Central Bank of Kenya

“YEAR OF RESILIENCE”

ANNUAL REPORT

AND FINANCIAL STATEMENTS

2022/2023

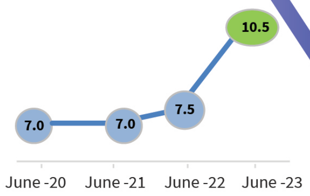
LETTER OF TRANSMITTAL

In accordance with Section 54 of the Central Bank of Kenya Act, it is my honour to present to you, Honourable Cabinet Secretary of the National Treasury and Economic Planning, the Annual Report of the Central Bank of Kenya for the Financial Year 2022/23. The Annual Report contains economic and financial developments and the financial performance of the Central Bank of Kenya for the Financial Year ended June 30, 2023.

Dr. Kamau Thugge, CBS
Governor

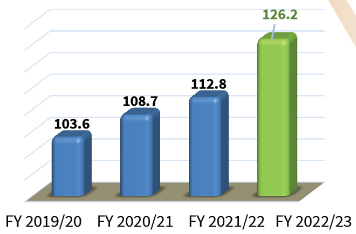
HIGHLIGHTS

Central Bank Rate (%)



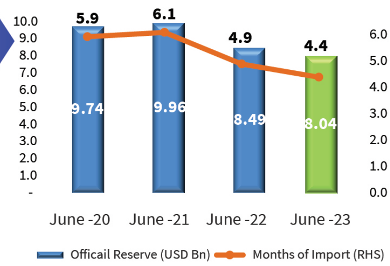
Monetary policy was tightened towards the end of the year.

Average Exchange Rate (KSh/US$)



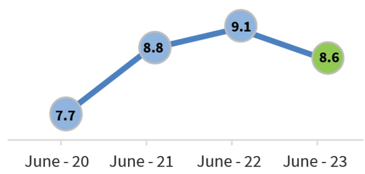
Exchange rate weakened in line with global developments.

Official Foreign Exchange Reserves



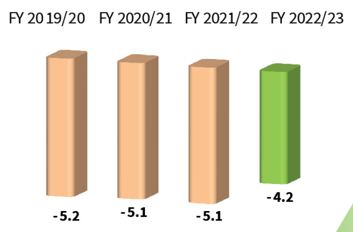
Official forex reserves remain adequate and above the statutory requirements.

Average Time to Maturity for bonds (Years)



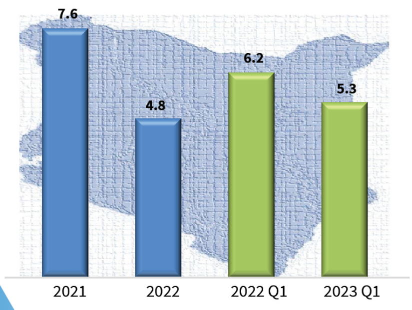
The average time to maturity declined slightly.

Current A/C Deficit (% of GDP)



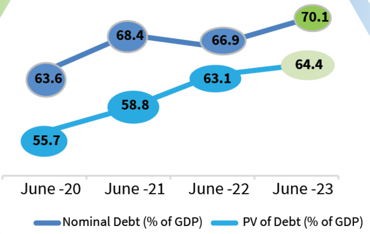
Current account balance narrowed.

Real GDP Growth (%)



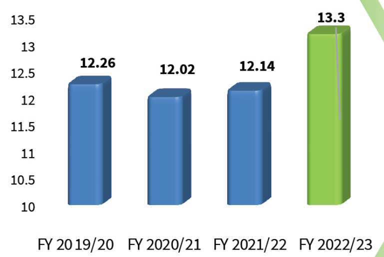
The economy remained resilient.

Public Debt (% of GDP)



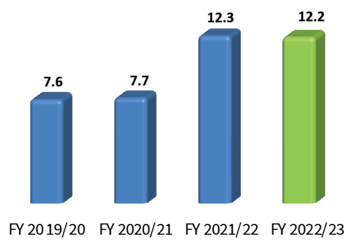
Public debt to GDP ratio remained sustainable.

Average Lending Rate (%)



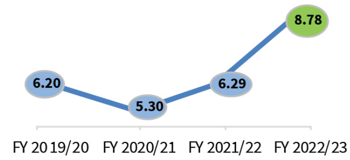
The lending rate increased in line with monetary policy stance.

Private Sector Credit Growth (%)

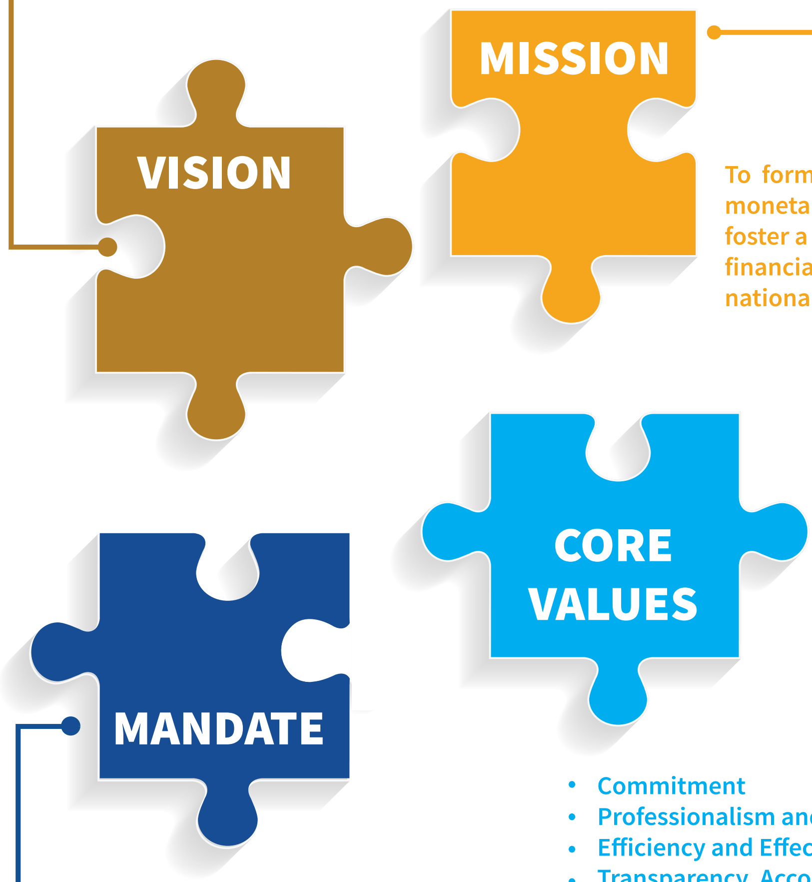


Growth in credit remained strong.

Annual Average Inflation Rate



Inflation remained elevated during the year.



Vision: To be a World Class Modern Central Bank

Mission: To formulate and implement monetary policy for price stability, foster a stable market based financial system and ensure a sound national payment system

Core Values:

- Commitment
- Professionalism and Relevance
- Efficiency and Effectiveness
- Transparency, Accountability and Integrity
- Innovativeness
- Mutual Respect and Teamwork
- Diversity and Inclusiveness

Mandate:

Article 231 of the Constitution of Kenya and Sections 4 and 4A of the Central Bank of Kenya (CBK) Act outline the key mandate of Central Bank of Kenya (CBK) as to:

1. Formulate and implement Monetary Policy directed to achieving and maintaining stability in the general level of prices.
2. Foster the liquidity, solvency and proper functioning of a stable market-based financial system.
3. Subject to (1) and (2), support the economic policy of the Government, including its objectives for growth and employment.
4. Formulate and implement policies to promote the establishment, regulation and supervision of efficient and effective payment, clearing and settlement systems.
5. Issue currency notes and coins.

The other mandates of the Bank include:- formulating and implementing foreign exchange policy; effective management of the nation's foreign exchange reserves; licensing and supervising authorised dealers, digital credit providers and mortgage refinance companies; act as banker and advisor to, and fiscal agent of the Government.

CONTENTS

ABBREVIATIONS AND ACRONYMS

AACB	Association of African Central Banks
ACH	Automated Clearing House
AfCFTA	African Continental Free Trade Area
AMCP	African Monetary Cooperation Programme
AML/CFT	Anti-Money Laundering/ Combating the Financing of Terrorism
ATM	Average Time to Maturity
CBK	Central Bank of Kenya
COMESA	Common Market for Eastern and Southern Africa
COVID-19	Corona Virus Disease 2019
CRBs	Credit Reference Bureaus
CRR	Cash Reserves Requirement
CSD	Central Security Depository
DCPs	Digital Credit Providers
EAC	East African Community
EAMU	East African Monetary Union
EAPSS	East Africa Payments System
EDW	Enterprise Data Warehouse
EFT	Electronic Funds Transfer
EMDEs	Emerging Markets & Developing Economies
ESAAMLG	Eastern and Southern Anti-money Laundering Group
FY	Financial Year (July-June)
GDP	Gross Domestic Product
IMF	International Monetary Fund
KAPS	Kenya Airports Parking Services
KBA	Kenya Bankers Association
KEPSS	Kenya Electronic Payments and Settlement System
KNBS	Kenya National Bureau of Statistics
KSh	Kenya Shillings
MFBs	Microfinance Banks
MNOs	Mobile Network Operators
MPC	Monetary Policy Committee
MSME	Micro, Small and Medium Enterprise
NFNF	Non-Food-Non-Fuel
NPL	Non-Performing Loan
OPEC	Organisation of the Petroleum Exporting Countries
PAPSS	Pan-African Payment and Settlement System
PSPs	Payment Service Providers
REPSS	Regional Payment and Settlement System
RTGS	Real Time Gross Settlement
SSA	Sub-Saharan Africa
STP	Straight-through-Processing
TRWA	Total Risk Weighted Assets
USD	United States Dollars
VAT	Value Added Tax
WEO	World Economic Outlook

FOREWORD BY THE GOVERNOR

I am pleased to present the Central Bank of Kenya's (CBK) Annual Report for the Financial Year 2022/23, a challenging year on both the domestic and global fronts. The financial year began against a backdrop of persistent global uncertainties, reflecting adverse effects of heightened geopolitical tensions particularly the war in Ukraine, concerns about financial sector stability in the advanced economies, weakening global growth, and increased food insecurity due to climate-related shocks. The global financial markets experienced significant volatility driven by a stronger U.S. dollar against most currencies. In the second half of the year, inflation pressures in the major economies started to ease with declines in commodity prices, improved supply chains, and effects of monetary policy tightening. Despite the challenging external environment, the Kenyan economy remained resilient, supported by strong performance of the services sector, recovery in agricultural activities with improved weather conditions, and positive market sentiment with the quick and peaceful political transition.

The CBK continued to implement policies aimed at fulfilling its core mandates of maintaining price stability and ensuring a stable market based financial system. The Monetary Policy Committee (MPC) implemented a tight monetary policy stance throughout the period to anchor inflation expectations, arising from elevated food and fuel prices. Inflation moderated from the peak of 9.6 percent in October 2022 to 7.9 percent in June 2023. The banking sector remained stable and resilient during the year, with strong liquidity and capital adequacy ratios. Banks continued to implement initiatives in line with CBK's vision of a banking sector that is responsible, disciplined and aligned to customer needs.

The other key milestones achieved during the year included the development and launch of the Kenya Foreign Exchange Code which has improved discipline in the foreign exchange market, the launch of the Quick Response (QR) Code Standard to enhance efficiency of payments, and upgrade of the SWIFT system to ISO 20022 to enhance automation. The CBK also made notable progress towards implementation of a modern Central Securities Depository (CSD) system which will, among others benefits, strengthen the monetary policy implementation framework.

Looking ahead in the Financial Year 2023/24, CBK will continue to implement the initiatives and reforms outlined in its Strategic Plan, including strengthening of the monetary policy implementation framework, and enhancing the coordination of monetary and fiscal policies to ensure macroeconomic stability. The Bank will also strengthen its collaborations with other institutions, particularly with other central banks, and research institutions.

Dr. Kamau Thugge, CBS
Governor

BOARD OF DIRECTORS

Dr. Kamau Thugge
Governor
(Appointed on June 19 2023)

Dr. Chris K. Kiptoo
PS, The National Treasury

Mrs. Nelius W. Kariuki
Member

Mr. Samson K. Cherutich
Member

Mr. Ravi J. Ruparel
Member

Mrs. Rachel Dzombo
Member

MEMBERS OF THE MONETARY POLICY COMMITTEE

Dr. Kamau Thugge
Governor
(Appointed on June 19 2023)

Dr. Susan Koech
Deputy Governor
(Appointed on March 10 2023)

Dr. Margaret Chemengich
External Member

Dr. Chris K. Kiptoo
PS, The National Treasury

Prof. Jane K. Mariara
External Member

Dr. Benson Ateng'
External Member

Mr. Humphrey Muga
External Member

Mr. David Luusa
Director, Financial Markets

Prof. Robert Mudida
Director, Research

SENIOR MANAGEMENT

Dr. Kamau Thugge
Governor
(Appointed on June 19 2023)

Dr. Susan Koech
Deputy Governor
(Appointed on March 10 2023)

Mr. Kennedy K. Abuga
Director, Governor's Office
(Board Secretary)

Mr. David Luusa
Director, Financial Markets

Mr. Gerald Nyaoma
Director, Bank Supervision

Mr. Michael Eganza
Director, Banking and National Payments

Prof. Robert Mudida
Director, Research

SENIOR MANAGEMENT

Mr. Paul K. Wanyagi
Director, Currency Operations

Ms. Darliah Mbugua
Director, Human Resources

Mr. William Nyagaka
Director, Kenya School of Monetary Studies

Mr. Stephen Muriu
Director, General Services

Ms. Caroline Mackola
Director, Finance

Ms. Beth Kithinji
Director, Internal Audit and Risk Management

Dr. Walter Onyino
Acting Director, Information Technology

George Amollo
Head, Strategic Management

1.0 GLOBAL ECONOMY

1.0 GLOBAL ECONOMY

Global economic growth continued to improve albeit at a slower pace characterized by significant variation across the regions. According to the IMF World Economic Outlook (WEO) July 2023 update, the global economy is expected to grow by 2.9 percent in the fourth quarter of 2023 and 2024, respectively. Annual global growth is expected to remain subdued at 3.0 percent in 2023 and 2024, from an increase of 3.5 percent in 2022. This represents a 0.2 percentage point upward revision for 2023 compared to the April 2023 WEO.

Growth in the advanced economy group, is projected to grow by 1.4 percent in the fourth quarters of 2023 and 2024, respectively. Annual growth in the advanced economies is expected at 1.4 percent in 2023, as several economies experience reduced economic activity due to increased interest rates and financial markets volatility. Growth in most economies in this group is forecast to slowdown in 2023, including the US (1.8 percent), Euro Area (0.9 percent), UK (0.4 percent), and Japan (1.4 percent).

In the emerging market and developing economies (EMDEs), growth is estimated at 4.1 percent in the fourth quarter of 2023. On an annual basis, growth is projected to slowdown, from an estimate of 6.8 percent in 2022 to 4.0 percent in 2023 and 2024, respectively, an upgrade of 0.1 percentage points in 2023 compared to the April 2022 projections. In Sub-Saharan Africa (SSA), economic activity is projected at 3.5 percent in 2023 and to slow to 3.5 percent in 2024. Nigeria, South Africa, and Kenya are expected to grow by 3.2 percent, 0.3 percent, and 5.0 percent in 2023, respectively. In 2024, they are expected to grow by 3.0 percent (Nigeria), 1.7 percent (South Africa), and 5.3 percent (Kenya).

Global financial conditions worsened in quarter three of FY2022/23, reflecting rising interest rates in major economies as major central banks continue with monetary policy tightening, and rise in credit risks associated with instabilities in the banking sector. In response to ongoing monetary tightening, global inflation is expected to fall from 8.7 percent in 2022 to 6.8 percent and 5.2 percent in 2023 and 2024, respectively. However, the global core inflation is expected to remain persistent and to average at 6.0 percent and moderate to 4.7 percent and above major economies targets.

Global commodity market pressures are expected to continue to ease as nonfuel and fuel commodity prices decline. Oil prices are expected to fall by about 20.7 percent to average 76.4 dollar per barrel in 2023 and 71.7 dollar per barrel in 2024, respectively, while nonfuel commodity prices are expected to fall by 4.8 percent in 2023. Global demand is expected to pick up, reflecting increased consumer spending, particularly in the service sector as demand for travel, tourism, and recreational activities rises. The world trade growth is expected to increase in 2023 to 2.0 percent, reflecting normalization of supply chain networks.

Official preliminary GDP estimates released for the second quarter of 2023 show estimated growth in the United States stood at 2.4 percent, Euro Area (0.6 percent), Germany (0.0 percent). However, GDP estimates show accelerated growth for China (6.3 percent). Overall, downside risks to the global outlook remain substantial. There are risks arising from high interest rates related concerns and escalating financial market uncertainty due to a rise in credit risks in major economies. However, continued pick up in global service demand, and inflation pressures abating in major economies will likely boost global economic recovery.

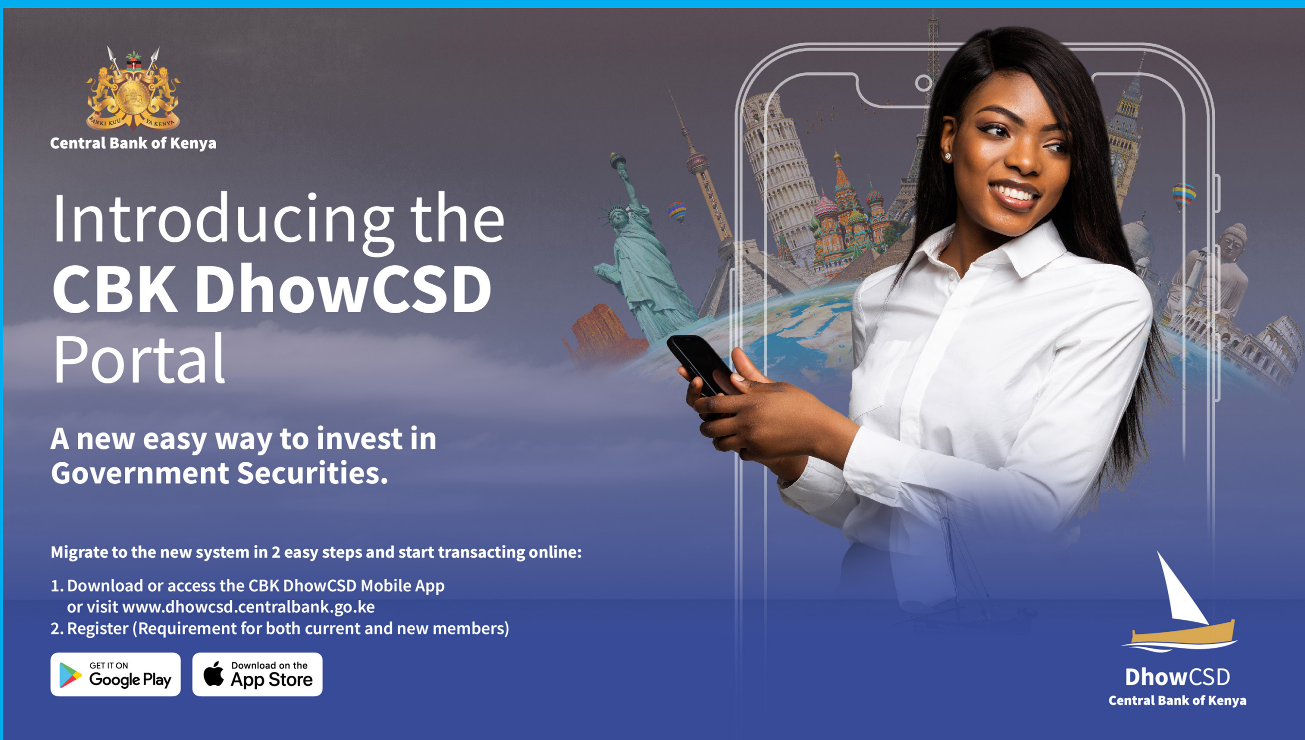
1.0 GLOBAL ECONOMY

Table 1.1: Economic Growth in Selected Countries/Regions

Country/Region	Actual	Projections	
	2022	2023	2024
World Output	**3.5**	**3.0**	**3.0**
Advanced Economies	**2.7**	**1.5**	**1.4**
United States	2.1	1.8	1.0
Euro area	3.5	0.9	1.5
Japan	1.0	1.4	1.0
United Kingdom	4.1	0.4	1.0
Emerging Market and Developing economies	**4.0**	**4.0**	**4.1**
Emerging and Developing Asia	4.5	5.3	5.0
China	3.0	5.2	4.5
India	7.2	6.1	6.3
Emerging and Developing Europe	0.8	1.8	2.2
Russia	-2.1	1.5	1.3
Latin America and the Caribbean	3.9	1.9	2.2
Brazil	2.9	2.1	1.2
Sub-Saharan Africa	3.9	3.5	4.1
Nigeria	3.3	3.2	3.0
South Africa	1.9	0.3	1.7
Kenya	4.8	5.0	5.3
Middle East and Central Asia	5.4	2.5	3.2

Source: IMF, World Economic Outlook, July 2023 Update

2.0 THE DHOWCSD



2.0 THE DHOWCSD

Inception of CSD

The Central Securities Depository (CSD) system is a critical constituent of modern financial markets that provides a centralised platform for financial transactions settlement in a secure and efficient manner. The National Treasury and Central Bank of Kenya (CBK) with the support of the World Bank initiated the process of acquiring a new CSD in 2016 necessitated by the need to improve efficiency in government securities operations and automate processes to promote growth and stability of the financial market. The system was envisioned to provide both domestic and foreign investors greater access to the capital market and promote confidence amongst market participants through improved liquidity for a range of debt instruments. The CSD will help manage systemic risk, improve and automate operations by eliminating paper-based processes via Straight Through Processing (STP) capabilities and enhance liquidity through among other features, enabling full transfer of collateral for repo transactions. This vision subscribes to the Government Reform Agenda for strengthening the domestic debt market and financial market infrastructures.

The Journey

The implementation of the CSD began in September 2020. The project brought together teams from various key stakeholder organisations to contribute to the testing of the robust design of the CSD. The teams were drawn from CBK, The National Treasury, commercial banks, investment banks, Nairobi Securities Exchange, Kenya Revenue Authority and licensed brokers. The CSD is integrated with other core CBK systems to facilitate seamless settlement and reporting. Participants including commercial and investment banks will have direct access into the CSD while retail investors will interact with the system via an Investor Portal web *(https://dhowcsd.centralbank.go.ke/)* and Mobile Application downloaded from IOS and Android devices.

Benefits of the *Dhow*CSD

The CSD system was dubbed *Dhow*CSD. The Dhow is a familiar vessel that has deep historical connections in the coastal region, with a deeper symbolism to communicate exploration and adventure. The system presents a world class versatile market infrastructure that will transform the financial markets by improving market liquidity, enhancing operational efficiency in the domestic debt market, promote market deepening, broaden financial inclusion through expansion of digital access, capital market growth, and positioning Kenya as the preferred financial hub in the region. The *Dhow*CSD will re-engineer financial market functionality and facilitate efficient and effective operation by supporting the following:

i. **Digitising government operations-** The process of opening a CDS account, participating in government securities auctions, and security trades will be conducted directly by CSD participants and online via the investor portal web and mobile app for retail investors. This will significantly improve access to the Kenyan capital market by institutional and retail investors both locally and abroad.

ii. **Investor Protection and Transparency:** The DhowCSD will provide updated records of investor holdings and transaction statements. In the event of an update and/or transaction, investors will receive notifications on their emails and SMS on their registered mobile phone contacts.

iii. **Reliable infrastructure with efficient settlement:** The CSD is highly scalable and will deliver seamless investor experience. The settlement mechanism aligns to the principle of settlement finality, facilitating settlement of payments and transfer of instructions and obligations.

iv. **Improve Market Liquidity and Efficiency:** The system will further boost the interbank market liquidity by supporting full transfer of securities in collateralised obligations and improves price discovery mechanisms that will enhance market efficiency.

v. **Risk Mitigation and Financial Stability:** The *Dhow*CSD will support standardised security operations and real-time monitoring of settlement obligations that reduce counterparty risk and contribute to the stability of the financial system. It operates under strict regulatory oversight and ensures compliance of anti-money laundering measures, and monitoring market activities.

2.0 THE DHOWCSD

vi. **Capital Market Development-** The CSD will support a variety of financial market instruments including floating rate bonds, sukuks, switches, buybacks among other innovations that will contribute to the development and deepening of the Kenyan capital market.

The DhowCSD is envisioned to advance the plan to digitise government operations to support efficient public service delivery and enhance financial inclusion with the access to a variety of investment opportunities. It is a critical enabler for economic growth that will promote capital market development and attract local and foreign investors.

3.0 DOMESTIC ECONOMY

3.0 DOMESTIC ECONOMY

3.1 Economic Growth

The economy remained resilient despite multiple shocks. It grew by 4.8 percent in 2022 compared to a revised growth of 7.6 percent in 2021, despite a contraction of the agriculture sector. Growth was largely supported by the robust growth of service sectors, particularly transport and storage, financial and insurance, information and communication, and accommodation and food services sectors. However, the agriculture sector contracted by 1.6 percent due to the adverse weather conditions that affected production of crops and livestock **(Table 3.1 and Chart 3.1).**

The economy remained strong in the first quarter of 2023 and grew by 5.3 percent compared to 6.2 percent during a similar quarter in 2022, mainly supported by the strong recovery of the agriculture sector and continued resilience of services. The agriculture sector rebounded strongly following improved weather conditions. Notably, all the sectors of the economy recorded positive growth.

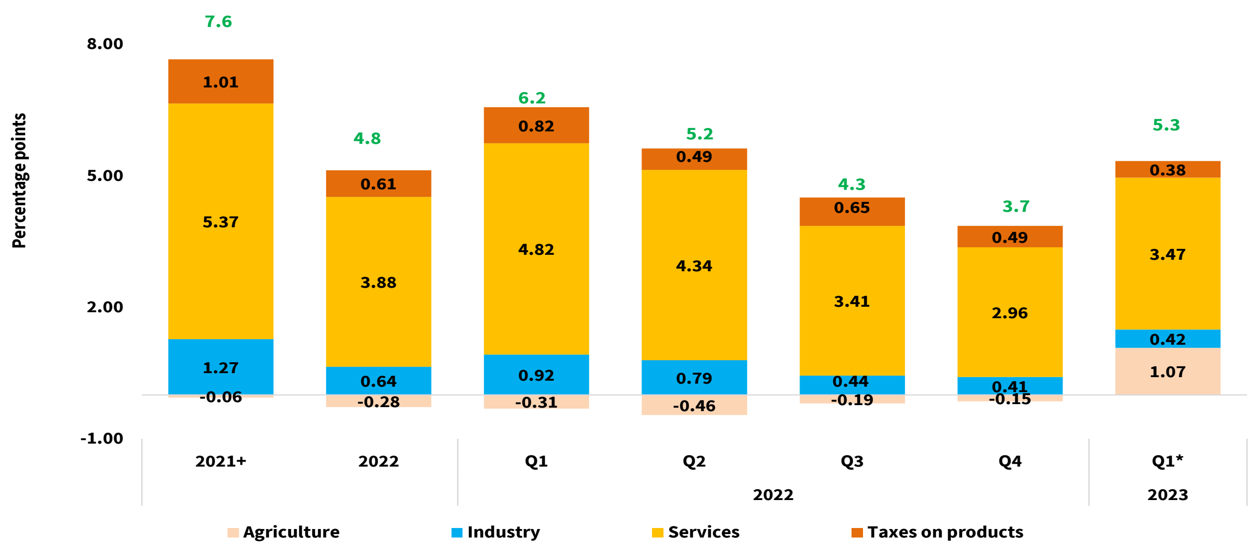
Table 3.1: Real Gross Domestic Product by Sector

Main Sectors	Growth Rates (Percent)			
	2021*	2022	Q1 2022	Q1 2023**
1. Agriculture	**-0.4**	**-1.6**	**-1.7**	**5.8**
2. Non-Agriculture (o/w)	**9.5**	**6.3**	**8.2**	**5.2**
2.1 Industry	**7.5**	**3.9**	**5.6**	**2.5**
Mining & Quarrying	18.0	9.3	23.8	3.3
Manufacturing	7.3	2.7	3.8	2.0
Electricity & water supply	5.6	4.9	3.2	2.3
Construction	6.7	4.1	6.0	3.1
2.2 Services	**9.8**	**7.0**	**8.9**	**6.3**
Wholesale & Retail Trade	8.0	3.8	4.9	5.7
Accommodation & restaurant	52.6	26.2	40.1	21.5
Transport & Storage	7.4	5.6	7.7	6.2
Information & Communication	6.1	9.9	9.0	8.7
Financial & Insurance	11.5	12.8	17.0	5.8
Public administration	6.0	4.5	6.2	6.6
Professional, Administration & Support Services	7.1	9.4	13.1	7.3
Real estate	6.7	4.5	6.0	5.2
Education	22.8	4.8	4.6	3.6
Health	8.9	4.5	5.7	5.4
Other services	12.5	5.7	8.9	3.0
FISIM	5.3	1.5	0.8	0.6
2.3 Taxes on products	**11.9**	**7.0**	**9.5**	**4.4**
Real GDP Growth	**7.6**	**4.8**	**6.2**	**5.3**
** Revised*				
*** Provisional*				

Source: Kenya National Bureau of Statistics (KNBS)

3.0 DOMESTIC ECONOMY

Chart 3.1: Contributions to Real GDP Growth



*+ revised * provisional*
Source: KNBS

Agriculture

In 2022, the agriculture sector contracted by 1.6 percent compared to a contraction of 0.4 percent in 2021. The contraction was due to the drought conditions experienced during the year, which led to low production of key food crops such as maize and fresh produce, as well as tea, milk, exported vegetables and cut flowers. However, production of cash crops such as coffee, sugarcane, and fruits for exports increased.

In the first quarter of 2023 the agriculture sector rebounded strongly following improved weather conditions that enhanced production. It grew by 5.8 percent compared to a contraction of 1.7 percent in a similar quarter of 2022. The strong performance was reflected in significant increase in exports of vegetables and fruits. However, milk deliveries and production of tea, coffee and sugarcane declined.

Services

The services sector has remained resilient and was the main driver of growth in 2022. Broadly, the sector grew by 7.0 percent in 2022 compared to 9.8 percent in 2021 and contributed 3.9 percentage points to real GDP growth. The strong performance was witnessed across all sectors, particularly wholesale and retail trade, accommodation and food services, transport and storage, financial and insurance and information and communication.

The services sector continued to sustain strong growth momentum in the first quarter of 2023. It grew by 6.3 percent compared to 8.9 percent in a similar quarter in 2022. The robust performance was reflected in the notable growth of information and communication, wholesale and retail trade, accommodation and food services, transport and storage, and financial and insurance.

