Central Bank of Kenya

ANNUAL REPORT

AND FINANCIAL STATEMENTS

2021/2022

BANKI KUU YA KENYA

LETTER OF TRANSMITTAL

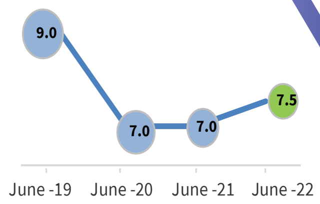
In accordance with Section 54 of the Central Bank of Kenya Act, it is my honour to present to you, Honourable Cabinet Secretary of the National Treasury and Planning, the Annual Report of the Central Bank of Kenya for the Financial Year 2021/22. The Annual Report contains economic and financial developments and the financial performance of the Central Bank of Kenya for the Financial Year ended June 30, 2022.

Patrick Njoroge

Dr. Patrick Njoroge
Governor

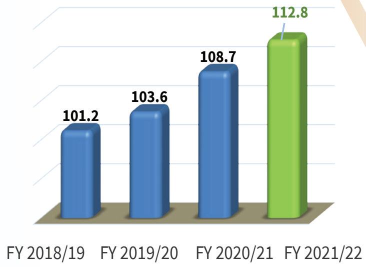
HIGHLIGHTS

Central Bank Rate (%)



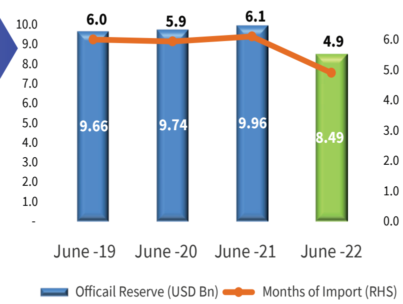
Monetary policy was tightened towards the end of the year.

Average Exchange Rate (KSh/US$)



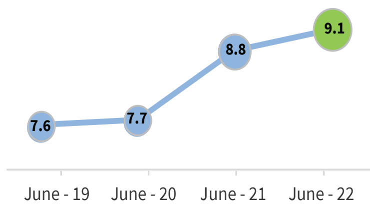
Exchange rate weakened in line with global developments.

Official Foreign Exchange Reserves



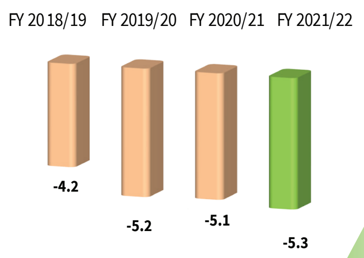
Official forex reserves remain adequate and above the statutory requirements.

Average Time to Maturity for bonds (Years)



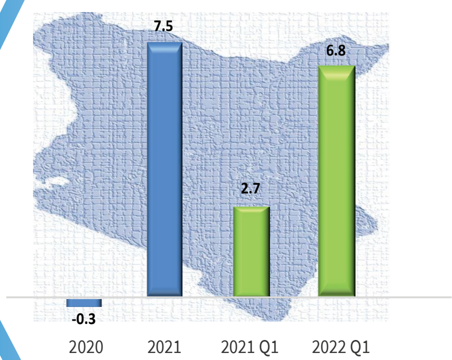
Further increase in average time to maturity for bonds.

Current A/C Deficit (% of GDP)



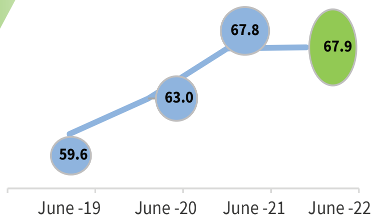
Current account balance remained relatively stable.

Real GDP Growth (%)



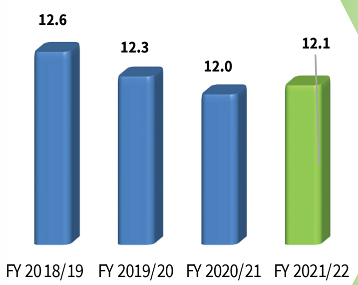
The economy rebounded strongly.

Public Debt (% of GDP)



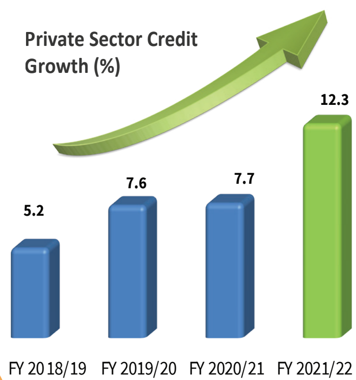
Public debt to GDP ratio stabilised during the year.

Average Lending Rate (%)



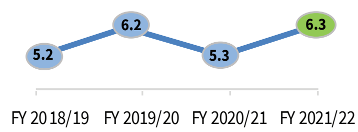
The lending rate remained stable thereby supporting access to affordable credit.

Private Sector Credit Growth (%)

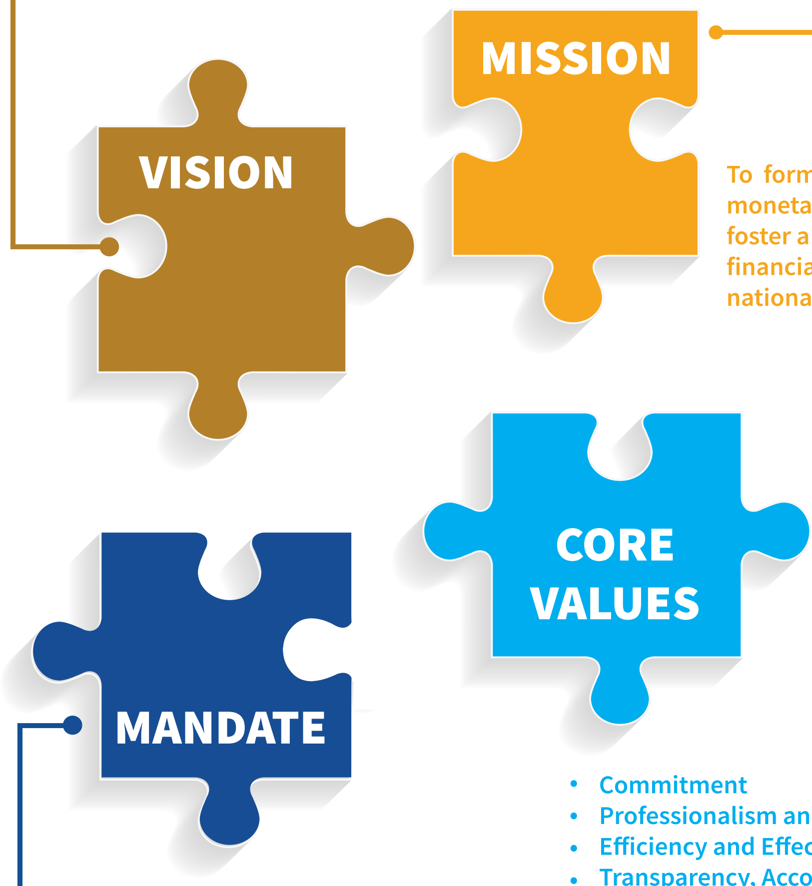


Growth in credit to the private sector picked up strongly.

Annual Average Inflation Rate



Inflation remained within the target band.



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
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
NDA	Net Domestic Assets
NFA	Net Foreign Assets
NFNF	Non-Food-Non-Fuel
NPL	Non-Performing Loan
OPEC	Organisation of the Petroleum Exporting Countries
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

It is with great pleasure that I present the Central Bank of Kenya's (CBK) Annual Report for the Financial Year 2021/22, a challenging year both at the global and national level. The financial year began with divergent global economic prospects partly reflecting unequal acess to vaccines and policy support, compounded by inflationary pressures driven by pandemic related supply-demand mismatches. In the second half of the year, the global economy was faced with disruptions arising from the conflict in Ukraine, commodity price increases, and the impact of monetary policy tightening in advanced economies. Despite the challenging external environment, Kenya's economic performance rebounded supported by the recovery in the services and industry sectors, following the easing of COVID-19 restrictions.

The CBK continued the implementation of policies that fulfilled its core mandates of maintaining price stability and ensuring a stable market based financial system. The Monetary Policy Committee (MPC) implemented an accommodative monetary policy through most of the period but tightened the policy stance in May 2022 to anchor inflation expectations arising from the Ukraine conflict. As a result, inflation remained anchored within the target range throughout most of the year except in June when it surpassed the target, mainly due to increased food and fuel prices arising from the developments in global commodity prices. Additionally, the Government measures to stabilise fuel prices, and lower electricity tariffs have moderated the impact of global shocks on domestic prices. 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.

Other key milestones achieved during the year included the publication of a White Paper on the Modernisation of the Monetary Policy Framework and Operations, a Discussion Paper on Central Bank Digital Currencies and the issuance of a Guidance Note on Climate-Related Risks and Disclosures. In addition, the CBK launched an Enterprise Data Warehouse (OchreEDW) to enhance data management, the Kenya National Payments System Strategy, and issued Digital Credit Regulations.

Looking ahead, the CBK will continue implementing reforms and initiatives outlined in its Strategic Plan and sustain the coordination of monetary and fiscal policies to ensure macroeconomic stability.

Dr. Patrick Njoroge
Governor

STATEMENT BY THE CHAIRMAN OF THE BOARD

The Central Bank of Kenya successfully steered implementation of its *Strategic Plan 2018-2021,* despite the COVID-19 pandemic challenges. I am pleased to note that the proactive measures taken by the Bank to support the economy, the banking sector and the safety of its staff, bore desired outcomes. I commend the Bank Management and staff for their steadfastness and resilience during the trying period.

The fiscal year 2021/2022 ushered in phase one of the CBK's *Strategic Plan for 2021-2024,* whose central focus is ***Automation, People and Culture, Risk Management and Operational Excellence.*** The strategy builds on the achievements of CBK's Strategic Plan for 2018-2021, that was aligned to the Bank's theme on ***"Leveraging Innovative Technologies and Systems"*** to drive the vision of becoming a Modern World Class Central Bank.

During the first year (2021/2022) of implementing the new strategic plan, the Bank made notable achievements, which include the following:

- Full migration of staff to the Bank's revised structure in December 2021.
- Completion of recruitment of Directors and Assistant Directors in Banking and Payments Services, Research and Financial Markets Departments.
- Development and issuance of the Digital Credit Regulations following the amendment of the CBK Act, 2021.
- Launch of the *National Payments Strategy 2022/2025* and the Enterprise Data Warehouse in February 2022.
- Remarkable progress on the automation of the Central Securities Depository system.

On behalf of the Board, I wish to sincerely thank the Bank Management and entire staff for the commitment and dedication to duty, and support to the Board during the entire strategy period. We acknowledge the confidence of Kenyans and the market in the operations of the CBK, and look forward to successful implementation of the CBK *Strategic Plan 2021-2024*.

Mr. Mohamed Nyaoga
Chairman,
CBK Board of Directors

BOARD OF DIRECTORS

Mr. Mohamed Nyaoga
Chairman

Dr. Patrick Njoroge
Governor

Dr. Julius Muia
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. Patrick Njoroge
Governor

Mrs. Sheila M'Mbijjewe
Deputy Governor

Dr. Margaret Chemengich
External Member

Dr. Julius Muia
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. Patrick Njoroge
Governor

Mrs. Sheila M'Mbijjewe
Deputy Governor

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

Mr. David Luusa
Director, Financial Markets

Ms. Caroline Mackola
Director, Finance

Mr. Anthony N. Gacanja
Director, Information Technology

Mr. Gerald Nyaoma
Director, Bank Supervision

Prof. Robert Mudida
Director, Research

SENIOR MANAGEMENT

Ms. Beth Kithinji
Director, Internal Audit and Risk Management

Ms. Darliah Mbugua
Director, Human Resources

Mr. Stephen Muriu
Director, General Services

Mr. Paul K. Wanyagi
Acting Director, Currency Operations

Mr. Michael Eganza
Director, Banking and National Payments

Mr. William Nyagaka
Director, Kenya School of Monetary Studies

Dr. Joshua Kimoro
Acting Director, Strategic Management

1.0 GLOBAL ECONOMY

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The global economy, which at the beginning of the FY2021/22 was continuing on a recovery path from the COVID-19 pandemic, has been affected by several significant unexpected shocks in 2022. According to the IMF World Economic Outlook (WEO) July 2022 update, global output growth is expected to slow down to 3.2 percent in 2022 and moderate to 2.9 percent in 2023, down from 6.1 percent in 2021. This represents 0.4 percentage-point downward revision for 2022 compared to the April 2022 WEO, reflecting the adverse effects of the war in Ukraine, concerns over China's increased cases of COVID-19 infections, supply chain challenges, and reduced fiscal support in the advanced and emerging economies.

Growth in the advanced economies is projected at 2.5 percent in 2022 and is expected to moderate to 1.4 percent in 2023, reflecting weaker economic activity in the first two quarters combined with slow growth in private consumption on account of monetary policy tightening to address elevated inflation. Supply-side drivers of this inflation present a challenge for monetary policy. Growth in emerging market and developing economies (EMDEs) is projected at 3.6 percent in 2022, largely affected by limited fiscal space and dependence on energy and food imports for basic consumption. The growth is anticipated to improve in 2023 to 3.9 percent. Growth in China is expected at 3.3 percent, a downgrade of 1.1 percent from the April 2022 WEO, reflecting weaker demand due to increased COVID-19 outbreaks and lockdowns. Economic activity in Sub-Saharan Africa (SSA) is expected to grow by 3.8 percent in 2022 and 4.0 percent in 2023. Overall, downside risks to the global outlook remain substantial.

Financial market volatility is expected to remain elevated as inflationary pressures continue to build up across major economies amid increased monetary policy tightening. Several advanced economies have experienced 40-year high inflation levels, with inflation in advanced economies and emerging markets and developing economies estimated at 6.6 percent, and 9.5 percent in 2022, respectively.

The US dollar strengthened against other major international currencies, driven by increased monetary policy tightening by the US Federal Reserve, amid increased uncertainty over the global growth outlook. The index of the US dollar against a basket of major currencies strengthened by 12.8 percent in the 12 months to June 2022.

Global trade volumes are expected to fall by 4.1 percent in 2022 and by a further by 3.2 percent in 2023, owing to lower demand for goods attributed to the war in Ukraine and the withdrawal of fiscal and monetary policy support, while cross-border trade in services (particularly tourism) is expected to remain subdued in the short term. Oil prices are expected to average USD 103.88 in 2022 and USD 91.07 per barrel in 2023, on account of increased supply disruptions caused by significant declines in Russia's oil exports. Metal prices are expected to rise in 2022 due to continued disruptions in metals trade with Russia and persistently high energy costs.

There are risks arising from prolonged war, geopolitical tensions, the COVID-19 pandemic and China's slowdown. Higher inflation will also necessitate more stringent monetary tightening by central banks. These tighter financial conditions will contribute to financial market volatility, and a rise in core sovereign yields.

1.0 GLOBAL ECONOMY

Table 1.1: Economic Growth in Selected Countries/Regions

Country/Region	Actual	Projections	
	2021	2022	2023
World Output	**6.1**	**3.2**	**2.9**
Advanced Economies	**5.2**	**2.5**	**1.4**
United States	5.7	2.3	1.0
Euro area	5.4	2.6	1.2
Japan	1.7	1.7	1.7
United Kingdom	7.4	3.2	0.5
Emerging Market and Developing economies	**6.8**	**3.6**	**3.9**
Emerging and Developing Asia	7.3	5.4	5.6
China	8.1	3.3	4.6
India	8.7	7.4	6.1
Emerging and Developing Europe	6.7	-1.4	0.9
Russia	4.7	-6.0	-3.5
Latin America and the Caribbean	6.9	3.0	2.0
Brazil	4.6	1.7	1.1
Sub-Saharan Africa	4.6	3.8	4.0
South Africa	4.9	2.3	1.4
Nigeria	3.6	3.4	3.2
Middle East, North Africa, Afghanistan and Pakistan	**5.8**	**4.8**	**3.5**

Source: IMF, World Economic Outlook, July 2022 Update

2.0 THE IMPACT OF THE WAR IN UKRAINE ON THE KENYAN ECONOMY

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Impact on the Global economy

The war in Ukraine set back the rebound in global economic activity witnessed in 2021 as the impact of the COVID-19 pandemic waned. The economic effects of the war spread mainly through commodity markets, trade, and financial linkages. In its April release and July update of the World Economic Outlook, the IMF downgraded global growth by 0.8 and 0.4 percentage points, respectively, reflecting the adverse effects of the war as well as spillovers to the global economy.

Russia and Ukraine jointly account for 2.2 percent of global GDP and global exports, 1.7 percent of global imports, and a small fraction of global foreign direct investment in assets and bank claims. Russia is a major supplier of oil, gas, metals, fertilizer and, together with Ukraine, of wheat and corn. The decline in the supply of these commodities, have led to price surges globally, affecting virtually all economies. Oil and food markets have been particularly affected with significant consequences. The inflationary pressures caused by the surging commodity prices has accelerated monetary policy tightening in advanced economies.

The shift by financial investors from assets perceived as high risk, to safe havens such as US government debt instruments, may exacerbate pressures on external accounts and exchange rates of emerging market and developing economies which have contributed to a strengthening of the dollar against all currencies. The dollar index strengthened by 8.8 percent between January and June 2022.

