750</u>	<u>164</u>	<u>1,092</u>	<u>2,006</u>
Net book value				
At 30 June 2004	<u>254</u>	<u>15</u>	<u>356</u>	<u>625</u>
At 30 June 2003	<u>339</u>	<u>24</u>	<u>388</u>	<u>751</u>

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:

	2004	2003
	KShs million	KShs million
At beginning of the year		
	295	290
Reversal of depreciation on leasehold land	-	10
Amortisation charge for the year	<u>(3)</u>	<u>(5)</u>
At end of year	<u>292</u>	<u>295</u>

17 Due from Government of Kenya

Recoverable from dividends:		
Revaluation account	17,642	18,642
Loan due from Government	36,917	36,917
Impairment loss	(11,642)	-
Recovery in the year	<u>(1,000)</u>	<u>(1,000)</u>
	<u>41,917</u>	<u>54,559</u>

- a) The Revaluation account due from the Government of Kenya is repayable within 17 years from 1 July 2003. The amount is currently interest free, and is being recovered from dividend payable to the Government of Kenya.
- b) Pursuant to Section 46(4) of the Act, the overdrawn accounts of the Kenya Government were converted to a loan with effect from 1 July 1997. The loan, which stood at KShs 36,917 million at 30 June 2004, bears interest at the rate of 3% p.a. from 1 July 2003. The repayment period is 37 years from 1 July 2003.
- c) At 30 June 2004, the estimated net present value of future inflows from amount due from government, discounted at the original effective rate, was lower than the carrying amount in the books. This resulted in recognition of an impairment loss of KShs 11.6 billion.

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18	Currency in circulation	2004	2003
		KShs million	KShs million
	Kenya notes	59,973	52,923
	Kenya coins	2,643	2,304
	Commemorative coins	<u>5</u>	<u>4</u>
		<u>62,621</u>	<u>55,231</u>
19	Deposits		
	Banks -Kenya	27,491	30,105
	-External	29	705
	Non-bank financial institutions	124	162
	Other public entities and project accounts	10,491	10,518
	International Monetary Fund	10,630	8,088
	Government of Kenya	<u>37,641</u>	<u>32,967</u>
		<u>86,406</u>	<u>82,545</u>
20	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.		
21	Other liabilities	2004	2003
		KShs million	KShs million
	Impersonal accounts	478	-
	Sundry creditors	390	257
	Refundable deposits	58	26
	Commission for EEC Development deposits	36	1
	Amount pending litigation	32	-
	Sundry suspense accounts	17	22
	Provision for misappropriated treasury bonds	<u>-</u>	<u>254</u>
		<u>1,011</u>	<u>560</u>

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	2004	2003
22 (a) Cashflows from operating activities	KShs million	KShs million
Net profit for the year	5,133	4,448
Adjustments for:		
Losses and write-offs	11,677	-
Depreciation	281	181
Amortization of prepaid operating leases	3	5
Charge for reclassification of leasehold property	-	(10)
Increase in defined benefit scheme asset	(91)	(133)
Gain on disposal of property and equipment	(3)	(1)
Foreign exchange revaluation gains	<u>(11,933)</u>	<u>(786)</u>
Operating profit before working capital changes	5,067	3,704
Net decrease in loans and advances	(1,453)	(6,084)
Decrease in amounts repayable under repurchase agreements	(6,524)	(14,459)
Increase in deposits	3,861	15,219
Decrease in project accounts	(635)	(1,465)
Decrease (increase) in accrued interest on balances due from banking institutions	(114)	44
Decrease (increase) in items in the course of collection	(585)	1,632
Decrease (increase) in other assets	(324)	109
Increase in other liabilities	<u>451</u>	<u>(123)</u>
Net cash absorbed by operations	<u><u>(256)</u></u>	<u><u>(1,423)</u></u>

22 (b) Cash and cash equivalents

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

Current accounts and term deposits	101,920	84,843
Travellers Cheques	2	-
Gold holdings	<u>15</u>	<u>12</u>
	<u>101,937</u>	<u>84,855</u>

23 Share capital

Authorised share capital	<u>5,000</u>	<u>5,000</u>
Issued and fully paid	<u>1,500</u>	<u>1,500</u>

24 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 12) include advances to employees that as at 30 June amounted to KShs 1,915 million (2003: KShs 1,733 million). The advances are at preferential rates of interest determined by the Bank.