Industry

In 2022, the industrial sector performance slowed as activity continued to normalise across the sub-sectors. Broadly, the sector expanded by 3.9 percent compared to 7.5 percent in 2021 and contributed 0.7 percentage points to real GDP growth. The positive performance was mainly supported by construction, and electricity and water supply sectors. The manufacturing sector grew by 2.7 percent compared to a growth of 7.3 percent in 2021.

3.0 DOMESTIC ECONOMY

In the first quarter of 2023, the industrial sector recorded a lower growth of 2.5 percent compared to 5.6 percent in a similar quarter of 2022 and contributed 0.4 percentage points to real GDP. The slowdown in growth was mainly reflected across sectors, particularly manufacturing, and electricity and water supply sectors, which grew by 2.0 percent and 2.3 percent, respectively.

3.2 Inflation

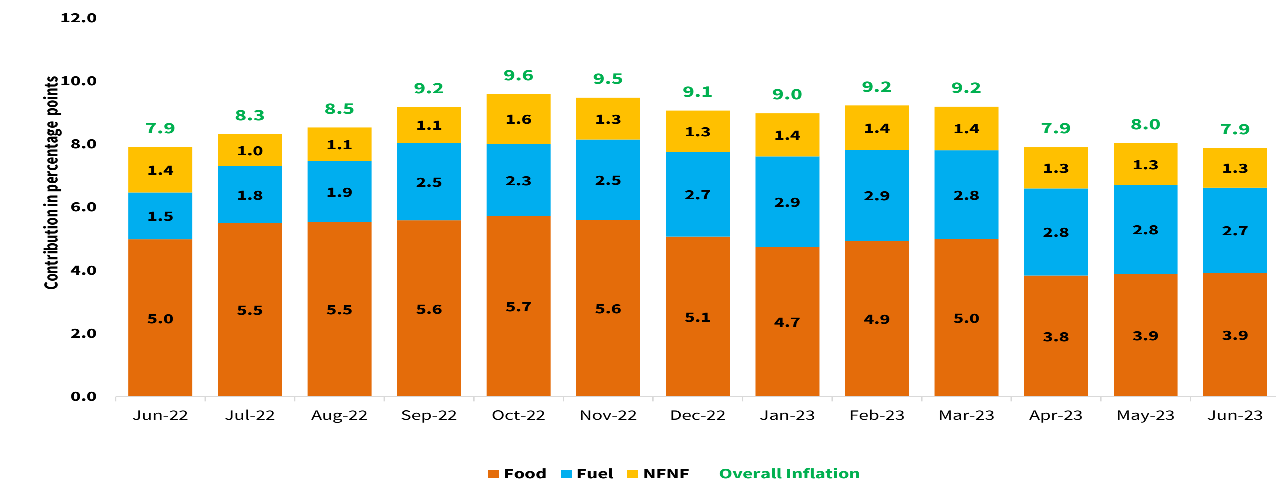
Overall inflation breached the upper bound of the medium-term target band of 5±2.5 percent in the financial year 2022/23 on account of supply side factors. It remained stable but elevated at 7.9 percent in June 2023, mainly due to high energy and food prices. Fuel inflation remained elevated, increasing to 12.9 percent in June 2023 from 10.0 percent in June 2022, largely driven by increased electricity and pump prices, following upward revision of tariffs and removal of government subsidy on energy items. On the other hand, food inflation eased to 10.3 percent in June 2023 from 13.8 percent in June 2022. This was supported by general decline in international food prices, government interventions through zero rating of select food commodities, and improved weather conditions in the first half of 2023. The normal to above average long rains that were experienced across the country enhanced production of fast-growing food items, thus moderating prices. Meanwhile, non-food non-fuel (NFNF) inflation remained low and stable. It increased modestly to 4.1 percent from 2.9 percent in the period under review, reflecting the impact of international developments on prices of some NFNF commodities and second order effects of supply-side shocks **(Table 3.2 and Chart 3.2).**

Table 3.2: Developments in Inflation (Percent)

	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
Overall 12-month inflation	7.9	8.3	8.5	9.2	9.6	9.5	9.1	9.0	9.2	9.2	7.9	8.0	7.9
Food Inflation	13.8	15.3	15.3	15.5	15.8	15.4	13.8	12.8	13.3	13.4	10.1	10.2	10.3
Fuel Inflation	10.0	8.0	8.6	11.7	12.6	13.8	12.7	13.8	13.8	13.4	13.2	13.6	12.9
Non-(Food & Fuel) Inflation	2.9	3.1	3.2	3.4	3.8	4.2	4.1	4.3	4.4	4.4	4.1	4.3	4.1
Three months annualised	14.3	9.7	8.2	8.3	9.3	9.0	7.3	4.5	5.8	7.0	8.1	9.2	8.9

Source: KNBS

Chart 3.2: Contributions of Food, Fuel, and Non-Food-Non-Fuel Inflation to Overall Inflation



Source: KNBS and CBK

3.0 DOMESTIC ECONOMY

3.3 Balance of Payments

Overall Balance

During FY2022/23, the overall BOP position recorded a deficit of USD 1,114 million compared to a deficit of USD 1,556 million in FY2021/22.

Current Account

The current account deficit narrowed to USD 4,629 million during FY2022/23, compared to USD 5,834 million in FY2021/22 **(Table 3.3).** The narrowing of deficit was attributed to higher service receipts, earnings from agricultural exports, resilient diaspora remittances, which more than offset import bill.

Goods Account

The deficit in the goods account narrowed to USD 10,678 million in the FY2022/23 compared with USD 11,994 million in the previous year reflecting an increase in merchandise exports and the intermediate imports. Merchandise imports decreased by 6.1 percent to stand at USD 17,984 million in the FY2022/23 from USD 19,148 million in FY 2021/22. Imports of intermediate goods increased in the FY2022/23 reflecting increased economic activities and following normalization of the supply chain networks. Imports from China accounted for 17.7 percent of total imports to Kenya during the year to June 2023 making it the largest source of imports. During the period, imports from the European Union accounted for 10.0 percent of total imports and rose to USD 1,923 million, while the share of imports from Africa fell by 10.9 percent, equivalent to USD 2,096 million from USD 2,227 million in the previous year.

The performance of merchandise exports improved by 2.1 percent to USD 7,306 million in the FY2022/23. Exports of agricultural commodities remained strong, reflecting higher tea receipts due to higher international tea prices and increased demand from traditional partners. Manufactures goods also increased by 22.6 percent. However, horticulture receipts fell by 12.3 percent due to a drop in earnings.

Kenya's exports to Africa improved to USD 3,053 million in FY2022/23 compared with USD 2,866 million in FY2021/22, reflecting increased exports to EAC and Common Market for Eastern and Southern Africa (COMESA) regions. The share of exports to East African Community (EAC) rose to 27.4 percent in FY 2022/23. The share of exports to United State of America, United Kingdom, and Netherlands declined from 9.0 percent, 5.8 percent, and 8.1 percent in the FY2021/22 to 7.9 percent, 5.2 percent, and 8.0 percent, respectively in the FY2022/23 **(Table 3.4).**

Services Account

As a result, the services account balance decreased by USD 1,050 million in FY2022/23 from a surplus of USD 1,484 million in FY2021/22, reflecting normalization of the travel and transportation services from adverse effects of the Covid-19 pandemic.

Primary and Secondary Income Account

The balance on the primary income account worsened by USD 76 million. The surplus on the secondary income account rose from USD 6,390 million in FY2021/22 to USD 6,788 million in the FY 2022/23 mainly on account remittances.

Remittances

Total remittance inflows in the year to June 2023 remained steady at USD 4,017 million compared to USD 4,012 million in a similar period in 2022, an 0.1 percent increase. The remittance inflows continue to support the current account and the foreign exchange market. The United States continues to be the largest source of remittances to Kenya, accounting for 54 percent of remittances in the year to June 2023.

Capital and Financial Account

The capital account recorded increased inflows by USD 28 million in the FY2022/23, due to an increase in other capital transfers. The financial account net inflows decreased to USD 4,061 million in FY 2022/23 compared to USD 4,747 million in the previous year, mainly due to an increase in other investment assets **(Table 3.3).**

3.0 DOMESTIC ECONOMY

Table 3.3: Balance on Current Account (USD Million)

Item	FY 2021/22	FY 2022/23***				FY 2022/23***	FY 2022/23-2021/22	
		Jul-Sep Q1	Oct-Dec Q2	Jan-Mar Q3	Apr-Jun Q4		Absolute Change	% Change
Overall Balance	**1,556**	**946**	**235**	**1017**	**-1085**	**1,114**	**-442**	**-28.4**
Current Account	**-5,834**	**-1,774**	**-1,005**	**-675**	**-1,176**	**-4,629**	**1,205**	**-20.6**
Goods	**-11,994**	**-3,125**	**-2,562**	**-2,400**	**-2,590**	**-10,678**	**1,316**	**-11.0**
Exports (fob)	**7,154**	**1,889**	**1,747**	**1,843**	**1,827**	**7,306**	**152**	**2.1**
o.w Coffee	301	77	53	64	103	296	-5	-1.7
Tea	1,261	337	353	342	319	1,351	90	7.1
Horticulture	1,027	216	207	231	246	900	-127	-12.3
Oil products	66	34	19	25	25	103	37	55.9
Manufactured Goods	561	172	159	176	180	687	127	22.6
Raw Materials	483	118	120	135	90	462	-20	-4.2
Chemicals and Related Products	563	173	150	159	146	628	66	11.7
Miscelleneous Man.Articles	692	195	151	151	158	653	-38	-5.5
Re-exports	778	212	163	149	168	692	-86	-11.0
Other	1,378	344	358	399	371	1,472	94	6.8
Imports (fob)	**19,148**	**5,015**	**4,309**	**4,243**	**4,417**	**17,984**	**-1,164**	**-6.1**
o.w Oil	4,685	1,634	1,210	1,171	1,207	5,221	536	11.4
Chemicals	3,302	865	692	840	742	3,138	-163	-5.0
Manufactured Goods	3,747	856	723	680	741	3,000	-748	-20.0
Machinery	2,857	620	579	498	515	2,211	-646	-22.6
Transport Equipment	1,411	268	317	248	238	1,071	-340	-24.1
Food	1,941	520	556	605	656	2,338	397	20.4
Other	4,174	1,090	1,134	1,146	1,160	4,530	356	8.5
Services	**1,484**	**322**	**167**	**441**	**120**	**1,050**	**-435**	**-29.3**
Transport Services (Net)	**195**	**42**	**-24**	**81**	**21**	**120**	**-74**	**-38.2**
Travel Services (Net)	**836**	**261**	**253**	**274**	**258**	**1,046**	**210**	**25.2**
Other Services (Net)	**454**	**19**	**-63**	**86**	**-159**	**-117**	**-571**	**-125.7**
Primary Income (Net)	**-1,714**	**-530**	**-374**	**-452**	**-433**	**-1,789**	**-76**	**4.4**
Secondary Income (Net)	**6,390**	**1,560**	**1,765**	**1,736**	**1,727**	**6,788**	**399**	**6.2**
Capital account credit	**162**	**5**	**30**	**55**	**100**	**190**	**28**	**17.4**
Capital account credit	162	5	30	55	100	190	28	17.4
Capital account: debit	0	0	0	0	0	0	0	0.0
Financial Account	**-4,747**	**-1,594**	**-344**	**640**	**-2,763**	**-4,061**	**685**	**-14.4**
Direct investment: assets	62	-19	-14	-5	-6	-44	-106	-170.4
Direct investment: liabilities	408	116	103	52	101	372	-36	-8.8
Portfolio investment: assets	803	28	145	325	363	860	57	7.1
Portfolio investment: liabilities	-194	-63	-46	-105	-18	-233	-39	19.9
Financial derivatives: net	15	5	-33	9	-3	-22	-37	-249.7
Other investment: assets	-578	-523	564	453	319	812	1,390	-240.5
Other investment: liabilities	4,836	1,032	948	196	3,352	5,528	692	14.3
**Revised*								
***Provisional*								
fob - free on board								

Source: KNBS and CBK

3.0 DOMESTIC ECONOMY

Table 3.4: Kenya's Direction of Trade

IMPORTS	USD Millions		Share of Imports (%)		EXPORTS	USD Millions		Share of Exports (%)	
	Year to June		Year to June			Year to June		Year to June	
Region/Country	2022*	2023*	2022*	2023*	Region/Country	2022*	2023*	2022	2023
Africa	**2,227**	**2,096**	**11.6**	**10.9**	**Africa**	**2,866**	**3,053**	**40.1**	**42.2**
Of which					*Of which*				
South Africa	465	546	2.4	2.8	Uganda	793	905	11.1	12.5
Egypt	420	357	2.2	1.9	Tanzania	479	470	6.7	6.5
Others	1,342	1,192	7.0	6.2	Egypt	216	209	3.0	2.9
					Sudan	58	59	0.8	0.8
EAC	**862**	**689**	**4.5**	**3.6**	South Sudan	183	198	2.6	2.7
COMESA	**1,053**	**979**	**5.5**	**5.1**	Somalia	123	160	1.7	2.2
Rest of the World	**16,921**	**17,177**	**88.4**	**89.1**	DRC	143	165	2.0	2.3
Of which					Rwanda	322	332	4.5	4.6
India	2,397	1,899	12.5	9.9	Others	548	556	7.7	7.7
United Arab Emirates	2,462	3,296	12.9	17.1					
China	4,080	3,418	21.3	17.7	**EAC**	**1,846**	**1,980**	**25.8**	**27.4**
Japan	913	725	4.8	3.8	**COMESA**	**1,924**	**2,050**	**26.9**	**28.3**
USA	839	787	4.4	4.1	**Rest of the World**	**4,288**	**4,182**	**59.9**	**57.8**
United Kingdom	302	280	1.6	1.5	*Of which*				
Singapore	100	134	0.5	0.7	United Kingdom	412	376	5.8	5.2
Germany	340	316	1.8	1.6	Netherlands	576	576	8.1	8.0
Saudi Arabia	1,308	996	6.8	5.2	USA	642	573	9.0	7.9
Indonesia	246	315	1.3	1.6	Pakistan	520	522	7.3	7.2
Netherlands	281	290	1.5	1.5	United Arab Emirates	361	342	5.0	4.7
France	188	204	1.0	1.1	Germany	128	133	1.8	1.8
Bahrain	60	12	0.3	0.1	India	76	69	1.1	1.0
Italy	236	172	1.2	0.9	Afghanistan	18	32	0.3	0.4
Oman	156	414	0.8	2.1	Thailand	29	28	0.4	0.4
Others	3,013	3,917	15.7	20.3	Others	1,524	1,532	21.3	21.2
Total	**19,148**	**19,273**	**100.0**	**100.0**	**Total**	**7,154**	**7,235**	**100.0**	**100.0**
EU	2,080	1,923	10.9	10.0	EU	1,504	1,485	21.0	20.5
China	4,080	3,418	21.3	17.7	China	218	232	3.1	3.2

** Revised **Provisional*

Source: KNBS and CBK

3.0 DOMESTIC ECONOMY

3.4 Government Budget

Government budgetary operations in the FY2022/23 resulted in a deficit including grants (cash basis) of KSh 770.1 billion (5.3 percent of GDP) compared to KSh 785.1 billion (6.2 percent of GDP) in the previous year. The deficit was however, below the target level of 5.8 percent of GDP indicating continued economic recovery and improved fiscal consolidation **(Table 3.5 and Chart 3.3).**

Government Revenue

Government revenue (including grants) in FY2022/23 stood at KSh 2,362.2 billion (16.3 percent of GDP) compared to KSh 2,230.8 billion during the previous fiscal year. The increase was reflected in the main categories of ordinary revenue. Tax revenue accounted for 84.3 percent of revenues and increased by 7.7 percent largely reflecting improved business environment due to continued economic recovery. Non-tax revenue declined by 17.2 percent while Appropriations-In-Aid increased by 1.2 percent on account of increased appropriations towards development. External grants increased by 15.6 percent **(Table 3.5)** reflecting an increase in programme and project grants.

Table 3.5: Statement of Central Government Operations in KSh Billion

		FY 2020/21 Actual	FY 2021/22 Actual	FY 2022/23 Preliminary	Target-Supp II Approved	Over(+) / Below (-) Target	% change FY 2022/23-FY 2021/22	FY 2022/23 % share to GDP	FY 2023/24 Approved Budget
1.	**REVENUE & GRANTS**	**1,815.1**	**2,230.8**	**2,362.2**	**2,520.3**	**-158.2**	**5.9**	**16.3**	**3,027.8**
	Revenue	1,783.7	2,199.8	2,326.3	2,478.6	-152.3	5.7	16.0	2,141.6
	Tax Revenue	1,484.8	1,820.5	1,960.4	2,074.2	-113.8	7.7	13.5	2,491.7
	Non Tax Revenue	77.3	97.4	80.7	71.2	9.5	-17.2	0.6	79.5
	Appropriations-in-Aid	221.7	281.9	285.2	333.2	-48.1	1.2	2.0	414.4
	External Grants	31.3	31.0	35.9	41.7	-5.8	15.6	0.2	42.2
2.	**EXPENDITURE AND NET LENDING**	**2,749.5**	**3,027.8**	**3,132.3**	**3,366.6**	**-234.3**	**3.4**	**21.6**	**3,808.8**
	Recurrent Expenditure	1,796.6	2,135.3	2,258.8	2,367.7	-108.9	5.8	15.6	2,596.8
	Development Expenditure	553.9	540.1	457.7	560.5	-102.8	-15.3	3.2	779.4
	County Transfers	399.0	352.4	415.8	436.3	-20.6	18.0	2.9	429.7
	Other		0.0	0.0	2.0	-2.0			2.8
3.	**DEFICIT (incl Grants) on a commitment basis (1-2)**	**-934.4**	**-797.0**	**-770.1**	**-846.2**	**76.1**	**-3.4**	**-5.3**	**-781.0**
	Deficit (incl Grants) on a commitment basis (% of GDP)	**-8.7**	**-6.2**	**-5.3**	**-5.8**	**0.5**			**-4.8**
4.	**ADJUSTMENT TO CASH BASIS**	**5.1**	**11.9**	**0.0**	**0.0**				**0.0**
5.	**DEFICIT ON A CASH BASIS**	**-929.3**	**-785.1**	**-770.1**	**-846.2**	**76.1**	**-1.9**	**-5.3**	**-781.0**
	Deficit on a cash basis (% of GDP)	-8.7	-6.2	-5.3	-5.8	0.5			-4.8
6.	**DISCREPANCY: Expenditure (+) / Revenue (-)**	**-20.9**	**-37.3**	**-53.5**	**0.0**	**-53.5**	**43.3**	**-0.4**	**0.0**
7.	**FINANCING**	**950.2**	**747.8**	**716.7**	**846.2**	**-129.6**	**-4.2**	**4.9**	**781.0**
	Domestic (Net)	626.9	605.3	420.3	483.6	-63.3	-30.6	2.9	316.9
	External (Net)	323.3	142.5	296.4	362.7	-66.3	108.0	2.0	464.2
	Capital Receipts (net of restructuring costs)	0.2	5.1	2.9	4.3	-1.4		0.0	
	Others	0.0	0.0	0.0	0.0	0.0		0.0	0.0

Source: The National Treasury

Nominal GDP (Fiscal Year)

3.0 DOMESTIC ECONOMY

Expenditure and Net Lending

Government expenditure and net lending increased by 3.4 percent to KSh 3,132.3 billion (21.6 percent of GDP) in FY2022/23 but remained below the programmed target. The increase in expenditures mainly reflected a rise in recurrent expenditures and transfers to the county that more than offset the declines in development expenditure. Recurrent expenditure accounted for 72.1 percent of total government expenditure.

Financing

Net domestic borrowing during FY2022/23 amounted to KSh 401.6 billion. The borrowing comprised KSh 77.0 billion from Commercial Banks, KSh 338.2 billion from Non-Banking Financial Institutions, KSh 0.1 billion from non-residents, and repayment of KSh 13.8 billion to the Central Bank. Other domestic financing amounted to KSh 18.7 billion **(Table 3.6).**

Chart 3.3: Government Budget Performance

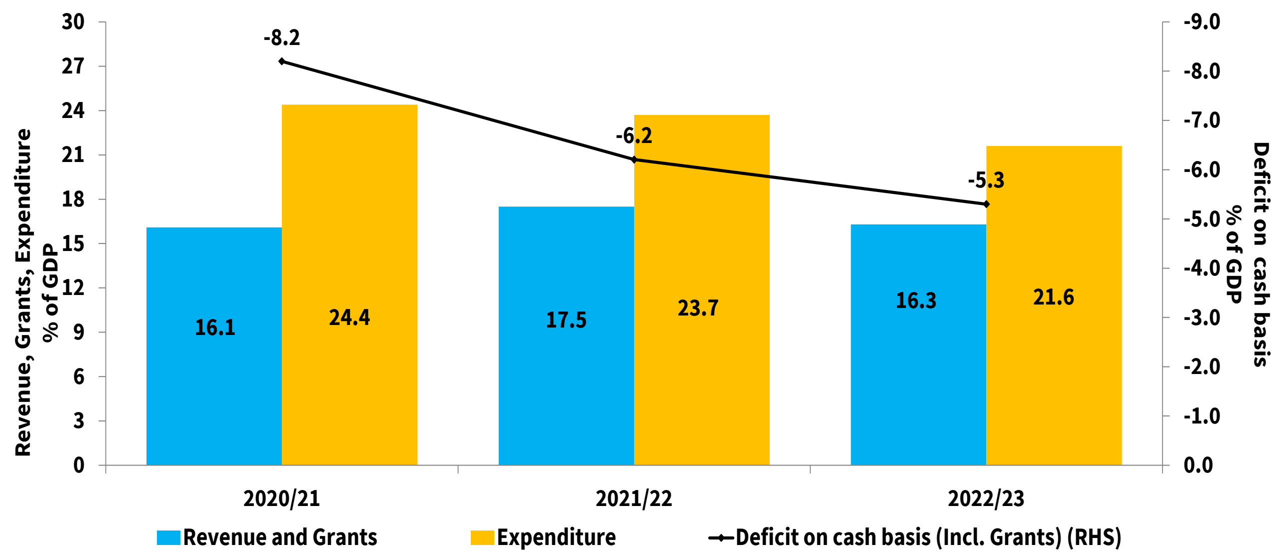


Table 3.6: Domestic Financing (KSh Billion)

		FY2019/20	FY2020/21	FY2021/22	FY2022/23
1.	From CBK	49.7	(67.9)	125.5	(13.8)
2.	From commercial banks	235.4	230.8	179.0	77.0
3.	From Non-banks	165.8	327.0	425.8	338.2
4.	From Non-Residents	5.2	1.2	(0.7)	0.1
5.	**Total Net Dom. Credit**	**456.1**	**491.2**	**729.6**	**401.6**
6.	Other Domestic financing /1	(5.7)	135.7	(124.3)	18.7
7.	**Net Domestic Financing**	**450.4**	**626.9**	**605.3**	**420.3**

/1 Include accounts payable and domestic loan repayment receipts

NB. Treasury Bills & Bonds are reflected at Cost

Source: Central Bank of Kenya and National Treasury

3.0 DOMESTIC ECONOMY

Outlook for FY2023/24

In the budget estimates for FY2023/24 total revenue (including Appropriations-in-Aid and grants) is projected at KSh 3,027.8 billion (18.6 percent of GDP) while Government expenditure and net lending is projected at KSh 3,808.8 billion (23.4 percent of GDP). The overall budget deficit including grants is therefore, projected at KSh 781.0 billion (4.8 percent of GDP) to be financed through net external borrowing of KSh 464.2 billion (2.8 percent of GDP) and net domestic financing of KSh 316.9 billion (1.9 percent of GDP). The Government remains committed to the fiscal consolidation over the medium term.

3.5 Public Debt

Kenya's public and publicly guaranteed debt increased by 18.7 percent during the fiscal year to June 2023, with both domestic and external debt increasing by 9.8 percent and 27.1 percent, respectively. Public debt profile comprised of 46.5 percent and 53.5 percent of domestic and external debt, respectively. The ratio of public debt to GDP remained relativley stable at 70.1 percent compared to 66.7 percent in May 2022 **(Table 3.7).**

Domestic Debt

The increase in domestic debt was driven by increased uptake of Treasury bonds by 12.5 percent. This brought the ratio of Treasury bonds to Treasury bills to 86:14 surpassing the government's medium-term objective of achieving 70:30 ratio. This goal was accomplished through issuance of medium- and long-term Treasury bonds during the fiscal year. Consequently, Treasury bills decreased by 5.1 percent to KSh 614.7 billion from KSh 647.6 billion in May 2022 **(Table 3.7).**

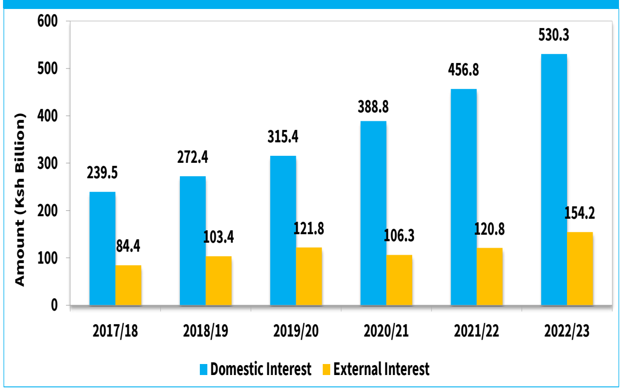
External Debt

Kenya's public and publicly guaranteed external debt increased by 27.1 percent to KSh 5,452.9 billion **(Table 3.7).** This growth was primarily on account of disbursements of concessional funding from African Development Bank (AfDB), the International Monetary Fund (IMF), the World Bank, as well as exchange rate movements. The Government continued its efforts to improve the external debt structure with the proportion of debt owed to multilateral lenders increasing by 3.4 percentage points while that of bilateral and commercial creditors decreased by 1.2 percentage points and 2.2 percentage points, respectively. This improved debt structure was aimed at enhancing debt sustainability.

Public Debt Service

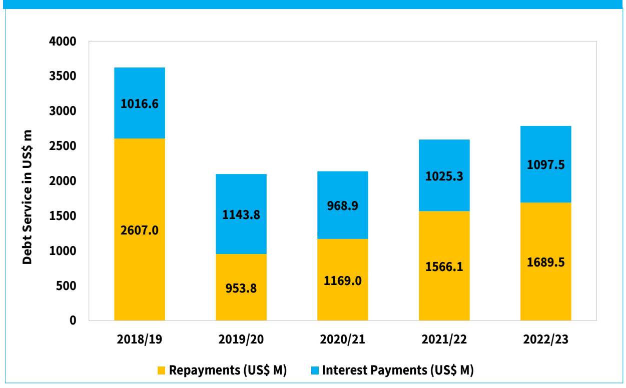
Cumulative interest and other charges on domestic and external debt increased by 16.1 percent and 27.7 percent respectively, during the FY2022/23 **(Chart 3.4).** Total external debt service increased by US dollars 195.6 million during the FY2022/23 to US dollars 2,787 from US dollars 2,591.4 million in the FY2021/22 **(Chart 3.5).**

Chart 3.4: Interest Payments (KSh Billion)



Source: The National Treasury

Chart 3.5: External Debt Service



Source: The National Treasury and CBK

3.0 DOMESTIC ECONOMY

Table 3.7: Public Debt

	June 2019		June 2020		June 2021		June 2022		June 2023*	
	KSh bn	%	KSh bn	%	KSh bn	%	KSh bn	%	KSh bn	%
DOMESTIC DEBT										
Securitised debt	**2,723.5**	**97.8**	**3,127.1**	**98.4**	**3,634.7**	**98.3**	**4,216.7**	**98.3**	**4,628.6**	**97.8**
Treasury Bills	975.3	35.0	907.7	28.6	784.8	21.2	647.6	15.1	614.7	13.0
Of which Repo Treasury bills	21.1	0.8	20.5	0.6	19.4	0.5	18.8	0.4	18.8	0.4
Treasury Bonds	1,748.1	62.8	2,219.4	69.9	2,849.9	77.1	3,569.1	83.2	4,013.9	84.8
Non Securitised debt	**62.0**	**2.2**	**50.4**	**1.6**	**63.0**	**1.7**	**71.6**	**1.7**	**102.1**	**2.2**
Overdraft at CBK	57.3	2.1	47.1	1.5	59.3	1.6	58.5	1.4	76.5	1.6
others	4.7	0.2	3.3	0.1	3.3	0.1	13.1	0.3	25.6	0.5
TOTAL DOMESTIC DEBT	**2,785.5**	**100.0**	**3,177.0**	**100.0**	**3,697.7**	**100.0**	**4,288.3**	**100.0**	**4,730.7**	**100.0**
(as a % of GDP)	28.6		30.2		32.9		33.4		32.6	
(as a % of Total Debt)	48.0		47.5		48.0		50.0		46.5	
EXTERNAL DEBT										
Bilateral	996.1	32.9	1,074.3	30.6	1,140.5	28.5	1,173.2	27.3	1,333.1	24.4
Multilateral	914.4	30.2	1,321.6	37.6	1,659.4	41.5	1,924.0	44.8	2,747.8	50.4
Comm. Banks	1,095.8	36.2	1,102.3	31.4	1,187.4	29.7	1,181.3	27.5	1,357.2	24.9
Export Credit	16.9	0.6	17.6	0.5	12.2	0.3	12.2	0.3	14.8	0.3
TOTAL EXTERNAL DEBT	**3,023.1**	**100.0**	**3,515.8**	**100.0**	**3,999.5**	**100.0**	**4,290.7**	**100.0**	**5,452.9**	**100.0**
(as a % of GDP)	31.0		33.4		35.5		33.4		37.6	
(as a % of Total Debt)	52.0		52.5		52.0		50.0		53.5	
TOTAL PUBLIC DEBT	**5,808.6**		**6,692.8**		**7,697.3**		**8,579.1**		**10,183.6**	
(as a % of GDP)	59.6		63.6		68.4		66.7		70.1	
** Provisional*										

Source: The National Treasury and CBK

4.0 REGIONAL INTEGRATION DEVELOPMENTS

4.0 REGIONAL INTEGRATION DEVELOPMENTS

Background

During the FY2022/23, the CBK participated in regional integration initiatives under the East African Community (EAC), Common Market for Eastern and Southern Africa (COMESA) and the Association of African Central Banks (AACB). The initiatives involved harmonising economic and financial policies among partner states; strengthening regional financial sector supervision; and integrating regional financial, payments and settlement systems. The aim of these integration efforts is increased intra-regional trade, higher economic growth of partner states and the promotion of regional peace.

The EAC Monetary Cooperation Programme

During the year, Kenya participated in the 42nd and 43rd Ordinary Meetings of the EAC Council of Ministers held in July 2022 and February 2023, respectively. These meetings dealt with the issue of hosting the East African Monetary Institute (EAMI) and allowed the Partners States to consult further, before a host country for EAMI could be identified. Kenya also participated in the Sectoral Council and Technical Sub-Committee meetings that dealt with the roadmap for the realisation of the East African Monetary Union (EAMU). A new roadmap was tabled to the Sectoral Council and the Council of Ministers, both of which approved the new roadmap, with 2031 as the new date of realising the monetary union, instead of the original timeline of 2024.