Impact on the Kenyan economy

Kenya's direct exposure to the war in Ukraine is largely through trade linkages. Kenya's exports to Russia and Ukraine in 2021 were 1.4 percent and 0.1 percent, respectively, of total exports and comprised mainly tea and cut flowers. Kenya imports about 40 percent of its wheat from Russia and Ukraine. As a result of the war, domestic prices of wheat, fertilizer and petroleum products have increased.

There is limited exposure of the banking sector to the crisis. The Kenyan banks' exposure to the Eurozone countries stood at 6.6 percent of foreign countries exposures in February 2022, compared to 0.03 percent for the rest of Europe, which included Ukraine and Russia.

Interventions by the Government

The Kenya Government has introduced several measures to mitigate the impact of the global crisis on the economy, by targeting rising food and energy prices which if left to persist would exacerbate poverty, food insecurity and inflation pressures. These include subsidies on fuel, fertilizer and maize flour, waiver of duty on maize imports and a reduction of electricity tariffs.

Potential interventions in the long-term

Other general longer-term policy interventions which could be considered include climate smart agriculture and a focus on green and renewable sources of energy. On fiscal policy, exploring non-debt creating financing options for public investments such as public-private partnerships (PPPs), increasing efficiency of public spending and staying the course on the fiscal consolidation path will create adequate space to absorb shocks. Monetary and fiscal policy co-ordination remains critical.

Intensifying regional integration initiatives such as African Continental Free Trade Area (AfCFTA) and the East African Community (EAC) to diversify trade and ease cross-border trade among African countries is also necessary.

Outlook

The effects of the Russia-Ukraine crisis are gradually waning, notably in the commodity markets as both energy and non-energy prices gradually decline albeit remaining historically high.

- As from June 2022, there has been a gradual downward trend in oil prices as major oil exporters scale up production with an increased build-up of oil inventories.
- Grains prices have eased since mid-May 2022 partly reflecting expected bumper harvest from major exporters such as Canada and EU.
- The vegetable oil price index fell by 15.9 from 251.8 to 11.8 points between March and June 2022, driven by lower prices across palm, sunflower, soy, and rapeseed oils, supported by rising output of major producing countries.

3.0 DOMESTIC ECONOMY

3.0 DOMESTIC ECONOMY

3.1 Economic Growth

The economy rebounded strongly in 2021, driven by recovery in services and industrial activity as COVID-19 restrictions were eased. It grew by 7.5 percent compared to -0.3 percent in 2020. In the first quarter of 2022, the economy grew by 6.8 percent compared to 2.7 percent in a similar quarter of 2021, supported by continued strong performance of the non-agriculture sectors. However, agriculture sector growth remained subdued **(Table 3.1 and Chart 3.1).**

Table 3.1: Real Gross Domestic Product by Sector

Main Sectors	Growth Rates (Percent)					
	2018	2019	2020*	2021**	Q1 2021	Q1 2022
1. Agriculture	**5.7**	**2.7**	**4.6**	**-0.2**	**0.4**	**-0.7**
2. Non-Agriculture (o/w)	**5.6**	**5.7**	**-1.4**	**9.4**	**3.2**	**8.7**
2.1 Industry	**3.8**	**4.0**	**3.3**	**7.2**	**4.3**	**5.5**
Mining & Quarrying	-4.7	4.3	5.5	18.1	10.7	22.1
Manufacturing	3.6	2.6	-0.4	6.9	2.1	3.7
Electricity & water supply	3.6	1.7	0.6	5.0	3.6	1.9
Construction	6.1	7.2	10.1	6.6	6.8	6.4
2.2 Services	**6.2**	**6.5**	**-1.8**	**9.8**	**3.1**	**9.2**
Wholesale & Retail Trade	5.9	5.3	-0.5	7.9	7.5	8.7
Accommodation & restaurant	15.6	14.3	-47.7	52.5	-33.0	56.2
Transport & Storage	6.0	6.3	-7.8	7.2	-7.9	8.1
Information & Communication	7.9	7.0	6.3	8.8	10.1	6.1
Financial & Insurance	2.7	8.1	5.9	12.5	11.8	14.4
Public administration	7.9	8.4	7.0	5.6	6.8	6.4
Professional, Administration & Support Services	6.9	6.8	-13.7	5.7	-13.0	14.9
Real estate	6.5	6.7	4.1	6.7	6.7	6.1
Education	6.8	5.7	-9.3	21.4	11.5	6.2
Health	5.4	5.5	5.7	6.0	5.8	5.0
Other services	3.3	4.3	-14.6	12.6	-8.4	11.1
FISIM	3.7	9.5	-1.8	5.5	4.9	6.4
2.3 Taxes on products	**5.9**	**3.9**	**-8.1**	**11.9**	**1.8**	**12.3**
Real GDP Growth	**5.6**	**5.1**	**-0.3**	**7.5**	**2.7**	**6.8**
** Revised*						
*** Provisional*						

Source: Kenya National Bureau of Statistics (KNBS)

3.0 DOMESTIC ECONOMY

Agriculture

Agriculture sector performance was depressed following unfavorable weather conditions experienced in the country. It contracted by 0.2 percent in 2021 compared to a growth of 4.6 percent in 2020 and contributed -0.1 percentage points to growth. The unfavorable weather conditions persisted into the first quarter of 2022, resulting in a contraction of 0.7 percent compared to a growth of 0.4 percent in a similar quarter of 2021.

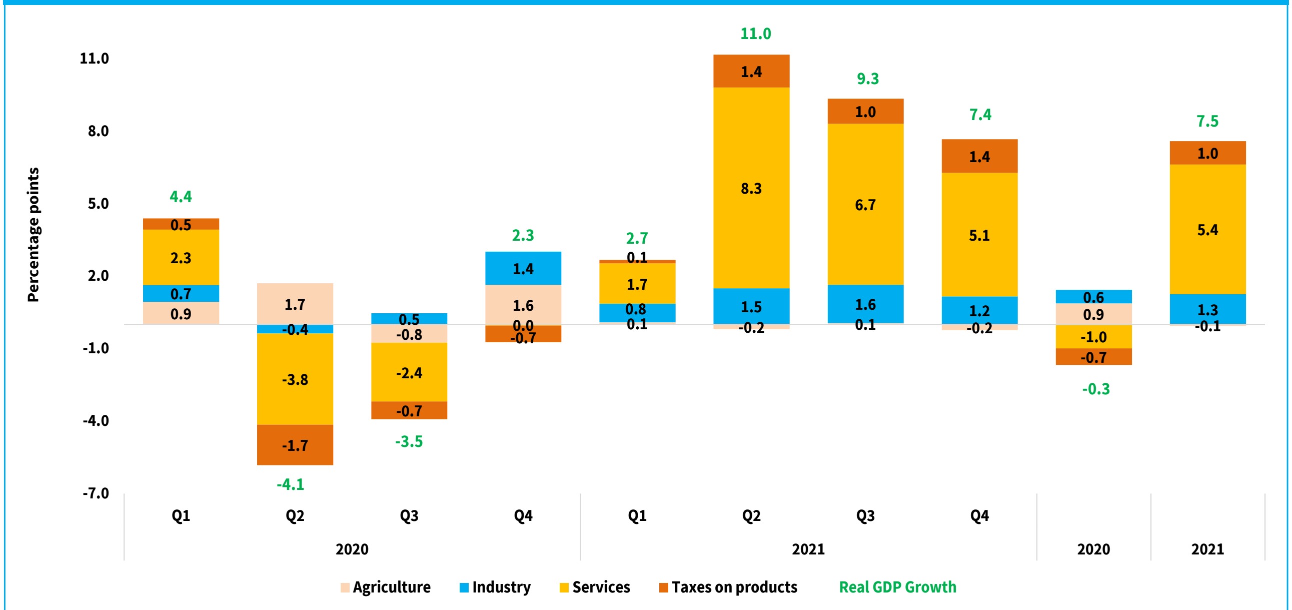
Services

The services sector recovered strongly following easing of COVID-19 restrictions. It grew by 9.8 percent in 2021 compared to a contraction of 1.8 percent in 2020 and contributed 5.4 percentage points to growth. The strong rebound was in wholesale and retail trade, accommodation and food services, transport and storage, financial and insurance, real estate, and education. The sector sustained strong growth momentum in the first quarter of 2022, growing by 9.2 percent compared to 3.1 percent in a similar quarter of 2021.

Industry

Growth in the industry sector was buoyant, reflecting a normalisation of economic activity. It expanded by 7.2 percent in 2021 compared to 3.3 percent in the previous year and contributed 1.3 percentage points to overall growth **(Chart 3.1).** In the first quarter of 2022, the sector expanded by 5.5 percent compared to 4.3 percent in a similar quarter of 2021, driven by the manufacturing and construction sectors.

Chart 3.1: Contributions to Real GDP Growth



Source: KNBS

3.0 DOMESTIC ECONOMY

3.2 Inflation

Overall inflation remained within the target band during the FY2021/22 with exception of June 2022, when it breached the upper bound of the target band for the first time in five years, mainly due to increased supply side factors arising from the Ukraine conflict. It increased to 7.9 percent in June 2022 from 6.3 in June 2021, on account of significant increases in food and energy prices **(Table 3.2 and Chart 3.2).**

Fuel inflation remained elevated during the FY2021/22 in line with global developments. It declined marginally to 10.0 percent in June 2022, from 13.5 percent in June 2021, supported by government fuel subsidy and electricity tariff reduction.

Table 3.2: Developments in Inflation (Percent)

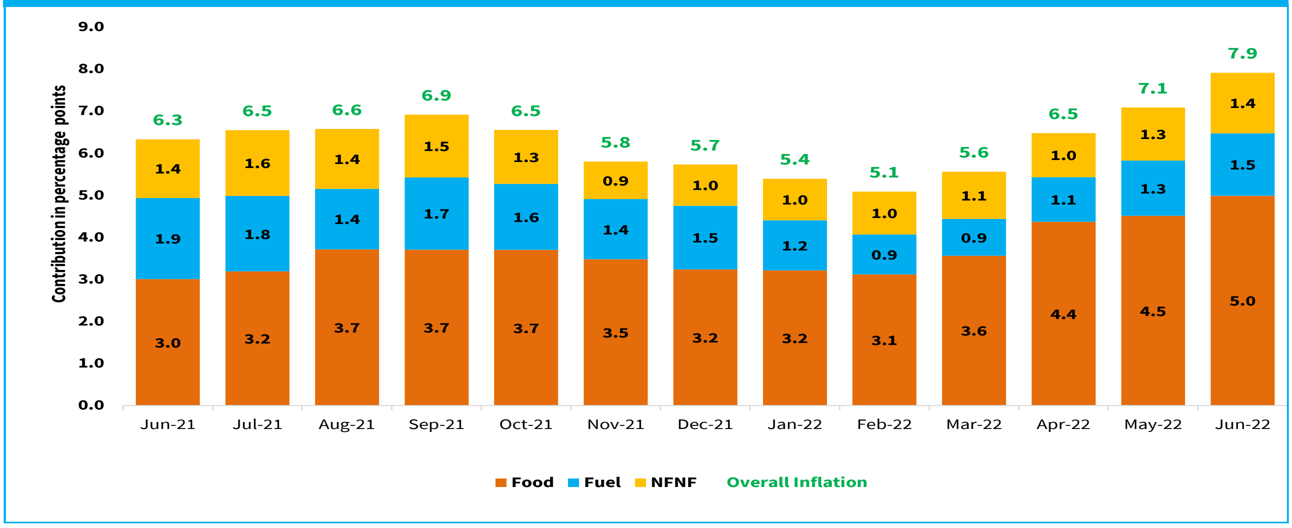
	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
Overall 12-month inflation	6.3	6.5	6.6	6.9	6.4	5.8	5.7	5.4	5.1	5.6	6.5	7.1	7.9
Food Inflation	8.5	9.1	10.7	10.6	10.6	9.9	9.1	8.9	8.7	9.9	12.1	12.4	13.8
Fuel Inflation	13.5	12.0	9.2	11.1	9.6	10.3	10.5	8.2	6.5	5.8	8.5	9.0	10.0
Non-(Food & Fuel) Inflation	2.6	2.9	2.6	2.7	2.2	1.9	1.9	1.9	2.0	2.2	2.5	2.6	2.9
Three months annualised	4.6	2.5	2.6	3.4	4.3	5.3	7.8	6.9	6.7	6.5	12.4	14.1	14.3

Source: Kenya National Bureau of Statistics and CBK

Food inflation increased to 13.8 percent in June 2022 from 8.5 percent in June 2021, on account of unfavorable weather conditions, rising transportation costs, and higher global prices of imported food items such as edible oil.

Non-Food-Non-Fuel (NFNF) inflation remained low and stable, reflecting muted demand pressures. It increased marginally to 2.9 percent in June 2022, from 2.6 percent in June 2021.

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

The Current Account

The current account deficit relative to GDP is estimated to have marginally widened to 5.3 percent (USD 6,037 million) in the year to June 2022 from 5.1 percent (USD 5,369 million) in the year to June 2021 **(Table 3.3).** This was attributed to the high import bill especially of petroleum products which more than offset improved earnings from strong agricultural exports, resilient diaspora remittances, and service receipts.

Goods Account

The deficit in the goods account widened to USD 12,357 million in the FY2021/22 compared with USD 9,598 million in the previous year reflecting an increase in merchandise imports due to high international oil prices in the third quarter. Merchandise imports increased by 21.7 percent to stand at USD 19,478 million in the FY2021/22 from USD 15,999 million in FY2020/21. Imports of intermediate goods also increased, reflecting increased economic activities after the country lifted the COVID-19 restrictions. Imports from China accounted for 19.4 percent of total imports during the year to June 2022 making it the largest source of imports **(Table 3.4).** Imports from the European Union declined to USD 2,086 million and accounted for 10.7 percent of total imports, while the share of imports from Africa declined to 11.4 percent, equivalent to USD 2,227 million. The performance of merchandise exports improved by 11.3 percent to USD 7,121 million in the FY2021/22. Exports of agricultural commodities remained strong, reflecting higher tea receipts due to higher international tea prices and increased demand from traditional partners. Manufactured goods also increased by 22.8 percent. However, horticulture receipts fell by 8.5 percent due to a drop in earnings in the third quarter.

Kenya's exports to Africa improved to USD 2,893 million in FY2021/22 compared to USD 2,584 million in FY2020/21, reflecting increased exports to EAC region and United States of America (USA). The share of exports to EAC and USA increased to 26.0 percent and 9.0 percent in FY2021/22, respectively, from 25.1 percent and 7.7 percent in FY2020/21. The share of exports to United Kingdom and Netherlands decreased from 7.4 percent and 8.5 percent in the FY2020/21 to 5.8 percent and 8.1 percent, respectively.

Services Account

Following the removal of the COVID-19 restrictions and the opening of international travel, receipts from transportation and travel services increased. As a result, the services account balance increased by USD 1,393 million in FY2021/22 from a surplus of USD 240 million in FY2020/21.

Primary and Secondary Income Account

The balance on the primary income account worsened by USD 317 million. The surplus on the secondary income account rose from USD 5,396 million in FY2020/21 to USD 6,409 million in the FY2021/22 mainly on account of remittances.

Remittances

In the year to June 2022, total diaspora remittance inflows stood at USD 4,012 million compared to USD 3,383 million in the same period in 2021, an 18.6 percent increase. The USA continues to be the largest source of remittances to Kenya, accounting for 59 percent of remittances in the year to June 2022.