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24 Related party transactions (continued)

	2004	2003
	KShs million	KShs million
(ii) Loans to executive directors		
At 1 July	9	11
Loans advanced during the year	11	-
Loan repayments	<u>(4)</u>	<u>(2)</u>
At 30 June	<u>16</u>	<u>9</u>
(iii) Directors emoluments:		
Fees to non executive directors	4	1
Other remuneration to executive directors	<u>26</u>	<u>26</u>

(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:

	2004	2003
	KShs million	KShs million
Due from Government of Kenya (Note 17)	41,917	54,559
Overdraft account (Note 12)	9,232	4,319
IMF funds on-lent to the Government (Note 12)	2,331	2,072
Government of Kenya deposits (Note 19)	37,641	32,967
Investments in GOK Securities (Note 11)	<u>3</u>	<u>713</u>

(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 8 million (2003: KShs18 million).

(vi) 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.

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25 Liquidity risk

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 30 June 2004 to the contractual maturity date.

	On demand	Due within 3 mo	Due between 3-12 m	Due between 1-5y	Due after 5 years	Total
	<u>KShs million</u>	<u>KShs million</u>	<u>KShs million</u>	<u>KShs million</u>	<u>KShs million</u>	<u>KShs million</u>
ASSETS						
Balances due from banking institutions and gold holdings	9,795	100,019	-	-	42	109,856
Loans and advances	9,232	122	314	324	3,454	13,446
Investments in government securities	-	3	-	-	-	3
Items in the course of collection	4,622	-	-	-	-	4,622
Other assets	-	442	-	-	917	1,359
Retirement benefit asset	-	-	-	-	511	511
Due from Government of Kenya	<u>-</u>	<u>2,000</u>	<u>-</u>	<u>10,000</u>	<u>29,917</u>	<u>41,917</u>
TOTAL ASSETS	<u>23,649</u>	<u>102,586</u>	<u>314</u>	<u>10,324</u>	<u>34,841</u>	<u>171,714</u>
LIABILITIES						
Currency in circulation	62,621	-	-	-	-	62,621
Deposits	75,776	-	1,031	9,323	-	86,406
Amounts repayable under repurchase agreements	-	6,144	-	-	-	6,144
Other liabilities	-	1,011	-	-	-	1,011
Equity and reserves	<u>-</u>	<u>4,500</u>	<u>-</u>	<u>-</u>	<u>11,032</u>	<u>15,532</u>
TOTAL LIABILITIES AND EQUITY	<u>138,397</u>	<u>11,655</u>	<u>1,031</u>	<u>9,323</u>	<u>11,308</u>	<u>171,714</u>
Liquidity gap 2004	<u>(114,412)</u>	<u>90,931</u>	<u>(717)</u>	<u>1,001</u>	<u>18,609</u>	<u>-</u>
As at 30 June 2003:						
Total assets	22,584	83,667	173	11,369	47,110	164,903
Total liabilities and equity	<u>129,687</u>	<u>16,728</u>	<u>1,031</u>	<u>7,058</u>	<u>10,399</u>	<u>164,903</u>
Liquidity gap 2003	<u>(107,103)</u>	<u>66,939</u>	<u>(858)</u>	<u>(4,311)</u>	<u>36,711</u>	<u>-</u>

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26 Currency risk

The various currencies to which the bank is exposed at 30 June 2004 are summarised in the below (all expressed in KShs million):-