Another critical activity was the 26th Ordinary Meeting of the Monetary Affairs Committee (MAC), held in Bujumbura, Burundi, on March 17, 2023. The MAC is mandated to enhance monetary and financial cooperation in accordance with the provisions of the Treaty establishing the EAC including the implementation of approved macroeconomic policies, harmonisation programmes and the convergence framework of the Community. The Committee reviewed the progress made towards establishment of the EAMU and noted that Partner States' Central Banks had made significant strides towards the establishment of key EAMU institutions, particularly the EAMI; harmonisation of monetary and exchange rate policies; harmonisation of regulatory frameworks; implementation of measures to strengthen or promote regional payments and settlement systems; enhancement of cybersecurity frameworks; and capacity building Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) and risk management for Partner States' Central Banks; and promoting cross-border payments. The Governors signed the Addendum of the Memorandum of Understanding (MOU) on Currency Convertibility and Repatriation, which takes into account the AML/CFT issues in the region. The signing of the Addendum of the MOU is an important achievement in the process of enhancing transactions across the region in regards of the implementation of the EAMU Protocol. The Committee also noted the revised timelines set out in the EAMU roadmap, with the new date of achieving the monetary union by 2031. The MAC also took note of the progress in the implementation of the EAC Macroeconomic Convergence Criteria **(Table 4.1).** Most Partner States were unable to achieve the agreed targets especially on fiscal deficit and public debt, partly due to the impact of COVID-19 on Partner States' economies and the need to close infrastructure gaps. In FY2022/2023, Kenya met the criteria on foreign exchange reserves but failed to attain the criteria on headline inflation, fiscal deficit and gross public debt due mainly to rising prices of fuel and food items and increased expenditure commitments.

Table 4.1: East African Monetary Union (EAMU) Convergence Criteria

Criterion
Ceiling on headline inflation of 8 percent
A floor on foreign exchange reserve cover of 4.5 months of imports
Ceiling on fiscal deficit as percent of GDP (including grants) of 3 percent
Ceiling on gross public debt of 50 percent of GDP in NVP terms

Source: CBK

4.0 REGIONAL INTEGRATION DEVELOPMENTS

The COMESA Monetary Cooperation Programme

The overarching objective of the COMESA Monetary Cooperation Programme is the establishment of a Monetary Union. Towards this end, partner states are expected to maintain a number of primary (preconditions for convergence) and secondary (reinforcement conditions) convergence criteria **(Table 4.2).** In FY2022/2023, Kenya met the COMESA Convergence Criteria on Central Bank financing of the budget, foreign reserves and Government Capital Investment. However, challenges remained in attaining the criteria on inflation, fiscal deficit, exchange rate variability, government debt and tax revenue.

Table 4.2: Convergence Criteria under the COMESA Monetary Programme

Primary Criteria	Secondary Criteria
Overall budget deficit to GDP ratio (including grants) not exceeding 5 percent.	Variability of the nominal exchange rate against the US dollar not exceeding ± 10 percent, with a target of ± 5 percent.
Annual average inflation rate of 7 percent with a band of +/- 1 percent.	General Government debt to GDP ratio of less than 65 percent.
Central bank financing of the budget as a share of the previous year's tax revenue not exceeding 5 percent, with a target of 0 percent.	Total tax revenue to GDP ratio of not less than 20 percent.
External reserves of equal to or more than 3 months of imports of goods and non-factor services, with a target of at least 6 months.	Government capital investment to tax revenue ratio of not less than 20 percent.

Source: CBK

The Association of African Central Banks (AACB)

The African Monetary Cooperation Programme (AMCP) is implemented by the Association of African Central Banks (AACB) with a view to establishing a monetary union, with a single currency and a common central bank, among AACB member states **(Table 4.3).** In FY2022/2023, Kenya met the criteria on Central Bank financing of the budget and foreign reserves but did not meet the criteria on inflation, fiscal deficit, Government debt, tax revenue, exchange rate variability and Capital Investment.

Table 4.3: The Convergence Criteria under the AMCP

Primary Criteria	Secondary Criteria
Annual average inflation rate not exceeding 7 percent (Target ≤ 3 percent by 2038).	General Government debt to GDP ratio of not more than 65 percent.
Overall budget deficit/GDP ratio of not more than 5 percent (Target ≤ 3 percent by 2033).	Total tax revenue to GDP ratio of not less than 20 percent.
Minimize the central bank financing of the budget to below 5 percent (Target 0 percent by 2038).	Nominal Exchange Rate Variability ±10 percent (Target ± 5 percent).
External reserves of equal to or more than 3 months of imports of goods and non-factor services (Target ≥ 6 months by 2038).	Ratio of Government Capital Investment to Tax Revenue of not less than 30 percent.

Source: CBK

5.0 CENTRAL BANK OPERATIONS

5.0 CENTRAL BANK OPERATIONS

5.1 Monetary Operations

Monetary Policy

Monetary policy during the FY2022/2023 was aimed at anchoring inflation expectations by addressing inflationary pressures arising from global developments and domestic food supply constraints. Overall inflation remained outside the target range of 5±2.5 percent, averaging 8.77 percent during the financial year. This largely reflected elevated food and fuel prices attributable to the poor rainfall, global supply chain disruptions, and the rise in international oil prices. Non-food non-fuel inflation (NFNF) increased to 4.1 percent in June 2023 from 2.9 percent in June 2022, indicating underlying inflationary pressures in the economy.

To anchor inflation expectations, the Monetary Policy Committee (MPC) proactively tightened monetary policy stance since May 2022. The MPC cumulatively raised the Central Bank Rate (CBR), by 350 basis points between May 2022 and June 2023 to mitigate the potential impact of the sustained inflationary pressures and the elevated global risks. The CBR was increased by 50 basis points in May 2022, 75 basis points in September 2022, 50 basis points in November 2022, 75 basis points in March, and 100 basis points in June 2023.

Table 5.1: Monetary Aggregates

		End Period Level (KSh Billion)			Annual Growth Rate (Percent)			Annual Absolute Change (KSh Billion)		
		FY 2020/21	FY 2021/22	FY 2022/23	FY 2020/21	FY 2021/22	FY 2022/23	FY 2020/21	FY 2021/22	FY 2022/23
Components of M3										
1.	**Money supply, M1 (1.1+1.2+1.3)**	**1,779.2**	**1,906.8**	**2,098.2**	**5.1**	**7.2**	**10.0**	**86.3**	**127.6**	**191.4**
	1.1 Currency outside banks	225.9	251.4	257.9	7.1	11.3	2.6	15.0	25.5	6.5
	1.2 Demand deposits	1,409.9	1,552.2	1,680.9	4.4	10.1	8.3	60.0	142.3	128.7
	1.3 Other deposits at CBK 1/	143.5	103.5	159.6	8.5	-27.9	54.3	11.3	-40.0	56.2
2.	**Money supply, M2 (1+2.1)**	**3,377.5**	**3,551.5**	**3,852.2**	**4.6**	**5.2**	**8.5**	**149.9**	**174.0**	**300.7**
	2.1 Time and saving deposits	1,598.2	1,644.7	1,754.0	4.1	2.9	6.6	63.5	46.4	109.3
3.	**Money supply, M3 (2+3.1)**	**4,137.8**	**4,443.0**	**5,037.4**	**6.4**	**7.4**	**13.4**	**247.8**	**305.2**	**594.4**
	3.1 Foreign Currency Deposits	760.3	891.5	1,185.2	14.8	17.3	32.9	98.0	131.2	293.7
Sources of M3										
1.	**Net foreign assets 2/**	**783.8**	**456.8**	**591.5**	**-11.5**	**-41.7**	**29.5**	**-102.2**	**-327.0**	**134.6**
	Central Bank	835.8	641.5	616.9	-9.0	-23.7	-3.8	-82.3	-194.3	-24.6
	Banking Institutions	-52.0	-184.7	-25.4	61.9	254.9	-86.2	-19.9	-132.6	159.3
2.	**Net domestic assets (2.1+2.2)**	**3,354.0**	**3,986.2**	**4,445.9**	**11.7**	**18.8**	**11.5**	**350.0**	**632.2**	**459.7**
	2.1 Domestic credit	4,445.8	5,185.8	5,820.2	13.1	16.9	12.2	515.5	740.0	634.4
	2.1.1 Government (net)	1,460.2	1,844.8	2,083.9	27.1	27.1	13.0	311.6	384.5	239.2
	2.1.2 Private sector	2,901.1	3,256.9	3,652.6	7.7	12.3	12.2	207.9	355.7	395.7
	2.1.3 Other public sector	84.4	84.1	83.7	-4.5	-0.4	-0.5	-4.0	-0.3	-0.4
	2.2 Other assets net	-1,091.8	-1,199.6	-1,374.3	-17.9	-9.9	-14.6	-165.5	-107.8	-174.7
Memorandum items										
4.	**Overall liquidity, L (3+4.1)**	**5,899.5**	**6,629.8**	**7,562.6**	**9.9**	**12.4**	**14.1**	**531.8**	**730.3**	**932.7**
	4.1 Non-bank holdings of government securities	1,761.7	2,186.8	2,525.2	19.2	24.1	15.5	284.0	425.1	338.4

Absolute and percentage changes may not necessarily add up due to rounding
1/ Includes county deposits and special projects deposit
2/ Net Foreign Assets at current exchange rate to the US dollar.

Source: CBK

5.0 CENTRAL BANK OPERATIONS

Money Supply

Annual growth in money supply, M3, increased to 13.4 percent in FY2022/23 from 7.4 percent in FY2021/22, mainly supported by resilient lending to the private sector and increased net foreign assets of the banking system. On the liability side, the increase in money supply was reflected in growth in deposits **(Table 5.1).**

Domestic Credit

Annual growth in domestic credit moderated to 12.2 percent in FY2022/23 from 16.6 percent in FY2021/22, mainly due to slowdown in net lending to government. Growth in net lending to government decelerated to 13.0 percent in FY2022/23 from 26.3 percent in the previous financial year. Growth in private sector credit on the other hand, remained resilient at 12.2 percent in FY2022/23 compared to 12.3 percent in the previous financial year, supported by credit demand. Strong lending was recorded in agriculture, manufacturing, transport and communication, trade, business services, building and construction, and consumer durables **(Table 5.2).**

Reserve Money

Reserve money contracted by 5.9 percent in FY2022/23 compared to an increase of 15.4 percent in the previous financial year, partly reflecting reduction in bank reserves. The decline in bank reserves mainly arose from reduced excess reserves, partly on account of tight liquidity conditions in the money markets **(Table 5.3)**.

Table 5.2: Banking Sector Net Domestic Credit

		End Period Level (KSh Billion)			Annual Growth Rate (Percent)			Annual Absolute Change (KSh Billion)		
		2020/21	2021/22	2022/23	2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
1.	**Credit to Government**	**1,460.2**	**1,844.8**	**2,083.9**	**27.1**	**26.3**	**13.0**	**311.6**	**384.5**	**239.2**
	Central Bank	-50.3	148.3	323.4	-19.9	-395.1	118.0	12.5	198.6	175.1
	Commercial Banks & NBFIs	1,510.5	1,696.4	1,760.5	24.7	12.3	3.8	299.0	185.9	64.1
2.	**Credit to other public sector**	**84.4**	**84.1**	**83.7**	**-4.5**	**-0.4**	**-0.5**	**-4.0**	**-0.3**	**-0.4**
	Local government	6.6	5.8	6.7	51.2	-12.4	15.8	2.3	-0.8	0.9
	Parastatals	77.8	78.3	77.0	-7.4	0.7	-1.7	-6.2	0.5	-1.4
3.	**Credit to private sector**	**2,901.1**	**3,256.9**	**3,653.1**	**7.7**	**12.3**	**12.2**	**207.9**	**355.7**	**396.3**
	Agriculture	91.3	102.8	121.9	3.7	12.5	18.6	3.2	11.5	19.1
	Manufacturing	429.4	494.6	583.6	8.1	15.2	18.0	32.2	65.1	89.1
	Trade	498.8	556.8	626.5	1.9	11.6	12.5	9.5	58.0	69.8
	Building and construction	116.5	132.8	139.2	2.0	13.9	4.8	2.3	16.2	6.4
	Transport & communications	224.4	274.1	328.6	11.8	22.2	19.9	23.7	49.7	54.5
	Finance & insurance	106.8	113.7	147.7	11.5	6.5	29.8	11.0	6.9	33.9
	Real estate	411.8	414.0	429.2	4.0	0.5	3.7	16.0	2.2	15.2
	Mining and quarrying	12.7	16.3	20.3	-13.0	28.5	24.0	-1.9	3.6	3.9
	Private households	457.7	485.6	526.3	3.2	6.1	8.4	14.4	27.9	40.6
	Consumer durables	312.7	358.5	401.5	23.4	14.7	12.0	59.2	45.9	42.9
	Business services	162.4	187.1	197.4	5.2	15.2	5.5	8.0	24.7	10.3
	Other activities	76.7	120.6	131.2	65.2	57.2	8.7	30.3	43.9	10.5
4.	**Overall**	**4,445.8**	**5,185.8**	**5,820.2**	**13.1**	**16.6**	**12.2**	**515.5**	**740.0**	**634.4**

Source: CBK

5.0 CENTRAL BANK OPERATIONS

Table 5.3: Reserve Money and its Components

		End Period Level (KSh Billion)			Annual Growth Rate (Percent)			Annual Absolute Change (KSh Billion)		
		2020/21	2021/22	2022/23	2020/21	2021/22	2022/23	2020/21	2021/22	2022/23
1.	**Net Foreign Assets**	**835.8**	**641.5**	**616.9**	**-9.0**	**-23.2**	**-3.8**	**-82.3**	**-194.3**	**-24.6**
2.	**Net Domestic Assets**	**-386.0**	**-122.6**	**-128.6**	**-21.4**	**-68.2**	**4.9**	**105.2**	**263.4**	**-6.0**
	2.1 Government Borrowing (net)	-50.3	148.3	323.4	-19.9	-395.1	118.0	12.5	198.6	175.1
	2.2 Commercial banks (net)	-6.1	69.8	96.7	-95.3	-1241.6	38.7	124.9	75.9	27.0
	2.3 Other Domestic Assets (net)	-332.8	-344.5	-552.5	10.7	3.5	60.4	-32.1	-11.6	-208.0
3.	**Reserve Money**	**449.8**	**518.9**	**488.3**	**5.4**	**15.4**	**-5.9**	**22.9**	**69.1**	**-30.7**
	3.1 Currency outside banks	225.9	251.4	257.9	7.1	11.3	2.6	15.0	25.5	6.5
	3.2 Bank reserves	223.9	267.5	230.4	3.6	19.5	-13.9	7.9	43.6	-37.1
	3.2.1 Required Reserves	167.0	181.0	197.5	8.8	8.4	9.1	13.5	14.0	16.5
	3.2.2 Cash in Till	51.2	53.9	58.1	9.2	5.3	7.7	4.3	2.7	4.1
	3.2.3 Excess Reserves	5.6	32.6	-25.2	-63.7	477.5	-177.2	-9.9	26.9	-57.8

Source: CBK

5.2 Interest Rates

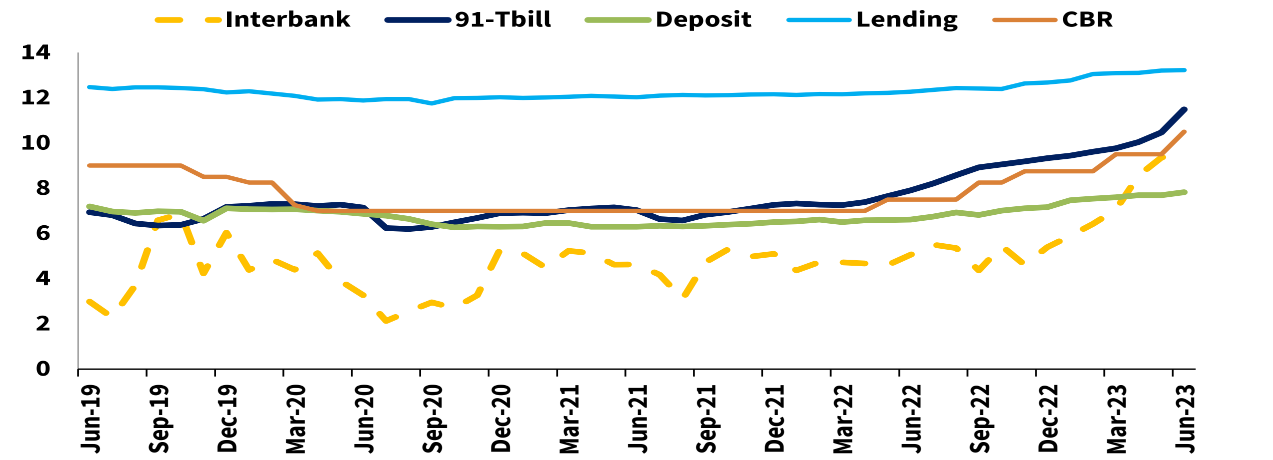
Short Term Rates

Interest rates increased during the FY2022/2023, reflecting tightening of monetary policy stance and liquidity conditions in the money markets **(Chart 5.1).** The average interbank interest rate increased to 6.46 percent in FY2022/23 from 4.62 percent in FY2021/22. The average 91-day Treasury bill rate increased to 9.51 percent from 7.18 percent, while the average 182-day Treasury bill rate increased to 10.04 percent from 7.89 percent.

Commercial Bank Rates

Commercial banks average lending rate also increased to about 13.31 percent in the FY2022/23 compared to 12.4 percent in the previous financial year. Similarly, the average commercial banks deposit rate increased to 7.82 percent from 6.47 percent in the previous financial year.

Chart 5.1: Interest Rates (Percent)



Source: CBK

5.3 Foreign Exchange Operations and Reserves Management

Kenya Foreign Exchange Market

The Kenya foreign exchange market remained under pressure in FY2022/23 as the global economic dislocations in the currency, interest rate and commodity markets weighed on the emerging and frontier markets. Specifically, the headwinds from a strengthening dollar in the first half of FY2022/23, boosted by rising US interest rates and elevated global commodity prices, the Kenya shilling recorded a depreciation of 12 percent, 1.7 percent and 2.1 percent against the US dollar, pound sterling and Euro respectively. The shilling however gained against the Japanese Yen by 4.3 percent during the same period. On the foreign exchange inflows, the shilling was supported by increased inflows from the remittances and tea sectors. Among the regional currencies, the shilling gained against the South African rand by 4.2 percent but lost against Ugandan shilling and Tanzanian shilling by 5.9 percent and 9.5 percentrespectively **(Table 5.4).**

Table 5.4: Kenya Shilling Exchange Rates

	Average Annual			FY2022/23				Annual Average 2022/23	% change 2021/22_2022/23
	2019/20	2020/21	2021/22	Jul-Sep Q1	Oct-Dec Q2	Jan-Mar Q3	Apr-Jun Q4		
US Dollar	103.58	108.74	112.75	119.40	121.96	126.60	137.32	126.32	12.03
Pound Sterling	130.51	146.44	149.91	140.29	143.45	153.93	172.02	152.42	1.68
Euro	114.49	129.72	126.92	120.06	124.82	135.95	137.32	129.54	2.06
100 Japanese Yen	95.03	102.18	96.21	86.23	86.62	95.62	99.75	92.05	-4.32
South Africa Rand	6.66	7.08	7.41	7.00	6.93	7.12	7.35	7.10	-4.19
Uganda Shilling*	35.87	33.66	31.59	31.89	30.68	29.22	27.06	29.72	-5.94
Tanzania Shilling*	22.26	21.36	20.47	19.46	19.05	18.41	17.17	18.52	-9.50
Rwanda Franc*	9.05	9.06	8.98	8.58	8.70	8.50	8.12	8.47	-5.64
Burundi Franc*	18.07	17.88	17.61	16.92	16.69	16.20	18.19	17.00	-3.48

* Units of currency per Kenya Shilling

Source: CBK

Kenya Foreign Exchange Code (The FX Code)

On March 22,2023, CBK announced the issuance of the Kenya foreign exchange code. The FX code sets out standards for commercial banks and aims to strengthen and promote the integrity and effective functioning of the wholesale foreign exchange market. It will facilitate better functioning of the market, reinforcing Kenya's flexible exchange rate regime for greater resilience of the economy.

The FX Code focuses on six leading principles:

- Ethics: Ethical and professional behavior when operating in the FX market.
- Governance: Implementation of a sound and effective governance framework to oversee FX market activity.
- Execution: Exercising due care when negotiating and executing transactions.
- Information Sharing: Clarity and accuracy in communication.
- Risk Management and Compliance: Development and maintenance of a robust control and compliance framework.

Confirmation and Settlement Processes: Ensuring predictable, smooth, and timely settlement of FX transactions.

Foreign Reserves

The official foreign Exchange Reserves in the FY2022/23 continued to provide a buffer against short-term shocks in the foreign exchange market. As at the end of June 2023, official foreign exchange reserves stood at USD 8,037 million (4.4 months of import cover) compared to USD 8,495 million at end of June 2022 (4.9 months of import cover) **(Table 5.5).**

5.0 CENTRAL BANK OPERATIONS

Table 5.5: Foreign Exchange Reserves and Residents' Foreign Currency Deposits

USD Million (End of Period)	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23
1. Gross Reserves	12,581	12,222	11,725	11,337	11,391	11,408	12,085	11,417	11,286	10,901	11,498	11,754	13,166
of which:													
Official	8,495	8,268	7,870	7,788	7,750	7,549	7,969	7,495	7,177	6,962	7,080	7,227	8,037
import cover*	4.9	4.8	4.5	4.4	4.4	4.3	4.5	4.2	4.0	3.9	3.9	3.9	4.4
Commercial Banks	4,086	3,955	3,855	3,550	3,642	3,859	4,115	3,922	4,110	3,939	4,418	4,527	5,129
2. Residents' foreign currency deposits	7,798	7,642	7,495	7,283	7,433	7,625	7,492	7,628	7,873	8,157	8,001	7,954	8,482

*Based on 36 month average of imports of goods and non-factor services

Source: CBK

5.4 Banking Sector Developments

Structure of the Kenyan Banking Industry

During the year ended June 30, 2023, the Kenyan banking industry comprised of 38 commercial banks, 1 mortgage finance company, 1 mortgage refinance company, 14 microfinance banks, 10 representative offices of foreign banks, 72 foreign exchange bureaus, 19 money remittance providers, 3 credit reference bureaus and 32 digital credit providers.

Financial Position and Performance of the Industry

i). ***Gross Loans and Advances*** increased by 14.0 percent from KSh 3.5 trillion in June 2022 to KSh 4.0 trillion in June 2023. The key sectors that drove this growth were Personal and Household (KSh 102.1billion), Manufacturing (KSh 99.4 billion), Trade (KSh 95.7 billion), Transport and Communication (KSh 51.8 billion), and Financial Services (KSh 43.2 billion) **(Table 5.7).**

ii). ***Capital Adequacy -*** In June 2023, core capital and total capital to total risk weighted assets ratios were 16.6 percent and 18.6 percent respectively. These were above the statutory minimum ratios of 10.5 percent and 14.5 percent respectively. Similarly core capital to total deposits ratio was 16.6 percent in June 2023 as compared to 16.7 percent in June 2022. The ratio was above the statutory minimum of 8.0 percent.

iii). ***Asset Quality*** deteriorated with the gross non-performing loans (NPLs) increasing from KSh 514.4 billion in June 2022 to KSh 576.1 billion in June 2023. The main sectors with increased NPLs are Manufacturing (KSh 28.1 billion), Real Estate (KSh 16.6 billion), Personal and Household (KSh 12.7 billion), Trade (KSh 12.1 billion), and Energy and Water (KSh 7.1 billion) **(Table 5.8).** The increase in NPLs in the period was mainly due to a challenging business and operating environment.

iv). ***Liquidity*** remains strong with the overall liquidity ratio in June 2023 standing at 49.7 percent compared to 52.5 percent reported in June 2022. This was above the minimum statutory level of 20 percent.

v). ***Profitability*** decreased by KSh 13.1 billion. The annual profit before tax decreased by 6.4 percent to KSh 205.0 billion in the year ended June 2023 from KSh 218.1 billion in the year ended June 2022. This was driven by KSh 13.8 billion increase in expenses compared to KSh 0.6 billion increase in income. The increase in total expenses is attributed to KSh 17.7 billion increase in other interest expenses. Total income increased by 0.2 percent to KSh 669.9 billion in June 2023 from KSh 669.3 billion in June 2022. The lower increase in income is mainly attributed to a KSh 9.6 billion decrease in interest in government securities.

Table 5.6: Extracts of Statement of Comprehensive Income (KSh Billion)

Sectors	Jun-22 KSh. M	Jun-23 KSh. M	Absolute Change	% Change
Cash	69,925.5	79,960.7	10,035.2	14.4
Balances at CBK	240,798.5	198,713.9	-42,084.6	-17.5
Placements	336,450.0	533,012.4	196,562.4	58.4
Government Securities	1,949,614.5	2,059,042.5	109,428.0	5.6
Other Investments	55,466.9	169,058.9	113,592.0	204.8
Loans and Advances (Net)	3,174,257.8	3,649,686.7	475,428.9	15
Other Assets	423,175.9	362,914.3	-60,261.6	-14.2
Total Assets	6,249,689.2	7,052,389.3	802,700.1	12.8
Customer Deposits	4,616,291.8	5,160,529.7	544,237.9	11.8
Other Liabilities	740,365.0	946,777.7	206,412.7	27.9
Capital and Reserves	893,032.4	945,081.8	52,049.4	5.8
Total Liabilities and Shareholders' Funds	6,249,689.2	7,052,389.3	802,700.1	12.8

Source: CBK

Table 5.7: Kenyan Banking Sector Gross Loans (KSh Billion)

Sectors	Jun-22 KSh Bn	Jun- 23 KSh Bn	Absolute Change	% Change
Personal and Household	955.2	1,057.3	102.1	10.7
Manufacturing	494.4	593.8	99.4	20.1
Trade	631.0	726.7	95.7	15.2
Transport and Communication	293.0	344.8	51.8	17.7
Financial Services	125.3	168.5	43.2	34.5
Real Estate	466.8	494.5	27.7	5.9
Agriculture	104.0	129.0	25.0	24.0
Energy and Water	140.7	157.9	17.2	12.2
Building and Construction	141.8	152.3	10.5	7.4
Mining and Quarrying	27.3	35.8	8.5	31.1
Tourism, Restaurant and Hotels	113.3	120.0	6.7	5.9
Total	3,492.8	3,980.5	487.7	14.0

Source: CBK

Table 5.8: Kenyan Banking Sector Gross Non-Performing Loans (KSh Billion)

Sectors	Jun-22 KSh Bn	Jun-23 KSh Bn	Absolute Change	% Change
Manufacturing	89.4	117.5	28.1	31.4
Real Estate	79.4	96.0	16.6	20.9
Personal and Household	68.7	81.4	12.7	18.5
Trade	109.8	121.9	12.1	11.0
Energy and Water	21.7	28.8	7.1	32.7
Financial Services	5.3	8.9	3.7	69.7
Agriculture	26.3	26.2	(0.1)	-0.4
Mining and Quarrying	2.2	1.6	(0.6)	-27.4
Building and Construction	41.5	38.6	(2.9)	-7.0
Transport and Communication	49.2	43.1	(6.1)	-12.3
Tourism, Restaurant and Hotels	20.9	12.1	(8.8)	-42.0
Total	514.4	576.1	61.7	12.0

Source: CBK

Other Banking Industry Developments

Performance of Microfinance Banks

Microfinance banks (MFBs) recorded the following performance during the year:

Total assets decreased to KSh 69.9 billion in June 2023, from KSh 72.8 billion in June 2022. The decrease is mainly due to decrease in loans and advances to KSh 42.6 billion in June 2023 from KSh 45.2 billion in June 2022.

Asset Quality improved with a decrease in gross NPLs from KSh 14.7 billion in June 2022 to KSh 12.7 billion in June 2023. Similarly, the ratio of gross NPLs to gross loans decreased from 32.5 percent in June 2022 to 29.9 percent in June 2023.

Customer deposits decreased by 5.6 percent from KSh 48.0 billion in June 2022 to KSh 45.3 billion in June 2023.

Capital Adequacy - core capital to risk weighted assets ratio decreased from 14.3 percent in June 2022 to 13.0 percent in June 2023. Similarly, total capital to total risk weighted assets decreased from 17.5 percent as at June 2022 to 15.1 percent in June 2023. The ratios were above the minimum requirements of 10.0 percent and 12.0 percent respectively.

5.0 CENTRAL BANK OPERATIONS

Profitability deteriorated with total microfinance banks loss before tax increasing to KSh 897.1 million in the twelve months to June 2023, from a loss of KSh 334.9 million recorded in the twelve months to June 2022.

Agency Banking

As at June 2023, there were 21 commercial banks and 3 microfinance banks that had contracted 85,328 and 936 active agents respectively since the inception of agency banking in 2010. The number of banking transactions via agents cumulatively increased from 1.1 billion in June 2022 to 1.3 billion transactions in the year to June 2023. Similarly, the value of agency banking transactions increased cumulatively from KSh 9.0 trillion in June 2022, to KSh 10.8 trillion in June 2023.

Legal and Regulatory Developments

Regulation of Digital Credit Providers

Following the publication and operationalisation of the Central Bank of Kenya (Digital Credit Providers) Regulations, 2022, on March 18, 2022, 32 DCPs had been granted licenses as at June 30, 2023. All previously unregulated DCPs were expected to apply to CBK for a license by September 17, 2022 or cease operations.

Greening Kenya's Banks Sector

Following issuance of the Guidance on Climate-Related Risk Management (Guidance) to the banking sector in October 2021, CBK received board-approved climate risk implementation plans from all commercial banks and mortgage finance companies by June 2022. Banks reported to CBK, on a quarterly basis on status of implementation of the roadmaps from September 2022. Banks commenced disclosure of climate related risks effective June 2023.

Strengthening the Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Framework. CBK made the following significant progress on strengthening the AML/CFT framework:

- Enhanced operational manuals to entrench AML/CFT risk-based supervision.
- Prepared AML/CFT risk profiles of commercial banks and microfinance banks.
- Developed independent AML/CFT inspection plans for banks based on risk profiles.
- Commenced independent on-site risk-based AML/CFT inspections.
- Developed risk profile frameworks for money remittance providers and foreign exchange bureaus.
- Sensitised CBK staff members and licensees on the Mutual Evaluation and National Risk Assessment findings.

Banking Sector Outlook

The banking sector is expected to remain stable and resilient. Credit risk is expected to remain elevated in the short to medium term as the economy rebounds from the COVID-19 Pandemic. Additionally, operational risk will be elevated as banks scale up digitisation. Consistent with the global rise in interest rates, interest rate risk will be elevated in the short to medium term. Liquidity risk will continue to be stable.