Capital and Financial Account

The capital account inflows declined by USD 29 million in the FY2021/22, due to a decrease in other capital transfers. The financial account net inflows increased to USD 6,162 million in FY2021/22 compared to USD 4,817 million in the previous year, mainly due to other inflows to Government **(Table 3.5).**

Table 3.3: Balance on Current Account (USD Million)

Item	FY 2020/21*	FY 2021/22				FY 2021/22**	FY 2021/22-2020/21	
		Jul-Sep Q1	Oct-Dec Q2	Jan-Mar Q3	Apr-Jun Q4		Absolute Change	% Change
Current Account	**-5,369**	**-1,714**	**-1,557**	**-1,179**	**-1,588**	**-6,037**	**-669**	**12.5**
Goods	**-9,598**	**-2,946**	**-3,357**	**-2,897**	**-3,157**	**-12,357**	**-2,759**	**28.7**
Exports (fob)	**6,400**	**1,614**	**1,708**	**1,828**	**1,970**	**7,121**	**720**	**11.3**
o.w Coffee	238	50	50	88	113	301	63	26.4
Tea	1,189	253	314	347	346	1,261	72	6.0
Horticulture	1,122	255	250	264	257	1,027	-95	-8.5
Oil products	56	17	14	17	19	66	10	17.4
Manufactured Goods	457	130	140	124	167	562	104	22.8
Raw Materials	367	103	120	116	144	483	116	31.5
Chemicals and Related Products	484	147	132	127	157	564	80	16.5
Miscelleneous Man.Articles	644	179	169	163	181	692	47	7.3
Re-exports	630	145	213	220	210	787	157	24.9
Other	1,194	321	345	359	358	1,382	189	15.8
Imports (fob)	**15,999**	**4,561**	**5,065**	**4,724**	**5,128**	**19,478**	**3,479**	**21.7**
o.w Oil	2,574	920	1,061	1,137	1,568	4,685	2,111	82.0
Chemicals	2,835	740	842	906	815	3,303	468	16.5
Manufactured Goods	3,292	967	889	954	937	3,748	455	13.8
Machinery	2,727	2,194	2,275	2,017	1,324	7,810	5,082	186.3
Transport Equipment	1,481	403	672	284	338	1,697	216	14.6
Food	1,641	463	484	433	561	1,941	300	18.3
Other	3,580	1,012	1,004	936	1,221	4,174	594	16.6
Services	**240**	**110**	**520**	**590**	**413**	**1,633**	**1,393**	**581.2**
Transport Services (Net)	**-190**	**-83**	**19**	**20**	**-51**	**-95**	**95**	**-49.9**
Travel Services (Net)	**550**	**181**	**216**	**197**	**242**	**836**	**286**	**52.0**
Other Services (Net)	**-120**	**11**	**286**	**373**	**223**	**892**	**1,012**	**-841.5**
Primary Income (Net)	**-1,406**	**-432**	**-404**	**-478**	**-409**	**-1,723**	**-317**	**22.5**
Secondary Income (Net)	**5,396**	**1,554**	**1,684**	**1,605**	**1,566**	**6,409**	**1,013**	**19**
** 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	2021*	2022*	2021	2022	Region/Country	2021*	2022**	2021	2022
Africa	**1,852**	**2,227**	**11.6**	**11.4**	**Africa**	**2,584**	**2,893**	**40.4**	**40.6**
Of which					*Of which*				
South Africa	401	465	2.5	2.4	Uganda	796.13	794.69	12.4	11.2
Egypt	448	420	2.8	2.2	Tanzania	319.75	483.00	5.0	6.8
Others	1,003	1,343	6.3	6.9	Egypt	185.63	216.11	2.9	3.0
					Sudan	73.27	59.52	1.1	0.8
EAC	**627**	**862**	**3.9**	**4.4**	South Sudan	180.65	184.52	2.8	2.6
COMESA	**1,048**	**1,053**	**6.5**	**5.4**	Somalia	114.30	123.31	1.8	1.7
Rest of the World	**14,146**	**17,250**	**88.4**	**88.6**	DRC	221.54	143.36	3.5	2.0
Of which					Rwanda	249.90	322.91	3.9	4.5
India	1,872	2,571	11.7	13.2	Others	442.94	565.52	6.9	7.9
United Arab Emirates	1,170	2,282	7.3	11.7					
China	3,793	3,769	23.7	19.4	**EAC**	**1,607**	**1,854**	**25.1**	**26.0**
Japan	846	975	5.3	5.0	**COMESA**	**1,818**	**1,934**	**28.4**	**27.2**
USA	580	840	3.6	4.3	**Rest of the World**	**3,816**	**4,228**	**59.6**	**59.4**
United Kingdom	296	302	1.8	1.5	*Of which*				
Singapore	64	97	0.4	0.5	United Kingdom	470.50	412.44	7.4	5.8
Germany	380	341	2.4	1.7	Netherlands	545.38	576.29	8.5	8.1
Saudi Arabia	750	1,218	4.7	6.3	USA	491.52	642.47	7.7	9.0
Indonesia	475	243	3.0	1.3	Pakistan	477.97	520.34	7.5	7.3
Netherlands	507	282	3.2	1.4	United Arab Emirates	292.87	361.06	4.6	5.1
France	214	188	1.3	1.0	Germany	140.55	128.01	2.2	1.8
Bahrain	46	59	0.3	0.3	India	102.30	76.48	1.6	1.1
Italy	232	236	1.5	1.2	Afghanistan	5.70	18.12	0.1	0.3
Oman	220	156	1.4	0.8	Thailand	18.65	28.65	0.3	0.4
Others	2,704	3,694	16.9	19.0	Others	1,271	1,464	19.9	20.6
Total	**15,999**	**19,478**	**100.0**	**100.0**	**Total**	**6,400**	**7,121**	**100.0**	**100.0**
EU	2,352	2,086	14.7	10.7	EU	1,502	1,504	23.5	21.1
China	3,793	3,769	23.7	19.4	China	165	218	2.6	3.1

** Revised **Provisional*

Source: KNBS and CBK

Table 3.5: Balance on the Capital and Financial Account (USD Million)

ITEM	FY 2020/21*	FY 2021/22				FY 2021/22**	FY 2021/22-2020/21	
		Jul-Sep Q1	Oct-Dec Q2	Jan-Mar Q3	Apr-Jun Q4		Absolute Change	Change %
Capital account credit	206	**35**	**19**	**72**	**51**	**176**	**-29**	**-14**
Capital account credit	206	35	19	72	51	176	-29	-14
Capital account: debit	0	0	0	0	0	0	0	0
Financial Account	**-4,817**	**-1,654**	**-1,177**	**-1,004**	**-2,326**	**-6,162**	**-1,345**	**28**
Direct investment: assets	478	1	-7	95	-6	83	-395	-83
Direct investment: liabilities	357	161	195	169	153	678	321	90
Portfolio investment: assets	988	269	262	206	150	887	-101	-10
Portfolio investment: liabilities	1,200	40	-68	25	-89	-92	-1,292	-108
Financial derivatives: net	-51	-10	-14	-10	-5	-38	13	-25
Other investment: assets	965	-286	316	-528	-56	-554	-1,519	-157
Other investment: liabilities	5,640	1,428	1,608	573	2,344	5,953	313	6

** Revised **Provisional*

Source: KNBS and CBK

3.0 DOMESTIC ECONOMY

3.4 Government Budget

Government budgetary operations in the FY2021/22 resulted in a deficit including grants (cash basis) of KSh 777.2 billion (6.1 percent of GDP) compared to KSh 929.3 billion (8.7 percent of GDP) in the previous year. The deficit was below the target level of 8.2 percent of GDP indicating improved revenue collection that supported fiscal consolidation **(Table 3.6 and Chart 3.3).**

Government Revenue

Government revenue (including grants) in FY2021/22 stood at a record KSh 2,177.9 billion (17.2 percent of GDP) compared to KSh 1,815.1 billion during the previous fiscal year. The increase was reflected in all the main categories of ordinary revenue. Tax revenue accounted for 85.4 percent of revenues and increased by 23.7 percent largely reflecting improved business environment, continued economic recovery and the impact of effective adiministrative measures by KRA. Non-tax revenue increased by 4.4 percent. Appropriations-In-Aid increased by 5.5 percent on account of increased appropriations towards development while external grants decreased 17.1 percent due to a decrease in programme and project grants **(Table 3.6)**.

Table 3.6: Statement of Central Government Operations in KSh Billion

		FY 2019/20 Actual	FY 2020/21 Actual	FY 2021/22 Preliminary	Target-Supp II Approved	Over(+) / Below (-) Target	% change FY 2021/22-FY 2020/21	FY 2020/21 % share to GDP	FY 2022/23 Approved Budget
1.	**REVENUE & GRANTS**	**1,756.8**	**1,815.1**	**2,177.9**	**2,254.9**	**-77.0**	**20.0**	**17.2**	**2,474.9**
	Revenue	1,737.0	1,783.7	2,151.9	2,192.0	-40.0	20.6	17.0	2,141.6
	Tax Revenue	1383.9	1,484.8	1,837.2	1,781.4	55.8	23.7	14.5	2,073.4
	Non Tax Revenue	189.5	77.3	80.7	70.1	10.6	4.4	0.6	68.2
	Appropriations-in-Aid	163.6	221.7	234.0	340.4	-106.4	5.5	1.9	320.8
	External Grants	19.8	31.3	26.0	62.9	-37.0	-17.1	0.2	12.5
2.	**EXPENDITURE AND NET LENDING**	**2,565.4**	**2,749.5**	**2,955.0**	**3,286.1**	**-331.0**	**7.5**	**23.4**	**3,337.7**
	Recurrent Expenditure	1,645.2	1,796.6	2,088.1	2,227.3	-139.2	16.2	16.5	2,271.0
	Development Expenditure	594.9	553.9	514.4	657.5	-143.1	-7.1	4.1	655.7
	County Transfers	325.3	399.0	352.5	401.2	-48.7	-11.7	2.8	407.0
	Other					0.0			4.0
3.	**DEFICIT (incl Grants) on a commitment basis (1-2)**	**-808.6**	**-934.4**	**-777.2**	**-1,031.2**	**254.0**	**-16.8**	**-6.1**	**-862.8**
	Deficit (incl Grants) on a commitment basis (% of GDP)	**-7.6**	**-8.7**	**-6.1**	**-8.2**	**2.0**			**-6.2**
4.	**ADJUSTMENT TO CASH BASIS**	**11.8**	**5.1**		**0.0**	**0.0**			**0.0**
5.	**DEFICIT ON A CASH BASIS**	**-796.8**	**-929.3**	**-777.2**	**-1,031.2**	**254.0**	**-16.4**	**-6.1**	**-862.8**
	Deficit on a cash basis (% of GDP)	-7.5	-8.7	-6.1	-8.2	2.0			-6.2
6.	**DISCREPANCY: Expenditure (+) / Revenue (-)**	**6.0**	**-20.9**	**-26.7**	**0.0**	**-26.7**	**27.4**	**-0.2**	**0.0**
7.	**FINANCING**	**790.8**	**950.2**	**750.5**	**1,031.2**	**-280.7**	**-21.0**	**5.9**	**862.9**
	Domestic (Net)	450.4	626.9	608.0	688.1	-80.1	-3.0	4.8	582.2
	External (Net)	340.4	323.3	142.5	343.1	-200.6	-55.9	1.1	280.7
	Capital Receipts (net of restructuring costs)	2.6	0.2	5.1	1.5	3.6		0.0	
	Others	0.0	0.0	0.0	0.0	0.0		0.0	0.0

Source: The National Treasury-Provisional Budget Outturn, June 2022

3.0 DOMESTIC ECONOMY

Expenditure and Net Lending

Government expenditure and net lending increased by 7.5 percent to KSh 2,955.0 billion (23.4 percent of GDP) in FY2021/22 which was below the programmed target. The increase in expenditures mainly reflected a rise in recurrent expenditures that more than offset the declines in development expenditure and transfers to the counties. Recurrent expenditure accounted for 70.7 percent of total government expenditure **(Chart 3.3).**

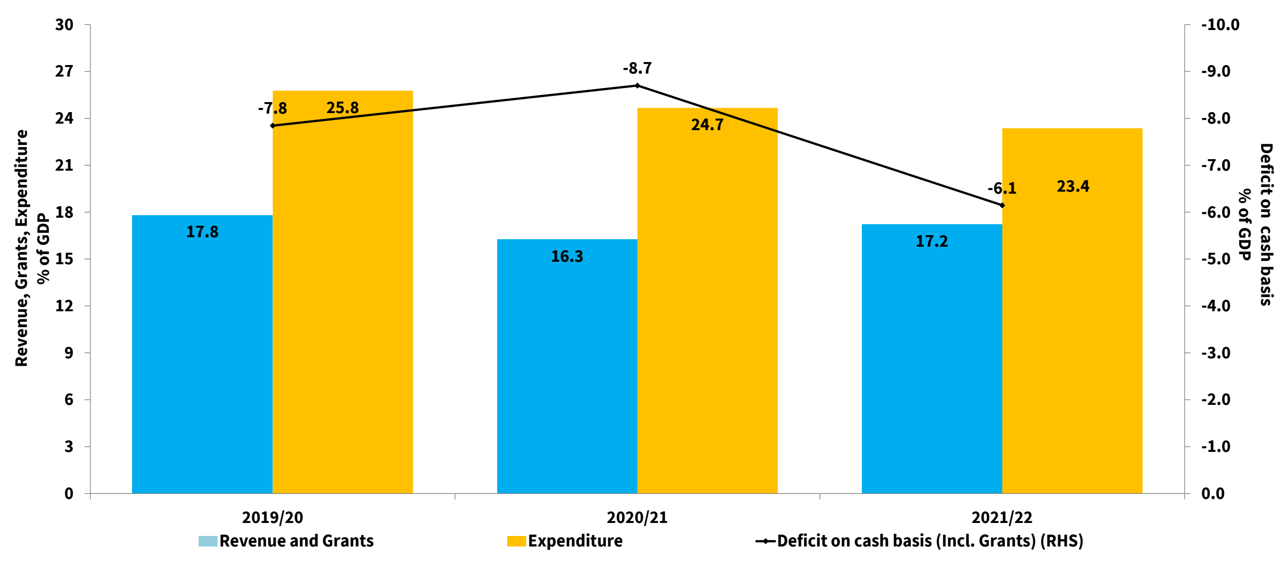
Financing

Net domestic financing during FY2021/22 amounted to KSh 729.6 billion. The borrowing comprised KSh 125.5 billion drawdown of government deposits at the Central Bank, KSh 179.0 billion from Commercial Banks, and KSh 425.80 billion from Non-Banking Financial Institutions and repayment of KSh 0.7 billion to non-residents **(Table 3.7).**

Outlook for FY2022/23

In the budget estimates for FY2022/23, total revenue (including Appropriations-in-Aid and grants) is projected at KSh 2,474.9 billion (17.7 percent of GDP) while Government expenditure and net lending is projected at KSh 3,337.7 billion (23.8 percent of GDP). The overall budget deficit including grants is therefore, projected at KSh 862.8 billion (6.2 percent of GDP) to be financed through net external borrowing of KSh 280.7 billion (2.0 percent of GDP) and net domestic financing of KSh 582.2 billion (4.2 percent of GDP). The Government remains committed to the fiscal consolidation over the medium term.

Chart 3.3: Government Budget Performance



Source: The National Treasury-Provisional Budget Outturn, June 2022

Table 3.7: Domestic Financing (KSh Billion)

		FY2019/20	FY2020/21	FY2021/22
1.	From CBK	49.7	(67.9)	125.5
2.	From commercial banks	235.4	230.8	179.0
3.	From Non-banks	165.8	327.0	425.8
4.	From Non-Residents	5.2	1.2	(0.7)
5.	**Total Net Dom. Credit**	**456.1**	**491.2**	**729.6**
6.	Other Domestic financing /1	(5.7)	135.7	(121.6)
7.	**Net Domestic Financing**	**450.4**	**626.9**	**608.0**

/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

3.5 Public Debt

Kenya's public and publicly guaranteed debt increased by 11.5 percent during the FY2021/22, with both domestic and external debt increasing by 16.0 percent and 7.3 percent, respectively. Public debt profile was balanced and comprised 50 percent each for domestic and external debt, respectively. The ratio of public debt to GDP decreased from 67.7 percent compared to 67.3 percent in June 2021 **(Table 3.8).**

Domestic Debt

The increase in domestic debt was driven by increased uptake of Treasury bonds by 25.2 percent. This brought the ratio of Treasury bonds to Treasury bills to 85:15 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 17.5 percent to KSh 647.6 billion from KSh 784.8 billion in June 2021 **(Table 3.8).**

External Debt

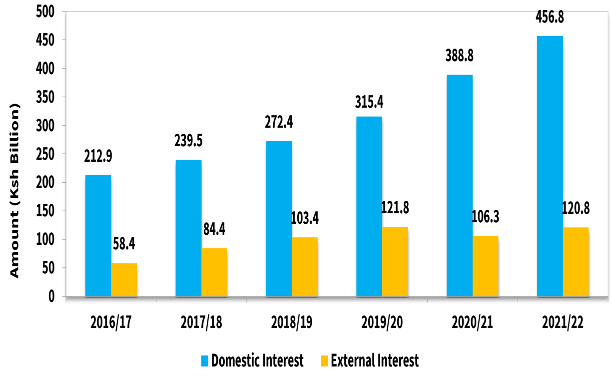
Kenya's public and publicly guaranteed external debt increased by 7.3 percent to KSh 4,290.7 billion **(Table 3.8).** This growth was primarily on account of disbursements of concessional funding from the African Development Bank (AfDB) and the International Monetary Fund (IMF) as well as exchange rate 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 commercial creditors decreased by 2.4 percentage points. 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 17.2 percent and 13.6 percent respectively during the FY2021/22 **(Chart 3.4).** Total external debt service increased by US dollars 453.5 million during the FY2021/22 from US dollars 2,137.9 million in the previous FY **(Chart 3.5).**

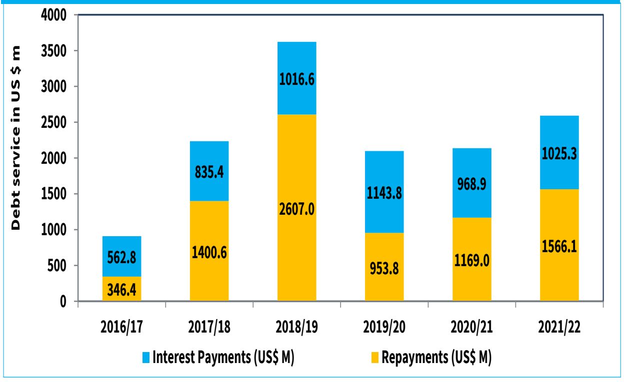
3.0 DOMESTIC ECONOMY

Chart 3.4: Interest Payments (KSh Billion)