	USD	GBP	EURO	SDR	GOLD	OTHER	TOTAL
Assets							
Balances due from banking institutions	34,460	39,230	36,021	-	-	89	109,800
Special Drawing Rights	-	-	-	41	-	-	41
Gold holdings	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15</u>	<u>-</u>	<u>15</u>
Total assets	<u>34,460</u>	<u>39,230</u>	<u>36,021</u>	<u>41</u>	<u>15</u>	<u>89</u>	<u>109,856</u>
Liabilities							
Balances due to IMF	-	-	-	10,630	-	-	10,630
Commissions for EEC Development Fund	-	36	-	-	-	-	36
Forex bureaux deposits	<u>52</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>52</u>
Total liabilities	<u>52</u>	<u>36</u>	<u>-</u>	<u>10,630</u>	<u>-</u>	<u>-</u>	<u>10,718</u>
Net balance sheet position 2004	<u>34,408</u>	<u>39,194</u>	<u>36,021</u>	<u>(10,589)</u>	<u>15</u>	<u>89</u>	<u>99,138</u>
As at 30 June 2003							
Total assets	27,429	37,703	26,808	321	12	33	92,306
Total liabilities	<u>19</u>	<u>1</u>	<u>-</u>	<u>8,377</u>	<u>-</u>	<u>-</u>	<u>8,397</u>
Net balance sheet position 2003	<u>27,410</u>	<u>37,702</u>	<u>26,808</u>	<u>(8,056)</u>	<u>12</u>	<u>33</u>	<u>83,909</u>

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27 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 mon	Between 3-1	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	102,262	-	-	7,594	109,856
Loans and advances	10,449	405	2,592	-	13,446
Investment in government securities	3	-	-	-	3
Items in the course of collection	-	-	-	4,622	4,622
Other assets	-	-	-	1,359	1,359
Retirement benefit asset	-	-	-	511	511
Due from Government of Kenya	-	-	<u>36,917</u>	<u>5,000</u>	<u>41,917</u>
Total assets	<u>112,714</u>	<u>405</u>	<u>39,509</u>	<u>19,086</u>	<u>171,714</u>
Liabilities and equity					
Currency in circulation	-	-	-	62,621	62,621
Deposits	-	1,186	6,838	78,382	86,406
Amounts repayable under repurchase agreements	6,144	-	-	-	6,144
Other liabilities	-	-	-	1,011	1,011
Equity and reserves	-	-	-	<u>15,532</u>	<u>15,532</u>
Total liabilities and equity	<u>6,144</u>	<u>1,186</u>	<u>6,838</u>	<u>157,546</u>	<u>171,714</u>
Interest sensitivity gap 2004	<u>106,570</u>	<u>(781)</u>	<u>32,671</u>	<u>(138,460)</u>	<u>-</u>
As at 30 June 2003					
Total assets	94,420	273	2,422	67,788	164,903
Total liabilities and equity	<u>12,668</u>	<u>1,037</u>	<u>4,981</u>	<u>146,217</u>	<u>164,903</u>
Interest sensitivity gap 2003	<u>81,752</u>	<u>(764)</u>	<u>(2,559)</u>	<u>(78,429)</u>	<u>-</u>

CENTRAL BANK OF KENYA
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28 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 2004 and 2003 were in the following ranges:

	2004	2003
Assets		
Government securities	4.9%	9.4%
Deposits with overseas correspondent banks		
- current accounts	0.0%	0.0%
- term deposits (USD)	1.1%	1.4%
- term deposits (Pounds Sterling)	3.9%	3.8%
- term deposits (Euro)	2.1%	2.9%
Loans and advances		
- Commercial banks	4.6%	10.2%
- Government of Kenya	1.6%	7.2%
- Employees	3.0%	5.0%
Due from Government of Kenya	3.0%	0.0%
Liabilities - Customer deposits	0%	0-5%

29 Contingencies and commitments

Contingencies

The Bank is party to various legal proceedings with potential liability of KShs 334 million at 30 June 2004. 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

	2004	2003
	KShs million	KShs million
Contracted for	<u>977</u>	<u>-</u>

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

30 Employees

The average number of employees during the year was 1,255 (2003: 1,265).

31 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.

32 Comparatives

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

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