5.5 Developments in Currency Operations

Currency in Circulation

Currency in circulation increased by KSh 10.6 billion, an increase of 3.5 percent compared to an increase of 10.2 percent in the previous financial year. Below is the detailed composition of currency in circulation **(Table 5.9)**:

Table 5.9: Composition of Currency in Circulation

	Jun-22	Jun-23	
	KSh Billion	KSh Billion	Growth (%)
Coins	10.14	10.56	4.14
Banknotes	295.21	305.41	3.46
Total Currency in Circulation	305.35	315.97	3.48

Source: CBK

The net increase of currency in circulation was attributed to higher currency outflows (withdrawals) compared to the net inflows (deposits). Total inflows for the year stood at KSh 544.656 billion while outflows were KSh 555.300 billion for the same period. Compared to the previous year, both the deposits and withdrawals were lower by 3.52 percent and 6.31 percent respectively. Below is a summary of inflows and outflows **(Table 5.10).**

5.0 CENTRAL BANK OPERATIONS

Table 5.10: Inflows and Outflows of Currency in Circulation

Inflow (Deposits)	2021/2022 KSh Billion	2022/2023 KSh Billion
Banknotes	564.386	544.580
Coins	0.114	0.076
Total Inflows	**564.500**	**544.656**
Outflow (Withdrawals)		
Banknotes	(592.161)	(554.806)
Coins	(0.514)	(0.494)
Total Outflows	**(592.675)**	**(555.300)**
Net Outflows	**(28.175)**	**(10.644)**

Source: CBK

5.6 Banking and Payments Services

Introduction and overall policy developments

In the FY2022/23, the Central Bank of Kenya (CBK) continued with the implementation of The National Payments Strategy 2022 - 2025. It is anchored on the vision, "A secure, fast, efficient, and collaborative payments system that supports financial inclusion and innovations that benefit Kenyans". Further, the key pillars of the Strategy are to promote trust, security, usefulness, choice, and innovations in Kenya's Payments Industry.

The Strategy aims to promote full interoperability of payment industry as one of its strategic goals. CBK working with the Payment Service Providers (PSPs) facilitated Merchants Interoperability, aimed at providing among others choice in making payments for both merchants and customers.

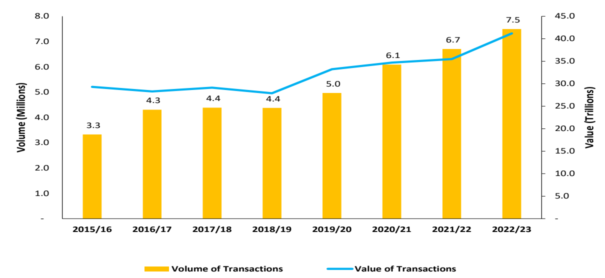
CBK in collaboration with industry launched Quick Response (QR) Standard. The Standard will enhance simplicity, convenience, security, and increased adoption of digital payments, and enhancing choice and competition. The Strategy has taken cognisance of the need to review the National Payments System Act, 2011 and the National Payments System Regulations, 2014. The review process is ongoing.

CBK featured in Central Bank Payments News (CBPN). CPBN is a leading global monthly publication for the central banking community featured "Kenya's Vision and Strategy." The impact was to highlight the extent of Kenya's global leadership in the payments space.

New Generation KEPSS platform

The New Generation Kenya Electronic Payment and Settlement System (NG-KEPSS) continues to record increased activity in both the volume and value of transactions. In the FY2022/23, the system processed 7.5 million transaction messages valued at KSh 41.2 trillion compared to 6.7 million transaction messages valued at KSh 35.5 trillion in the FY2021/22 **(Chart 5.2).**

Chart 5.2: Volume and Value of KEPSS Transactions



Source: CBK

Regional Payment Developments

During the year under review, the cross border regional payments systems continued to support regional trade and other payment obligations within the two regional blocs of the East Africa Community (EAC) and the Common Market for the Eastern and Southern Africa (COMESA). In terms of the throughput, the number of transactions that went through the EAPS was 38,387 valued at USD 777 million, while the volume that went through REPSS was 1,591 valued at USD 112.5 million, respectively.

However, the legacy challenges of cross border payments using channels such as correspondent banking have continued to create the need for more transparent, efficient, and less costly payment rails at the regional and at the African continental level. Under the African Continental Free Trade Agreement (AfCFTA), discussions are currently ongoing on the implementation of a Pan-African Payment and Settlement System (PAPSS), which was designed by the African Export and Import Bank (Afreximbank). The PAPSS is designed as a continental payment infrastructure that aims to connect all banks, non-banks, switches, and regional systems in Africa to enhance cross border payment efficiency across Africa, to promote intra-Africa trade.

The Automated Clearing House (ACH) and Society for Worldwide Interbank Financial Telecommunication (SWIFT)

On March 10, 2023, the ACH was migrated to the new flexible and data rich ISO 20022 Standards in line with the National Payment Strategy 2022-2025 and global trends. The upgrade has enabled customers to enjoy significant benefits such as continuous, straight through processing with multiple settlement windows, thus unlocking efficiency, flexibility, scalability, rich remittance data and improved payments insight and analytics. This initiative was spearheaded by Kenya Bankers Association (KBA) in collaboration with CBK.

CBK has also made significant progress in the migration to ISO 20022 standards for Real-Time Gross Settlement (RTGS) and cross-border payments. The transition will enhance the efficiency and interoperability of our payment systems, providing increased transparency, improved data richness, and enhanced straight-through processing capabilities. Furthermore, the CBK has prioritised cyber security measures to safeguard the integrity and confidentiality of Swift operations.

Authorisation of Payment Service Providers (PSPs)

In FY2022/2023, CBK granted Authorisation Certificates to seventeen (17) PSPs. This brings the total number of authorised PSPs to thirty (30), thereby deepening the growth of payment service delivery in Kenya. CBK also approved several new products (innovations), platform enhancements and pricing requests by PSPs to improve on product choice, affordability, service delivery, and promote further innovations. To enhance corporate governance, CBK vetted and approved several officials at various levels of several PSPs.

Payment Systems Oversight and Compliance

CBK has adopted a risk-based approach in order to enhance the level of oversight and general supervision of PSPs taking into consideration the size in terms of customers and products, among other provisions. Other initiatives which have been undertaken during the period include, two on-site inspections, one a joint inspection by the East Africa Community (EAC), Central Banks, led by the CBK oversight team, and participation in the country's AML/CFT assessment by the Eastern and Southern Anti-Money Laundering Group (ESAAMLG).

CBK held two workshops, where all newly licensed PSPs were invited and sensitised on CBK vision with regards to payments, regulation, and the need to maintain the stability of the payments system. The second workshop sensitised all PSPs, on the Mutual Evaluation Report (MER), following the publishing of the report, where the progress, gaps and expectations were highlighted on AML/CFT. In summary, major improvements have been observed for most PSPs when it comes to compliance to the National Payment Systems (NPS) laws.

5.7 Domestic Debt Operations and Developments in FY2022/23

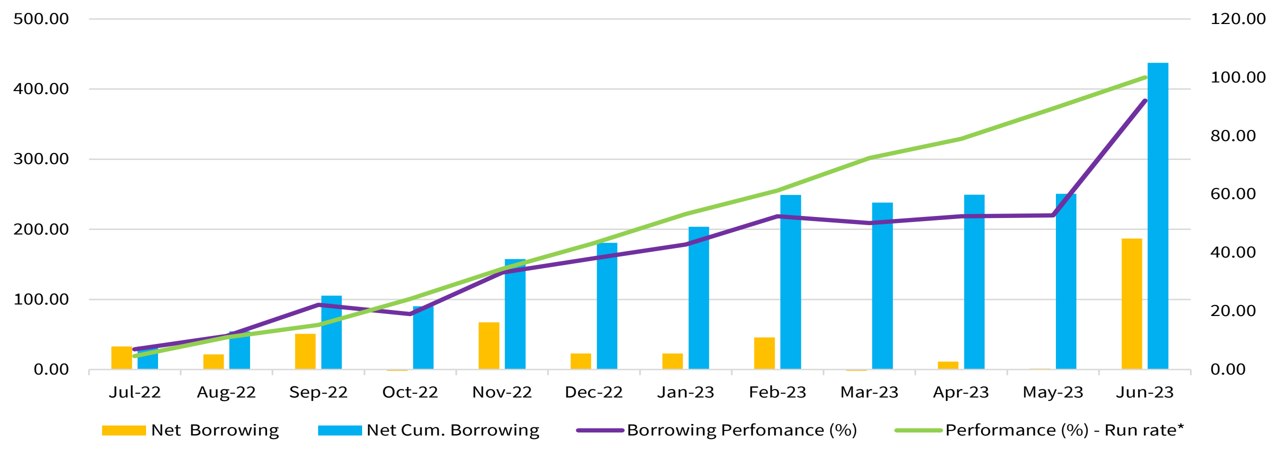
Successful Government budget funding

The government borrowing program FY2022/23 was run against the backdrop of increased uncertainties in the global economic outlook that reflected concerns about financial sector stability in the advanced economies, continuing geopolitical tensions particularly the ongoing war in Ukraine, and the pace of monetary policy tightening in the advanced economies. The approach towards government funding was guided by the following key priorities:

i. Meet the domestic borrowing target.
ii. Manage the cost of debt by developing and maintaining a well-priced stable yield curve.
iii. Minimise debt maturity risk by extending bond tenor and targeting a higher ratio of T-Bonds to T-Bills.
iv. Contribute to stable liquidity flows.
v. Support market development.

The domestic debt market witnessed the lengthening of the maturity profile of domestic debt and vibrant secondary market bond turnover. As at 30th June 2023, KSh 437.3bn (92.1%) was achieved out of the revised borrowing target of KSh 475.0bn as illustrated in **Chart 5.3.**

Chart 5.3: Domestic Borrowing Program Performance FY 2022/23



Source: CBK

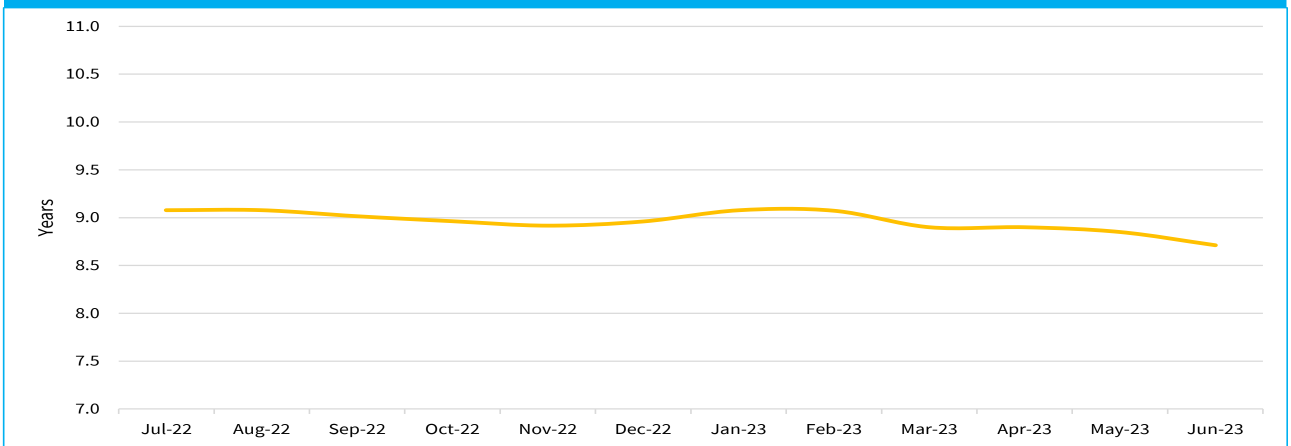
Successful Debt Maturity Lengthening

The maturity profile of domestic debt has lengthened, with bond maturities well spread and extending up to 2047. The Average Time to Maturity (ATM) for Treasury bonds improved to 9.1 years by November 2022, from 7.7 years in June 2020 (up 18.2%), then declined to 8.5 years by end-June 2023 due to issuance of a successful 7year IFB in June 2023, in line with the desired domestic debt priorities. The ratio of Treasury bills to bonds improved to 13:87 in June 2023 from 15:85 in June 2022 **(Chart 5.4b & 5.4c),** which has continued to mitigate debt refinancing risk. This has been achieved through consistent issuance and reopening of medium to longer term Treasury bonds. Gross Treasury bonds issued during the year amounted KSh 745.5bn, of which bond reopening, new bond issuance and infrastructure bonds accounted for 34.5 percent, 6.3 percent and 59.2 percent respectively.

Sustained Yield Curve Stability

The yield curve continues to adjust to the monetary policy stance and has adjusted steadily across the tenors to reflect the current positions **(Chart 5.5).** The yield curve continues to play an important role as a pricing benchmark for financial market investments. The yield curve has remained a stable since January 2022 with moderate movements of the curve.

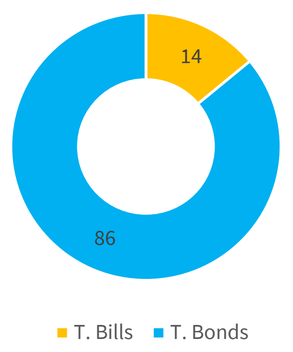
Chart 5.4a: Average Maturity (Years) of Treasury Bonds



Source: CBK

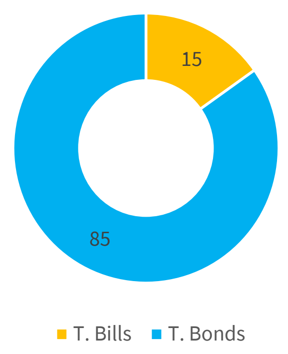
5.0 CENTRAL BANK OPERATIONS

Chart 5.4b : Government Securities Stock by Instrument, June 2023



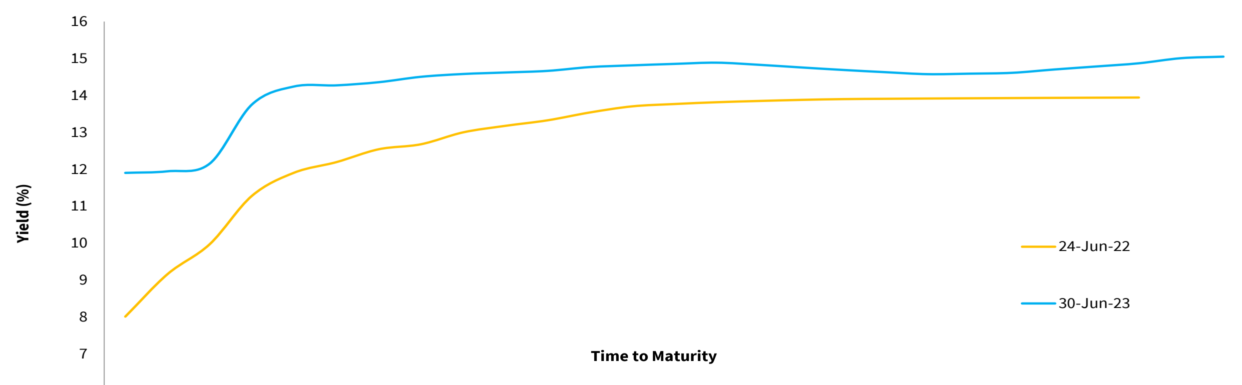
Source: CBK

Chart 5.4c: Government Securities Stock by Instrument, June 2022



Source: CBK

Chart 5.5: Government Securities Yield Curve



	3M	6M	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25
24-Jun-22	8.0	9.2	10.	11.	11.	12.	12.	12.	13.	13.	13.	13.	13.	13.	13.	13.	13.	13.	13.	13.	13.	13.	13.	13.	13.		
30-Jun-23	11.	11.	12.	13.	14.	14.	14.	14.	14.	14.	14.	14.	14.	14.	14.	14.	14.	14.	14.	14.	14.	14.	14.	14.	14.	15.	15.

Source: CBK

Central Securities Depository (Dhow CSD) System – The upgrade of the CBK Central Securities Depository (DhowCSD) is nearing completion. The DhowCSD system is a versatile market infrastructure that will transform Kenya's financial markets by improving market liquidity, enhancing operational efficiency in the domestic debt market, further promoting market deepening, broader financial inclusion through expansion of digital access, capital market growth, and positioning Kenya as the preferred financial hub in the region.

The DhowCSD system will support CBK's vision towards a modern world class Central Bank with reliable technology to promote a stable and vibrant financial system. It is a world class depository infrastructure to scale up CBK services to the public, corporate clients, Diaspora clients and market participants (Commercial Banks, Investments Banks, and Custodians) via a versatile and highly scalable digital solution with full capacity to deliver seamless investor experience and client convenience.

6.0 STRATEGIC PLAN 2021-2024

6.0 STRATEGIC PLAN 2021-2024

Overview

The Bank has formulated a three-year plan 2021-2024 to focus its resources and efforts in effectively implementing its mandate and attain its vision of being a ***World-Class Modern Central Bank***. The plan has four strategic focus areas namely ***Automation, People and Culture, Risk Management*** and ***Operational Excellence***. A brief highlight on each of the focus areas is presented below:

Automation

The Bank plans to re-engineer its processes and adopt appropriate systems strategically to deliver enhanced business capabilities that will facilitate and enable staff to operate efficiently and effectively.

People and Culture

The Bank will consolidate gains recorded in previous initiatives and complete the HR transformational journey which include migration of staff to the revised structure, review and rollout of revised HR policies and undertake culture alignment.

Risk Management

This is an inward and outward facing theme. Internally, the Bank will continue improving its control environment to mitigate risks and ensure operations flow seamlessly. Externally, the Bank commits to mitigate risks in the banking and financial sector through legislation and oversight of participants.

Operational Excellence

The Bank will endeavor to improve its governance structure and ensure productive internal dependencies to facilitate effective implementation of its mandate.

Strategy Performance for the FY2022-2023

- The Bank's current Plan has been implemented for two years. Overall performance for the FY2022-2023 stands at 58 percent. Most of the planned initiatives has progressed relatively well and the Bank is optimistic of achieving the pending deliverables during the last year of the strategy cycle. Specifically, the Bank completed the following initiatives during the period:
  - Developed and issued a code of conduct for FOREX market participants.
  - Collaborated with KNBS to host a Financial Inclusion Statistic Conference with local and international participants including researchers, central banks, academia, development partners, policy makers, country governments and private sector players.
  - Upgraded the Enterprise Resource Planning (ERP) System to enhance efficiency in procurement, financial management operation and human resources management.
  - Installed a real time financial market monitoring system to enhance information tracking capabilities and inform financial market decisions.
  - Upgrade the audit management system (Teammate) to facilitate efficient workflow within the audit function.
  - Completed construction of a police Leadership Academy at Ngong.
  - Has progressed implementation of the National Payments Strategy 2022-2025.
  - Developed, published and has progressed implementation of reforms detailed in the white paper on modernisation of the monetary policy framework and operations.
  - The Bank has also continued to oversee compliance to the Banking sector charter thereby enhancing integrity in the sector.
  - At the tail end of implementing the central Securities Depository System (Dhow CSD) to enhance operations in debt management.

Going forward, in the last cycle of the strategic plan, the Bank remains focused and vigilant to respond to any changes in the operating environment that may otherwise hamper the realisation of its mandate and objectives of the approved plan.

7.0 FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2023

REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

REPORT

OF

THE AUDITOR-GENERAL

ON

CENTRAL BANK OF KENYA

FOR THE YEAR ENDED 30 JUNE, 2023

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

CONTENTS	PAGE

BANK INFORMATION
FOR THE YEAR ENDED 30 JUNE 2023

BOARD OF DIRECTORS

Mr. Mohammed Nyaoga	Chairman (Term ended on 17 June, 2023)
Dr. Patrick Njoroge	Governor (Term ended on 17 June, 2023)
Dr. Kamau Thugge	Governor (Appointed on 19 June, 2023)
Dr. Julius Muia	Principal Secretary, The National Treasury (Term ended on 30 November, 2022)
Dr. Chris Kiptoo	Principal Secretary, The National Treasury (Appointed on 01 December, 2022)
Mr. Samson Cherutich	Member
Mrs. Nelius W. Kariuki	Member
Mrs. Rachel Dzombo	Member
Mr. Ravi J. Ruparel	Member

SENIOR MANAGEMENT

Dr. Patrick Njoroge	Governor (Term ended on 17 June, 2023)
Mrs. Sheila M'Mbijjewe	Deputy Governor (Term ended on 17 June, 2023)
Dr. Kamau Thugge	Governor (Appointed on 19 June, 2023)
Dr. Susan Koech	Deputy Governor (Appointed on 10 March, 2023)

HEADS OF DEPARTMENT

Mr. Kennedy Abuga	Director – Governor's Office (Board Secretary)
Mr. William Nyagaka	Director - Kenya School of Monetary Studies
Mr. David Luusa	Director - Financial Markets Department
Mr. Gerald Nyaoma	Director - Bank Supervision Department
Mr. Anthony Gacanja	Director - Information Technology Department (Resigned on 27 May, 2023)
Mr. Stephen Muriu	Director - General Services Department
Ms. Darliah M. Mbugua	Director - Human Resource and Administration Department
Mr. Michael Rundu Eganza	Director – Banking & National Payments Department
Ms. Caroline Mackola	Director - Finance Department
Ms. Beth Kithinji	Director - Internal Audit and Risk Management Department
Prof. Robert Mudida	Director - Research Department
Dr. Walter Onyino	Acting Director - Information Technology Department (Appointed on 27 May, 2023)
Mr. Paul Wanyagi	Director - Currency Operations Department (Appointed 10 July, 2023)
Mr. George Amollo	Head- Strategic Management Department - (Appointed on 30 November, 2022)
Dr. Joshua Ngundi Kimoro	Acting Director- Strategic Management Department - (Retired on 29 November, 2022)
Mr. Kibunyi Amdany	Director-Branch Administration Department- (Appointed on 7 August, 2023)

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BANK INFORMATION (continued)
FOR THE YEAR ENDED 30 JUNE 2023

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60200 Meru

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

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ABSA Bank Building
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STATEMENT OF CORPORATE GOVERNANCE FOR THE YEAR ENDED 30 JUNE 2023

1.0 Statement of Corporate Governance

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

1.1 Board of Directors

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

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

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

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

No.	Name	Position	Discipline	Date of Appointment	Contract end date
1.	Mr. Mohammed Nyaoga	Chairman	Lawyer	Reappointed on 18 June 2019	17 June 2023
2.	Dr. Patrick Njoroge	Governor	Economist	Reappointed on 18 June 2019	17 June 2023
3.	Dr. Kamau Thugge	Governor	Economist	Appointed on 19 June 2023	18 June 2027
4.	Principal Secretary/ The National Treasury	Executive Officer	Economist	Permanent	Permanent
5.	Mrs. Nelius Kariuki	Member	Economist	Reappointed on 5 December 2020	4 December 2024
6.	Mr. Ravi Ruparel	Member	Financial Sector Expert	Reappointed on 5 December 2020	4 December 2024
7.	Mr. Samson Cherutich	Member	Accountant	Reappointed on 5 December 2020	4 December 2024
8.	Mrs. Rachel Dzombo	Member	Management Expert	Reappointed on 5 December 2020	4 December 2024

STATEMENT OF CORPORATE GOVERNANCE (continued)
FOR THE YEAR ENDED 30 JUNE 2023

The Members of the Board (all Kenyans) in the year ended 30 June 2023 the number of meetings held in the year and their attendance were as follows:

No.	Name	Position	Discipline	Meetings Attended
1.	Mr. Mohammed Nyaoga	Chairman	Lawyer	8
2.	Dr. Patrick Njoroge	Governor	Economist	8
3.	Principal Secretary/ The National Treasury	Executive Officer	Economist	7
4.	Mrs. Nelius Kariuki	Member	Economist	8
5.	Mr. Ravi Ruparel	Member	Financial Sector Expert	6
6.	Mr. Samson Cherutich	Member	Accountant	8
7.	Mrs. Rachel Dzombo	Member	Management Expert	8

The remuneration paid to the Directors for services rendered during the financial year 2022/2023 is disclosed in Note 28 to the financial statements. The Non-Executive Directors are paid a monthly retainer fee and a sitting allowance for every meeting attended. There were no loans to Non-Executive Directors during the year while Executive Directors are paid a monthly salary and are eligible for staff loans.

1.2. Secretary to the Board

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

1.3. Audit Committee

The members of the Audit Committee in the year ended 30 June 2023 were Mr. Samson K. Cherutich (Chairman), Mr. Ravi J. Ruparel, Mrs. Nelius W. Kariuki and Mrs. Rachel Dzombo. The members are all Non-Executive Directors with experience in Accounting, Auditing, Finance and Management. The Committee meets once every two (2) months and as necessary. The Terms of Reference of the Audit Committee cover five (5) major areas, namely: Internal Control System, Risk Management, Financial Reporting and Related Reporting Practices, External and Internal Audits.

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

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

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

STATEMENT OF CORPORATE GOVERNANCE (continued)
FOR THE YEAR ENDED 30 JUNE 2023

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

The Committee Members' positions, disciplines and number of meetings attended for the year ended 30 June 2023 were as follows:

No.	Name	Position	Discipline	Meetings Attended
1.	Mr. Samson Cherutich	Chairman	Accountant	10
2.	Mr. Ravi Ruparel	Member	Financial Sector Expert	10
3.	Mrs. Nelius Kariuki	Member	Economist	9
4.	Mrs. Rachel Dzombo	Member	Management Expert	10

1.4. Human Resources Committee (HRC)

The members of the HRC in the year ended 30 June 2023 were Mrs. Nelius Kariuki (Chairperson), Mr. Samson Cherutich, Mrs. Rachel Dzombo and Mr. Ravi Ruparel. The members are all Non-Executive Directors with experience in Accounting, Management and Business.

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

a) Monitor the formulation and implementation of Human Resources Policies in the Bank;
b) In relation to staff matters, they ensure the Bank's compliance with the Kenyan Constitution, Laws of Kenya, CBK regulations and its own code of conduct;
c) Perform any other Human Resources related functions as assigned by the Board.
d) Monitor the implementation of Board resolutions relating to the HRC of the Board.

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

The members of the Human Resources Committee in the year ended 30 June 2023 and their attendance of the meetings held in the year were as follows:

No.	Name	Position	Discipline	Meetings Attended
1.	Mrs. Nelius Kariuki	Chairperson	Economist	6
2.	Mr. Samson Cherutich	Member	Accountant	6
3.	Mrs Rachel Dzombo	Member	Management Expert	6
4.	Mr. Ravi Ruparel	Member	Financial Sector Expert	6

1.5. Monetary Policy Committee (MPC)

Section 4D of the Central Bank of Kenya (Amendment) Act 2008 establishes the Monetary Policy Committee (MPC). The MPC is responsible for formulating monetary policy and is required to meet at least once every two (2) months. The MPC comprises the:

STATEMENT OF CORPORATE GOVERNANCE (continued)
FOR THE YEAR ENDED 30 JUNE 2023

i) Governor who is the Chairman
ii) The Deputy Governor who is the Deputy Chairperson
iii) Two (2) members appointed by the Governor from the CBK. Of the two members:
   a) one shall be a person with executive responsibility within the Bank for monetary analyses and;
   b) one shall be a person with responsibility within the Bank for monetary policy operations.
iv) Four (4) external members appointed by the Cabinet Secretary for The National Treasury
v) Principal Secretary for the National Treasury or his Representative

External members of the MPC are appointed for an initial period of three (3) years each and may be reappointed for another final term of three (3) years. The quorum for MPC meetings is five (5) members, one of whom must be the Chairman or Deputy Chairperson. At least once every six months the MPC submits a report on its activities to the Cabinet Secretary for the National Treasury, and the Cabinet Secretary lays a copy of each report before the National Assembly.

The MPC held seven (7) meetings in the year ended 30 June 2023, and attendance was as follows:

No.	Name	Position	Discipline	Meetings Attended
1.	Dr. Kamau Thugge, CBS	Chairman[1]	Economist	1
2.	Dr. Patrick Njoroge	Chairman[2]	Economist	6
3.	Dr. Susan Koech	Deputy Chairperson[3]	Finance	3
4.	Mrs. Sheila M'Mbijjewe	Deputy Chairperson[4]	Finance/ Accountancy	6
5.	Dr. Margaret Chemengich	Member (External)	Economist	7
6.	Prof. Jane Kabubo-Mariara	Member (External)	Economist	7
7.	Prof. Benson Ateng'	Member (External)	Economist	7
8.	Mr. Humphrey Muga	Member (External)	Economist	7
9.	Mr. Musa Kathanje	Representative of the Principal Secretary, The National Treasury	Economist	7
10.	Mr. David Luusa	Member (Internal)	Economist	7
11.	Prof. Robert Mudida	Member (Internal)	Economist	7

1. Dr. Kamau Thugge was appointed Governor of CBK effective from June 19, 2023
2. Dr. Patrick Njoroge's term as Governor of CBK ended on June 17, 2023
3. Dr. Susan Koech was appointed Deputy Governor of CBK effective from March 10, 2023
4. Mrs. Sheila M'Mbijjewe's term as Deputy Governor of CBK ended on June 17, 2023

1.6. Management Structure

The positions of Governor and Deputy Governor are set out in the CBK Act Cap 491 of the Laws of Kenya. The Governor and the Deputy Governor constitute the Central Bank's Senior Management. As the Chief Executive of the Bank, the Governor assigns duties to the Deputy Governor.

There are 14 Directors who head up the key departments of the Central Bank, using structure, oversight, governance and control of the key areas. Senior Management and departmental heads have frequent meetings in the running of the Bank, many of these meetings organised in structured frameworks to ensure clarity, transparency and success of the outcomes.

STATEMENT OF CORPORATE GOVERNANCE (continued)
FOR THE YEAR ENDED 30 JUNE 2023

1.7. Code of Ethics

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

1.8. Internal Controls

The Management of the Bank has put in place a system of internal control mechanisms to ensure the reporting of complete and accurate accounting information. Procurement of goods and services is strictly done in accordance with the *Public Procurement & Asset Disposal Act, 2015 and Regulations, 2020*. In all operational areas of the Bank, workflows have been structured in a manner that allows adequate segregation of duties.

1.9. Authorizations

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

1.10. Internal Audit and Risk Management

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

1.11. Transparency

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

2.0 Financial Performance

The Bank's financial performance is primarily affected by the Monetary Policy stance adopted, interest rates and changes in exchange rate. The Bank's financial performance is presented on page 54 to 63 of these financial statements.

During financial year ended 30 June 2023, the Bank recorded a net surplus of KShs 150,494 million compared to KShs 76,894 million in the financial year ended 30 June 2022. The net surplus includes an unrealized exchange gain of KShs 131,489 million (2022: Kshs 68,560 million). The surplus is included as part of the General Reserve Fund.

During the financial year ended 30 June 2023, the Bank's operating surplus was KShs 19,005 million (2022: KShs 8,334 million) due to higher average returns on the securities portfolio and deposits. An unrealised foreign exchange gain of KShs 131,489 million was recorded during the year ended 30 June 2023 (2022: KShs 68,560 million) due to the strengthening of the US Dollar against the Kenya Shilling. The Bank also recorded a fair value loss on fixed income securities held at fair value through other comprehensive income (FVOCI) of KShs 4,698 million (2022: loss of KShs 21,613 million) as a result of a decline in market prices. The loss recorded during the year has been presented in other comprehensive income.