Source: The National Treasury

Chart 3.5: External Debt Service



Source: The National Treasury and CBK

Table 3.8: Public Debt

	June 2018		June 2019		June 2020		June 2021		June 2022*	
	KSh bn	%	KSh bn	%	KSh bn	%	KSh bn	%	KSh bn	%
DOMESTIC DEBT										
Securitised debt	**2,413.8**	**97.4**	**2,723.5**	**97.8**	**3,127.1**	**98.4**	**3,634.7**	**98.3**	**4,216.7**	**98.3**
Treasury Bills	901.9	36.4	975.3	35.0	907.7	28.6	784.8	21.2	647.6	15.1
Of which Repo Treasury bills	23.3	0.9	21.1	0.8	20.5	0.6	19.4	0.5	18.8	0.4
Treasury Bonds	1,511.9	61.0	1,748.1	62.8	2,219.4	69.9	2,849.9	77.1	3,569.1	83.2
Non Securitised debt	**65.0**	**2.6**	**62.0**	**2.2**	**50.4**	**1.6**	**63.0**	**1.7**	**71.6**	**1.7**
Overdraft at CBK	56.8	2.3	57.3	2.1	47.1	1.5	59.3	1.6	58.5	1.4
others	8.1	0.3	4.7	0.2	3.3	0.1	3.3	0.1	13.1	0.3
TOTAL DOMESTIC DEBT	**2,478.8**	**100.0**	**2,785.5**	**100.0**	**3,177.0**	**100.0**	**3,697.7**	**100.0**	**4,288.3**	**100.0**
(as a % of GDP)	27.8		28.6		29.9		32.5		33.6	
(as a % of Total Debt)	49.2		48.0		47.5		48.0		50.0	
EXTERNAL DEBT										
Bilateral	816.1	31.9	996.1	32.9	1,074.3	30.6	1,140.5	28.5	1,173.2	27.3
Multilateral	821.0	32.1	914.4	30.2	1,321.6	37.6	1,659.4	41.5	1,924.0	44.8
Comm. Banks	906.4	35.4	1,095.8	36.2	1,102.3	31.4	1,187.4	29.7	1,181.3	27.5
Export Credit	16.7	0.7	16.9	0.6	17.6	0.5	12.2	0.3	12.2	0.3
TOTAL EXTERNAL DEBT	**2,560.2**	**100.0**	**3,023.1**	**100.0**	**3,515.8**	**100.0**	**3,999.5**	**100.0**	**4,290.7**	**100.0**
(as a % of GDP)	28.7		31.0		33.1		35.2		33.6	
(as a % of Total Debt)	50.8		52.0		52.5		52.0		50.0	
TOTAL PUBLIC DEBT	**5,039.0**		**5,808.6**		**6,692.8**		**7,697.3**		**8,579.1**	
(as a % of GDP)	56.5		59.6		63.0		67.7		67.3	
** Provisional*										

Source: The National Treasury and CBK

4.0 REGIONAL INTEGRATION DEVELOPMENTS

4.0 REGIONAL INTEGRATION DEVELOPMENTS

Background

During the FY2021/22, 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 systems. The aim of these integration efforts is increased intra-regional trade, higher economic growth rates of partner states and the promotion at the regional peace.

Kenya's progress in meeting the regional intergration targets is highlighted below.

The EAC Monetary Cooperation Programme

During the year, Kenya chaired the EAC and therefore the CBK chaired the Monetary Affairs Committee (MAC), which comprises Partner States Central Bank Governors. The 25th Ordinary Meeting of the MAC was held virtually on March 4, 2022. During the year, the Committee made progress towards the establishment of the East African Monetary Union (EAMU).

The Committee noted progress made in cross-border payment systems and agreed on continuing interoperability initiatives at the national level, enhancing the East African Payment System (EAPS), while engaging other stakeholders at the continental level on further integration of cross-border payment systems.

In preparation for the EAMU, the EAC Partner States agreed to attain and maintain for at least three consecutive years four macroeconomic convergence criteria **(Table 4.1).**

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

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

Source: CBK

The MAC also noted progress in attaining the macroeconomic convergence criteria and highlighted the areas that were lagging behind.

In FY2021/22, Kenya met the EAMU Convergence criteria on inflation and foreign exchange reserves. However, the country did not meet the criteria on the fiscal deficit and gross national debt because of increased public spending to mitigate the adverse impact of COVID-19, reduced tax revenue due to the pandemic, and continued public investment in physical infrastructure.

A significant development during the year was the admission of the Democratic Republic of Congo (DRC) into the EAC on July 11, 2022. The admission of the DRC as the seventh member—joining Burundi, Kenya, Rwanda, South Sudan, Tanzania, and Uganda—expands the market size of the EAC and offers a path between the Indian and Atlantic oceans for trade and cultural integration, as well as new investment and employment opportunities for a dynamic population of about 300 million. The uniting of the seven members provides a clear path to shared prosperity and a common destiny.

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 by the year 2025. 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 FY2021/22, Kenya met the COMESA Convergence Criteria on inflation, central bank financing of the budget, foreign reserves, exchange rate variability, and Government capital investment. However, challenges remain in attaining the criteria on the fiscal deficit, tax revenue and Government debt especially given the expenditure pressures arising from COVID-19 interventions during the year.

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).** During the year under review, Kenya met the criteria on inflation, central bank financing of the budget, foreign reserves and exchange rate variability.

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 FY2021/22 was aimed at maintaining inflation at the target of 5.0 percent with a flexible margin of 2.5 percent on either side. Additionally, it aimed at supporting the economic recovery from the effects of COVID-19 (coronavirus) pandemic. As a result, the Monetary Policy Committee (MPC) maintained an accommodative monetary policy stance during most of the year and only tightened from May 2022 to anchor inflationary expectations arising from the elevated global commodity prices and supply chain disruptions arising out of the COVID-19 pandemic impact and Ukraine conflict. The MPC held six bi-monthly meetings between July 2021 and June 2022. During the first five meetings, the MPC retained the Central Bank Rate (CBR) at 7.00 percent noting that the accommodative monetary policy stance remained appropriate as inflation expectations were well anchored within target range. In the May meeting, the MPC raised the CBR from 7.00 percent to 7.50 percent.

Overall inflation remained within the target range in the year, except in June 2022 when it surpassed the target, mainly due to increased food and fuel prices, reflecting the poor rainfall, supply chain disruptions, and the rise in international oil prices. Nevertheless, the non-food-non-fuel inflation remained below 5.0 percent, indicating muted demand pressures in the economy.

Table 5.1: Monetary Aggregates

		End Period Level (KSh Billion)			Annual Growth Rate (Percent)			Annual Absolute Change (KSh Billion)		
		FY 2019/20	FY 2020/21	FY 2021/22	FY 2019/20	FY 2020/21	FY 2021/22	FY 2019/20	FY 2020/21	FY 2021/22
Components of M3										
1.	**Money supply, M1 (1.1+1.2+1.3)**	**1,692.9**	**1,779.2**	**1,903.2**	**7.5**	**5.1**	**7.0**	**117.4**	**86.3**	**124.0**
	1.1 Currency outside banks	210.9	225.9	251.6	7.1	7.1	11.4	13.9	15.0	25.7
	1.2 Demand deposits	1,350.0	1,409.9	1,552.2	11.3	4.4	10.1	137.2	60.0	142.3
	1.3 Other deposits at CBK 1/	132.2	143.5	99.6	-20.3	8.5	-30.5	-33.6	11.3	-43.8
2.	**Money supply, M2 (1+2.1)**	**3,227.6**	**3,377.5**	**3,547.9**	**9.6**	**4.6**	**5.0**	**283.9**	**149.9**	**170.4**
	2.1 Time and saving deposits	1,534.7	1,598.2	1,644.7	12.2	4.1	2.9	166.5	63.5	46.4
3.	**Money supply, M3 (2+3.1)**	**3,890.0**	**4,137.8**	**4,439.4**	**9.1**	**6.4**	**7.3**	**325.8**	**247.8**	**301.5**
	3.1 Foreign Currency Deposits	662.4	760.3	891.5	6.7	14.8	17.3	41.9	98.0	131.2
Sources of M3										
1.	**Net foreign assets 2/**	**886.0**	**783.8**	**453.2**	**-5.7**	**-11.5**	**-42.2**	**-54.0**	**-102.2**	**-330.6**
	Central Bank	918.1	835.8	637.9	-2.4	-9.0	-23.7	-22.9	-82.3	-197.9
	Banking Institutions	-32.1	-52.0	-184.7	-2,855.8	-61.9	-254.9	-31.1	-19.9	-132.6
2.	**Net domestic assets (2.1+2.2)**	**3,004.0**	**3,354.0**	**3,986.1**	**14.5**	**11.7**	**18.8**	**379.7**	**350.0**	**632.1**
	2.1 Domestic credit	3,930.3	4,445.8	5,196.7	12.6	13.1	16.9	440.3	515.5	750.9
	2.1.1 Government (net)	1,148.7	1,460.2	1,855.7	29.0	27.1	27.1	258.1	311.6	395.5
	2.1.2 Private sector	2,693.2	2,901.1	3,256.9	7.6	7.7	12.3	190.2	207.9	355.7
	2.1.3 Other public sector	88.4	84.4	84.1	-8.3	-4.5	-0.4	-8.0	-4.0	-0.3
	2.2 Other assets net	-926.2	-1,091.8	-1,210.6	-7.0	-17.9	-10.9	-60.6	-165.5	-118.8
Memorandum items										
4.	**Overall liquidity, L (3+4.1)**	**5,367.7**	**5,899.5**	**6,626.2**	**11.4**	**9.9**	**12.3**	**550.2**	**531.8**	**726.7**
	4.1 Non-bank holdings of government securities	1,477.7	1,761.7	2,186.8	17.9	19.2	24.1	224.4	284.0	425.1

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 7.3 percent in FY2021/22 from 6.4 percent in FY2020/21, mainly supported by an increase in lending to the private sector and net lending to government. However, the net foreign assets of the banking system declined, moderating the growth in money supply. 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 increased to 16.9 percent in FY2021/22 from 13.1 percent in FY2020/21, supported by resilient growth in private sector credit. Growth in private sector credit increased to 12.3 percent in FY2021/22 from 7.7 percent in FY2020/21, supported by increased credit demand arising from recovery in economic activities. Strong lending was recorded in manufacturing, transport and communication, trade, business services, building and construction, and consumer durables **(Table 5.2).** Growth in net lending to government remained largely unchanged at 27.1 percent, partly reflecting reduced government deposits at the CBK. Meanwhile, net credit to other public sector declined due to repayments by county governments.

Reserve Money

Growth in reserve money increased to 16.0 percent in FY 2021/22 from 5.4 percent in FY2020/21, mainly driven by net domestic assets following increased net lending to government. The increase in net lending to government partly resulted from drawdown of government deposits at Central Bank. However, growth in net foreign assets declined, mainly reflecting scheduled government debt service. On the liability side, the increase in reserve money was largely in bank reserves **(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)		
		2019/20	2020/21	2021/22	2019/20	2020/21	2021/22	2019/20	2020/21	2021/22
1.	**Credit to Government**	**1,148.7**	**1,460.2**	**1,855.7**	**29.0**	**27.1**	**27.1**	**258.1**	**311.6**	**395.5**
	Central Bank	-62.8	-50.3	159.3	-66.9	-19.9	-416.9	126.9	12.5	209.6
	Commercial Banks & NBFIs	1,211.5	1,510.5	1,696.4	12.2	24.7	12.3	131.3	299.0	185.9
2.	**Credit to other public sector**	**88.4**	**84.4**	**84.1**	**-8.3**	**-4.5**	**-0.4**	**-8.0**	**-4.0**	**-0.3**
	Local government	4.4	6.6	5.8	16.8	51.2	-12.4	0.6	2.3	-0.8
	Parastatals	84.0	77.8	78.3	-9.4	-7.4	0.7	-8.7	-6.2	0.5
3.	**Credit to private sector**	**2,693.2**	**2,901.1**	**3,256.9**	**7.6**	**7.7**	**12.3**	**190.2**	**207.9**	**355.7**
	Agriculture	88.1	91.3	102.8	2.2	3.7	12.5	1.9	3.2	11.5
	Manufacturing	397.2	429.4	494.6	11.1	8.1	15.2	39.6	32.2	65.1
	Trade	489.2	498.8	556.8	9.4	1.9	11.6	42.1	9.5	58.0
	Building and construction	114.2	116.5	132.8	4.6	2.0	13.9	5.1	2.3	16.2
	Transport & communications	200.7	224.4	274.1	14.9	11.8	22.2	26.0	23.7	49.7
	Finance & insurance	95.8	106.8	113.7	3.2	11.5	6.5	3.0	11.0	6.9
	Real estate	395.8	411.8	414.0	4.9	4.0	0.5	18.3	16.0	2.2
	Mining and quarrying	14.6	12.7	16.3	10.0	-13.0	28.5	1.3	-1.9	3.6
	Private households	443.3	457.7	485.6	3.2	3.2	6.1	13.7	14.4	27.9
	Consumer durables	253.5	312.7	358.5	15.2	23.4	14.7	33.4	59.2	45.9
	Business services	154.4	162.4	187.1	5.3	5.2	15.2	7.8	8.0	24.7
	Other activities	46.4	76.7	120.6	-3.7	65.2	57.2	-1.8	30.3	43.9
4.	**Overall**	**3,930.3**	**4,445.8**	**5,196.7**	**12.6**	**13.1**	**16.9**	**440.3**	**515.5**	**750.9**

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)		
		2019/20	2020/21	2021/22	2019/20	2020/21	2021/22	2019/20	2020/21	2021/22
1.	**Net Foreign Assets**	**918.1**	**835.8**	**637.9**	**-2.4**	**-9.0**	**-23.7**	**-22.9**	**-82.3**	**-197.9**
2.	**Net Domestic Assets**	**-491.2**	**-386.0**	**-116.1**	**2.0**	**21.4**	**69.9**	**10.0**	**105.2**	**269.9**
	2.1 Government Borrowing (net)	-62.8	-50.3	159.3	66.9	19.9	416.9	126.9	12.5	209.6
	2.2 Commercial banks (net)	-131.0	-6.1	61.5	514.2	95.3	1107.0	-109.7	124.9	67.7
	2.3 Other Domestic Assets (net)	-300.7	-332.8	-340.7	-2.4	-10.7	-2.4	-7.1	-32.1	-7.9
3.	**Reserve Money**	**426.9**	**449.8**	**521.8**	**-2.9**	**5.4**	**16.0**	**-12.9**	**22.9**	**72.0**
	3.1 Currency outside banks	210.9	225.9	251.6	7.1	7.1	11.4	13.9	15.0	25.7
	3.2 Bank reserves	216.0	223.9	270.2	-11.0	3.6	20.7	-26.8	7.9	46.3
	3.2.1 Required Reserves	153.5	167.0	181.0	-12.2	8.8	8.4	-21.4	13.5	14.0
	3.2.2 Cash in Till	46.9	51.2	53.9	-10.7	9.2	5.3	-5.6	4.3	2.7
	3.2.3 Excess Reserves	15.5	5.6	35.3	1.6	-63.7	524.9	0.2	-9.9	29.6

Source: CBK

5.2 Interest Rates

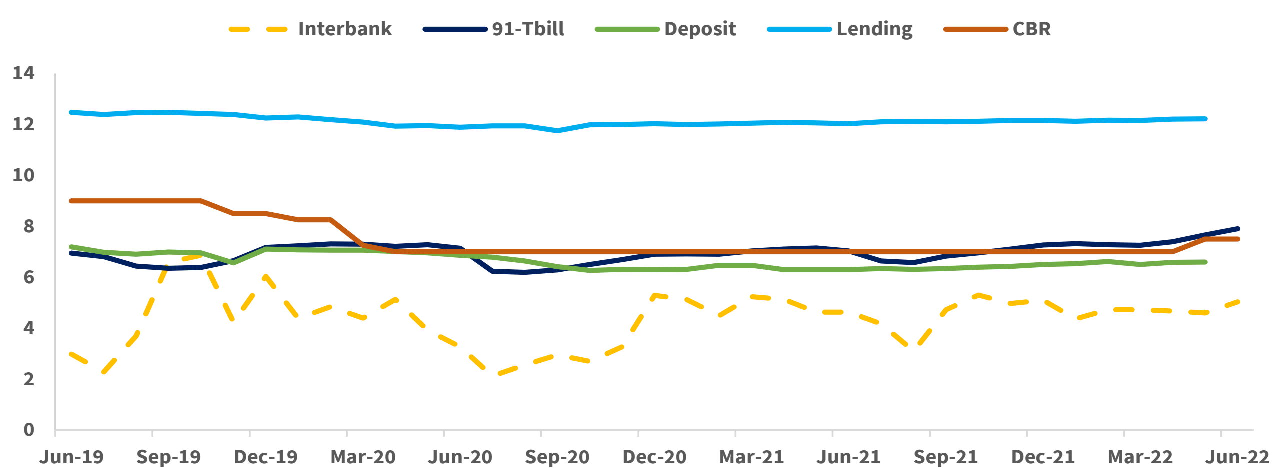
Short Term Rates

Short term interest rates remained generally stable, with only marginal increases, during the FY2021/22, reflecting an accommodative monetary policy stance and liquidity conditions in the market **(Chart 5.1).** The average interbank interest rate was 4.62 percent in FY2021/22 compared with an average of 4.01 percent in FY2020/21. The average 91-day Treasury bill rate increased to 7.18 percent from 6.74 percent, while the average 182-day Treasury bill rate increased to 7.89 percent from 7.31 percent.