STATEMENT OF CORPORATE GOVERNANCE (continued)
FOR THE YEAR ENDED 30 JUNE 2023

In addition, an actuarial loss on retirement benefit asset of KShs 2,770 million (2022: KShs 1,276 million) was also recorded. There was no revaluation of land and buildings during the year. Valuation is performed every 3 years in line with the Bank's fixed assets management policy.

The consolidated Bank's assets increased to KShs 1,783,209 million (2022: KShs 1,438,948 million) mainly attributed to an increase in foreign reserves and loans and advances on programs for on-lending to the Government of Kenya. Liabilities increased to KShs 1,373,132 million (2022: KShs 1,174,568 million) mainly due to an increase in IMF liabilities.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2023

The Directors submit their report together with the audited financial statements for the year ended 30 June 2023, which shows performance of the Bank during the year and the state of affairs of Central Bank of Kenya (the "Bank"/" CBK") as at the year end.

1. INCORPORATION

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

2. PRINCIPAL ACTIVITIES

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

3. RESULTS AND SURPLUS

The surplus for the year was KShs 150,494 million (2022: KShs 76,894 million) made up of KShs 19,005 million (2022: KShs 8,334 million) realized surplus and KShs 131,489 million (2022: KShs 68,560 million) unrealized surplus. The surplus has been included as part of the General Reserve Fund. The directors recommend a transfer of operational surplus in the year to 30 June 2023 of KShs 5,000 million (2022: KShs 4,000 million) to the Consolidated Fund.

4. BOARD OF DIRECTORS

The members of the Board of Directors who served during the year and up to the date of this report are listed on page 38.

5. AUDITOR

The Auditor General is responsible for the statutory audit of the Bank's Financial Statements in accordance with Section 35 of the Public Audit Act, 2015. Section 23(1) of the Act empowers the Auditor-General to appoint other auditors to carry out the audit on his behalf. Accordingly, Deloitte & Touche LLP were appointed to carry out the audit for the year ended 30 June 2023 and report to the Auditor General.

By Order of the Board

Kennedy Abuga
Board Secretary

8 September 2023

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2023

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

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

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

(ii) Selecting and applying appropriate accounting policies; and

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

The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial position of the Bank as at 30 June 2023 and of the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the *Central Bank of Kenya Act.*

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

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

Director
Mr. Samson Cherutich

8 September 2023

Governor
Dr. Kamau Thugge

8 September 2023

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

HEADQUARTERS
Anniversary Towers
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON CENTRAL BANK OF KENYA FOR THE YEAR ENDED 30 JUNE, 2023

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.

B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for the intended purpose.

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying Consolidated and Bank financial statements of Central Bank of Kenya (the "Bank") and its subsidiary (together, the "Consolidated"), set out on pages **54 to 155**, which comprise of the Consolidated and Bank statement of financial position as at 30 June, 2023, and the Consolidated and Bank statement of profit or loss and other comprehensive income, Consolidated and Bank statement of changes in equity and the Consolidated and Bank statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by Deloitte and Touche LLP auditors appointed under Section 23 of the Public Audit Act, 2015 and in accordance with the provisions of Article 229 of the Constitution of Kenya. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the Consolidated and Bank financial statements present fairly, in all material respects, the Consolidated and Bank financial position of the Central Bank of Kenya as at 30 June, 2023, and of its Consolidated and Bank financial performance and its Consolidated and Bank cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Central Bank of Kenya Act, Cap 491 of the Laws of Kenya and the Public Finance Management Act, 2012.

Basis for Opinion

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

Key Audit Matters

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

Other Matter

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

As was reported in the previous year, Section 11(1)(d) of the Central Bank of Kenya Act, Cap 491 of 2014, provides that there shall be eight (8) other Non-Executive Directors of the Board. During the year under review, the Bank had only four (4) Non-Executive Directors in place transacting business on its behalf. However, this has not affected the quorum during Board meetings as provided for in Section 12(2) of the Central Bank of Kenya Act, Cap 491 of 2014.

There was no amendment to the Central Bank of Kenya Act to provide for reduction in the number of Directors.

2. Lack of a Second Deputy Governor

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

10 March, 2023 when a second Deputy Governor was appointed. However, one Deputy Governor retired within the financial year on 17 June, 2023. As at the time of audit in September 2023, the Bank continued operating with one Deputy Governor.

There was no amendment to the Central Bank of Kenya Act to provide for reduction in the number of Deputy Governors.

Other Information

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

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Unapproved Financial Statements of Subsidiary

As disclosed in Note 2(c) and 28(vi) to the financial statements, the consolidated financial statements comprise financial statements of the Bank and its subsidiary, the Kenya School of Monetary Studies (KSMS). However, the financial statements of KSMS were not approved. Management has indicated that, for the last seven (7) years, KSMS has not had a functional Board of Directors and had been proposed for winding up in order to address concerns regarding governance and internal controls at the KSMS, and to align its objectives and financial reporting framework with that of CBK. The dissolution of KSMS as a legal entity was gazetted on 24 April, 2020. However, as at the date of this report, KSMS had not been dissolved.

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

Responsibilities of Management and the Board of Directors

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

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

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

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

The Board of Directors is responsible for overseeing the Bank's financial reporting process, reviewing the effectiveness of how Management monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with

ISSAIs will always detect a material misstatement and weakness when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Bank to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

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

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

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

15 September, 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2023

	Notes	2023 KShs' million	2022 KShs' million
Interest income	4	29,020	16,769
Interest expense	5	(3,993)	(2,132)
Net interest income		**25,027**	**14,637**
Fees and commission income	6(a)	3,000	3,000
Net trading income	6(b)	12,666	9,742
Other income	7(a)	1,077	973
Operating income		**41,770**	**28,352**
Impairment allowance expense on financial assets	8	(2,813)	(4,100)
Operating expenses	9(a)	(19,952)	(15,918)
Operating surplus before unrealized gains		**19,005**	**8,334**
Unrealised gains:			
Foreign exchange gain	9(c)	131,489	68,560
Surplus for the year		**150,494**	**76,894**
Other comprehensive income:			
Items that are or may be subsequently reclassified to profit or loss:			
Debt instruments at fair value through other comprehensive income:			
Net change in fair value during the year	10(a)	(4,698)	(21,613)
Reclassification to income statement	10(b)	6,612	(644)
Changes in Impairment allowance	8	39	25
		1,953	**(22,232)**
Items that will not be reclassified to profit or loss:			
Actuarial loss on retirement benefit asset	20	(2,770)	(1,276)
		(2,770)	**(1,276)**
Other comprehensive income for the year		**(817)**	**(23,508)**
Total comprehensive income for the year		**149,677**	**53,386**

BANK STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2023

	Notes	2023 KShs' million	2022 KShs' million
Interest income	4	29,020	16,769
Interest expense	5	(3,993)	(2,132)
Net interest income		**25,027**	**14,637**
Fees and commission income	6(a)	3,000	3,000
Net trading income	6(b)	12,666	9,742
Other income	7(a)	951	794
Operating income		**41,644**	**28,173**
Impairment allowance expense on financial assets	8	(2,813)	(4,100)
Operating expenses	9(a)	(19,826)	(15,739)
Operating surplus before unrealized gains		**19,005**	**8,334**
Unrealised gains:			
Foreign exchange gain	9(c)	131,489	68,560
Surplus for the year		**150,494**	**76,894**
Other comprehensive income:			
Items that are or may be subsequently reclassified to profit or loss:			
Debt instruments at fair value through other comprehensive income:			
Net change in fair value during the year	10(a)	(4,698)	(21,613)
Reclassification to income statement	10(b)	6,612	(644)
Changes in Impairment allowance	8	39	25
		1,953	**(22,232)**
Items that will not be reclassified to profit or loss:			
Actuarial loss on retirement benefit asset	20	(2,770)	(1,276)
		(2,770)	**(1,276)**
Other comprehensive income for the year		**(817)**	**(23,508)**
Total comprehensive income for the year		**149,677**	**53,386**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2023

	Notes	2023 KShs' million	2022 KShs' million
ASSETS			
Balances due from banking institutions	11	421,469	295,836
Funds held with International Monetary Fund (IMF)	12(a)	73,275	71,639
Securities and advances to banks	13	82,469	71,829
Loans and advances	14	3,694	3,726
Debt instruments at fair value through other comprehensive income	15	640,530	636,651
Equity instruments at fair value through other comprehensive income	16	12	10
Other assets	17(a)	7,997	8,559
Gold holdings	17(b)	150	120
Right-of-use assets	18(a)	79	90
Property and equipment	18(b)	29,710	31,910
Intangible assets	19	1,998	310
Retirement benefit asset	20	4,994	7,081
IMF On-Lent to Government of Kenya (GOK)	21(a)	326,865	192,924
Due from Government of Kenya	21(b)	189,967	118,263
TOTAL ASSETS		**1,783,209**	**1,438,948**
LIABILITIES			
Currency in circulation	22	315,967	305,350
Deposits due to Banks and Government	23	572,975	539,610
Due to IMF	12(b)	477,899	325,145
Other Liabilities	24	6,291	4,463
TOTAL LIABILITIES		**1,373,132**	**1,174,568**
EQUITY			
Share capital	25(a)	38,000	35,000
General reserve fund	25(b)	366,730	226,986
Fair value reserve	25(c)	(21,333)	(23,286)
Revaluation reserve	25(d)	21,680	21,680
Consolidated fund	25(e)	5,000	4,000
TOTAL EQUITY		**410,077**	**264,380**
TOTAL LIABILITIES AND EQUITY		**1,783,209**	**1,438,948**

The financial statements on pages 54 to 155 were authorised for issue by the Board of Directors on 8 September 2023 and signed on its behalf by:

Director
Mr. Samson Cherutich

Governor
Dr. Kamau Thugge

BANK STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2023

	Notes	2023 KShs' million	2022 KShs' million
ASSETS			
Balances due from banking institutions	11	421,469	295,836
Funds held with International Monetary Fund (IMF)	12(a)	73,275	71,639
Securities and advances to banks	13	82,469	71,829
Loans and advances	14	3,694	3,726
Debt instruments at fair value through other comprehensive income	15	640,530	636,651
Equity instruments at fair value through other comprehensive income	16	12	10
Other assets	17(a)	7,858	8,446
Gold holdings	17(b)	150	120
Right-of-use assets	18(a)	79	90
Property and equipment	18(b)	29,710	31,910
Intangible assets	19	1,998	310
Retirement benefit asset	20	4,994	7,081
IMF On-Lent to Government of Kenya (GOK)	21(a)	326,865	192,924
Due from Government of Kenya	21(b)	189,967	118,263
TOTAL ASSETS		**1,783,070**	**1,438,835**
LIABILITIES			
Currency in circulation	22	315,967	305,350
Deposits due to Banks and Government	23	572,975	539,610
Due to IMF	12(b)	477,899	325,145
Other Liabilities	24	6,152	4,330
TOTAL LIABILITIES		**1,372,993**	**1,174,435**
EQUITY			
Share capital	25(a)	38,000	35,000
General reserve fund	25(b)	366,730	227,006
Fair value reserve	25(c)	(21,333)	(23,286)
Revaluation reserve	25(d)	21,680	21,680
Consolidated fund	25(e)	5,000	4,000
TOTAL EQUITY		**410,077**	**264,400**
TOTAL LIABILITIES AND EQUITY		**1,783,070**	**1,438,835**

The financial statements on pages 54 to 155 were authorised for issue by the Board of Directors on 8 September 2023 and signed on its behalf by:

Director
Mr. Samson Cherutich

Governor
Dr. Kamau Thugge

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2023

Year ended 30 June 2023	Notes	Share capital KShs' million	General reserve KShs' million	Revaluation reserve KShs' million	Fair value reserve KShs' million	Consolidated fund KShs' million	Total KShs' million
At 1 July 2022		35,000	226,986	21,680	(23,286)	4,000	264,380
Surplus for the year		-	150,494	-	-	-	150,494
Net change in fair value of debt instrument at FVOCI		-	-	-	(4,698)	-	(4,698)
Net amount reclassified to the income statement on sale and maturity of debt instruments at FVOCI		-	-	-	6,612	-	6,612
Net change in impairment allowance on debt instruments at FVOCI		-	-	-	39	-	39
Consolidation adjustment		-	20	-	-	-	20
Actuarial loss on retirement benefit asset	20	-	(2,770)	-	-	-	(2,770)
Total comprehensive income for the year		-	147,744	-	1,953	-	149,697
Additional share capital	25(a)	3,000	(3,000)	-	-	-	-
Transactions with owners							
-Transfer to consolidated fund	25(e)	-	(5,000)	-	-	5,000	-
-Payments out of consolidated fund	25(e)	-	-	-	-	(4,000)	(4,000)
At 30 June 2023		38,000	366,730	21,680	(21,333)	5,000	410,077

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
FOR THE YEAR ENDED 30 JUNE 2023

Year ended 30 June 2022	Notes	Share capital KShs' million	General reserve KShs' million	Revaluation reserve KShs' million	Fair value reserve KShs' million	Consolidated fund KShs' million	Total KShs' million
At 1 July 2021		35,000	155,368	21,680	(1,054)	5,500	216,494
Surplus for the year		-	76,894	-	-	-	76,894
Net change in fair value of debt instrument at FVOCI		-	-	-	(21,613)	-	(21,613)
Net amount reclassified to the income statement on sale and maturity of debt instruments at FVOCI		-	-	-	(644)	-	(644)
Net change in impairment allowance on debt instruments at FVOCI		-	-	-	25	-	25
Actuarial loss on retirement benefit asset	20	-	(1,276)	-	-	-	(1,276)
Total comprehensive income for the year		-	75,618	-	(22,232)	-	53,386
Transactions with owners							
-Transfer to consolidated fund	25(e)	-	(4,000)	-	-	4,000	-
-Payments out of consolidated fund	25(e)	-	-	-	-	(5,500)	(5,500)
At 30 June 2022		35,000	226,986	21,680	(23,286)	4,000	264,380

BANK STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2023

Year ended 30 June 2023	Notes	Share capital KShs' million	General reserve KShs' million	Revaluation reserve KShs' million	Fair value reserve KShs' million	Consolidated fund KShs' million	Total KShs' million
At 1 July 2022		35,000	227,006	21,680	(23,286)	4,000	264,400
Surplus for the year		-	150,494	-	-	-	150,494
Net change in fair value of debt instrument at FVOCI		-	-	-	(4,698)	-	(4,698)
Net amount reclassified to the income statement on sale and maturity of debt instruments at FVOCI		-	-	-	6,612	-	6,612
Net change in impairment allowance on debt instruments at FVOCI		-	-	-	39	-	39
Actuarial loss on retirement benefit asset	20	-	(2,770)	-	-	-	(2,770)
Total comprehensive income for the year		-	147,724	-	1,953	-	149,677
Additional share capital	25(a)	3,000	(3,000)	-	-	-	-
Transactions with owners							
-Transfer to consolidated fund	25(e)	-	(5,000)	-	-	5,000	-
-Payments out of consolidated fund	25(e)	-	-	-	-	(4,000)	(4,000)
At 30 June 2023		38,000	366,730	21,680	(21,333)	5,000	410,077

BANK STATEMENT OF CHANGES IN EQUITY (continued)
FOR THE YEAR ENDED 30 JUNE 2023

Year ended 30 June 2022	Notes	Share capital KShs' million	General reserve KShs' million	Revaluation reserve KShs' million	Fair value reserve KShs' million	Consolidated fund KShs' million	Total KShs' million
At 1 July 2021		35,000	155,388	21,680	(1,054)	5,500	216,514
Surplus for the year		-	76,894	-	-	-	76,894
Net change in fair value of debt instrument at FVOCI		-	-	-	(21,613)	-	(21,613)
Net amount reclassified to the income statement on sale and maturity of debt instruments at FVOCI		-	-	-	(644)	-	(644)
Net change in impairment allowance on debt instruments at FVOCI		-	-	-	25	-	25
Actuarial loss on retirement benefit asset	(20)	-	(1,276)	-	-	-	(1,276)
Total comprehensive income for the year		-	75,618	-	(22,232)	-	53,386
Transactions with owners							
-Transfer to consolidated fund	25(e)	-	(4,000)	-	-	4,000	-
-Payments out of consolidated fund	25(e)	-	-	-	-	(5,500)	(5,500)
At 30 June 2022		35,000	227,006	21,680	(23,286)	4,000	264,400

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2023

	Notes	2023 KShs' million	2022 KShs' million
OPERATING ACTIVITIES			
Cash used in operating activities	26	(102,820)	(238,793)
Interest received		27,319	17,210
Interest paid		(3,993)	(2,132)
Interest paid on lease liabilities	18(a)	(5)	(7)
Cash used in operating activities		(79,499)	(223,722)
INVESTING ACTIVITIES			
Purchase of property and equipment	18(b)	(1,449)	(1,395)
Purchase of intangible assets	19	(1,865)	(779)
Proceeds from disposal of property and equipment		4	3
Net change in debt instruments at fair value through other comprehensive income		98,910	47,264
Net change in securities and advances to banks		(1,300)	4,434
Net change in funds held with International Monetary Fund (IMF)		10,224	(67,985)
Net cash generated from /(used in) investing activities		104,524	(18,458)
FINANCING ACTIVITIES			
Payment of principal portion of lease liabilities	18(a)	(57)	(61)
Receipts from International Monetary Fund (IMF)	27(b)	96,587	110,597
Repayments to the International Monetary Fund (IMF)	27(b)	(6,736)	(11,220)
Net cash generated from financing activities		89,794	99,316
Net increase/(decrease) in cash and cash equivalents		114,819	(142,864)
Cash and cash equivalents at the beginning of the year		361,875	489,666
Effect of foreign exchange rate changes on cash and cash equivalents		35,419	15,073
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	27(a)	512,113	361,875

BANK STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2023

	Notes	2023 KShs' million	2022 KShs' million
OPERATING ACTIVITIES			
Cash used in operating activities	26	(102,820)	(238,793)
Interest received		27,319	17,210
Interest paid		(3,993)	(2,132)
Interest paid on lease liabilities	18(a)	(5)	(7)
Cash used in operating activities		(79,499)	(223,722)
INVESTING ACTIVITIES			
Purchase of property and equipment	18(b)	(1,449)	(1,395)
Purchase of intangible assets	19	(1,865)	(779)
Proceeds from disposal of property and equipment		4	3
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Net change in funds held with International Monetary Fund (IMF)		10,224	(67,985)
Net cash generated from/(used in) investing activities		104,524	(18,458)
FINANCING ACTIVITIES			
Payment of principal portion of lease liabilities	18(a)	(57)	(61)
Receipts from International Monetary Fund (IMF)	27(b)	96,587	110,597
Repayments to the International Monetary Fund (IMF)	27(b)	(6,736)	(11,220)
Net cash generated from financing activities		89,794	99,316
Net increase/ (decrease) in cash and cash equivalents		114,819	(142,864)
Cash and cash equivalents at the beginning of the year		361,875	489,666
Effect of foreign exchange on cash and cash equivalents balances		35,419	15,073
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	27(a)	512,113	361,875

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2023

1. GENERAL INFORMATION

Central Bank of Kenya (the "Bank"/" CBK") is established under Article 231 of the Constitution of Kenya. The Central Bank of Kenya is responsible for formulating monetary policy, promoting price stability, the payment system and performing other functions conferred on it by the Act of Parliament. The Bank is wholly owned by the National Treasury. The Bank acts as banker, advisor and agent of the Government of Kenya.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

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

(b) Changes in accounting policies and disclosures

New and amended standards

The following amendments became effective during the period:

Several new and revised standards and interpretations became effective during the year. The Directors have evaluated the impact of the new standards and interpretations and none of them had a significant impact on the Bank and its subsidiary financial statements.

The following revised IFRSs were effective in the current year and the nature and the impact of the relevant amendments are described below.

Amendments to IFRS 3	*Reference to Conceptual Framework*
Amendments to IAS 16	*Property, Plant and Equipment – Proceeds before Intended Use*
Amendments to IAS 37	*Onerous Contracts – Cost of Fulfilling a Contract*
Annual Improvements to IFRS Standards 2018 – 2020 Cycle	*Annual Improvements to IFRS Standards 2018–2020 (May 2020)*

Amendments to IAS 16 - Property, Plant and Equipment - Proceeds before intended use	These are amendments regarding proceeds from selling items produced while bringing an asset into the location and condition necessary for it to be capable of operating in the manner intended by management. This amends the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the cost of producing those items, in profit or loss. An entity applies the amendments retrospectively only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. The directors do not expect that the adoption of the amendment will have a material impact on the financial statements of the Bank and its subsidiary.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Changes in accounting policies and disclosures (continued)

New and amended standards (continued)

Amendments to IFRS 3: Reference to the Conceptual Framework	The amendments update an outdated reference to the Conceptual Framework in IFRS 3 without significantly changing the requirements in the standard. The changes in Reference to the Conceptual Framework are as follows; a) Update IFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework; b) Add to IFRS 3 a requirement that, for transactions and other events within the scope of IAS 37 or IFRIC 21, an acquirer applies IAS 37 or IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination; and c) Add to IFRS 3 an explicit statement that an acquirer does not recognise contingent assets acquired in a business combination. The amendments are effective for annual periods beginning on or after 1 January 2022. Early application is permitted if an entity also applies all other updated references at the same time or earlier. The directors do not expect that the adoption of the amendment will have a material impact on the financial statements of the Bank and its subsidiary.
Amendments to IAS 37: Onerous Contracts - Cost of Fulfilling a Contract	The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labour, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract). The directors do not expect that the adoption of the amendment will have a material impact on the financial statements of the Bank and its subsidiary.
Annual Improvements to IFRS Accounting Standards 2018 - 2020 Cycle *(Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities, IAS 41 Agriculture – Taxation in fair value Measurements, IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities)*	**IFRS 1 First-time Adoption of International Financial Reporting Standards.** The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in IFRS 1:D16 (a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS Accounting Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in IFRS 1:D16 (a). The directors do not expect that the adoption of the amendment will have a material impact on the financial statements of the Bank and its subsidiary. IFRS 9 Financial Instruments. The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognise a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Changes in accounting policies and disclosures (continued)

New and amended standards (continued)

Annual Improvements to IFRS Accounting Standards 2018 - 2020 Cycle *(Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities, IAS 41 Agriculture – Taxation in fair value Measurements, IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities) (Continued)*	The directors do not expect that the adoption of the amendment will have a material impact on the financial statements of the Bank and its subsidiary.
	IFRS 16 Leases The amendment removes the illustration of the reimbursement of leasehold improvements.
	IAS 41 Agriculture The amendment removes the requirement in IAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in IAS 41 with the requirements of IFRS 13 Fair Value Measurement to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pre-tax or post-tax cash flows and discount rates for the most appropriate fair value measurement. The directors do not expect that the adoption of the amendment will have a material impact on the financial statements of the Bank and its subsidiary.

Standards issued but not yet effective

At the date of authorisation of these financial statements, The Bank and its subsidiary has not applied the following new and revised IFRS Standards that have been issued but are not yet effective and in some cases had not yet been adopted by the bank:

New and Amendments to standards	Effective for annual periods beginning on or after
Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an investor and its Associate or Joint Venture	1 January 2023, with early application permitted.
IFRS 17: Insurance Contracts	1 January 2023
Amendments to IAS 1 - Classification of liabilities as current or non-current	1 January 2023, with earlier application permitted
Amendments to IAS 1 and IFRS practice statement 2: Disclosure of accounting policies	1 January 2023, with earlier application permitted
Amendments to IAS 8: Definition of accounting estimates	1 January 2023, with earlier application permitted
Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1 January 2023, with earlier application permitted
Amendments to IFRS 16 - Lease Liability in a Sale and Leaseback	1 January 2024, with earlier application permitted

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Bank and its subsidiary in future periods.

Early adoption of standards

The Bank and its subsidiary have not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiary, Kenya School of Monetary Studies, as at 30 June 2023. Kenya School of Monetary Studies is a subsidiary of the Bank. The investment in subsidiary in the separate financial statements is measured at cost less impairment. The Bank has the power to govern the financial and operating policies of the school. The subsidiary was fully consolidated from the date on which control was transferred to the Bank.

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

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

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

(d) Functional currency and translation of foreign currencies

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

Transactions and balances
Foreign currency transactions are translated into the functional currency using exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

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

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

(e) Currency Inventory

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

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

(f) Financial instruments

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

Financial assets

Initial recognition and measurement

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

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

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

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

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

Subsequent measurement

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

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

Financial assets at amortised cost (debt instruments)

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

Financial assets (continued)

Financial assets at fair value through OCI (debt instruments)

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

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

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

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

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

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

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in profit or loss when the right of payment has been established. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Subsequent measurement

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

Financial assets at fair value through profit or loss

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

Financial assets (continued)

Classes of financial instruments

Category (as defined by IFRS 9)		Class (as determined by the Bank)		CONSOLIDATED 2023	CONSOLIDATED 2022
				KShs' million	KShs' million
Financial assets	Financial assets at amortized cost	Securities and advances to banks		82,469	71,829
		Funds held with IMF		73,275	71,639
		Net advances to staff and banks under liquidation		3,694	3,726
		Other assets (classified as financial assets)		573	357
		Due from Government	Government term loan	17,789	18,899
			IMF On-Lent to GOK	326,865	192,924
			SDR Allocation due from National Treasury	95,721	40,862
			GOK Overdraft facility	76,457	58,502
		Balances due from banking institutions	Foreign currency denominated term deposits and current account balances	421,469	295,836
	Financial assets at Fair value through other comprehensive income	Fixed income securities	World Bank managed and internally managed fixed income portfolios	640,530	636,651
		Equity	Investment securities	12	10
Financial liabilities	Financial liabilities at amortised cost	Deposits from banks	Cash reserve ratio and current account deposits	211,850	265,926
		Due to IMF		477,899	325,145
		Other liabilities		6,016	4,192
		Deposits from Government institutions		361,125	273,684

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

Financial assets (continued)

				BANK	
Category (as defined by IFRS 9)		**Class (as determined by the Bank)**		**2023**	**2022**
				KShs' million	KShs' million
Financial assets	Financial assets at amortized cost	Securities and advances to banks		82,469	71,829
		Funds held with IMF		73,275	71,639
		Net advances to staff and banks under liquidation		3,694	3,726
		Other assets (classified as financial assets)		434	219
		Due from Government	Government term loan	17,789	18,899
			IMF On-Lent to GOK	326,865	192,924
			SDR Allocation due from National Treasury	95,721	40,862
			GOK Overdraft facility	76,457	58,502
		Balances due from banking institutions	Foreign currency denominated term deposits and current account balances	421,469	295,836
	Financial assets at Fair value through other comprehensive income	Fixed income securities	World Bank managed and internally managed fixed income portfolios	640,530	636,651
		Equity	Investment securities	12	10
Financial liabilities	Financial liabilities at amortised cost	Deposits from banks	Cash reserve ratio and current account deposits	211,850	265,926
		Due to IMF		477,899	325,145
		Other liabilities		5,858	4,059
		Deposits from Government institutions		361,125	273,684

Impairment of financial assets

Overview of Expected Credit Loss (ECL) principles

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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

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

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

Measurement of ECL

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

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

Credit impaired financial assets

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

Presentation of allowance for ECL in the statement of financial position

Impairment allowance for ECL are presented in the statement of financial position as follows:

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

Derecognition

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

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

Or

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

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

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

Write-offs

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

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

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

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

Loans and borrowings

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

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

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

Derecognition

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial instruments (continued)

Offsetting financial instruments

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

(g) Sale and repurchase agreements

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

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

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

(h) Cash and cash equivalents

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

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

(i) Property and equipment

Land and buildings comprise mainly branches and offices. All equipment used by the Bank is stated at cost, net of accumulated depreciation and accumulated Impairment allowance, if any. Work in progress is stated at cost net of accumulated Impairment allowance, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Land and buildings are measured at fair value less accumulated depreciation and Impairment allowance recognised after the date of revaluation. Valuations are performed every three years to ensure that the carrying amount of a revalued asset does not differ materially from its fair value in accordance with IFRS. Additions are done per item purchased and shall include the cost of acquisition together with all the incidental expenses reasonably incurred to put the asset into effective usage. Depreciation for additions is effected from the date of acquisition.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Property and equipment (continued)

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

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

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

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

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

(j) Intangible assets

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

(i) It is technically feasible to complete the software product so that it will be available for use;
(ii) Management intends to complete the software product and use or sell it;

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Intangible assets (continued)

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

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

The residual values, useful lives and methods of amortisation of intangibles are reviewed at each financial year end and adjusted prospectively, if appropriate.

Software-as-a-service (SaaS) arrangement costs

A SaaS arrangement is a service arrangement where the Bank has a right to access to the supplier's application software running on the supplier's cloud infrastructure during the term of the arrangement, but not control over the underlying software asset. Costs to implement a SaaS arrangement, including those incurred in configuring or customising the access to the supplier's application software, are evaluated to determine if they give rise to a separate asset that the Bank controls. Any resulting asset is recognised and accounted for in accordance with the policy for intangible assets as set out in note 2(j). Implementation costs that do not give rise to an asset are recognised in profit or loss as incurred, which may be over the period the configuration or customisation services are received to the extent that such services are distinct from the SaaS, or over the term of the SaaS arrangement to the extent the configuration or customisation services are not distinct from the SaaS. Payment made in advance of receiving the related services is recognised as prepayment.

(k) Impairment of non-financial assets

Non-financial assets are assets whose value is derived by its physical net worth rather than from a contractual claim. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

The impairment test also can be performed on a single asset when the fair value less cost of disposal or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Employee benefits

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

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

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

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

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

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

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

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

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

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

(m) Income tax

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Provisions

Provisions are recognised when: The Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

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

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

(o) Surplus funds

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

(p) Share capital

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

(q) Leases

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

Bank as a lessee

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

Right-of-use assets

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

Buildings	**Above 1 year to 5 years**
Equipment	**Above 1 year to 5 years**

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Leases (continued)

Lease liabilities

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

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

The Bank's lease liabilities are included in Other liabilities (see Note 24).

Short-term leases and leases of low-value assets

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

Bank as a lessor

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

(r) Interest income and expense

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Fee and commission income

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

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

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

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

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

(u) Currency in circulation

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

(v) Loan due from the Government of Kenya

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Fair value measurement

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

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

- In the principal market for the asset or liability
  Or
- In the absence of a principal market, in the most advantageous market for the asset or liability
  The principal or the most advantageous market must be accessible by the Bank.

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

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

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(x) Fair value measurement (continued)

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

- Disclosures for valuation methods, significant estimates and assumptions Notes 3, 15, 18(b) and 30
- Quantitative disclosures of fair value measurement hierarchy Note 30
- Debt instruments at fair value through other comprehensive income Note 15
- Gold holdings Note 17(b)
- Land and buildings Note 18(b)

(y) Order of liquidity

As a financial institution, the Group presents its assets and liabilities on the statement of financial position in order of liquidity. This provides information that is reliable and more relevant than a current or non-current presentation, because CBK does not supply goods or services within a clearly identifiable operating cycle. The order of liquidity requires judgement, particularly in light of the nature of CBK's operations and mandate. CBK's mandate regarding the management and oversight of the domestic financial market results in regular changes to the liquidity of CBK assets and liabilities, in response to the liquidity requirements of the market. CBK continuously monitors and actively manages its liquidity requirements. It is impracticable to continuously revise the order of assets and liabilities on the statement of financial position due to the fluctuating nature of the order of liquidity, and frequent changes would not result in more relevant information to the users of the Group's financial statements. The order of liquidity is therefore kept consistent year on year, unless there are significant changes thereto, which could reasonably be expected to influence decisions that the users of the financial statements would make on the basis of the order of liquidity presented in the Statement of Financial Position.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

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

Impairment allowance on financial assets

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

It has been the Bank's policy to regularly review its models in the context of actual loss experience and adjust when necessary. Further details about the ECLs are provided in Notes 8, 11, 13, 14, 17 and 29(i).

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (continued)

Post-retirement benefits

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

Fair value of financial assets

The fair value of financial instruments that are not traded in an active market and off market loans are determined by using valuation techniques. See Note 30 for additional disclosures.

Property and equipment

Land and buildings are carried at fair value; representing open market value determined periodically by internal professional valuers. See Notes 18(b) and 30 for additional disclosures.

Leases - Estimating the incremental borrowing rate

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

4. INTEREST INCOME

	CONSOLIDATED AND BANK	
	2023	2022
	KShs' million	KShs' million
Interest income calculated using the effective interest method		
Financial assets – debt instruments at amortised cost	20,565	9,665
Financial assets at fair value through other comprehensive income	8,455	7,104
	29,020	16,769
Interest income from debt instruments at amortised cost		
Interest on term deposits	3,443	3,771
Interest on Government of Kenya loan	559	592
Interest on Government of Kenya overdraft	5,161	2,064
Interest on staff loans and advances	120	106
Interest on advances to banks	7,710	2,937
Other interest income	3,572	195
	20,565	9,665
Interest income from debt instruments at fair value through other comprehensive income comprises:		
Internally managed portfolio	7,879	6,754
Externally managed portfolio – (World Bank Reserve Advisory & Management Partnership)	576	350
	8,455	7,104

5. INTEREST EXPENSE

	CONSOLIDATED AND BANK	
	2023	2022
	KShs' million	KShs' million
Interest expense calculated using the effective interest method		
Interest on monetary policy issues – investments by banks	141	1,804
Interest expense – IMF	3,852	328
	3,993	2,132

6. (a) FEES AND COMMISSION INCOME

(a) FEES AND COMMISSION INCOME	3,000	3,000

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

6. (b) NET TRADING INCOME

	CONSOLIDATED AND BANK	
	2023 KShs' million	2022 KShs' million
Net gain on sale of foreign exchange currencies	17,038	11,848
Net loss on disposal of financial assets at fair value through other comprehensive income	(4,372)	(2,106)
	12,666	9,742

7. (a) OTHER INCOME

	CONSOLIDATED	
Licence fees from commercial banks and foreign exchange bureaus	315	300
Penalties from commercial banks and foreign exchange bureaus	66	13
Rental income	28	45
Kenya School of Monetary Studies operating income - hospitality services	126	179
Gain on disposal of property and equipment	4	3
KEPSS Billing revenue	494	397
Miscellaneous income	44	36
	1,077	973

	BANK	
Licence fees from commercial banks and foreign exchange bureaus	315	300
Penalties from commercial banks and foreign exchange bureaus	66	13
Rental income	28	45
Gain on disposal of property and equipment	4	3
KEPSS Billing revenue	494	397
Miscellaneous income	44	36
	951	794

8. IMPAIRMENT ALLOWANCE ON FINANCIAL ASSETS

The table below shows the ECL charges on financial instruments:

	CONSOLIDATED AND BANK	
	2023 KShs' million	2022 KShs' million
Impairment allowance on staff loans (Note 14)	(12)	(8)
Impairment allowance on balances due from banking institutions (Note 11)	(20)	-
Impairment allowance on Funds held with IMF (Note 12(a))	(32)	(5)
Impairment allowance on securities and advances to banks (Note 13)	(2,710)	(4,062)
Impairment allowance on debt instruments at fair value through other comprehensive income	(39)	(25)
	(2,813)	(4,100)

9. (a) OPERATING EXPENSES

	CONSOLIDATED	
	2023 KShs' million	2022 KShs' million
Employee benefits (Note 9(b))	5,639	4,858
Currency production expenses	2,771	2,390
Property maintenance and utility expenses	4,251	3,298
Depreciation of property and equipment (Note 18(b))	2,156	2,589
Amortisation of intangible assets (Note 19)	177	188
Depreciation of right -of -use asset (Note 18(a))	66	121
Interest on lease liabilities (Note 18(a))	7	6
Impairment allowance on other assets (Note 17(a))	27	18
Losses and write off	-	34
Auditor's remuneration	12	12
Transport and travelling costs	293	175
Office expenses	192	201
Communication expenses	365	315
Legal and professional fees	621	474
Grant to National Police Service	1,493	-
Other administrative expenses*	1,882	1,239
	19,952	15,918

	BANK	
	2023 KShs' million	2022 KShs' million
Employee benefits (Note 9(b))	5,639	4,858
Currency production expenses	2,771	2,390
Property maintenance and utility expenses	4,251	3,298
Depreciation of property and equipment (Note 18(b))	2,156	2,589
Amortisation of intangible assets (Note 19)	177	188
Depreciation of right -of -use asset (Note 18(a))	66	121
Interest on lease liabilities (Note 18(a))	7	6
Impairment allowance on other assets (Note 17(a))	27	18
Losses and write off	-	34
Auditor's remuneration	10	10
Transport and travelling costs	293	175
Office expenses	192	201
Communication expenses	365	315
Legal and professional fees	621	474
Grant to National Police Service	1,493	-
Other administrative expenses*	1,758	1,062
	19,826	15,739

*Other administrative expenses include consultancy costs and expenses incurred by the Bank on behalf of KSMS.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

9. (b) EMPLOYEE BENEFITS

	CONSOLIDATED AND BANK	
	2023	2022
	KShs' million	KShs' million
Wages and salaries	4,666	4,334
Pension costs – Defined contribution plan	553	516
Pension costs – Defined benefit plan	62	75
Medical expenses	468	445
Other staff costs	464	81
Directors' emoluments (Note 28(ii))	53	56
Net income relating to the retirement benefit asset (Note 20)	(627)	(649)
	5,639	4,858

(c) FOREIGN EXCHANGE GAIN

Foreign exchange gain	131,489	68,560

The unrealized foreign exchange gain relates to net gain on foreign denominated assets and liabilities arising from changes in foreign currency exchange rates.

10. (a) CHANGES IN FAIR VALUE OF INVESTMENTS

	CONSOLIDATED AND BANK	
	2023	2022
	KShs' million	KShs' million
Fair value changes on debt instruments at fair value through other comprehensive income:		
Internally managed portfolio	(4,631)	(20,632)
Externally managed portfolio – RAMP	(67)	(981)
	(4,698)	(21,613)

(b) RECLASSIFICATION TO THE INCOME STATEMENT

	CONSOLIDATED AND BANK	
Net amount reclassified to the income statement on sale and maturity of debt instruments at FVOCI:	2023	2022
	KShs' million	KShs' million
Internally managed portfolio	(6,143)	633
World Bank managed portfolio-RAMP	(469)	11
	(6,612)	644

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

11. BALANCES DUE FROM BANKING INSTITUTIONS

	CONSOLIDATED AND BANK	
	2023	2022
	KShs' million	KShs' million
Current accounts	80,865	35,024
Foreign currency denominated term deposits	256,765	197,170
Accrued interest on term deposits	348	106
Special project accounts	41,859	24,658
Domestic foreign currency cheque clearing (DFCC)	39,433	38,256
REPSS clearing and regional central banks	2,230	633
	421,500	295,847
Impairment allowance	(31)	(11)
	421,469	295,836

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

	2023	2022
	KShs' million	KShs' million
At start of the year	11	11
Movement in impairment allowance (Note 8)	20	-
At 30 June	31	11

A reconciliation from the opening balance to the closing balance of the Impairment allowance based on year end stage classification is disclosed in Note 29 (i).

The increase in cash/current accounts balance is due to an increase in IMF advances at year end.

Special project accounts relate to amounts received by the Government of Kenya (or its ministries) for specific projects or purposes. An equal and corresponding liability is recorded and disclosed under "Deposits from banks and government" (Note 23).

12. FUNDS HELD AT/ DUE TO INTERNATIONAL MONETARY FUND (IMF)

	CONSOLIDATED AND BANK			
	2023	2023	2022	2022
	SDR million	KShs' million	SDR million	KShs' million
(a) Assets				
IMF balances (SDR asset account)	391	73,312	458	71,644
Allowance for impairment losses	-	(37)	-	(5)
	391	73,275	458	71,639

An analysis of changes in the impairment allowance of funds held with IMF is as follows:

	2023	2022
	KShs' million	KShs' million
At 1 July	5	-
Charges to profit or loss (note 8)	32	5
At 30 June	37	5

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

12. FUNDS HELD AT/ DUE TO INTERNATIONAL MONETARY FUND (IMF) (continued)

	2023 SDR million	2023 KShs' million	2022 SDR million	2022 KShs' million
(b) Liabilities				
International Monetary Fund Account No. 1	19	3,604	19	3,064
International Monetary Fund Account No. 2	0.03	5	-	5
International Monetary Fund – Poverty Reduction and Growth Facility (PRGF) Account	7	1,347	43	6,771
Rapid Credit Facility (RCF)	543	101,668	543	85,176
Extended Credit Facility (ECF)	451	84,386	212	33,219
Extended Fund Facility (EFF)	752	140,811	475	74,529
IMF - SDR Allocation account	780	146,078	780	122,381
	2,552	477,899	2,072	325,145

The Bank received SDR 542.8 in May 2020 relating to Rapid Credit Facility (RCF) from the Fund for direct budget support of the Government of Kenya initiatives towards COVID-19 pandemic. These funds were released to the Bank under the Rapid-Disbursing Emergency Financing Facilities which is subject to IMF executive board approval. They represent a debt due from the Government of Kenya to the IMF. This debt is recognised in the books of the CBK, but on-lent to the government through the National Treasury.

Kenya's quota in IMF of SDR 542.8 million (2022: SDR 542.8 million) recorded in the books of the National Treasury but not included in the financial statements of the Bank. SDR Allocations are included in the financial statements of the Bank as the custodian of the Government of Kenya. The cumulative SDR allocations stood at SDR 779.8 million (2022: SDR 779.8 million) while the current SDR holdings were SDR 391 million (2022: SDR 458 million).

The repayment of IMF facilities is currently bi-annual and attracts nil interest until advised by IMF. The Rapid Credit Facility will be paid within a period of five years from November 2025 to May 2030. ECF will be paid quarterly within a period of 5 years from October 2026 to June 2031. EFF will be paid quarterly within a period of six years from October 2025 to June 2031.

13. SECURITIES AND ADVANCES TO BANKS

	CONSOLIDATED AND BANK	
	2023 KShs' million	2022 KShs' million
Treasury bonds discounted	7,759	7,290
Treasury bills discounted	220	69
Accrued interest bonds discounted	470	233
Repo treasury bills (Injection)*	41,142	27,832
Accrued interest repo	126	74
Liquidity support framework	54,236	51,028
Due from commercial banks	1,262	5,339
	105,215	91,865
Impairment allowance	(22,746)	(20,036)
	82,469	71,829

13. SECURITIES AND ADVANCES TO BANKS (continued)

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

	2023 KShs' million	2022 KShs' million
At the start of the year	20,036	15,974
Charge to profit or loss (Note 8)	2,710	4,062
At 30 June	22,746	20,036

Year ended 30 June 2023

	Maturity period			
	0-3 months KShs' million	4-12 months KShs' million	Over 1 year KShs' million	Total KShs' million
Treasury bills discounted	58	162	-	220
Treasury bonds discounted	1,632	599	5,528	7,759
Accrued interest bonds discounted	421	49	-	470
Repo treasury bills & bonds (injection)*	41,142	-	-	41,142
Accrued interest repo	126	-	-	126
Due from commercial banks	1,262	-	-	1,262
Liquidity support framework	872	2,682	27,936	31,490
	45,513	3,492	33,464	82,469

*Liquidity provided into the market via repurchase agreements i.e., securitised borrowings by banks using T-bills and T-bonds.

Year ended 30 June 2022

	Maturity period			
	0-3 months KShs' million	4-12 months KShs' million	Over 1 year KShs' million	Total KShs' million
Treasury bills discounted	36	33	-	69
Treasury bonds discounted	-	300	6,990	7,290
Accrued interest bonds discounted	182	51	-	233
Repo treasury bills & bonds (Injection)*	27,832	-	-	27,832
Accrued interest repo	74	-	-	74
Due from commercial banks	5,339	-	-	5,339
Liquidity support framework	-	1,700	29,292	30,992
	33,463	2,084	36,282	71,829

*Liquidity provided into the market via repurchase agreements i.e., securitised borrowings by banks using T-bills and T-bonds.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

14. LOANS AND ADVANCES

	CONSOLIDATED AND BANK	
	2023	2022
	KShs' million	KShs' million
Due from banks under liquidation	3,400	3,400
Advances to employees	3,762	3,782
	7,162	7,182
Impairment allowance	(3,468)	(3,456)
Net advances	3,694	3,726
The movement in the Impairment allowance is as follows:		
At 1 July	3,456	3,448
Movement in impairment allowance (Note 8)	12	8
At 30 June	3,468	3,456

15. DEBT INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	CONSOLIDATED AND BANK	
	2023	2022
	KShs' million	KShs' million
Fixed income securities – Internally managed portfolio	595,503	598,183
Fixed income securities under World Bank- RAMP	45,027	38,468
	640,530	636,651

Maturity analysis	Maturity period			
	0-3 months	4-12 months	Over 1 year	Total
Year ended 30 June 2023	KShs' million	KShs' million	KShs' million	KShs' million
Fixed income securities – Internally managed Portfolio	43,053	230,552	314,019	587,624
Fixed income securities – Internally managed Portfolio-CNY	-	1,969	5,910	7,879
Fixed income securities under World Bank- RAMP	2,047	12,484	30,496	45,027
	45,100	245,005	350,425	640,530

15. DEBT INSTRUMENTS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

Maturity analysis

	Maturity period			
	0-3 months	4-12 months	Over 1 year	Total
Year ended 30 June 2022	KShs' million	KShs' million	KShs' million	KShs' million
Fixed income securities – Internally managed Portfolio	29,937	156,292	411,954	598,183
Fixed income securities under World Bank- RAMP	2,639	11,721	24,108	38,468
	32,576	168,013	436,062	636,651

Fixed income securities increased by KShs 3,879 million to KShs 640,530 million (2022: KShs 636,651 million) during the year under review.

16. UNLISTED EQUITY INVESTMENTS

	CONSOLIDATED AND BANK	
	2023	2022
	KShs' million	KShs' million
Unquoted equity securities at fair value through other comprehensive income	12	10

17. (a) OTHER ASSETS

	CONSOLIDATED	
	2023	2022
	KShs' million	KShs' million
Prepayments	199	1,601
Bonds Pending Receivables - World Bank	932	1,036
Deferred currency expenses	5,937	5,396
Sundry debtors	956	5,354
Items in the course of collection	256	137
Uncleared effects	42	32
	8,322	13,556
Impairment allowance	(325)	(4,997)
	7,997	8,559

All other assets balances are recoverable within one year.

The movement in the Impairment allowance is as follows:

At start of the year	4,997	4,979
Financial asset derecognised	(4,699)	-
Increase in impairment allowance (Note 9(a))	27	18
At 30 June	325	4,997

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

17. (a) OTHER ASSETS (continued)

	BANK	
	2023	2022
	KShs' million	KShs' million
Prepayments	199	1,601
Bonds Pending Receivables - World Bank	932	1,036
Deferred currency expenses	5,937	5,396
Sundry debtors	817	5,216
Items in the course of collection	256	162
Uncleared effects	42	32
	8,183	13,443
Impairment allowance	(325)	(4,997)
	7,858	8,446

All other assets balances are recoverable within one year.

The movement in the Impairment allowance is as follows:

	2023	2022
At start of the year	4,997	4,979
Financial asset derecognised	(4,699)	-
Increase in impairment allowance (Note 9(a))	27	18
At 30 June	325	4,997

(b) GOLD HOLDINGS

	CONSOLIDATED AND BANK	
	2023	2022
	KShs' million	KShs' million
Gold holdings	150	120

18. (a) RIGHT OF USE ASSETS

CONSOLIDATED AND BANK

Year ended 30 June 2023	Leases relating to buildings KShs' million	Leases relating to equipment KShs' million	Total KShs' million
COST			
At 1 July 2022	275	204	479
Additions	55	-	55
At 30 June 2023	330	204	534
ACCCUMULATED DEPRECIATION			
At 1 July 2022	185	204	389
Charge for the year	66	-	66
At 30 June 2023	251	204	455
CARRYING AMOUNT			
At 30 June 2023	79	-	79

18. (a) RIGHT OF USE ASSETS (continued)

CONSOLIDATED AND BANK

Year ended 30 June 2022	Leases relating to buildings KShs' million	Leases relating to equipment KShs' million	Total KShs' million
COST			
At 1 July 2021	178	204	382
Additions	97	-	97
At 30 June 2022	275	204	479
ACCCUMULATED DEPRECIATION			
At 1 July 2021	123	145	268
Charge for the year	62	59	121
At 30 June 2022	185	204	389
CARRYING AMOUNT			
At 30 June 2022	90	-	90

Set out below are the carrying amounts of lease liabilities (included under 'Other liabilities' in Note 24) and the movements during the period:

	CONSOLIDATED AND BANK	
	2023	2022
	KShs' million	KShs' million
At start of the year	90	55
Additions	55	97
Accretion of interest	7	6
Payment of principal	(57)	(61)
Payment of interest	(5)	(7)
At 30 June	90	90

The maturity analysis of lease liabilities is disclosed in Note 29. The following are the amounts recognised in profit or loss:

	CONSOLIDATED AND BANK	
	2023	2022
	KShs' million	KShs' million
Depreciation expense for right-of-use assets	66	121
Interest expense on lease liabilities	7	6
Expense relating to short-term leases (included in Other administrative expenses	-	7
Total amount recognised in profit or loss	73	134

The Bank had total cash outflows for leases of KShs 62 million (2022: KShs 68 million) during the year. No impairment loss or reversals of impairment loss has been recognized in profit or loss during the period. The bank uses the Central Bank Rate (CBR) as the discount rate 10.5% (2022: 9.5%).

The bank also had non-cash additions to the right-of-use assets and lease liabilities of KShs 55 million (2022: KShs 97 million).

The following table sets out a maturity analysis of operating lease payments, showing the undiscounted lease payments to be received after the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

18. (a) RIGHT OF USE ASSETS (continued)

Maturity analysis – Contractual undiscounted cash flows	2023 KShs' million	2022 KShs' million
Less than one year	65	47
Between one and five years	30	50
	95	97
Interest expense	(5)	(7)
	90	90

18. (b) PROPERTY AND EQUIPMENT

CONSOLIDATED AND BANK

Year ended 30 June 2023	Freehold land and buildings KShs' million	Leasehold land and buildings KShs' million	Work in progress KShs' million	Motor vehicles KShs' million	Furniture and equipment KShs' million	Total KShs' million
AT COST OR VALUATION						
At 1 July 2022	19,560	5,458	2,516	426	12,156	40,116
Additions	-	-	1,227	19	203	1,449
Grant to National Police Service*	-	-	(1,493)	-	-	(1,493)
Capitalization of work in progress	-	-	(158)	-	158	-
Disposals	-	-	-	(3)	(67)	(70)
At 30 June 2023	19,560	5,458	2,092	442	12,450	40,002
DEPRECIATION						
At 1 July 2022	776	182	-	414	6,834	8,206
Charge for the year	718	168	-	11	1,259	2,156
Disposals	-	-	-	(3)	(67)	(70)
At 30 June 2023	1,494	350	-	422	8,026	10,292
CARRYING AMOUNT						
At 30 June 2023	18,066	5,108	2,092	20	4,424	29,710

*CBK and National Police Service (NPS) agreed to cooperate on the building of National Police Leadership Academy (the Academy) in Ngong, on premises fully owned by the NPS. Under this arrangement, CBK agreed to finance and oversee the construction of the Academy and subsequently hand it over to NPS for its exclusive use. The Academy was completed in December 2022 and handed over to the NPS. The project cost of Ksh.1,493 million has now been expensed fully in the financial statements for the year ended June 30, 2023.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

18. (b) PROPERTY AND EQUIPMENT (continued)

CONSOLIDATED AND BANK

Year ended 30 June 2022	Freehold land and buildings KShs' million	Leasehold land and buildings KShs' million	Work in progress KShs' million	Motor vehicles KShs' million	Furniture and equipment KShs' million	Total KShs' million
AT COST OR VALUATION						
At 1 July 2021	19,560	5,458	2,060	426	11,252	38,756
Additions	-	-	933	-	462	1,395
Capitalization of work in progress	-	-	(477)	-	477	-
Disposals	-	-	-	-	(35)	(35)
At 30 June 2022	19,560	5,458	2,516	426	12,156	40,116
DEPRECIATION						
At 1 July 2021	58	14	-	392	5,187	5,651
Charge for the year	718	168	-	22	1,681	2,589
Disposals	-	-	-	-	(34)	(34)
At 30 June 2022	776	182	-	414	6,834	8,206
CARRYING AMOUNT						
At 30 June 2022	18,784	5,276	2,516	12	5,322	31,910

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

19. INTANGIBLE ASSETS

	CONSOLIDATED AND BANK		
	Software KShs' million	Work in progress KShs' million	Total KShs' million
Year ended 30 June 2023			
COST			
At 1 July 2022	2,606	-	2,606
Additions	33	1,832	1,865
At 30 June 2023	2,639	1,832	4,471
ACCUMULATED AMORTISATION			
At 1 July 2022	2,296	-	2,296
Charge for the year	177	-	177
At 30 June 2023	2,473	-	2,473
NET CARRYING AMOUNT			
At 30 June 2023	166	1,832	1,998
Year ended 30 June 2022			
COST			
At 1 July 2022	2,485	1,407	3,892
Additions	121	658	779
Cloud Computing costs*	-	(2,065)	(2,065)
At 30 June 2022	2,606	-	2,606
ACCUMULATED AMORTISATION			
At 1 July 2021	2,108	-	2,108
Charge for the year	188	-	188
At 30 June 2022	2,296	-	2,296
NET CARRYING AMOUNT	310	-	310

**Implementation costs relating to software as a service arrangement.*

In 2022, the IFRS Interpretations Committee (IFRIC) issued guidelines on accounting for configuration/customisation costs in cloud computing arrangements. Following the issuance, a review of the intangible assets was carried out and adjustments made to adhere to the IFRS guidelines on cloud computing arrangements.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

20. RETIREMENT BENEFIT ASSET	CONSOLIDATED AND BANK	
	2023	2022
	KShs' million	KShs' million
Present value of funded obligations	17,177	16,620
Fair value of plan assets	(29,799)	(30,430)
Net overfunding in funded plan	(12,622)	(13,810)
Limit on defined benefit asset	7,628	6,729
Retirement Benefit Asset	(4,994)	(7,081)
Movements in the net defined benefit asset recognised are as follows:		
At start of the year	7,081	7,639
Net income recognised in profit or loss (Note 9(b))	627	649
Net income recognized in other comprehensive income (OCI)	(2,770)	(1,276)
Employer contributions	56	69
At 30 June	4,994	7,081
Movements in the plan assets are as follows:		
At start of the year	30,430	32,048
Interest income on plan assets	3,837	3,746
Employer contributions	56	69
Employee contributions	28	33
Benefits expenses paid	(1,892)	(1,702)
Return on plan assets excluding amount in interest income	(2,660)	(3,737)
Prior year adjustments	-	(27)
At 30 June	29,799	30,430
Movements in the plan benefit obligation are as follows:		
At start of the year	16,620	17,302
Current service cost net of employees' contributions	269	227
Interest cost	2,068	1,990
Employee contributions	28	34
Actuarial gain due to change in financial assumptions and experience	84	(1,231)
Benefits paid	(1,892)	(1,702)
At 30 June	17,177	16,620
The principal actuarial assumptions at the reporting date were:	2023	2022
Discount rate (p.a.)	14.60%	13.00%
Salary increase (p.a.)	7.00%	7.00%
Future pension increases	3.00%	3.00%

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

20. RETIREMENT BENEFIT ASSET (continued)

Five-year summary	2023 KShs' million	2022 KShs' million	2021 KShs' million	2020 KShs' million	2019 KShs' million
Fair value of plan assets	29,799	30,430	32,048	30,270	30,640
Present value of funded obligations	(17,177)	(16,620)	(17,302)	(17,910)	(16,423)
Adjustment to retirement benefit asset	(7,628)	(6,729)	(7,107)	(5,823)	(9,889)
Net retirement benefit asset	4,994	7,081	7,639	6,537	4,328

Plan assets are distributed as follows:

	2023 KShs' million	%	2022 KShs' million	%
Quoted shares	3,679	12.3%	4,998	16.4%
Investment properties	9,448	31.7%	9,717	31.9%
Government of Kenya treasury bills and bonds	13,823	46.5%	14,128	46.5%
Commercial paper and corporate bonds	222	0.7%	239	0.8%
Offshore investments	149	0.5%	432	1.4%
Fixed and term deposits	1,668	5.6%	545	1.8%
Fixed assets	5	0.0%	1	0.0%
Private equity	435	1.5%	371	1.2%
Net current assets	370	1.2%	(1)	0.0%
	29,799	100%	30,430	100%

Sensitivity of principal actuarial assumptions:
If the discount rate is 1% lower, the present value of funded obligations would be KShs 18,573 million (increase by KShs 1,396 million). This sensitivity analysis has been determined based on reasonably possible changes of the assumption occurring at the end of 30 June 2023, while holding all other assumptions constant.

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

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

The scheme is funded by contributions from employer and employees. The average duration of the defined benefit plan obligation at the end of the reporting period is 8.1 years (2022: 7.0 years).

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

21. (a) IMF ON-LENT TO GOK

	CONSOLIDATED AND BANK	
	2023	2022
	KShs' million	KShs' million
Rapid credit facility	101,668	85,176
Extended credit facility	84,386	33,219
Extended fund facility	140,811	74,529
	326,865	192,924

The balance as at 30 June 2023 relates to IMF on-lent funds disbursed to the Government of Kenya by the International Monetary Fund (IMF) to mitigate the impact of COVID-19 pandemic. The funds amount to SDR 542.8 million under the Rapid Credit Facility (RCF) and SDR 1,203 million under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF). RCF will be paid half-yearly within a period of five years from November 2025 to May 2030. ECF will be paid quarterly within a period of 5 years from October 2026 to June 2031. EFF will be paid quarterly within a period of six years from October 2025 to June 2031.

(b) DUE FROM GOVERNMENT OF KENYA

	CONSOLIDATED AND BANK	
	2023	2022
	KShs' million	KShs' million
Overdraft	76,457	58,502
Government loan	17,789	18,899
SDR Allocation due from National Treasury	95,721	40,862
	189,967	118,263
Movement in the government loan is as follows:		
At start of the year	18,899	20,009
Principal repayment	(1,110)	(1,110)
Interest charged	559	592
Interest paid	(559)	(592)
At 30 June	17,789	18,899

Section 46(3) of the Central Bank of Kenya Act sets the limit of the Government of Kenya's overdraft facility at the Bank at 5% of the Gross Recurrent Revenue as reported in the latest Government of Kenya audited financial statements. The limit for the year ended 30 June 2023 is KShs 80,051 million (2022: KShs 75,453 million) based on the gross recurrent revenue for the year ended 30 June 2021 which are the latest audited financial statements at the date of approval of these financial statements. Interest is charged at the Central Bank Rate, currently at 10.5%.

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

In financial year 2022/2023 the Bank transferred SDR 260.4 million being part of the IMF SDR allocation for Kenya to the National Treasury. The amount will be repaid to the Bank over a 20 year period in half yearly instalments each of SDR 6.5 million. This allocation is revalued on monthly basis and the amount recognized is the balance as at 30 June 2023 in Kenya Shilling equivalent.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

22. CURRENCY IN CIRCULATION

	CONSOLIDATED AND BANK	
	2023	2022
	KShs' million	KShs' million
Kenya bank notes	305,407	295,209
Kenya coins	10,560	10,141
	315,967	305,350
Movement in the account was as follows:		
At 1 July	305,350	277,129
Deposits by commercial banks	(544,656)	(564,500)
Withdrawals by commercial banks	555,300	592,675
Withdrawals/(Deposits)by CBK	(27)	46
At 30 June	315,967	305,350

23. DEPOSITS DUE TO BANKS AND GOVERNMENT

	CONSOLIDATED AND BANK	
	2023	2022
	KShs' million	KShs' million
Local commercial banks clearing accounts and cash ratio reserve	172,226	228,075
Local banks foreign exchange settlement accounts	36,385	35,435
External banks foreign exchange settlement accounts	3,239	2,416
Other public entities and project accounts	1,245	39,278
Government of Kenya	359,880	234,406
	572,975	539,610

24. OTHER LIABILITIES

	CONSOLIDATED	
	2023	2022
	KShs' million	KShs' million
Impersonal accounts*	326	809
Sundry creditors	3,273	1,716
Lease liability (Note 18(a))	90	90
Refundable deposits	317	248
Leave accrual	253	212
Bond pending payables	1,990	1,329
Gratuity to staff members	42	59
	6,291	4,463

	BANK	
Impersonal accounts*	326	809
Sundry creditors	3,134	1,583
Lease liability (Note 18(a))	90	90
Refundable deposits	317	248
Leave accrual	253	212
Bond pending payables	1,990	1,329
Gratuity to staff members	42	59
	6,152	4,330

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

	CONSOLIDATED AND BANK	
	2023	2022
25. (a) SHARE CAPITAL	KShs' million	KShs' million
Authorised share capital:		
At 1 July and 30 June	50,000	50,000
Paid up share capital:		
At 1 July and 30 June	38,000	35,000

Ownership of the entire share capital is vested in the Principal Secretary to the National Treasury. The board of directors authorised the capitalisation of KShs 3 Billion from the general reserve fund on 12 September 2022, resulting in the increase in paid up share capital from KShs 35 Billion to KShs 38 Billion.

(b) GENERAL RESERVE FUND

CONSOLIDATED

The general reserve of KShs 366,730 million (2022: KShs 226,986 million) represents accumulated realized surplus of KShs 65,495 million (2022: KShs 54,470 million) arising from normal operations of the Bank and unrealized gains of KShs 301,235 million (2022: KShs 172,516 million).