Commercial Bank Rates

Commercial banks average lending rate also remained relatively stable at about 12.1 percent in the FY2021/22 compared with 12.0 percent in the previous financial year, reflecting an accommodative monetary policy stance. Similarly, the average commercial banks deposit rate was relatively stable at 6.47 percent compared to 6.41 percent in the previous financial year.

Chart 5.1: Interest Rates (Percent)



Source: CBK

5.0 CENTRAL BANK OPERATIONS

5.3 Foreign Exchange Operations and Reserves Management

Exchange Rate

The Kenya foreign exchange market remained resilient in the FY2021/22 as the economy fully reopened following the Covid-19 related closures. The foreign exchange market was supported by supply from the agricultural and financial sectors while demand was driven by economic activity which picked-up mainly in the manufacturing, wholesale and retail sectors. The resilience of the foreign exchange market cushioned the currency against rising commodity prices and a slowdown in global growth following Russia's invasion of Ukraine. Nonetheless, the Kenya shilling weakened gradually in the period – standing at 109.12 against the USD in the first quarter of the FY2021/22, 111.88 and 113.74 in quarter two and three respectively to close at 116.27 in the fourth quarter **(Table 5.4).**

Table 5.4: Kenya Shilling Exchange Rates

	Average Annual			FY2021/22				Annual Average 2021/22	% change 2021/22_2020/21
	2018/19	2019/20	2020/21	Jul-Sep Q1	Oct-Dec Q2	Jan-Mar Q3	Apr-Jun Q4		
US Dollar	101.16	103.58	108.74	109.12	111.88	113.74	116.27	112.75	3.7
Pound Sterling	130.94	130.51	146.44	150.33	150.80	152.49	146.02	149.91	2.4
Euro	115.44	114.49	129.72	128.57	127.83	127.53	123.76	126.92	-2.2
100 Japanese Yen	91.09	95.03	102.18	99.11	98.36	97.78	89.60	96.21	-5.8
South Africa Rand	7.14	6.66	7.08	7.46	7.25	7.48	7.46	7.41	4.7
Uganda Shilling*	36.94	35.87	33.66	32.34	31.73	31.08	31.21	31.59	-6.1
Tanzania Shilling*	22.76	22.26	21.36	21.16	20.51	20.26	19.93	20.47	-4.2
Rwanda Franc*	8.82	9.05	9.06	9.21	9.09	8.94	8.68	8.98	-0.9
Burundi Franc*	17.76	18.07	17.88	18.00	17.69	17.52	17.26	17.61	-1.5

* Units of currency per Kenya Shilling

Source: CBK

The Kenya Shilling recorded a 3.7 percent depreciation for the FY2021/22 against the US Dollar, although it gained 2.2 percent against the Euro. Among regional currencies, the local unit weakened 6.1 percent, 4.7 percent, 4.2 percent and 0.9 percent against the Ugandan shilling, South African rand, Tanzanian shilling and Rwandan Franc respectively.

Foreign Reserves

The official foreign Exchange Reserves in the FY2021/22 remained above the statutory requirement of 4.0 months of import cover **(Table 5.5)** and the EAC foreign exchange reserves convergence criterion of 4.5 months of import cover. This position continued to provide a buffer against short-term shocks in the foreign exchange market. As at the end of June 2022, official foreign exchange reserves stood at USD 8,495 million (4.9 months of import cover) compared to USD 9,957 million at end of June 2021 (6.1 months of import cover).

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

USD Million (End of Period)	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
1. Gross Reserves	14,741	14,196	13,762	14,089	14,029	13,503	14,199	13,093	13,079	12,590	13,198	12,716	12,581
of which:													
Official	9,957	9,652	9,152	9,632	9,450	9,306	9,491	8,913	8,669	8,432	9,033	8,788	8,495
import cover*	6.1	5.9	5.6	5.9	5.7	5.6	5.6	5.3	5.1	4.9	5.2	5.1	4.9
Commercial Banks	4,784	4,545	4,610	4,457	4,579	4,197	4,708	4,180	4,411	4,158	4,165	3,928	4,086
2. Residents' foreign currency deposits	7,223	7,169	7,208	7,144	7,137	7,269	7,277	7,171	7,275	7,311	7,462	7,419	7,798

*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, 2022, the Kenyan banking industry comprised 38 commercial banks, 1 mortgage finance company, 1 mortgage refinance company, 14 microfinance banks, 9 representative offices of foreign banks, 68 foreign exchange bureaus, 17 money remittance providers and 3 credit reference bureaus.

Acquisitions

The following institutional changes took place during the year:

- Wakanda Network Limited (of United Kingdom) acquired 85 percent shareholding of Choice Microfinance Bank Limited effective October 22, 2021, as per Section 19 (4) of the Microfinance Act. This was approved by the Cabinet Secretary for the National Treasury and Planning on October 5, 2021, pursuant to Section 19(3)(b) of the Microfinance Act.
- LOLC Mauritius Holdings Limited (LOLC Mauritius) acquired 73 percent shareholding of Key Microfinance Bank PLC (Key MFB) effective January 1, 2022, as per Section 19 (4) of the Microfinance Act. This was approved by the Cabinet Secretary for the National Treasury and Planning on January 7, 2022, pursuant to Section 19(3)(b) of the Microfinance Act.
- Branch International Limited acquired 84.89 percent shareholding of Century Microfinance Bank Limited (Century MFB), effective January 1, 2022, as per Section 19 (4) of the Microfinance Act. This was approved by the Cabinet Secretary for the National Treasury and Planning on January 7, 2022, pursuant to Section 19(3)(b) of the Microfinance Act.

Financial Position and Performance of the Industry

Structure of the Balance Sheet

The industry balance sheet expanded by 10.0 percent in the year to June 30, 2022 on account of increased loans and advances and investment in government securities. The two asset categories accounted for 82.0 percent of the banking sector assets. Customer deposits accounted for 73.9 percent of the banking sector liabilities **(Table 5.6).**

Gross Loans and Advances increased by 12.3 percent from KSh 3.1 trillion in June 2021 to KSh 3.5 trillion in June 2022 driven by growth in four sectors: Personal/ Household (KSh 93.4 billion), Tourism , Restaurant & Hotels (KSh 56.5 billion), Mining & Quarrying (KSh 28.1 billion), Transport and Communication (KSh 26.2 billion), Agriculture (KSh 78.0 billion) and Building & Construction (KSh 55.2 billion) **(Table 5.7).**

Capital Adequacy - In June 2022, core capital and total capital to total risk weighted assets ratios were 16.1 percent and 19.0 percent, respectively, above the statutory minimum ratios of 10.5 percent and 14.5 percent, respectively. Similarly, core capital to total deposits ratio was 16.7 percent in June 2022 compared to 16.8 percent in June 2021, which were above the statutory minimum of 8.0 percent.

5.0 CENTRAL BANK OPERATIONS

Asset Quality deteriorated with the gross non-performing loans (NPLs) to gross loans ratio increasing from 14.0 percent in June 2021 to 14.7 percent in June 2022 largely due to a challenging operating environment. Increases in NPLs were recorded in four sectors: Manufacturing (KSh 25.6 billion), Trade (KSh 12.4 billion), Real Estate (KSh 11.2 billion), and Building and Construction (KSh 9.8 billion) **(Table 5.8).**

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

Sectors	Jun-21	Jun-22	Absolute Change	% Change
Cash	64,331.4	69,925.5	5,594.1	8.7
Balances at CBK	246,815.8	240,798.5	-6,017.3	- 2.4
Placements	384,920.6	336,450.0	-48,470.6	-12.6
Government Securities	1,761,210.1	1,949,614.5	188,404.4	10.7
Other Investments	57,341.2	55,466.9	-1,874.3	- 3.3
Loans & Advances (Net)	2,798,241.2	3,174,257.8	376,016.6	13.4
Other Assets	367,128.0	423,175.9	56,047.9	15.3
Total Assets	5,679,988.4	6,249,689.2	569,700.8	10.0
Customer Deposits	4,249,410.1	4,616,291.8	366,881.7	8.6
Other Liabilities	579,789.9	740,365.0	160,575.1	27.7
Capital & Reserves	850,788.3	893,032.4	42,244.1	5.0
Total Liabilities and Shareholder's Funds	5,679,988.4	6,249,689.2	569,700.8	10.0

Source: CBK

Liquidity position remains strong with the overall liquidity ratio in June 2022 standing at 52.5 percent compared to 57.0 percent in June 2021, which were above the minimum statutory level of 20 percent.

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

Sectors	Jun-21	Jun- 22	Absolute Change	% Change
Financial Services	97.3	125.3	28.1	28.8
Transport and Communication	236.5	293.0	56.5	23.9
Energy and Water	114.6	140.7	26.2	22.8
Mining and Quarrying	22.6	27.3	4.7	21.0
Trade	537.7	631.0	93.4	17.4
Building and Construction	125.2	141.8	16.6	13.3
Manufacturing	439.2	494.4	55.2	12.6
Personal and Household	877.2	955.2	78.0	8.9
Tourism, Restaurant and Hotels	105.5	113.3	7.8	7.4
Real Estate	448.0	466.8	18.8	4.2
Agriculture	106.4	104.0	-2.5	-2.3
Total	3,110.1	3,493.8	382.7	12.3

Source: CBK

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

Sectors	Jun-21	Jun-22	Absolute Change	% Change
Energy and Water	13.6	21.7	8.1	59.8
Manufacturing	63.8	89.4	25.6	40.2
Tourism, Restaurant and Hotels	15.3	20.9	5.6	36.6
Agriculture	19.5	26.3	6.9	35.3
Building and Construction	31.7	41.5	9.8	31.0
Real Estate	68.2	79.4	11.2	16.4
Trade	97.4	109.8	12.4	12.8
Transport and Communication	44.8	49.2	4.4	9.8
Personal and Household	71.7	68.7	- 3.0	- 4.2
Mining and Quarrying	2.8	2.2	- 0.5	- 19.2
Financial Services	6.6	5.3	- 1.4	- 20.7
Total	435.3	514.4	79.1	18.2

Source: CBK

Profitability - The annual profit before tax increased by 46.2 percent to KSh 218.1 billion in the year ended June 2022, from KSh 149.2 billion in the year ended June 2021. This was driven by KSh 72.7 billion increase in income compared to KSh 3.8 billion increase in expenses. The increase in income is attributed to KSh 33.2 billion and KSh 26.6 billion increase in interest from advances and government securities respectively. Expenses increased by 0.9 percent to KSh 451.0 billion in June 2022, from KSh 447.2 billion in June 2021. The lower increase in expenses is mainly attributed to a KSh 32.6 billion decrease in bad debts charge.

Other Banking Industry Developments

Performance of Microfinance Banks

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

Total assets decreased to KSh 72.8 billion in June 2022 from KSh 76.0 billion in June 2021. The decrease is mainly due to decrease in loans and advances from KSh 49.4 billion in June 2021 to KSh 45.2 billion in June 2022.

Asset Quality deteriorated with gross NPLs increasing to KSh 14.7 billion in June 2022 from KSh 12.3 billion in June 2021. Consequently, the gross NPLs to gross loans ratio increased to 32.5 percent in June 2022 from 25.0 percent in June 2021.

Customer deposits decreased by 5.5 percent to KSh 48.0 billion in June 2022 from KSh 50.8 billion in June 2021.

Capital Adequacy - core capital to risk weighted assets ratio increased to 14.3 percent in June 2022 from 10.5 percent in June 2021. Similarly, total capital to total risk weighted assets increased to 17.5 percent in June 2022 from 14.3 percent in June 2021. The ratios were above the minimum requirements of 10 percent and 12 percent respectively.

Profitability improved with total loss before tax decreasing from KSh 2.4 billion in the year to June 2021 to a loss of KSh 334.9 million recorded in the year to June 2022.

Agency Banking

As at June 2022, 21 commercial banks and 3 microfinance banks had contracted 78,824 and 908 agents respectively since the inception of agency banking in 2010. The number of transactions via agents cumulatively increased from 975.5 million in June 2021 to 1.1 billion in June 2022. Similarly, the value of transactions increased cumulatively from KSh 7.3 trillion in June 2021 to KSh 9.0 trillion in June 2022.

Legal and Regulatory Developments

Regulation of Digital Credit Providers

The Central Bank of Kenya (Amendment) Act, 2021, became effective on December 23, 2021. The Amendment granted CBK the power to license and oversight the previously unregulated digital credit providers (DCPs). Following the Amendment, CBK issued the DCPs Regulations, 2022, that were gazetted and operationalised on March 18, 2022. On May 18, 2022, the National Assembly's Committee on Delegated Legislation approved the DCPs Regulations. Under the Regulations, the previously unregulated DCPs have up to September 17, 2022, to apply to CBK for licences or cease operations.

Guidance on Climate-Related Risk Management

CBK issued Guidance on Climate-Related Risk Management (Guidance) to commercial banks and mortgage finance companies on October 15, 2021. This was meant to guide banks on how to integrate climate-related risks into their overall risk management frameworks. Following the issuance of the Guidance, commercial banks and mortgage finance company had submitted their board approved implementation plans to CBK for review as at end of June 2022.

Measures to Mitigate the Impact of COVID-19 Pandemic

In 2020, CBK instituted measures to mitigate the adverse economic effects and financial disruptions from the pandemic. The measures have since expired. However, CBK continues to monitor the impact of the COVID-19 pandemic following expiry of the emergency measures.

To cushion Micro, Small and Medium Enterprises, as the economy recovers from the COVID-19 pandemic, CBK announced the suspension of the listing of negative credit information for borrowers with loans below KSh 5 million on November 8, 2021 for 12 months. This measure applied to loans, which were performing but became non-performing from October 1, 2021. This followed the publication of Legal Notice No. 225 of November 5, 2021, by the Cabinet Secretary for the National Treasury and Planning, on recommendation of CBK, pursuant to Regulation 18(7) of the Banking (Credit Reference Bureau) Regulations, 2020.

5.0 CENTRAL BANK OPERATIONS

Banking Sector Outlook

The banking industry is expected to remain stable and resilient as it utilises opportunities from emerging innovations and technologies and minimises the attendant risks. Credit risk is expected to remain elevated in the short to medium term. Operational risk is also expected to remain elevated particularly with increased digitalisation of the sector.

5.5 Developments in Currency Operations

Currency in Circulation

Currency in circulation increased by KSh 28.22 billion, an increase of 10.2% compared to an increase of 7.5% in the previous financial year. **Table 5.9** provides the detailed composition of currency in circulation:

Table 5.9: Composition of Currency in Circulation

	Jun-21	Jun-22	
	KSh Billion	KSh Billion	Growth (%)
Coins	9.75	10.15	4.10
Banknotes	267.39	295.21	10.40
Total Currency in Circulation	277.14	305.36	10.18

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 564.50 billion while outflows were KSh 592.675 billion for the same period. Compared to the previous year, both the deposits and withdrawals were lower by 2.22% and 0.68% respectively **(Table 5.10).**

Table 5.10: Inflows and Outflows of Currency in Circulation

Inflow (Deposits)	2020/2021	2021/2022
	KSh Billion	KSh Billion
Banknotes	577.198	564.386
Coins	0.151	0.114
Total Inflows	**577.350**	**564.500**
Outflow (Withdrawals)		
Banknotes	(596.230)	(592.161)
Coins	(0.473)	(0.514)
Total Outflows	**(596.704)**	**(592.675)**
Net Outflows	**(19.354)**	**(28.175)**

Source: CBK

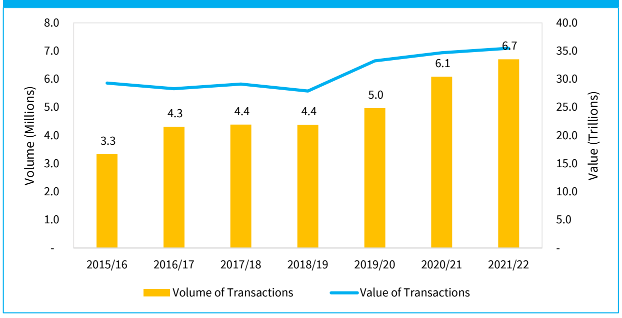
5.6 Banking and Payments Services

In the FY2021/2022, CBK finalised and launched the National Payments Strategy 2022-2025 with the objective of providing a framework to guide the provision of current and future payment services anchored on the Vision Statement – a secure, fast, efficient, and collaborative payments system that supports financial inclusion and innovations that benefit Kenyans.

New Generation KEPSS platform

The New Generation Kenya Electronic Payment and Settlement System continues to record increased activity in both the volume and value of transactions. In the FY2020/21, the system processed 6.1 million transaction messages valued at KSh 34.7 trillion compared to 6.7 million transaction messages valued at KSh 35.5 trillion in the FY2021/22.