BANK

The general reserve of KShs 366,730 million (2022: KShs 227,006 million) represents accumulated realized surplus of KShs 65,495 million (2022: KShs 54,490 million) arising from normal operations of the Bank and unrealized gains of KShs 301,235 million (2022: KShs 172,516 million).

(c) FAIR VALUE RESERVE - CONSOLIDATED AND BANK

The fair value reserve represents cumulative gains and losses arising from revaluation of debt instruments from cost to fair value based on the market values at the end of the reporting date.

(d) REVALUATION RESERVE -CONSOLIDATED AND BANK

The revaluation reserve relates to unrealized revaluation gains on land and buildings that will not be recycled into profit or loss. The reserve is non-distributable.

(e) CONSOLIDATED FUND - CONSOLIDATED AND BANK

The Consolidated Fund represents amounts proposed for distribution to the Government of Kenya from the General Reserve Fund.

Movement in the consolidated fund is as follows:

	CONSOLIDATED AND BANK	
	2023	2022
	KShs' million	KShs' million
At start of the year	4,000	5,500
Transfer from general reserve	5,000	4,000
Payments out of consolidated fund	(4,000)	(5,500)
At 30 June	5,000	4,000

NOTES TO THE FINANCIAL STATEMENTS (continued) FOR THE YEAR ENDED 30 JUNE 2023

26. CASH USED IN OPERATIONS

	CONSOLIDATED	
	2023	2022
	KShs' million	KShs' million
Surplus for the year	150,494	76,894
Adjustments for:		
Foreign exchange gains	(131,489)	(68,560)
Accrued interest adjustment	1,701	(441)
Depreciation of property and equipment (Note 18(b))	2,156	2,589
Amortisation of intangible assets (Note 19)	177	188
Amortisation of right-of-use assets (Note 18(a))	66	121
Grant to National Police Service (Note 18(b))	1,493	-
Cloud computing arrangement adjustment	-	2,065
Gain on disposal of property and equipment (Note 7)	(4)	(3)
Impairment allowance on financial assets	2,813	4,100
Net interest income	(25,027)	(14,637)
Interest on lease liability (Note 9(a))	7	6
Provision for impairment loss on other assets (Note 9(a))	27	18
Net credit relating to the retirement benefit asset (Note 20)	(627)	(649)
Employer contributions on defined benefit asset (Note 20)	(56)	(69)
Reclassification from fair value reserve (Note 10(b))	6,612	(644)
Unrealised foreign exchange loss on due to IMF	541	11
Operating surplus before working capital changes	8,884	989
Changes in working capital:		
Loans and advances	20	(603)
Other assets	480	(2,949)
Due from Government of Kenya	(71,704)	(38,146)
Currency in circulation	10,617	28,221
Deposits	22,548	(190,504)
IMF on-lent	(71,579)	(28,359)
Consolidated fund (Note 25(e))	(4,000)	(5,500)
Other liabilities	1,914	(1,942)
Net cash used in operations	(102,820)	(238,793)

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

26. CASH USED IN OPERATIONS (continued)

	BANK	
	2023	2022
	KShs' million	KShs' million
Surplus for the year	150,494	76,894
Adjustments for:		
Foreign exchange gains	(131,489)	(68,560)
Accrued interest adjustment	1,701	(441)
Depreciation of property and equipment (Note 18(b))	2,156	2,589
Amortisation of intangible assets (Note 19)	177	188
Amortisation of right-of-use assets (Note 18(a))	66	121
Grant to National Police Service (Note 18(b))	1,493	-
Cloud computing arrangement adjustment	-	2,065
Gain on disposal of property and equipment (Note 7)	(4)	(3)
Impairment allowance on financial assets	2,813	4,100
Net interest income	(25,027)	(14,637)
Interest on lease liability (Note 9(a))	7	6
Provision for impairment loss on other assets (Note 9(a))	27	18
Net credit relating to the retirement benefit asset (Note 20)	(627)	(649)
Employer contributions on defined benefit asset (Note 20)	(56)	(69)
Reclassification from fair value reserve (Note 10(b))	6,612	(644)
Unrealised foreign exchange loss on due to IMF	541	11
Operating surplus before working capital changes	8,884	989
Changes in working capital:		
Loans and advances	20	(603)
Other assets	506	(2,922)
Due from Government of Kenya	(71,704)	(38,146)
Currency in circulation	10,617	28,221
Deposits	22,548	(190,504)
IMF on-lent	(71,579)	(28,359)
Consolidated fund (Note 25(e))	(4,000)	(5,500)
Other liabilities	1,888	(1,969)
Net cash used in operations	(102,820)	(238,793)

27. NET CASH USED IN OPERATIONS

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

	CONSOLIDATED AND BANK	
	2023	2022
	KShs' million	KShs' million
Balances due from banking institutions (Note 11)	421,500	295,836
Financial assets – FVOCI (Note 15)	45,100	32,576
Securities discounted by banks and other advances (Note 13)	45,513	33,463
	512,113	361,875

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

27. NET CASH USED IN OPERATIONS (continued)

	CONSOLIDATED AND BANK	
	2023	2022
	KShs' million	KShs' million
(b) Changes in liabilities arising from financing activities		
At start of the year	325,145	221,174
Cash flow items:		
Repayments to IMF	(6,736)	(11,220)
Receipts during the year	96,587	110,597
Foreign exchange changes	62,903	4,594
At 30 June	477,899	325,145

28. RELATED PARTY TRANSACTIONS

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

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

(i) Loans

The Bank extends loan facilities to all staff including the key management staff. The advances are at preferential rates of interest determined by the Bank. The repayment terms and collateral used are similar to those of loans and advances to other staff. Provisions on loans and advances to staff are arrived at using collective assessment approach. Provisions at 30 June 2022 are disclosed in Note 14. Collateral information is disclosed in Note 29. The repayment terms of the loans are between 3 years and 25 years.

	CONSOLIDATED AND BANK	
	2023	2022
Loans to key senior staff	KShs' million	KShs' million
At 1 July	45	26
Loans advanced during the year	33	38
Loan repayments	(23)	(19)
At 30 June	55	45
(ii) Directors' emoluments:		
Fees to non-executive directors	17	19
Directors' travelling expenses	1	2
Other remuneration to executive directors	35	35
	53	56
(iii) Remuneration to senior staff	324	277
(iv) Post–employment pension to senior management	19	4

28. RELATED PARTY TRANSACTIONS (continued)

(v) Government of Kenya- owner of the Bank

	CONSOLIDATED AND BANK	
	2023 KShs' million	2022 KShs' million
Due from Government of Kenya (Note 21(b))	189,967	118,263
Government Institutions Deposits (Note 23)	361,125	273,684
IMF On-lent to GOK (Note 21(a))	326,865	192,924
Interest earned from Government of Kenya – Loan (Note 4)	559	592
Interest earned from Government of Kenya - Overdraft (Note 4)	5,161	2,064
Fees and commission income (Note 6(a))	3,000	3,000
Loan principal repayment (Note 21(b))	1,110	1,110

Transactions entered into with the Government include:

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

(vi) Kenya School of Monetary Studies (KSMS)

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

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

For the year under review, the transactions and balances between CBK and KSMS are as follows.

	CONSOLIDATED AND BANK	
	2023 KShs' million	2022 KShs' million
CBK-KSMS related transactions and balances		
Grants from CBK	532	487
Due (from)/to CBK	(21)	21

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

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

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

(a) Strategy in using financial instruments

The Bank holds foreign exchange reserves for the purpose of servicing official foreign debt, paying non-debt government and Central Bank of Kenya expenditures abroad and intervention in the foreign exchange market to minimize volatility and facilitate its smooth functioning.

The foreign exchange reserves are managed via a governance framework anchored in legislation and a reserves management policy set by the Board of Directors. The policy sets the context within which the Strategic Asset Allocation, Investment guidelines and Investment Committee are operationalized in order to achieve the overarching principles of safety, liquidity and return.

(b) Risks facing the Bank

The following are the main types of financial risks that the Bank is exposed to in the course of executing its operations:

- Credit risk
- Market risk
- Liquidity risk

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk

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

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

Management of credit risk is carried out through the choice of counterparties. The Bank's choice of counterparties is confined to top international banks that meet the set eligibility criteria of financial soundness on long-term credit rating, short-term credit rating and capital adequacy.

The following table sets out the carrying amounts of the financial assets that are exposed to credit risk as at 30 June 2023 and 30 June 2022:

	CONSOLIDATED	
	2023	2022
	KShs' million	KShs' million
Balances due from banking institutions	421,469	295,836
Funds held with International Monetary Fund (IMF)	73,275	71,639
Securities and advances to banks	82,469	71,829
IMF On-Lent to GOK	326,865	192,924
Loans and advances	3,694	3,726
Debt instruments at fair value through other comprehensive income	640,530	636,651
Other assets – sundry debtors	248	357
Due from Government of Kenya	189,967	118,263
	1,738,517	1,391,225

	BANK	
	2023	2022
	KShs' million	KShs' million
Balances due from banking institutions	421,469	295,836
Funds held with International Monetary Fund (IMF)	73,275	71,639
Securities and advances to banks	82,469	71,829
IMF On-Lent to GOK	326,865	192,924
Loans and advances	3,694	3,726
Debt instruments at fair value through other comprehensive income	640,530	636,651
Other assets – sundry debtors	109	219
Due from Government of Kenya	189,967	118,263
	1,738,378	1,391,087

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

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

Explanation of the terms: 'Stage 1', 'Stage 2' and 'Stage 3' are included in Note 2(f). The credit ratings are obtained from recognized international credit rating agencies.

Year ended 30 June 2023

	CONSOLIDATED			
	Stage 1 KShs' million	Stage 2 KShs' million	Stage 3 KShs' million	Total KShs' million
Balance due from banking institutions				
Rated AAA	94	-	-	94
Rated AA- to AA+	164,530	-	-	164,530
Rated A- to A+	78,728	-	-	78,728
Rated BBB – BB	117,841	-	-	117,841
Unrated	60,307	-	-	60,307
Gross carrying amount	421,500	-	-	421,500
Impairment allowance	(31)	-	-	(31)
Net carrying amount	421,469	-	-	421,469
Debt instruments at fair value through OCI				
Rated AAA	93,624	-	-	93,624
Rated AA- to AA+	538,187	-	-	538,187
Rated A- to A+	8,719	-	-	8,719
Carrying amount	640,530	-	-	640,530
Due from Government of Kenya				
Unrated	189,967	-	-	189,967
Funds with IMF				
Unrated	73,312	-	-	73,312
Gross carrying amount	73,312	-	-	73,312
Impairment allowance	(37)	-	-	(37)
Net carrying amount	73,275	-	-	73,275
IMF On-Lent to GOK				
Unrated	326,865	-	-	326,865

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Credit quality analysis (continued)

Year ended 30 June 2023

	CONSOLIDATED			
	Stage 1 KShs' million	Stage 2 KShs' million	Stage 3 KShs' million	Total KShs' million
Securities and advances to banks				
Unrated	78,857	-	26,358	105,215
Gross carrying amount	78,857	-	26,358	105,215
Impairment allowance	(523)	-	(22,223)	(22,746)
Net carrying amount	78,334	-	4,135	82,469
Loans and advances				
Unrated	3,575	5	3,582	7,162
Gross carrying amount	3,575	5	3,582	7,162
Impairment allowance	(10)	-	(3,458)	(3,468)
Net carrying amount	3,565	5	124	3,694
Other assets				
Unrated	267	-	306	573
Gross carrying amount	267	-	306	573
Impairment allowance	(27)	-	(298)	(325)
Net carrying amount	240	-	8	248

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Credit quality analysis (continued)

Year ended 30 June 2022

	CONSOLIDATED			
	Stage 1 KShs' million	Stage 2 KShs' million	Stage 3 KShs' million	Total KShs' million
Balance due from banking institutions				
Rated AAA	7	-	-	7
Rated AA- to AA+	126,415	-	-	126,415
Rated A- to A+	109,798	-	-	109,798
Rated BBB – BB	3,664	-	-	3,664
Unrated	55,963	-	-	55,963
Gross carrying amount	295,847	-	-	295,847
Impairment allowance	(11)	-	-	(11)
Net carrying amount	295,836	-	-	295,836
Debt instruments at fair value through OCI				
Rated AAA	629,172	-	-	629,172
Rated AA- to AA+	6,558	-	-	6,558
Rated A- to A+	921	-	-	921
Carrying amount	636,651	-	-	636,651
Due from Government of Kenya				
Unrated	118,263	-	-	118,263
Funds with IMF				
Unrated	71,644	-	-	71,644
Gross carrying amount	71,644	-	-	71,644
Impairment allowance	(5)	-	-	(5)
Net carrying amount	71,639	-	-	71,639
IMF On-Lent to GOK				
Unrated	192,924	-	-	192,924

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Credit quality analysis (continued)

Year ended 30 June 2022

	CONSOLIDATED			
	Stage 1 KShs' million	Stage 2 KShs' million	Stage 3 KShs' million	Total KShs' million
Securities and advances to banks				
Unrated	65,176	7,307	19,382	91,865
Gross carrying amount	65,176	7,307	19,382	91,865
Impairment allowance	(500)	(200)	(19,336)	(20,036)
Net carrying amount	64,676	7,107	46	71,829
Loans and advances				
Unrated	3,650	-	3,532	7,182
Gross carrying amount	3,650	-	3,532	7,182
Impairment allowance	(12)	-	(3,444)	(3,456)
Net carrying amount	3,638	-	88	3,726
Other assets				
Unrated	349	-	5,005	5,354
Gross carrying amount	349	-	5,005	5,354
Impairment allowance	-	-	(4,997)	(4,997)
Net carrying amount	349	-	8	357

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Credit quality analysis (continued)

Year ended 30 June 2023

	BANK			
	Stage 1 KShs' million	Stage 2 KShs' million	Stage 3 KShs' million	Total KShs' million
Balance due from banking institutions				
Rated AAA	94	-	-	94
Rated AA- to AA+	164,530	-	-	164,530
Rated A- to A+	78,728	-	-	78,728
Rated BBB – BB	117,841	-	-	117,841
Unrated	60,307	-	-	60,307
Gross carrying amount	421,500	-	-	421,500
Impairment allowance	(31)	-	-	(31)
Net carrying amount	421,469	-	-	421,469
Debt instruments at fair value through OCI				
Rated AAA	93,624	-	-	93,624
Rated AA- to AA+	538,187	-	-	538,187
Rated A- to A+	8,719			8,719
Carrying amount	640,530	-	-	640,530
Due from Government of Kenya				
Unrated	189,967	-	-	189,967
Funds with IMF				
Unrated	73,312	-	-	73,312
Gross carrying amount	73,312	-	-	73,312
Impairment allowance	(37)	-	-	(37)
Net carrying amount	73,275	-	-	73,275
IMF On-Lent to GOK				
Unrated	326,865	-	-	326,865

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Credit quality analysis (continued)

Year ended 30 June 2023

	BANK			
	Stage 1 KShs' million	Stage 2 KShs' million	Stage 3 KShs' million	Total KShs' million
Securities and advances to banks				
Unrated	78,857	-	26,358	105,215
Gross carrying amount	78,857	-	26,358	105,215
Impairment allowance	(523)	-	(22,223)	(22,746)
Net carrying amount	78,334	-	4,135	82,469
Loans and advances				
Unrated	3,575	5	3,582	7,162
Gross carrying amount	3,575	5	3,582	7,162
Impairment allowance	(10)	-	(3,458)	(3,468)
Net carrying amount	3,565	5	124	3,694
Other assets				
Unrated	128	-	306	434
Gross carrying amount	128	-	306	434
Impairment allowance	(27)	-	(298)	(325)
Net carrying amount	101	-	8	109

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Credit quality analysis (continued)

Year ended 30 June 2022

	BANK			
	Stage 1 KShs' million	Stage 2 KShs' million	Stage 3 KShs' million	Total KShs' million
Balance due from banking institutions				
Rated AAA	7	-	-	7
Rated AA- to AA+	126,415	-	-	126,415
Rated A- to A+	109,798	-	-	109,798
Rated BBB – BB	3,664	-	-	3,664
Unrated	55,963	-	-	55,963
Gross carrying amount	295,847	-	-	295,847
Impairment allowance	(11)	-	-	(11)
Net carrying amount	295,836	-	-	295,836
Debt instruments at fair value through OCI				
Rated AAA	629,172	-	-	629,172
Rated AA- to AA+	6,558	-	-	6,558
Rated A- to A+	921	-	-	921
Carrying amount	636,651	-	-	636,651
Due from Government of Kenya				
Unrated	118,263	-	-	118,263
Funds with IMF				
Unrated	71,644	-	-	71,644
Gross carrying amount	71,644	-	-	71,644
Impairment allowance	(5)	-	-	(5)
Net carrying amount	71,639	-	-	71,639
IMF On-Lent to GOK				
Unrated	192,924	-	-	192,924

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Credit quality analysis (continued)

Year ended 30 June 2022

	BANK			
	Stage 1 KShs' million	Stage 2 KShs' million	Stage 3 KShs' million	Total KShs' million
Securities and advances to banks				
Unrated	65,176	7,307	19,382	91,865
Gross carrying amount	65,176	7,307	19,382	91,865
Impairment allowance	(500)	(200)	(19,336)	(20,036)
Net carrying amount	64,676	7,107	46	71,829
Loans and advances				
Unrated	3,650	-	3,532	7,182
Gross carrying amount	3,650	-	3,532	7,182
Impairment allowance	(12)	-	(3,444)	(3,456)
Net carrying amount	3,638	-	88	3,726
Other assets				
Unrated	211	-	5,005	5,216
Gross carrying amount	211	-	5,005	5,216
Impairment allowance	-	-	(4,997)	(4,997)
Net carrying amount	211	-	8	219

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

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

	Notes	Percentage of exposure that is subject to collateral requirements		
		30 June 2023	30 June 2022	Principal type of collateral held
Advances to banks – Reverse repurchase arrangements and due from commercial banks	13	100	100	Kenya Government debt securities
Loans and advances – Loans to staff	14	100	100	Land and buildings, government securities, motor vehicles

At 30 June 2023, the Bank held advances to banks of KShs 41,142 million (2022: KShs 33,171 million), for which no Impairment allowance is recognised because of full collateral coverage. The fair value of the collateral held for Advances to banks was KShs 40,964 million (2022: KShs 33,921 million). These have been determined based on market price quotations at the reporting date.

Inputs, assumptions and techniques used for estimating expected credit loss

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

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:
- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk grades/ratings
For assessing the risk of default, at initial recognition, the Bank assigns to each exposure credit risk grade/ rating determined based on the credit risk assessment.

The Bank, at initial recognition, allocates each exposure to banks a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applies experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Inputs, assumptions and techniques used for estimating expected credit loss (continued)

Credit risk grades/ratings (continued)

Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade/rating. The monitoring typically involves use of the following information.

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

PD estimation process

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

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

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

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

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Determining whether credit risk has increased significantly
The Bank considers a financial instrument to have experienced a significant increase in credit risk, when one or more of the following quantitative, qualitative or backstop criteria have been put:
- Significant dip in operating results of counterparty.
- Credit distress necessitated extension to terms granted.
- Significant adverse changes in the financial and /or economic conditions affecting the counterparty.
- Significant change in collateral value which is expected to increase risk of default.
- Signs of cash flow / liquidity problems.

A backstop is applied, and the financial instrument considered to have experience a significant increase in credit risk if the counterparty is more than 30 days past due.

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

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

Definition of default
The Bank considers a financial asset to be in default when:
- the counterparty is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the counterparty is past due more than 90 days on any material credit obligation to the Bank.

In assessing whether a counterparty is in default, the Bank considers indicators that are:
- qualitative – e.g. breaches of covenants;
- quantitative – e.g. overdue status and non-payment on another obligation of the same issuer to the Bank; and
- based on data developed internally and obtained from external sources.

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

Incorporation of forward-looking information
In its ECL models, the Bank relies on Bloomberg credit risk model for provision of probabilities of default values for both the investment counterparties and the sovereigns. The Bank also relies on international credit rating agencies for credit rating information. Credit ratings are a tool, among others, that investors can use when making decisions about purchasing bonds and other fixed income investments. They express independent opinions on creditworthiness, using a common terminology that may help investors make more informed investment decisions.

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

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

Measurement of ECL

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

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

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

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

Loss given default (LGD); LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on Basel recommended LGDs.

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

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

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

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

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

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Inputs, assumptions and techniques used for estimating impairment (continued)

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

	CONSOLIDATED AND BANK			
	Exposure 2023	Exposure 2022	External benchmarks used	
	KShs' million	KShs' million	PD	LGD
Balances due from banking institutions	421,469	295,836	Bloomberg PD rating model	Basel II recovery studies
Debt instruments at fair value through other comprehensive income	640,530	636,651	Bloomberg PD rating model	Basel II recovery studies
Funds held with IMF	73,275	71,639	Bloomberg PD rating model	Basel II recovery studies

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

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

Year ended 30 June 2023

	CONSOLIDATED							
Debt instruments at fair value through other comprehensive income	**Stage 1 Gross carrying amount KShs' million**	**ECL KShs' million**	**Stage 2 Gross carrying amount KShs' million**	**ECL KShs' million**	**Stage3 Gross carrying amount KShs' million**	**ECL KShs' million**	**Total Gross carrying amount KShs' million**	**ECL KShs' million**
At 1 July 2022	636,651	184	-	-	-	-	636,651	184
New assets originated or purchased	177,301	71	-	-	-	-	177,301	71
Asset derecognized or repaid	(293,307)	(78)	-	-	-	-	(293,307)	(78)
Accrued interest	14,014	-	-	-	-	-	14,014	-
Realised gains	2,059	-	-	-	-	-	2,059	-
Foreign exchange adjustments	108,329	37	-	-	-	-	108,329	37
Changes in risk parameters	-	9	-	-	-	-	-	9
Fair value changes	(4,517)	-	-	-	-	-	(4,517)	-
At 30 June 2023	640,530	223	-	-	-	-	640,530	223
Balances due from banking institutions								
At 1 July 2022	295,847	11	-	-	-	-	295,847	11
Net movement during the year	125,653	20	-	-	-	-	125,653	20
At 30 June 2023	421,500	31	-	-	-	-	421,500	31

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

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

Year ended 30 June 2023

CONSOLIDATED

Securities and advances to banks	Stage 1 Gross carrying amount KShs' million	ECL KShs' million	Stage 2 Gross carrying amount KShs' million	ECL KShs' million	Stage3 Gross carrying amount KShs' million	ECL KShs' million	Total Gross carrying amount KShs' million	ECL KShs' million
At 1 July 2022	65,176	500	7,307	200	19,382	19,336	91,865	20,036
New assets originated or purchased	2,265,394	23	-	-	-	2,687	2,265,394	2,710
Asset derecognized or repaid	(2,235,096)	-	-	-	(331)	-	(2,235,427)	-
Accrued interest	(16,617)	-	-	-	-	-	(16,617)	-
Transfer to stages	-	-	(7,307)	(200)	7,307	200	-	-
Change in risk parameters	-	-	-	-	-	-	-	-
At 30 June 2023	78,857	523	-	-	26,358	22,223	105,215	22,746
Funds held with IMF								
At 1 July 2022	71,644	5	-	-	-	-	71,644	5
Net movement during the year	1,668	32	-	-	-	-	1,668	32
At 30 June 2023	73,312	37	-	-	-	-	73,312	37
Other Assets								
At 1 July 2022	349	-	-	-	5,005	4,997	5,354	4,997
New assets originated or purchased	673	27	-	-	-	-	673	27
Asset derecognized or repaid	(755)	-	-	-	(4,699)	(4,699)	(5,454)	(4,699)
Transfer to stage 3	-	-	-	-	-	-	-	-
At 30 June 2023	267	27	-	-	306	298	573	325

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

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

CONSOLIDATED

Loans and advances	Stage 1 Gross carrying amount KShs' million	ECL KShs' million	Stage 2 Gross carrying amount KShs' million	ECL KShs' million	Stage3 Gross carrying amount KShs' million	ECL KShs' million	Total Gross carrying amount KShs' million	ECL KShs' million
At 1 July 2022	3,650	12	-	-	3,532	3,444	7,182	3,456
New assets originated or purchased	797	2	-	-	-	-	797	2
Asset derecognized or repaid	(792)	(2)	-	-	(25)	(12)	(817)	(14)
Transfer to stages	(80)	-	5	-	75	26	-	26
Changes in risk parameters	-	(2)	-	-	-	-	-	(2)
At 30 June 2023	3,575	10	5	-	3,582	3,458	7,162	3,468

Year ended 30 June 2022

Debt instruments at fair value through other comprehensive income	Stage 1 Gross carrying amount KShs' million	ECL KShs' million	Stage 2 Gross carrying amount KShs' million	ECL KShs' million	Stage3 Gross carrying amount KShs' million	ECL KShs' million	Total Gross carrying amount KShs' million	ECL KShs' million
At 1 July 2021	664,991	159	-	-	-	-	664,991	159
New assets originated or purchased	378,480	93	-	-	-	-	378,480	93
Asset derecognized or repaid	(441,862)	(76)	-	-	-	-	(441,862)	(76)
Accrued interest	(441)	-	-	-	-	-	(441)	-
Realised gains	(2,734)	-	-	-	-	-	(2,734)	-
Foreign exchange adjustments	59,845	-	-	-	-	-	59,845	-
Changes in risk parameters	-	8	-	-	-	-	-	8
Fair value changes	(21,628)	-	-	-	-	-	(21,628)	-
At 30 June 2022	636,651	184	-	-	-	-	636,651	184
Balances due from banking institutions								
At 1 July 2021	430,979	11	-	-	-		430,979	11
Net movement during the year	(135,132)	-	-	-	-	-	(135,132)	-
At 30 June 2022	295,847	11	-	-	-	-	295,847	11

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

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

Year ended 30 June 2022

	CONSOLIDATED							
Securities and advances to banks	**Stage 1 Gross carrying amount KShs' million**	**ECL KShs' million**	**Stage 2 Gross carrying amount KShs' million**	**ECL KShs' million**	**Stage3 Gross carrying amount KShs' million**	**ECL KShs' million**	**Total Gross carrying amount KShs' million**	**ECL KShs' million**
At 1 July 2021	75,514	15,974	-	-	-	-	75,514	15,974
New assets originated or purchased	821,476	-	-	-	-	-	821,476	-
Asset derecognized or repaid	(805,132)	-	-	-	-	-	(805,132)	-
Accrued interest	7	-	-	-	-	-	7	-
Transfer to stages	(26,689)	(15,074)	7,307	200	19,382	14,874	-	-
Change in risk parameters	-	(400)	-	-	-	4,462	-	4,062
At 30 June 2022	65,176	500	7,307	200	19,382	19,336	91,865	20,036
Funds held with IMF								
At 1 July 2021	2,201	-	-	-	-	-	2,201	-
Net movement during the year	69,443	(5)	-	-	-	-	69,443	(5)
At 30 June 2022	71,644	(5)	-	-	-	-	71,644	(5)
Other assets								
At 1 July 2021	341	-	-	-	4,987	4,979	5,328	4,979
New assets originated or purchased	211	-	-		-	-	211	-
Asset derecognized or repaid	(185)	-	-	-	-	-	(185)	-
Transfer to Stage 3	(18)	-	-	-	18	18	-	18
At 30 June 2022	349	-	-	-	5,005	4,997	5,354	4,997

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

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

Loans and advances	Stage 1 Gross carrying amount KShs' million	ECL KShs' million	Stage 2 Gross carrying amount KShs' million	ECL KShs' million	Stage3 Gross carrying amount KShs' million	ECL KShs' million	Total Gross carrying amount KShs' million	ECL KShs' million
At 1 July 2021	3,052	9	6	-	3,521	3,439	6,579	3,448
New assets originated or purchased	1,572	5	-	-	-	-	1,572	5
Asset derecognized or repaid	(929)	(3)	-	-	(40)	(12)	(969)	(15)
Transfer to Stages	(45)	-	(6)	-	51	17	-	17
Changes in risk parameters	-	1	-	-	-	-	-	1
At 30 June 2022	3,650	12	-	-	3,532	3,444	7,182	3,456

Year ended 30 June 2023

	BANK							
Debt instruments at fair value through other comprehensive income	Stage 1 Gross carrying amount KShs' million	ECL KShs' million	Stage 2 Gross carrying amount KShs' million	ECL KShs' million	Stage3 Gross carrying amount KShs' million	ECL KShs' million	Total Gross carrying amount KShs' million	ECL KShs' million
At 1 July 2022	636,651	184	-	-	-	-	636,651	184
New assets originated or purchased	177,301	71	-	-	-	-	177,301	71
Asset derecognized or repaid	(293,307)	(78)	-	-	-	-	(293,307)	(78)
Accrued interest	14,014	-	-	-	-	-	14,014	-
Realised gains	2,059	-	-	-	-	-	2,059	-
Foreign exchange adjustments	108,329	37	-	-	-	-	108,329	37
Changes in risk parameters	-	9	-	-	-	-	-	9
Fair value changes	(4,517)	-	-	-	-	-	(4,517)	-
At 30 June 2023	640,530	223	-	-	-	-	640,530	223
Balances due from banking institutions								
At 1 July 2022	295,847	11	-	-	-	-	295,847	11
Net movement during the year	125,653	20	-	-	-	-	125,653	20
At 30 June 2023	421,500	31	-	-	-	-	421,500	31

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

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

Year ended 30 June 2023

	BANK							
Securities and advances to banks	**Stage 1 Gross carrying amount KShs' million**	**ECL KShs' million**	**Stage 2 Gross carrying amount KShs' million**	**ECL KShs' million**	**Stage3 Gross carrying amount KShs' million**	**ECL KShs' million**	**Total Gross carrying amount KShs' million**	**ECL KShs' million**
At 1 July 2022	65,176	500	7,307	200	19,382	19,336	91,865	20,036
New assets originated or purchased	2,265,394	23	-	-	-	2,687	2,265,394	2,710
Asset derecognized or repaid	(2,235,096)	-	-	-	(331)	-	(2,235,427)	-
Accrued interest	(16,617)	-	-	-	-	-	(16,617)	-
Transfer to Stages	-	-	(7,307)	(200)	7,307	200	-	-
Change in risk parameters	-	-	-	-	-	-	-	-
At 30 June 2023	78,857	523	-	-	26,358	22,223	105,215	22,746
Funds held with IMF								
At 1 July 2022	71,644	5	-	-	-	-	71,644	5
Net movement during the year	1,668	32	-	-	-	-	1,668	32
At 30 June 2023	73,312	37	-	-	-	-	73,312	37
Other Assests								
At 1 July 2022	211	-	-	-	5,005	4,997	5,216	4,997
New assets originated or purchased	673	27	-	-	-	-	673	27
Asset derecognized or repaid	(756)	-	-	-	(4,699)	(4,699)	(5,455)	(4,699)
Transfer to Stage 3	-	-	-	-	-	-	-	-
At 30 June 2023	128	27	-	-	306	298	434	325
Loans and advances								
At 1 July 2022	3,650	12	-	-	3,532	3,444	7,182	3,456
New assets originated or purchased	797	2	-	-	-	-	797	2
Asset derecognized or repaid	(792)	(2)	-	-	(25)	(12)	(817)	(14)
Transfer to Stages	(80)	-	5	-	75	26	-	26
Changes in risk parameters	-	(2)	-	-	-	-	-	(2)
At 30 June 2023	3,575	10	5	-	3,582	3,458	7,162	3,468