Chart 5.2: Volume and Value of KEPSS Transactions



Source: CBK

5.0 CENTRAL BANK OPERATIONS

Regional Payment Developments

In the last few years, cross border regional payment systems operated by CBK including the East African Payment system (EAPS) and the COMESA, Regional Electronic Payment and Settlement System (REPSS) have witnessed growth in volume and value of payment transactions processed through them. However, due to challenges associated with the effects of COVID-19 pandemic control measures, cross-border trade activities were negatively impacted during the period 2020/2021. EAPS recorded increased activity in the year 2021 in both volume and value terms, recording a volume of 33,942 transactions, valued at USD 599 million, compared to a volume of 28,875 transactions valued at USD 459 million in 2020. This may be attributable to the easing of COVID-19 pandemic restrictions by the government in 2021.

To enhance management of risks associated with Anti-Money Laundering/Combating the Financing of Terrorism, EAPS Participation Agreement and the Memorandum of Understanding on Currency Convertibility were amended in 2021 to beef up AML/CFT provisions to mitigate against illicit financial flows in the EAC region.

Automated Clearing House (ACH) and SWIFT

The ACH facilitates the exchange of cheques and Electronic Funds Transfers (EFTs) between bank customers. Participation in the ACH is open to commercial banks and microfinance banks that are licensed under the Banking Act. In line with global trends, CBK is supporting efforts by the Kenya Bankers Association (KBA) and other ACH stakeholders to upgrade its clearing operations to the International Organisation for Standardisation (ISO) 20022 messaging standards. The upgrade will enable customers to enjoy significant benefits such as increased efficiency arising from Straight-through-Processing (STP) of transactions, inclusion of more payment information in payment transactions, and interoperability with other systems that are ISO 20022 compliant.

The CBK has engaged Society for Worldwide Interbank Financial Telecommunication (SWIFT) in a bid to migrate Kenya's market infrastructure to ISO 20022 standards. This engagement will ensure that the Bank and the Kenyan community transition to ISO 20022 standards smoothly as Kenya Electronic Payment and Settlement System (KEPSS) aligns to global norms and practices.

Authorisation of Payment Service Providers

In the FY2021/22, CBK granted Authorisation Certificates to seven (7) Payment Service Providers (PSPs) including Viewtech Limited, Fivespot Kenya Limited, Cellulant Kenya Limited, Finserve Africa Limited, Airtel Money Kenya Limited, Webtribe Limited and Kenya Airports Parking Services (KAPS) Limited. This brings the total number of authorised PSPs to thirteen, 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

During the year under review, the number of PSPs under the purview of CBK Oversight and Compliance enforcement increased from seven (7) in the previous year to thirteen (13) following authorisation and issuance of Authorisation Certificates to six (6) new PSPs. Further, to enhance regulatory compliance, one PSP's Authorisation Certificate was revoked. To ensure compliance with the NPS legal and regulatory framework, CBK undertook several sensitisation sessions for the Trustees, Directors, and Senior Management of the new PSPs. CBK expects these sessions to promote among others market discipline and effective compliance by the PSPs.

5.0 CENTRAL BANK OPERATIONS

5.7 Domestic Debt Operations in FY2021/22

Successful Government budget funding

The government borrowing program in FY2021/22 was run against the backdrop of COVID-19 pandemic, economic slowdown across the globe and the war in Ukraine. 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.

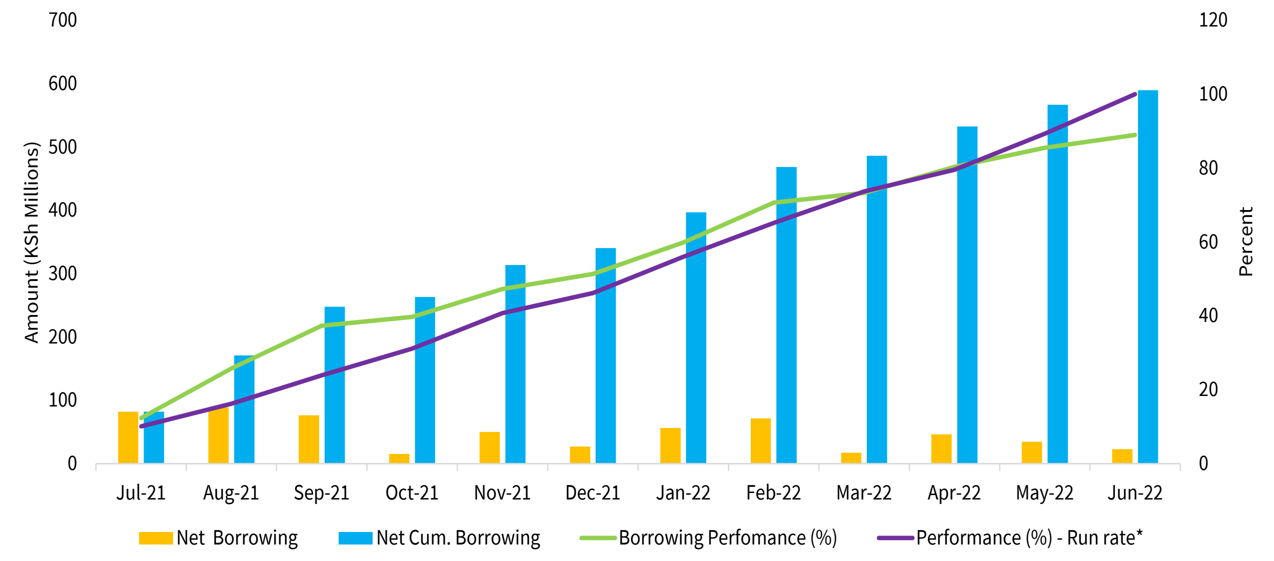
iii. Minimise debt maturity risk by extending bond tenor and targeting a higher ratio of T-Bonds to T-Bills.

iv. Contribute to stable liquidity flows.

v. Support market development.

In line with these key priorities, the domestic debt market performed well during the year with sustained yield curve stability, lengthening of the maturity profile of domestic debt and vibrant secondary bond trading. By end June 2022, KSh 589.7bn was raised compared to a target of Kes 662.8bn translating to a performance level of 88.9% as illustrated in **Chart 5.3.**

Chart 5.3: Domestic Borrowing Program Performance FY 2021/22



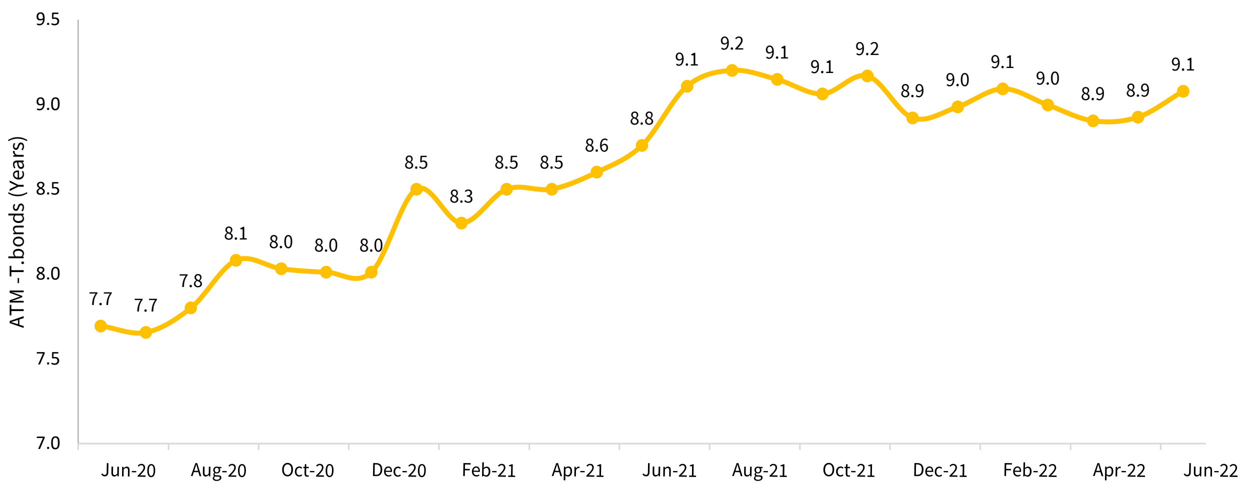
Source: CBK

Successful Debt Maturity Lengthening

The Average Time to Maturity (ATM) for Treasury bonds improved to 9.1 years by end June 2022 from 7.7 years in June 2020 (up 18.2%), extending the bond maturity in line with the desired domestic debt priorities **(Chart 5.4 a).** This was achieved through consistent issuance and reopening of medium to longer term Treasury bonds.

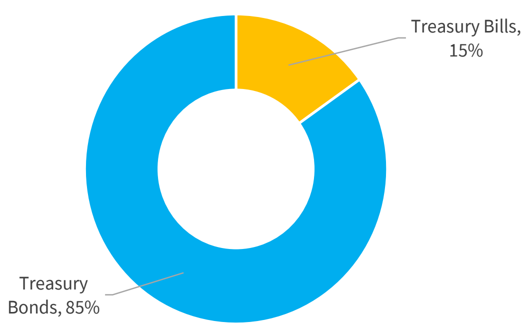
Gross Treasury bonds issued during the year amounted KSh 868.5 bn, of which bond reopening, new bond issuance and infrastructure bonds accounted for 50.2%, 17.7% and 32.1% respectively. The T-bills to bonds ratio improved to 15:85 by end-June 2022 compared to 21:79 in June 2021 **(Chart 5.4b & 5.4c).**

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



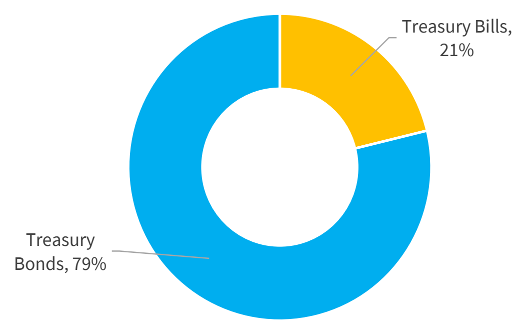
Source: CBK

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



Source: CBK

Chart 5.4c: Government Securities Stock by Instrument, June 2021



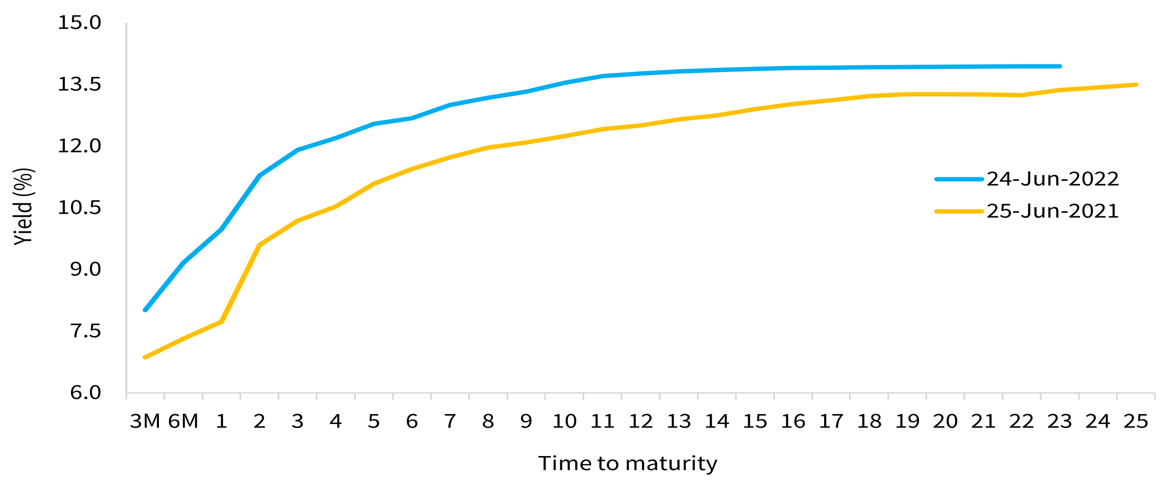
Source: CBK

Sustained Yield Curve Stability

Issuance of large size bonds through re-opening of benchmark tenors continued to increase market liquidity, reduced bond fragmentation and helped maintain a well-priced stable yield curve **(Chart 5.5).** The yield curve has remained a stable since January 2022 with moderate movements of the curve.

5.0 CENTRAL BANK OPERATIONS

Chart 5.5: Governtment Securities Yield Curve



Source: CBK

Central Securities Depository (Dhow CSD) System – To enhance efficiency of domestic debt operations and to further develop the market, CBK has embarked on implementation of a new Central Securities Depository (Dhow CSD) system as part of key market infrastructure. The Dhow CSD system is envisioned to play a crucial role in monetary policy implementation and to promote public interest, financial stability and financial market development.

The system is expected to deliver excellent levels of registry, custodial and settlement services for both primary and secondary market operations. The system is envisioned to improve market liquidity distribution, enhance liability management strategies, promote capital market growth and position Kenya as the preferred financial hub in the region.

The system will have the capacity to provide electronic registry for all Government and CBK securities which will meet the needs of all issuers, holders, asset managers and other interested parties.

The system is expected to go live later in 2022.

6.0 STRATEGIC PLAN 2021-2024

6.0 STRATEGIC PLAN 2021-2024

The 2021-2024 Strategic plan is an instrumental tool that will guide and inform the direction and operations of the Bank as it pursues the vision of a ***World Class Modern Central Bank.***

The strategic initiatives that will drive the realisation of the 2021-24 Strategic Objectives are grouped into four broad focus areas namely: ***Automation, People and Culture, Risk Management and Operational Excellence.***

Automation

During this strategy period, and building on the enhanced information technology infrastructure, the Bank will undertake upgrade its operating systems and review processes with a focus on using IT systems strategically to deliver enhanced business capabilities. The systems / applications that are to be enhanced or installed include the integration of the Enterprise Data Warehouse (Ochre EDW) with financial institutions' data submission systems; the upgrade of the Core Banking System; the upgrade of the Enterprise Resource Planning Application, the adoption of a new Debt Management System; the installation of an integrated Reserves Management System; and the automation of Communication and Legal services operations. These will be accompanied by a review of the operating policies, procedures and manuals with a view to enabling staff operate efficiently and effectively.

People and Culture

Staff remain the most critical resource the Bank takes pride in. To consolidate gains recorded in the previous planning period, the Bank will finalise the ongoing human resource transformation initiatives. The adoption and application of the revised staff rules and regulations should facilitate timely and amicable resolution of any issues that may arise as a result of the ongoing HR transformation exercise. Staff development will remain a focus area to enhance skills and competencies to cope with emerging work demands. The Bank will also entrench a culture that promotes productivity which will facilitate the achievement of the strategic objectives.

Risk Management

Internally, the Bank will continue improving its control environment so as to mitigate risks while ensuring that operations flow seamlessly. A risk aware culture in regard to operations and information technology will be enhanced. Jurisprudence in matters relevant to the Bank will be expanded for institutional memory and future reference. Additionally, the Bank will work towards enhancing its capital base in line with its operations.

Externally, the Bank commits to mitigating and managing risk in the banking and financial sector in general through legislation and effective oversight. Specifically, the legal framework on payment systems will be revised to manage evolutions witnessed in the recent past and prepare for the future. Oversight will be extended to cover digital credit and consumer protection. Guidelines to govern the conduct of players in the foreign exchange market will also be developed.

Operational Excellence

Successful implementation of the Bank's mandate is dependent on efficiencies of internal processes and effective governance structures. In its pursuit of becoming a World Class Modern Central Bank, the Bank will endeavour to improve its efficiency and effectiveness in areas such as entrenching a modern monetary policy framework and enhancing data availability and analysis to inform policy; service delivery to both internal and external stakeholders to positively impact on their experiences and satisfaction; enhancing internal and external communication and upgrading security surveillance to Bank premises. The provision of modern and fit for purpose physical infrastructure will greatly enhance the working environment.

Implementation of the planned initiatives will cut across all departments of the Bank.

Overall Strategy Performance to June 2022

Implementation of the 2021-2024 Strategic Plan commenced in July 2021. Overall strategy performance for year one initiatives as at June 30, 2022, was 60% represented by the completion/near completion of the

6.0 STRATEGIC PLAN 2021-2024

following strategic initiatives; populating/migrating staff to the realigned Bank structure, development and issuance of the Digital Credit Regulations, 2022, issuance of the Guidance Note (GN) on Climate-Related Risk Management to the banking sector and launch of the National Payments Strategy 2022-2025. The Bank also developed and published a White Paper on modernisation of the monetary policy framework and operations, launched the OchreEDW to enhance data management in the Bank and commenced work on integrating the OchreEDW with data submission systems of supervised financial institutions. The construction of the police training school, upgrading of the DhowCSD and the Enterprise Resource Planning (ERP) systems were also at advanced stages of completion.

7.0 FINANCIAL PERFORMANCE FOR THE YEAR ENDED JUNE 2022

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, 2022

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BANK INFORMATION
FOR THE YEAR ENDED 30 JUNE 2022

BOARD OF DIRECTORS

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

SENIOR MANAGEMENT

Dr. Patrick Njoroge	Governor
Mrs. Sheila M'Mbijjewe	Deputy Governor

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
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
Mr. Paul Wanyagi	Acting Director - Currency Operations and Branch Administration Department
Mr. Joshua Kimoro	Acting Director- Strategic Management Department - (Appointed on 19 July, 2021)

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80100 Mombasa

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

Eldoret Branch
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P.O. Box 2710
30100 Eldoret

BANK INFORMATION (continued)
FOR THE YEAR ENDED 30 JUNE 2022

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10100 Nyeri

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

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

Kisii Centre
ABSA Bank Building
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Grevillea Grove, Kyuna
P.O. Box 53319-00200
Nairobi

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00100 Nairobi

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Deloitte Place
Waiyaki Way, Muthangari
P.O Box 40092
00100 Nairobi

STATEMENT OF CORPORATE GOVERNANCE FOR THE YEAR ENDED 30 JUNE 2022

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.	Principal Secretary/ The National Treasury	Executive Officer	Economist	Permanent	Permanent
4.	Mrs. Nelius Kariuki	Member	Economist	Reappointed on 5 December 2020	4 December 2024
5.	Mr. Ravi Ruparel	Member	Financial Sector Expert	Reappointed on 5 December 2020	4 December 2024
6.	Mr. Samson Cherutich	Member	Accountant	Reappointed on 5 December 2020	4 December 2024
7.	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 2022

The Members of the Board (all Kenyans) in the year ended 30 June 2022 and their attendance and the number of meetings held in the year were as follows:

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

The remuneration paid to the Directors for services rendered during the financial year 2021/2022 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 2022 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 2022

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 2022 were as follows:

No.	Name	Position	Discipline	Meetings Attended
1.	Mr. Samson Cherutich	Chairman	Accountant	11
2.	Mr. Ravi Ruparel	Member	Financial Sector Expert	11
3.	Mrs. Nelius Kariuki	Member	Economist	11
4.	Mrs. Rachel Dzombo	Member	Management Expert	11

1.4. Human Resources Committee (HRC)

The members of the HRC in the year ended 30 June 2022 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 2022 and their attendance of the meetings held in the year were as follows:

No.	Name	Position	Discipline	Meetings Attended
1.	Mrs. Nelius Kariuki	Chairman	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 2022

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.

The MPC held six (6) meetings in the year ended 30 June 2022, and attendance was as follows:

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

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 13 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 are organised in structured frameworks to ensure clarity, transparency and success of the outcomes.

1.7. Code of Ethics

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

1.8. Internal Controls

The Management of the Bank has put in place a system of internal control mechanisms to ensure the reporting of complete and accurate accounting information. Procurement of goods and services is strictly done in accordance with the *Public Procurement & Disposal Act, 2015 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, Monthly Economic Review, Weekly Releases, Statistical Bulletin and Bi-annual Monetary Policy Statements. In addition, the Bank issues policy briefs to The National Treasury on both the Monetary and Fiscal policies. On an annual basis, the Financial Statements of the Bank are published in the Kenya Gazette and placed in the Bank's website.

2.0 Financial Performance

The Bank's financial performance is 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 of these financial statements.

During financial year ended 30 June 2022, the Bank recorded a net surplus of KShs 76,894 million compared to KShs 36,993 million in financial year ended 30 June 2021. The net surplus includes an unrealized exchange gain of KShs 68,560 million (2021: Kshs 25,270 million). The surplus is included as part of the General Reserve Fund.

During the financial year ended 30 June 2022, the Bank's operating surplus was KShs 8,334 million (2021: KShs 11,723 million) due to lower rates offered on foreign deposit placements. An unrealised foreign exchange gain of KShs 68,560 million was recorded during the year ended 30 June 2022 (2021: KShs 25,270 million) due to the strengthening of the US Dollar. The Bank also recorded a fair value loss on fixed income securities of KShs 21,613 million (2021: loss of KShs 6,321 million) as a result of a decline in market prices. The loss recorded during the year has been presented in other comprehensive income.

In addition, an actuarial loss on retirement benefit asset of KShs 1,276 million (2021: gain of KShs 676 million) was also recorded. There was no valuation on 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 decreased to KShs 1,438,948 million (2021: KShs 1,449,056 million) mainly attributed to a decrease in foreign reserves following increased settlement of foreign obligations. Liabilities decreased to KShs 1,174,568 million (2021: KShs 1,232,562 million) mainly due to reduced deposits from Banks and Government.

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 30 JUNE 2022

The Directors submit their report together with the audited financial statements for the year ended 30 June 2022, 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 76,894 million (2021: KShs 36,993 million) made up of KShs 8,334 million (2021: KShs 11,723 million) realized surplus and KShs 68,560 million (2021: KShs 25,270 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 2022 of KShs 4,000 million (2021: KShs 10,500 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 39.

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 2022 and report to the Auditor - General.

By Order of the Board

Kennedy Abuga
Board Secretary

12 September 2022

STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR THE YEAR ENDED 30 JUNE 2022

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 2022 and of the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the *Central Bank of Kenya Act.*

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

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

Chairman, Board of Directors
Mr. Mohammed Nyaoga

12 September 2022

Patrick Njoroge

Governor
Dr. Patrick Njoroge

12 September 2022

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

HEADQUARTERS
Anniversary Towers
Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON CENTRAL BANK OF KENYA FOR THE YEAR ENDED 30 JUNE, 2022

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 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 financial statements of Central Bank of Kenya set out on pages **54 to 156,** which comprise of the consolidated statement of financial position as at 30 June, 2022, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by 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 financial statements present fairly, in all material respects, the consolidated financial position of the Central Bank of Kenya as at 30 June, 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS) and comply with the Central Bank of Kenya Act, Cap 491 of the Laws of Kenya 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 meeting as provided in Section 12(2) of the Central Bank Act, Cap 491 of 2014.

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

2. Lack of the Second Deputy Governor

Further, 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, only one Deputy Governor was in office.

There was no amendment to the Central Bank 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, Directors' Report and the Statement of Directors' Responsibilities. The other information does not include the financial statements and my auditor's report thereon.

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, 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, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal 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 control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal controls, risk management and governance.

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

Management is also responsible for 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 control that are identified during the audit.

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to 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

16 September, 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2022

	Notes	2022 KShs' million	2021 KShs' million
Interest income	4	16,769	17,084
Interest expense	5	(2,132)	(2,026)
Net interest income		**14,637**	**15,058**
Fees and commission income	6(a)	3,000	3,000
Net trading income	6(b)	9,742	13,237
Other income	7(a)	973	1,044
Operating income		**28,352**	**32,339**
Impairment allowance expense on financial assets	8	(4,100)	(4,333)
Operating expenses	9(a)	(15,918)	(16,283)
Operating surplus before unrealized gains		**8,334**	**11,723**
Unrealised gains:			
Foreign exchange gain	9(c)	68,560	25,270
Surplus for the year		**76,894**	**36,993**
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)	(21,613)	(6,321)
Reclassification to income statement	10(b)	(644)	(7,329)
Changes in Impairment allowance	8	25	81
		(22,232)	(13,569)
Items that will not be reclassified to profit or loss:			
Land and building revaluation increase	18(b)	-	3,879
Actuarial gain on retirement benefit asset	20	(1,276)	676
		(1,276)	**4,555**
Other comprehensive income for the year		**(23,508)**	**(9,014)**
Total comprehensive income for the year		**53,386**	**27,979**

BANK STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2022

	Notes	2022 KShs' million	2021 KShs' million
Interest income	4	16,769	17,084
Interest expense	5	(2,132)	(2,026)
Net interest income		**14,637**	**15,058**
Fees and commission income	6(a)	3,000	3,000
Net trading income	6(b)	9,742	13,237
Other income	7(a)	794	1,025
Operating income		**28,173**	**32,320**
Impairment allowance expense on financial assets	8	(4,100)	(4,333)
Operating expenses	9(a)	(15,739)	(16,264)
Operating surplus before unrealized gains		**8,334**	**11,723**
Unrealised gains:			
Foreign exchange gain	9(c)	68,560	25,270
Surplus for the year		**76,894**	**36,993**
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)	(21,613)	(6,321)
Reclassification to income statement	10(b)	(644)	(7,329)
Changes in Impairment allowance	8	25	81
		(22,232)	(13,569)
Items that will not be reclassified to profit or loss:			
Land and building revaluation increase	18(b)	-	3,879
Actuarial gain on retirement benefit asset	20	(1,276)	676
		(1,276)	**4,555**
Other comprehensive income for the year		**(23,508)**	**(9,014)**
Total comprehensive income for the year		**53,386**	**27,979**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022

	Notes	2022 KShs' million	2021 KShs' million
ASSETS			
Balances due from banking institutions	11	295,836	430,968
Funds held with International Monetary Fund (IMF)	12(a)	71,639	2,201
Securities and advances to banks	13	71,829	59,540
Loans and advances	14	3,726	3,131
Debt instruments at fair value through other comprehensive income	15	636,651	664,991
Equity instruments at fair value through other comprehensive income	16	10	10
Other assets	17(a)	8,559	5,541
Gold holdings	17(b)	120	106
Right-of-use assets	18(a)	90	114
Property and equipment	18(b)	31,910	33,105
Intangible assets	19	310	1,784
Retirement benefit asset	20	7,081	7,639
IMF On-Lent to Government of Kenya (GOK)	21(a)	192,924	160,638
Due from Government of Kenya	21(b)	118,263	79,288
TOTAL ASSETS		**1,438,948**	**1,449,056**
LIABILITIES			
Currency in circulation	22	305,350	277,129
Deposits due to Banks and Government	23	539,610	728,001
Due to IMF	12(b)	325,145	221,174
Other liabilities	24	4,463	6,258
TOTAL LIABILITIES		**1,174,568**	**1,232,562**
EQUITY			
Share capital	25(a)	35,000	35,000
General reserve fund	25(b)	226,986	155,368
Fair value reserve	25(c)	(23,286)	(1,054)
Revaluation reserve	25(d)	21,680	21,680
Consolidated fund	25(e)	4,000	5,500
TOTAL EQUITY		**264,380**	**216,494**
TOTAL LIABILITIES AND EQUITY		**1,438,948**	**1,449,056**

The financial statements on pages 54 to 156 were authorised for issue by the Board of Directors on 12 September 2022 and signed on its behalf by:

Chairman of the Board
Mr. Mohammed Nyaoga

Patrick Njoroge

Governor
Dr. Patrick Njoroge

BANK STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2022

	Notes	2022 KShs' million	2021 KShs' million
ASSETS			
Balances due from banking institutions	11	295,836	430,968
Funds held with International Monetary Fund (IMF)	12(a)	71,639	2,201
Securities and advances to banks	13	71,829	59,540
Loans and advances	14	3,726	3,131
Debt instruments at fair value through other comprehensive income	15	636,651	664,991
Equity instruments at fair value through other comprehensive income	16	10	10
Other assets	17(a)	8,446	5,454
Gold holdings	17(b)	120	106
Right-of-use assets	18(a)	90	114
Property and equipment	18(b)	31,910	33,105
Intangible assets	19	310	1,784
Retirement benefit asset	20	7,081	7,639
IMF On-Lent to Government of Kenya (GOK)	21(a)	192,924	160,638
Due from Government of Kenya	21(b)	118,263	79,288
TOTAL ASSETS		**1,438,835**	**1,448,969**
LIABILITIES			
Currency in circulation	22	305,350	277,129
Deposits due to Banks and Government	23	539,610	728,001
Due to IMF	12(b)	325,145	221,174
Other liabilities	24	4,330	6,151
TOTAL LIABILITIES		**1,174,435**	**1,232,455**
EQUITY			
Share capital	25(a)	35,000	35,000
General reserve fund	25(b)	227,006	155,388
Fair value reserve	25(c)	(23,286)	(1,054)
Revaluation reserve	25(d)	21,680	21,680
Consolidated fund	25(e)	4,000	5,500
TOTAL EQUITY		**264,400**	**216,514**
TOTAL LIABILITIES AND EQUITY		**1,438,835**	**1,448,969**

The financial statements on pages 54 to 156 were authorised for issue by the Board of Directors on 12 September 2022 and signed on its behalf by:

Chairman of the Board
Mr. Mohammed Nyaoga

Patrick Njoroge
Governor
Dr. Patrick Njoroge

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2022

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)
FOR THE YEAR ENDED 30 JUNE 2022

Year ended 30 June 2021	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 2020		35,000	128,199	17,801	12,515	2,500	196,015
Surplus for the year		-	36,993	-	-	-	36,993
Net change in fair value of debt instrument at FVOCI		-	-	-	(6,321)	-	(6,321)
Net amount reclassified to the income statement on sale and maturity of debt instruments at FVOCI		-	-	-	(7,329)	-	(7,329)
Net change in Impairment allowance on debt instruments at FVOCI		-	-	-	81	-	81
Revaluation gain	18(b)	-	-	3,879	-	-	3,879
Actuarial gain on retirement benefit asset	(20)	-	676	-	-	-	676
Total comprehensive income for the year		-	37,669	3,879	(13,569)	-	27,979
Transactions with owners							
-Transfer to consolidated fund	25(e)	-	(10,500)	-	-	10,500	-
-Payments out of consolidated fund	25(e)	-	-	-	-	(7,500)	(7,500)
At 30 June 2021		35,000	155,368	21,680	(1,054)	5,500	216,494

BANK STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2022

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
Revaluation gain	18(b)	-		-			-
Actuarial gain 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

BANK STATEMENT OF CHANGES IN EQUITY (continued)
FOR THE YEAR ENDED 30 JUNE 2022

Year ended 30 June 2021	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 2020		35,000	128,219	17,801	12,515	2,500	196,035
Surplus for the year		-	36,993	-	-	-	36,993
Net change in fair value of debt instrument at FVOCI		-	-	-	(6,321)	-	(6,321)
Net amount reclassified to the income statement on sale and maturity of debt instruments at FVOCI		-	-	-	(7,329)	-	(7,329)
Net change in Impairment allowance on debt instruments at FVOCI		-	-	-	81	-	81
Revaluation gain	18(b)	-	-	3,879	-	-	3,879
Actuarial gain on retirement benefit asset	(20)	-	676	-	-	-	676
Total comprehensive income for the year		-	37,669	3,879	(13,569)	-	27,979
Transactions with owners							
-Transfer to consolidated fund	25(e)	-	(10,500)	-	-	10,500	-
-Payments out of consolidated fund	25(e)	-	-	-	-	(7,500)	(7,500)
At 30 June 2021		35,000	155,388	21,680	(1,054)	5,500	216,514

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2022

	Notes	2022 KShs' million	2021 KShs' million
OPERATING ACTIVITIES			
Cash used in operating activities	26	(238,793)	(65,484)
Interest received		17,210	17,084
Interest paid		(2,132)	(2,026)
Interest paid on lease liabilities	18(a)	(7)	(22)
Cash used in operating activities		(223,722)	(50,448)
INVESTING ACTIVITIES			
Purchase of property and equipment	18(b)	(1,395)	(2,884)
Purchase of intangible assets	19	(779)	(723)
Proceeds from disposal of property and equipment		3	12
Net change in debt instruments at fair value through other comprehensive income		47,264	40,478
Net change in securities and advances to banks		4,434	(18,102)
Net change in funds held with International Monetary Fund (IMF)		(67,985)	1,054
Net cash generated from/(used in) investing activities		(18,458)	19,835
FINANCING ACTIVITIES			
Payment of principal portion of lease liabilities	18(a)	(61)	(171)
Receipts from International Monetary Fund (IMF)	27(b)	110,597	77,190
Repayments to the International Monetary Fund (IMF)	27(b)	(11,220)	(7,894)
Net cash generated from financing activities		99,316	69,125
Net (decrease)/increase in cash and cash equivalents		(142,864)	38,512
Cash and cash equivalents at the beginning of the year		489,666	451,154
Effect of foreign exchange on cash and cash equivalents balances		15,073	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	27(a)	361,875	489,666

BANK STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2022

	Notes	2022 KShs' million	2021 KShs' million
OPERATING ACTIVITIES			
Cash used in operating activities	26	(238,793)	(65,484)
Interest received		17,210	17,084
Interest paid		(2,132)	(2,026)
Interest paid on lease liabilities	18(a)	(7)	(22)
Cash used in operating activities		(223,722)	(50,448)
INVESTING ACTIVITIES			
Purchase of property and equipment	18(b)	(1,395)	(2,884)
Purchase of intangible assets	19	(779)	(723)
Proceeds from disposal of property and equipment		3	12
Net change in debt instruments at fair value through other comprehensive income		47,264	40,478
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Net change in funds held with International Monetary Fund (IMF)		(67,985)	1,054
Net cash generated from/(used in) investing activities		(18,458)	19,835
FINANCING ACTIVITIES			
Payment of principal portion of lease liabilities	18(a)	(61)	(171)
Receipts from International Monetary Fund (IMF)	27(b)	110,597	77,190
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Net (decrease)/increase in cash and cash equivalents		(142,864)	38,512
Cash and cash equivalents at the beginning of the year		489,666	451,154
Effect of foreign exchange on cash and cash equivalents balances		15,073	-
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	27(a)	361,875	489,666

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

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 and interpretations

The following amendments became effective during the period:

New standards or amendments	Effective for annual period beginning on or after
Interest Rate Benchmark Reform – Phase 2 – Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	1 January 2021
COVID-19-Related Rent Concessions beyond 30 June 2021 – Amendment to IFRS 16	1 April 2021

These amendments and interpretations apply for the first time in the period, but do not have an impact on the financial statements of the Bank. Below is the new amendment which affects the Bank.