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

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

Year ended 30 June 2022

	BANK							
Debt instruments at fair value through other comprehensive income	**Stage 1 Gross carrying amount KShs' million**	**ECL KShs' million**	**Stage 2 Gross carrying amount KShs' million**	**ECL KShs' million**	**Stage3 Gross carrying amount KShs' million**	**ECL KShs' million**	**Total Gross carrying amount KShs' million**	**ECL KShs' million**
At 1 July 2021	664,991	159	-	-	-	-	664,991	159
New assets originated or purchased	378,480	93	-	-	-	-	378,480	93
Asset derecognized or repaid	(441,862)	(76)	-	-	-	-	(441,862)	(76)
Accrued interest	(441)	-	-	-	-	-	(441)	-
Realised gains	(2,734)	-	-	-	-	-	(2,734)	-
Foreign exchange adjustments	59,845	-	-	-	-	-	59,845	-
Changes in risk parameters	-	8	-	-	-	-	-	8
Fair value changes	(21,628)	-	-	-	-	-	(21,628)	-
At 30 June 2022	636,651	184	-	-	-	-	636,651	184
Balances due from banking institutions								
At 1 July 2021	430,979	11	-	-	-		430,979	11
Net movement during the year	(135,132)	-	-	-	-	-	(135,132)	-
At 30 June 2022	295,847	11	-	-	-	-	295,847	11

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

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

Year ended 30 June 2022

	BANK							
Securities and advances to banks	**Stage 1 Gross carrying amount KShs' million**	**ECL KShs' million**	**Stage 2 Gross carrying amount KShs' million**	**ECL KShs' million**	**Stage3 Gross carrying amount KShs' million**	**ECL KShs' million**	**Total Gross carrying amount KShs' million**	**ECL KShs' million**
At 1 July 2021	75,514	15,974	-	-	-	-	75,514	15,974
New assets originated or purchased	821,476	-	-	-	-	-	821,476	-
Asset derecognized or repaid	(805,132)	-	-	-	-	-	(805,132)	-
Accrued interest	7	-	-	-	-	-	7	-
Transfer to Stages	(26,689)	(15,074)	7,307	200	19,382	14,874	-	-
Change in risk parameters	-	(400)	-	-	-	4,462	-	4,062
At 30 June 2022	65,176	500	7,307	200	19,382	19,336	91,865	20,036
Funds held with IMF								
At 1 July 2021	2,201	-	-	-	-	-	2,201	-
Net movement during the year	69,443	(5)	-	-	-	-	69,443	(5)
At 30 June 2022	71,644	(5)	-	-	-	-	71,644	(5)
Other Assets								
At 1 July 2021	341	-	-	-	4,987	4,979	5,328	4,979
New assets originated or purchased	72	-	-	-	-	-	72	-
Asset derecognized or repaid	(184)	-	-	-	-	-	(184)	-
Transfer to Stage 3	(18)	-	-	-	18	18	-	18
At 30 June 2022	211	-	-	-	5,005	4,997	5,216	4,997
Loans and advances								
At 1 July 2021	3,052	9	6	-	3,521	3,439	6,579	3,448
New assets originated or purchased	1,572	5	-	-	-	-	1,572	5
Asset derecognized or repaid	(929)	(3)	-	-	(40)	(12)	(969)	(15)
Transfer to Stages	(45)	-	(6)	-	51	17	-	17
Changes in risk parameters	-	1	-	-	-	-	-	1
At 30 June 2022	3,650	12	-	-	3,532	3,444	7,182	3,456

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Concentrations of credit risk

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

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

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

Year ended 30 June 2023

CONSOLIDATED

	United States of America KShs' million	Germany KShs' million	United Kingdom KShs' million	Singapore KShs' million	Canada KShs' million	Kenya KShs' million	Others KShs' million	Total KShs' million
Balances due from banking institutions	80,615	83,230	30,664	53,935	859	159,247	12,950	421,500
Funds held with IMF	73,312	-	-	-	-	-	-	73,312
IMF On-Lent to GOK	-	-	-	-	-	326,865	-	326,865
Securities and advances to banks	-	-	-	-	-	105,215	-	105,215
Loans and advances	-	-	-	-	-	7,162	-	7,162
Debt instruments at fair value through OCI	568,529	29,845	-	-	4,659	-	37,497	640,530
Other assets - Sundry debtors	-	-	-	-	-	573	-	573
Due from Government of Kenya	-	-	-	-	-	189,967	-	189,967
Total financial assets	**722,456**	**113,075**	**30,664**	**53,935**	**5,518**	**789,029**	**50,447**	**1,765,124**

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Concentrations of credit risk (continued)

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

Year ended 30 June 2022

	CONSOLIDATED							
	United States of America KShs' million	Germany KShs' million	United Kingdom KShs' million	Singapore KShs' million	Canada KShs' million	Kenya KShs' million	Others KShs' million	Total KShs' million
Balances due from banking institutions	59,598	59,866	25,987	38,064	271	101,776	10,285	295,847
Funds held with IMF	71,644	-	-	-	-	-	-	71,644
IMF On-Lent to GOK	-	-	-	-	-	192,924	-	192,924
Securities and advances to banks	-	-	-	-	-	91,865	-	91,865
Loans and advances	-	-	-	-	-	7,182	-	7,182
Debt instruments at fair value through OCI	548,563	27,926	-	-	4,585	-	55,577	636,651
Other assets - Sundry debtors	-	-	-	-	-	5,354	-	5,354
Due from Government of Kenya	-	-	-	-	-	118,263	-	118,263
Total financial assets	679,805	87,792	25,987	38,064	4,856	517,364	65,862	1,419,730

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Concentrations of credit risk (continued)

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

Year ended 30 June 2023

	BANK							
	United States of America KShs' million	Germany KShs' million	United Kingdom KShs' million	Singapore KShs' million	Canada KShs' million	Kenya KShs' million	Others KShs' million	Total KShs' million
Balances due from banking institutions	80,615	83,230	30,664	53,935	859	159,247	12,950	421,500
Funds held with IMF	73,312	-	-	-	-	-	-	73,312
IMF On-Lent to GOK	-	-	-	-	-	326,865	-	326,865
Securities and advances to banks	-	-	-	-	-	105,215	-	105,215
Loans and advances	-	-	-	-	-	7,162	-	7,162
Debt instruments at fair value through OCI	568,529	29,845	-	-	4,659	-	37,497	640,530
Other assets - Sundry debtors	-	-	-	-	-	434	-	434
Due from Government of Kenya	-	-	-	-	-	189,967	-	189,967
Total financial assets	722,456	113,075	30,664	53,935	5,518	788,890	50,447	1,764,985

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Concentrations of credit risk (continued)

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

Year ended 30 June 2022

	BANK							
	United States of America	Germany	United Kingdom	Singapore	Canada	Kenya	Others	Total
	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million
Balances due from banking institutions	59,598	59,866	25,987	38,064	271	101,776	10,285	295,847
Funds held with IMF	71,644	-	-	-	-	-	-	71,644
IMF On-Lent to GOK	-	-	-	-	-	192,924	-	192,924
Securities and advances to banks	-	-	-	-	-	91,865	-	91,865
Loans and advances	-	-	-	-	-	7,182	-	7,182
Debt instruments at fair value through OCI	548,563	27,926	-	-	4,585	-	55,577	636,651
Other assets - Sundry debtors	-	-	-	-	-	5,216	-	5,216
Due from Government of Kenya	-	-	-	-	-	118,263	-	118,263
Total financial assets	**679,805**	**87,792**	**25,987**	**38,064**	**4,856**	**517,226**	**65,862**	**1,419,592**

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Concentrations of credit risk (continued)

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

Year ended 30 June 2023

CONSOLIDATED

	Balances due from financial institutions KShs' million	Securities and advances KShs' million	Funds held with IMF KShs' million	IMF-On Lent to GoK KShs' million	Loans and advances KShs' million	Fixed income securities KShs' million	Due from GOK KShs' million	Other assets KShs' million	Total KShs' million
Central Banks	28,392	-	-	-	-	-	-	-	28,392
Foreign Governments	-	-	-	-	-	560,123	-	-	560,123
Supranational Institutions	61,593	-	73,312	-	-	50,667	-	-	185,572
Commercial Banks	331,515	96,767	-	-	3,400	-	-	-	431,682
Foreign Agencies	-	-	-	-	-	29,081	-	-	29,081
Government of Kenya	-	8,448	-	326,865	-	-	189,967	-	525,280
Others	-	-	-	-	3,762	659	-	573	4,994
	421,500	105,215	73,312	326,865	7,162	640,530	189,967	573	1,765,124

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Concentrations of credit risk (continued)

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

Year ended 30 June 2022

CONSOLIDATED

	Balances due from financial institutions KShs' million	Securities and advances KShs' million	Funds held with IMF KShs' million	IMF-On Lent to GoK KShs' million	Loans and advances KShs' million	Fixed income securities KShs' million	Due from GOK KShs' million	Other assets KShs' million	Total KShs' million
Central Banks	31,600	-	-	-	-	-	-	-	31,600
Foreign Governments	-	-	-	-	-	533,408	-	-	533,408
Supranational institutions	55,890	-	71,644	-	-	67,852	-	-	195,386
Commercial Banks	208,357	84,273	-	-	3,400	-	-	-	296,030
Foreign Agencies	-	-	-	-	-	35,391	-	-	35,391
Government of Kenya	-	7,592	-	192,924	-	-	118,263	-	318,779
Others	-	-	-	-	3,782	-	-	5,354	9,136
	295,847	91,865	71,644	192,924	7,182	636,651	118,263	5,354	1,419,730

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Concentrations of credit risk (continued)

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

Year ended 30 June 2023

BANK

	Balances due from financial institutions KShs' million	Securities and advances KShs' million	Funds held with IMF KShs' million	IMF-On Lent to GoK KShs' million	Loans and advances KShs' million	Fixed income securities KShs' million	Due from GOK KShs' million	Other assets KShs' million	Total KShs' million
Central Banks	28,392	-	-	-	-	-	-	-	28,392
Foreign Governments	-	-	-	-	-	560,123	-	-	560,123
Supranational institutions	61,593	-	73,312	-	-	50,667	-	-	185,572
Commercial Banks	331,515	96,767	-	-	3,400	-	-	-	431,682
Foreign Agencies	-	-	-	-	-	29,081	-	-	29,081
Government of Kenya	-	8,448	-	326,865	-		189,967	-	525,280
Others	-	-	-	-	3,762	659	-	434	4,855
	421,500	105,215	73,312	326,865	7,162	640,530	189,967	434	1,764,985

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Concentrations of credit risk (continued)

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

Year ended 30 June 2022

	BANK								
	Balances due from financial institutions KShs' million	Securities and advances KShs' million	Funds held with IMF KShs' million	Due from GOK KShs' million	Loans and advances KShs' million	Fixed income securities KShs' million	IMF-On Lent to GoK KShs' million	Other assets KShs' million	Total KShs' million
Central Banks	31,600	-	-	-	-	-	-	-	31,600
Foreign Governments	-	-	-	-	-	533,408	-	-	533,408
Supranational institutions	55,890	-	71,644	-	-	67,852	-	-	195,386
Commercial Banks	208,357	84,273	-	-	3,400	-	-	-	296,030
Foreign Agencies	-	-	-	-	-	35,391	-	-	35,391
Government of Kenya	-	7,592	-	118,263	-	-	192,924	-	318,779
Others	-	-	-	-	3,782	-	-	5,216	8,998
	295,847	91,865	71,644	118,263	7,182	636,651	192,924	5,216	1,419,592

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Market risk

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

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

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

Interest rate risk

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Market risk (continued)

Interest rate risk (continued)

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

CONSOLIDATED

At 30 June 2023	1 – 3 months KShs' million	4-12 months KShs' million	1 - 5 years KShs' million	Over 5 years KShs' million	Non-interest bearing KShs' million	Total KShs' million
Assets						
Balances due from banking institutions	421,500	-	-	-	-	421,500
Securities and advances to banks	98,879	809	4,703	824	-	105,215
Debt instruments at FVOCI	45,100	245,005	350,425	-	-	640,530
Funds held with International Monetary Fund (IMF)	-	-	-	-	73,312	73,312
Loans and advances	165	476	1,676	1,445	3,400	7,162
Other assets	-	-	-	-	573	573
IMF On-lent to GOK	-	-	-	-	326,865	326,865
Due from Government of Kenya	76,457	1,110	4,440	12,239	95,721	189,967
Total financial assets	642,101	247,400	361,244	14,508	499,871	1,765,124
Liabilities						
Deposits due to banks and government	-	-	-	-	572,975	572,975
Other liabilities	-	-	-	-	6,016	6,016
Due to International Monetary Fund (IMF)	-	-	-	-	477,899	477,899
Total financial liabilities	-	-	-	-	1,056,890	1,056,890
Interest sensitivity gap	642,101	247,400	361,244	14,508	(557,019)	708,234

As at 30 June 2023, increase of 10 basis points would have resulted in a decrease/increase in profit and equity of KShs 562 million (2022: KShs 551 million).

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Market risk (continued)

Interest rate risk (continued)

CONSOLIDATED

At 30 June 2022	1 – 3 months KShs' million	4-12 months KShs' million	1 - 5 years KShs' million	Over 5 years KShs' million	Non-interest bearing KShs' million	Total KShs' million
Assets						
Balances due from banking institutions	295,847	-	-	-	-	295,847
Securities and advances to banks	33,463	2,085	24,714	31,603	-	91,865
Debt instruments at FVOCI	32,576	168,013	436,062	-	-	636,651
Funds held with International Monetary Fund (IMF)	-	-	-	-	71,644	71,644
Loans and advances	168	471	1,719	1,424	3,400	7,182
Other assets	-	-	-	-	5,354	5,354
IMF On-lent to GOK	-	-	-	-	192,924	192,924
Due from Government of Kenya	58,502	1,110	4,440	54,211	-	118,263
Total financial assets	420,556	171,679	466,935	87,238	273,322	1,419,730
Liabilities						
Deposits due to banks and government	14,520	-	-	-	525,090	539,610
Other liabilities	-	-	-	-	4,192	4,192
Due to International Monetary Fund (IMF)	-	-	-	-	325,145	325,145
Total financial liabilities	14,520	-	-	-	854,427	868,947
Interest sensitivity gap	406,036	171,679	466,935	87,238	(581,105)	550,783

As at 30 June 2022, increase of 10 basis points would have resulted in a decrease/increase in profit and equity of KShs 551 million (2021: KShs 470 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Market risk (continued)

Interest rate risk (continued)

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

BANK

At 30 June 2023	1 – 3 months KShs' million	4-12 months KShs' million	1 - 5 years KShs' million	Over 5 years KShs' million	Non-interest bearing KShs' million	Total KShs' million
Assets						
Balances due from banking institutions	421,500	-	-	-	-	421,500
Securities and advances to banks	98,879	809	4,703	824	-	105,215
Debt instruments at FVOCI	45,100	245,005	350,425	-	-	640,530
Funds held with International Monetary Fund (IMF)	-	-	-	-	73,312	73,312
Loans and advances	165	476	1,676	1,445	3,400	7,162
Other assets	-	-	-	-	434	434
IMF On-lent to GOK	-	-	-	-	326,865	326,865
Due from Government of Kenya	76,457	1,110	4,440	12,239	95,721	189,967
Total financial assets	**642,101**	**247,400**	**361,244**	**14,508**	**499,732**	**1,764,985**
Liabilities						
Deposits due to banks and government	-	-	-	-	572,975	572,975
Other liabilities	-	-	-	-	5,858	5,858
Due to International Monetary Fund (IMF)	-	-	-	-	477,899	477,899
Total financial liabilities	**-**	**-**	**-**	**-**	**1,056,732**	**1,056,732**
Interest sensitivity gap	**642,101**	**247,400**	**361,244**	**14,508**	**(557,000)**	**708,253**

As at 30 June 2023, increase of 10 basis points would have resulted in a decrease/increase in profit and equity of KShs 562 million (2022: KShs 551 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Market risk (continued)

Interest rate risk (continued)

BANK

At 30 June 2022	1 – 3 months KShs' million	4-12 months KShs' million	1 - 5 years KShs' million	Over 5 years KShs' million	Non-interest bearing KShs' million	Total KShs' million
Assets						
Balances due from banking institutions	295,847	-	-	-	-	295,847
Securities and advances to banks	33,463	2,085	24,714	31,603	-	91,865
Debt instruments at FVOCI	32,576	168,013	436,062	-	-	636,651
Funds held with International Monetary Fund (IMF)	-	-	-	-	71,644	71,644
Loans and advances	168	471	1,719	1,424	3,400	7,182
Other assets	-	-	-	-	5,216	5,216
IMF On-lent to GOK	-	-	-	-	192,924	192,924
Due from Government of Kenya	58,502	1,110	4,440	54,211	-	118,263
Total financial assets	**420,556**	**171,679**	**466,935**	**87,238**	**273,184**	**1,419,592**
Liabilities						
Deposits due to banks and government	14,520	-	-	-	525,090	539,610
Other liabilities	-	-	-	-	4,059	4,059
Due to International Monetary Fund (IMF)	-	-	-	-	325,145	325,145
Total financial liabilities	**14,520**	**-**	**-**	**-**	**854,294**	**868,814**
Interest sensitivity gap	**406,036**	**171,679**	**466,935**	**87,238**	**(581,110)**	**550,778**

As at 30 June 2022, increase of 10 basis points would have resulted in a decrease/increase in profit and equity of KShs 551 million (2021: KShs 470 million).

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Market risk (continued)

Foreign exchange risk

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

The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 30 June 2023. Included in the table are the Bank's financial instruments categorised by currency:

	CONSOLIDATED AND BANK					
At 30 June 2023	USD KShs' million	GBP KShs' million	EUR KShs' million	SDR KShs' million	Others KShs' million	Total KShs' million
Assets						
Balances due from banking institutions	228,053	25,952	73,393	-	94,102	421,500
Debt instruments at FVOCI	632,650	-	-	-	7,880	640,530
Funds held with International Monetary Fund (IMF)	-	-	-	73,312	-	73,312
Total financial assets	860,703	25,952	73,393	73,312	101,982	1,135,342
Liabilities						
Due to International Monetary Fund (IMF)	-	-	-	477,899	-	477,899
Deposits due to banks and government	27,060	2,479	42,602	-	924	73,065
Total financial liabilities	27,060	2,479	42,602	477,899	924	550,964
Net position	833,643	23,473	30,791	(404,587)	101,058	584,378

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Market risk (continued)

Foreign exchange risk (continued)

	CONSOLIDATED AND BANK					
	USD	GBP	EUR	SDR	Others	Total
	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million
At 30 June 2022						
Assets						
Balances due from banking institutions	122,741	26,230	20,228	-	126,648	295,847
Debt instruments at FVOCI	636,651	-	-	-	-	636,651
Funds held with International Monetary Fund (IMF)	-	-	-	71,644	-	71,644
Total financial assets	**759,392**	**26,230**	**20,228**	**71,644**	**126,648**	**1,004,142**
Liabilities						
Due to International Monetary Fund (IMF)	-	-	-	325,145	-	325,145
Deposits due to banks and government	68,638	5,285	3,056	-	150	77,129
Total financial liabilities	**68,638**	**5,285**	**3,056**	**325,145**	**150**	**402,274**
Net position	**690,754**	**20,945**	**17,172**	**(253,501)**	**126,498**	**601,868**

As at 30 June 2023, if the shilling had weakened/strengthened by 5% against the major currencies with all other variables held constant, the impact on the Bank's surplus and equity would have been:

- USD KShs 41,682 million (2022: KShs 39,535 million)
- British Pound KShs 1,174 million (2022: KShs 1,047 million)
- Euro KShs 1,537 million (2022: KShs 859 million)
- SDR KShs 20,231 million (2022: KShs 12,675 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iii) Liquidity risk

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

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

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

	CONSOLIDATED					
	On demand	0 – 3 months	4-12 months	1 - 5 years	Over 5 years	Total
	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million
At 30 June 2023						
Deposits due to banks and government	572,975	-	-	-	-	572,975
Due to International Monetary Fund (IMF)	-	-	1,347	80,420	396,132	477,899
Lease liability	-	27	36	27	-	90
Other liabilities	-	-	6,016	-	-	6,016
Total financial liabilities at 30 June 2023	**572,975**	**27**	**7,399**	**80,447**	**396,132**	**1,056,980**
At 30 June 2022						
Deposits due to banks and government	525,090	14,520	-	-	-	539,610
Due to International Monetary Fund (IMF)	-	-	5,643	64,145	255,357	325,145
Lease liability	-	18	25	47	-	90
Other liabilities	-	-	4,192	-		4,192
Total financial liabilities at 30 June 2022	**525,090**	**14,538**	**9,860**	**64,192**	**255,357**	**869,037**

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(iii) Liquidity risk (continued)

	BANK					
	On demand	0 – 3 months	4-12 months	1 - 5 years	Over 5 years	Total
	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million	KShs' million
At 30 June 2023						
Deposits due to banks and government	572,975	-	-	-	-	572,975
Due to International Monetary Fund (IMF)	-	-	1,347	80,420	396,132	477,899
Lease liability		27	36	27		90
Other liabilities	-	-	5,858	-	-	5,858
Total financial liabilities	**572,975**	**27**	**7,241**	**80,447**	**396,132**	**1,056,822**
At 30 June 2022						
Deposits due to banks and government	525,090	14,520	-	-	-	539,610
Due to International Monetary Fund (IMF)	-	-	5,643	64,145	255,357	325,145
Lease liability	-	18	25	47	-	90
Other liabilities	-	-	4,059	-	-	4,059
Total financial liabilities	**525,090**	**14,538**	**9,727**	**64,192**	**255,357**	**868,904**

30. FAIR VALUE OF ASSETS AND LIABILITIES

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

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

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

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

	CONSOLIDATED AND BANK			
	2023		2022	
	Carrying amount KShs' million	Fair value KShs' million	Carrying amount KShs' million	Fair Value KShs' million
Financial assets				
Securities and advances to banks (rediscounted treasury bonds)	7,759	7,692	7,290	7,430
Loans and advances	3,694	3,569	3,726	3,552
Due from Government of Kenya	189,967	132,780	118,263	114,078
Financial liabilities				
Due to International Monetary Fund	477,899	165,765	325,145	123,208

b) Fair value hierarchy

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes equity securities and debt instruments on recognized exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and land and buildings with significant unobservable components.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

30. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

b) Fair value hierarchy (continued)

	CONSOLIDATED AND BANK		
Year ended 30 June 2023	**Level 1 KShs' million**	**Level 2 KShs' million**	**Level 3 KShs' million**
Assets measured at fair value:			
Land and buildings	-	-	23,174
Debt instruments at fair value through other comprehensive income	640,530	-	-
Equity instruments at fair value through other comprehensive income			12
Gold holdings	150	-	-
Assets for which fair values are disclosed:			
Securities and advances to banks (rediscounted treasury bonds)	7,692	-	-
Loans and advances	-	3,569	-
Due from Government of Kenya	-	132,780	-
Liabilities for which fair values are disclosed:			
Due to International Monetary Fund	-	165,765	-

	CONSOLIDATED AND BANK		
Year ended 30 June 2022	**Level 1 KShs' million**	**Level 2 KShs' million**	**Level 3 KShs' million**
Assets measured at fair value:			
Land and buildings	-	-	24,060
Debt instruments at fair value through other comprehensive income	636,651	-	-
Equity instruments at fair value through other comprehensive income	-	-	10
Gold holdings	120	-	-
Assets for which fair values are disclosed:			
Securities and advances to banks (rediscounted treasury bonds)	7,430	-	-
Loans and advances	-	3,552	-
Due from Government of Kenya	-	114,078	-
Liabilities for which fair values are disclosed:			
Due to International Monetary Fund	-	123,208	-

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

30. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

b) Fair value hierarchy (continued)

The Bank's land and buildings were revalued in June 2021.

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

CONSOLIDATED AND BANK			
LEVEL 2	Valuation technique	Significant observable inputs	Range (weighted average) Interest rate
Loans and advances	DCF	Interest rate	13%
Due from Government of Kenya	DCF	Interest rate	10.5%
Due to IMF	DCF	Interest rate	3.9%
LEVEL 3			
Land and buildings	Market/Income /cost approach	Incomparable sales of properties due to the uniqueness of CBK properties.	-
Equity instruments at fair value through other comprehensive income	DCF	Incomparable market data.	

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

CONSOLIDATED AND BANK					
	1 July 2022 KShs' million	Additions KShs' million	Change in Fair value KShs' million	Depreciation charge to profit or loss KShs' million	30 June 2023 KShs' million
Freehold land and buildings	18,784	-	-	(718)	18,066
Leasehold land and buildings	5,276	-	-	(168)	5,108
	24,060	-	-	(886)	23,174

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

31. CONTINGENT LIABILITIES AND COMMITMENTS

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

At 30 June 2023, the Bank had capital commitments of KShs 8,338 million (2022: KShs 7,310 million) in respect of property and equipment purchases.

Operating leases - Bank as a lessee

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

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

Operating leases - Bank as a lessor

The Bank has entered into operating leases on its land and buildings consisting of certain office buildings. These leases have terms of between one and 30 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions. The lessee is also required to provide a residual value guarantee on the properties. Rental income recognised by the Bank during the year is KShs 28 million (2022: KShs 49 million).

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

	2023 KShs' million	2022 KShs' million
Within one year	45	35
After one year but not more than five years	-	11
More than five years	-	45
	45	91

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

32. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

	CONSOLIDATED		
Year ended 30 June 2023	Within 12 months KShs' million	After 12 months KShs' million	Total KShs' million
ASSETS			
Balances due from banking institutions	421,469	-	421,469
Funds held with International Monetary Fund (IMF)	73,275	-	73,275
Securities and advances to banks	49,005	33,464	82,469
Loans and advances	641	3,053	3,694
Debt instruments at fair value through other comprehensive income	290,105	350,425	640,530
Equity instruments at fair value through other comprehensive income	-	12	12
Other assets	7,997	-	7,997
Gold holdings	-	150	150
Right-of-use assets – leases	-	79	79
Property and equipment	-	29,710	29,710
Intangible assets	-	1,998	1,998
Retirement benefit asset	-	4,994	4,994
IMF Funds On – Lent to GOK	-	326,865	326,865
Due from Government of Kenya	77,567	112,400	189,967
TOTAL ASSETS	920,059	863,150	1,783,209
LIABILITIES			
Currency in circulation	-	315,967	315,967
Deposits due to banks and government	572,975	-	572,975
Due to IMF	1,347	476,552	477,899
Other liabilities	6,291	-	6,291
TOTAL LIABILITIES	580,613	792,519	1,373,132
NET ASSETS	339,446	70,631	410,077

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

32. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	CONSOLIDATED		
Year ended 30 June 2022	Within 12 months KShs' million	After 12 months KShs' million	Total KShs' million
ASSETS			
Balances due from banking institutions	295,836	-	295,836
Funds held with International Monetary Fund (IMF)	71,639	-	71,639
Securities and advances to banks	35,548	36,281	71,829
Loans and advances	639	3,087	3,726
Debt instruments at fair value through other comprehensive income	200,589	436,062	636,651
Equity instruments at fair value through other comprehensive income	-	10	10
Other assets	8,559	-	8,559
Gold holdings	-	120	120
Right-of-use assets – leases	-	90	90
Property and equipment	-	31,910	31,910
Intangible assets	-	310	310
Retirement benefit asset	-	7,081	7,081
IMF Funds On – Lent to GOK	-	192,924	192,924
Due from Government of Kenya	59,612	58,651	118,263
TOTAL ASSETS	**672,422**	**766,526**	**1,438,948**
LIABILITIES			
Currency in circulation	-	305,350	305,350
Deposits due to banks and government	539,610	-	539,610
Due to IMF	10,264	314,881	325,145
Other liabilities	4,417	46	4,463
TOTAL LIABILITIES	**554,291**	**620,277**	**1,174,568**
NET ASSETS	**118,131**	**146,249**	**264,380**

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

32. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	BANK		
Year ended 30 June 2023	Within 12 months KShs' million	After 12 months KShs' million	Total KShs' million
ASSETS			
Balances due from banking institutions	421,469	-	421,469
Funds held with International Monetary Fund (IMF)	73,275	-	73,275
Securities and advances to banks	49,005	33,464	82,469
Loans and advances	641	3,053	3,694
Debt instruments at fair value through other comprehensive income	290,105	350,425	640,530
Equity instruments at fair value through other comprehensive income	-	12	12
Other assets	7,858	-	7,858
Gold holdings	-	150	150
Right-of-use assets – leases	-	79	79
Property and equipment	-	29,710	29,710
Intangible assets	-	1,998	1,998
Retirement benefit asset	-	4,994	4,994
IMF Funds On – Lent to GOK	-	326,865	326,865
Due from Government of Kenya	77,567	112,400	189,967
TOTAL ASSETS	919,920	863,150	1,783,070
LIABILITIES			
Currency in circulation	-	315,967	315,967
Deposits due to banks and government	572,975	-	572,975
Due to IMF	1,347	476,552	477,899
Other liabilities	6,152	-	6,152
TOTAL LIABILITIES	580,474	792,519	1,372,993
NET ASSETS	339,446	70,631	410,077

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2023

32. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	BANK		
Year ended 30 June 2022	Within 12 months KShs' million	After 12 months KShs' million	Total KShs' million
ASSETS			
Balances due from banking institutions	295,836	-	295,836
Funds held with International Monetary Fund (IMF)	71,639	-	71,639
Securities and advances to banks	35,548	36,281	71,829
Loans and advances	639	3,087	3,726
Debt instruments at fair value through other comprehensive income	200,589	436,062	636,651
Equity instruments at fair value through other comprehensive income	-	10	10
Other assets	8,446	-	8,446
Gold holdings	-	120	120
Right-of-use assets – leases	-	90	90
Property and equipment	-	31,910	31,910
Intangible assets	-	310	310
Retirement benefit asset	-	7,081	7,081
IMF Funds On – Lent to GOK	-	192,924	192,924
Due from Government of Kenya	59,612	58,651	118,263
TOTAL ASSETS	672,309	766,526	1,438,835
LIABILITIES			
Currency in circulation	-	305,350	305,350
Deposits due to banks and government	539,610	-	539,610
Due to IMF	10,264	314,881	325,145
Other liabilities	4,284	46	4,330
TOTAL LIABILITIES	554,158	620,277	1,174,435
NET ASSETS	118,151	146,249	264,400

Notes

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