COVID-19-Related Rent Concessions beyond 30 June 2021 – Amendments to IFRS 16

On 28 May 2020, the IASB issued COVID-19-Related Rent Concessions – amendment to IFRS 16: Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19-Related Rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19-Related Rent concession the same way it would account for the change under IFRS 16 if the change were not a lease modification. The amendment was intended to apply until 30 June 2021, but as the impact of the COVID-19-related pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022.The amendment applies to annual reporting periods beginning on or after 1 April 2021. The Bank has not received any COVID-19-Related Rent concessions. The Bank plans to apply the practical expedient if it becomes applicable within allowed period of application. These amendments and interpretations apply for the first time in the period, but do not have an impact on the annual financial statements of the Bank.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

New and amended standards (continued)

Standards issued but not yet effective

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

New standards or amendments	Effective for annual period beginning on or after
Reference to the Conceptual Framework (Amendments to IFRS 3)	1 January 2022
Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)	1 January 2022
Onerous Contracts Cost of Fulfilling a Contract (Amendments to IAS 37)	1 January 2022
AIP IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter	1 January 2022
AIP IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities	1 January 2022
Classification of liabilities as current or non-current (Amendments to IAS 1)	1 January 2023
Definition of Accounting Estimates - Amendments to IAS 8	1 January 2023
Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2	1 January 2023

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

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1 2023 and must be applied retrospectively. The Bank is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities 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 costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Bank.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Standards issued but not yet effective (continued)

Definition of Accounting Estimates - Amendments to IAS 8

In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed. The amendments are not expected to have a material impact on the Group.

Disclosure of Accounting Policies - Amendments to IAS 1 and IFRS Practice Statement 2

In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Group is currently assessing the impact of the amendments to determine the impact they will have on the Group's accounting policy disclosures.

(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 2022. Kenya School of Monetary Studies is a subsidiary of the Bank. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Basis of consolidation (continued)

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

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

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

(d) Functional currency and translation of foreign currencies

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

(f) Financial instruments

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

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, except when the Bank benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

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

Financial assets at fair value through profit or loss

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

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 2022	CONSOLIDATED 2021
				KShs' million	KShs' million
Financial assets	Financial assets at amortized cost	Securities and advances to banks		71,829	59,540
		Funds held with IMF		71,639	2,201
		Net advances to staff and banks under liquidation		3,726	3,131
		Other assets (classified as financial assets)		357	349
		Due from Government	Government term loan	18,899	20,009
			IMF On-Lent to GOK	192,924	160,638
			SDR Allocation due from National Treasury	40,862	-
			GOK Overdraft facility	58,502	59,279
		Balances due from banking institutions	Foreign currency denominated term deposits and current account balances	295,836	430,968
	Financial assets at Fair value through other comprehensive income	Fixed income securities	World Bank managed and internally managed fixed income portfolios	636,651	664,991
		Equity	Investment securities	10	10
Financial liabilities	Financial liabilities at amortised cost	Deposits from banks	Cash reserve ratio and current account deposits	305,265	336,115
		Due to IMF		325,145	221,174
		Other liabilities		4,192	5,952
		Deposits from Government institutions		234,406	391,886

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)		2022	2021
				KShs' million	KShs' million
Financial assets	Financial assets at amortized cost	Securities and advances to banks		71,829	59,540
		Funds held with IMF		71,639	2,201
		Net advances to staff and banks under liquidation		3,726	3,131
		Other assets (classified as financial assets)		219	263
		Due from Government	Government term loan	18,899	20,009
			IMF On-Lent to GOK	192,924	160,638
			SDR Allocation due from National Treasury	40,862	-
			GOK Overdraft facility	58,502	59,279
		Balances due from banking institutions	Foreign currency denominated term deposits and current account balances	295,836	430,968
	Financial assets at Fair value through other comprehensive income	Fixed income securities	World Bank managed and internally managed fixed income portfolios	636,651	664,991
		Equity	Investment securities	10	10
Financial liabilities	Financial liabilities at amortised cost	Deposits from banks	Cash reserve ratio and current account deposits	305,265	336,115
		Due to IMF		325,145	221,174
		Other liabilities		4,059	5,846
		Deposits from Government institutions		234,406	391,886

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 group of similar financial assets) is primarily derecognised (i.e., removed from the Bank's consolidated statement of financial position) when:

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

Or

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

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

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

Write-offs

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

Recoveries of amounts previously written off are included in 'Impairment 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 2022

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 derecognised as well as through the EIR amortisation process.

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

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

Derecognition

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

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.

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

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

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

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.

(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	**1 to 5 years**
Equipment	**1 to 5 years**

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

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, 17(b), 18(b) and 31
- Quantitative disclosures of fair value measurement hierarchy Note 31
- Debt instruments at fair value through other comprehensive income Note 15
- Gold holdings Note 17(b)
- Land and buildings Note 18(b)

(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.

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

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

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

- The Bank's internal credit grading model, which assigns PDs to the individual grades.
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime ECL basis and the qualitative assessment.
- The segmentation of financial assets when their ECL is assessed on a collective basis.
- Development of ECL models, including the various formulas and the choice of inputs.
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs (Explanation of the terms: PDs, EADs and LDGs are included in Note 29(i)).
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

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

Post-retirement benefits

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

Fair value of financial assets

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

Property and equipment

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

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.

4. INTEREST INCOME

	CONSOLIDATED AND BANK	
	2022	2021
	KShs' million	KShs' million
Interest income calculated using the effective interest method		
Financial assets – debt instruments at amortised cost	9,665	7,391
Financial assets at fair value through other comprehensive income	7,104	9,693
	16,769	17,084
Interest income from debt instruments at amortised cost		
Interest on term deposits	3,771	2,055
Interest on Government of Kenya loan	592	626
Interest on Government of Kenya overdraft	2,064	2,208
Interest on staff loans and advances	106	102
Interest on advances to banks	2,937	2,082
Other interest income	195	318
	9,665	7,391
Interest income from debt instruments at fair value through other comprehensive income comprises:		
Internally managed portfolio	6,754	9,186
Externally managed portfolio – (World Bank Reserve Advisory & Management Partnership)	350	507
	7,104	9,693

5. INTEREST EXPENSE

	CONSOLIDATED AND BANK	
	2022	2021
	KShs' million	KShs' million
Interest expense calculated using the effective interest method		
Interest on monetary policy issues – investments by banks	1,804	1,897
Interest expense – IMF	328	129
	2,132	2,026

6. (a) FEES AND COMMISSION INCOME

	2022	2021
(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 2022

6. (b) NET TRADING INCOME

	CONSOLIDATED AND BANK	
	2022	2021
	KShs' million	KShs' million
Net gain on sale of foreign exchange currencies	11,848	8,328
Net gain on disposal of financial assets at fair value through other comprehensive income	(2,106)	4,909
	9,742	13,237

7. (a) OTHER INCOME

	CONSOLIDATED	
Licence fees from commercial banks and foreign exchange bureaus	300	296
Penalties from commercial banks and foreign exchange bureaus	13	29
Rental income	45	49
Kenya School of Monetary Studies operating income - hospitality services and tuition fee	179	19
Gain on disposal of property and equipment	3	11
KEPSS Billing revenue	397	328
Miscellaneous income	36	312
	973	1,044

	BANK	
Licence fees from commercial banks and foreign exchange bureaus	300	296
Penalties from commercial banks and foreign exchange bureaus	13	29
Rental income	45	49
Gain on disposal of property and equipment	3	11
KEPSS Billing revenue	397	328
Miscellaneous income	36	312
	794	1,025

8. IMPAIRMENT ALLOWANCE ON FINANCIAL ASSETS

	CONSOLIDATED AND BANK	
The table below shows the ECL charges on financial instruments:	2022	2021
	KShs' million	KShs' million
Impairment allowance on staff loans (Note 14)	(8)	5
Impairment allowance on balances due from banking institutions (Note 11)	-	17
Impairment allowance on Funds held with IMF (Note 12(a))	(5)	-
Impairment allowance on securities and advances to banks (Note 13)	(4,062)	(4,274)
Impairment allowance on debt instruments at fair value through other comprehensive income (note 8)	(25)	(81)
	(4,100)	(4,333)

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

9. (a) OPERATING EXPENSES

	CONSOLIDATED	
	2022	2021
	KShs' million	KShs' million
Employee benefits (Note 9(b))	4,858	4,740
Currency production expenses	2,390	2,090
Property maintenance and utility expenses	3,298	1,830
Depreciation of property and equipment (Note 18(b))	2,589	2,125
Amortisation of intangible assets (Note 19)	188	163
Depreciation of right -of -use asset (Note 18(a)	121	135
Interest on leases liabilities (Note 18(a)	6	12
Provision for impairment loss on other assets (Note 17(a))	18	17
Losses and write off	34	-
Work-in-Progress (WIP) write off	-	590
Auditor's remuneration	12	11
Transport and travelling costs	175	146
Office expenses	201	175
Postal service expense	315	232
Legal and professional fees	474	352
Revaluation decrease on land and buildings (Note 18(b))	-	2,560
Other administrative expenses (including KSMS)*	1,239	1,105
	15,918	16,283

	BANK	
	2022	2021
	KShs' million	KShs' million
Employee benefits (Note 9(b))	4,858	4,740
Currency production expenses	2,390	2,090
Property maintenance and utility expenses	3,298	1,830
Depreciation of property and equipment (Note 18(b))	2,589	2,125
Amortisation of intangible assets (Note 19)	188	163
Depreciation of right -of -use asset (Note 18(a)	121	135
Interest on leases liabilities (Note 18(a)	6	12
Provision for impairment loss on other assets (Note 17(a))	18	17
Losses and write off	34	-
Work-in-Progress (WIP) write off	-	590
Auditor's remuneration	12	11
Transport and travelling costs	175	146
Office expenses	201	175
Postal service expense	315	232
Legal and professional fees	474	352
Revaluation decrease on land and buildings (Note 18(b))	-	2,560
Other administrative expenses*	1,060	1,086
	15,739	16,264

*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 2022

9. (b) EMPLOYEE BENEFITS

	CONSOLIDATED AND BANK	
Wages and salaries	4,409	4,162
Pension costs – Defined contribution plan	516	448
Medical expenses	445	395
Other staff costs	81	36
Directors' emoluments (Note 28(ii))	56	51
Net income relating to the retirement benefit asset (Note 20)	(649)	(352)
	4,858	4,740

(c) FOREIGN EXCHANGE GAIN/LOSS

	CONSOLIDATED AND BANK	
	2022	2021
	KShs' million	KShs' million
Foreign exchange gain	68,560	25,270

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	
	2022	2021
	KShs' million	KShs' million
Fair value changes on debt instruments at fair value through other comprehensive income:		
Internally managed portfolio	(20,632)	(5,803)
Externally managed portfolio – RAMP	(981)	(518)
	(21,613)	(6,321)

(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:	2022	2021
	KShs' million	KShs' million
CBK managed portfolio	633	7,091
World Bank managed portfolio	11	238
	644	7,329

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

11. BALANCES DUE FROM BANKING INSTITUTIONS

	CONSOLIDATED AND BANK	
	2022	2021
	KShs' million	KShs' million
Current accounts	35,024	135,329
Foreign currency denominated term deposits	197,170	221,053
Accrued interest on term deposits	106	104
Special project accounts	24,658	33,374
Domestic foreign currency cheque clearing	38,256	40,576
REPSS clearing and regional central banks	633	543
	295,847	430,979
Impairment allowance	(11)	(11)
	295,836	430,968

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

	2022	2021
	KShs' million	KShs' million
At start of the year	11	28
Movement in impairment allowance (Note 8)	-	(17)
At 30 June	11	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 drop in cash/current accounts balance is due to payments on behalf of Government at the 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			
	2022	2022	2021	2021
	SDR million	KShs' million	SDR million	KShs' million
(a) Assets				
IMF balances (SDR asset account)	458	71,644	14	2,201
Allowance for impairment losses (note 8)	-	(5)	-	-
	458	71,639	14	2,201

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

	2022	2021
	KShs' million	KShs' million
At 1 July	-	-
Charges to profit or loss (note 8)	(5)	-
At 30 June	(5)	-

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

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

	2022 SDR million	2022 KShs' million	2021 SDR million	2021 KShs' million
(b) Liabilities				
International Monetary Fund Account No. 1	20	3,064	20	3,048
International Monetary Fund Account No. 2	-	5	-	5
International Monetary Fund – PRGF Account	43	6,771	114	17,566
Rapid Credit Facility	543	85,176	543	83,448
Extended Credit Facility	211	33,219	163	25,035
Extended Fund Facility	475	74,529	339	52,155
IMF - SDR Allocation account	780	122,381	260	39,917
	2,072	325,145	1,439	221,174

The Bank received SDR 502.09 million (2021: SDR 502.09 million) 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 Extended Credit Facility (ECF) and Extended Fund Facility (EFF) and represent a debt due from the Government of Kenya to the IMF. This debt is recognised in the books of the CBK, but on-lent to the government through the National Treasury.

Kenya's quota in IMF of SDR 542.8 million (2021: SDR 542.8 million) recorded in the books of the National Treasury but not included in the financial statements of the Bank. Allocations of SDR 260 million (2020: SDR 260 million) are included in the financial statements of the Bank as the custodian of the Government of Kenya. The repayment of IMF facilities is currently bi-annual and 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	
	2022 KShs' million	2021 KShs' million
Treasury bonds discounted	7,290	7,299
Treasury bills discounted	69	534
Accrued interest bonds discounted	233	231
Repo treasury bills (Injection)	27,832	10,963
Accrued interest repo	74	69
Liquidity support framework	51,028	55,471
Due from commercial banks	5,339	947
	91,865	75,514
Impairment allowance	(20,036)	(15,974)
	71,829	59,540

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

	2022 KShs' million	2021 KShs' million
At the start of the year	15,974	11,700
Charge to profit or loss (Note 8)	4,062	4,274
At 30 June	20,036	15,974

13. SECURITIES AND ADVANCES TO BANKS (continued)

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

Year ended 30 June 2021	Maturity period			
	0-3 months KShs' million	4-12 months KShs' million	Over 1 year KShs' million	Total KShs' million
Treasury bills discounted	519	15	-	534
Treasury bonds discounted	-	77	7,222	7,299
Accrued interest bonds discounted	180	51	-	231
Repo treasury bills & bonds (Injection)*	10,963	-	-	10,963
Accrued interest repo	69	-	-	69
Due from commercial banks	947	-	-	947
Liquidity support framework	-	-	39,497	39,497
	12,678	143	46,719	59,540

*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 2022

14. LOANS AND ADVANCES

	CONSOLIDATED AND BANK	
	2022	2021
	KShs' million	KShs' million
Due from banks under liquidation	3,400	3,400
Advances to employees	3,782	3,179
	7,182	6,579
Impairment allowance	(3,456)	(3,448)
Net advances	3,726	3,131
The movement in the Impairment allowance is as follows:		
At 1 July	3,448	3,453
Movement in impairment allowance (Note 8)	8	(5)
At 30 June	3,456	3,448

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

	CONSOLIDATED AND BANK	
	2022	2021
	KShs' million	KShs' million
Fixed income securities – Internally managed portfolio	598,183	629,146
Fixed income securities under World Bank RAMP	38,468	35,845
	636,651	664,991

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

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
At 30 June 2021	KShs' million	KShs' million	KShs' million	KShs' million
Fixed income securities – Internally managed Portfolio	44,523	188,014	396,609	629,146
Fixed income securities under World Bank RAMP	1,497	11,998	22,350	35,845
	46,020	200,012	418,959	664,991

Fixed income securities decreased by KShs 28,340 million to KShs 636,651 million (2021: KShs 664,991 million) mainly due to sale/maturities of fixed income securities during the year under review.

16. UNLISTED EQUITY INVESTMENTS

	CONSOLIDATED AND BANK	
	2022	2021
	KShs' million	KShs' million
Unquoted equity securities at fair value through other comprehensive income	10	10

17. (a) OTHER ASSETS

	CONSOLIDATED	
	2022	2021
	KShs' million	KShs' million
Prepayments	1,601	1,471
Bonds Pending Receivables - World Bank	1,036	-
Deferred currency expenses	5,396	3,572
Sundry debtors	5,354	5,328
Items in the course of collection	137	110
Uncleared effects	32	39
	13,556	10,520
Impairment allowance	(4,997)	(4,979)
	8,559	5,541

All other assets balances are recoverable within one year.

The movement in the Impairment allowance is as follows:

	2022	2021
At start of the year	4,979	4,962
Increase in impairment allowance (Note 9(a))	18	17
At 30 June	4,997	4,979

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

17. (a) OTHER ASSETS (continued)

	BANK	
	KShs' million	KShs' million
Prepayments	1,601	1,471
Bonds Pending Receivables - World Bank	1,036	-
Deferred currency expenses	5,396	3,572
Sundry debtors	5,216	5,241
Items in the course of collection	162	110
Uncleared effects	32	39
	13,443	10,433
Impairment allowance	(4,997)	(4,979)
All other assets balances are recoverable within one year.	8,446	5,454
The movement in the Impairment allowance is as follows:		
At start of the year	4,979	4,962
Increase in impairment allowance (Note 9(a))	18	17
At 30 June	4,997	4,979

(b) GOLD HOLDINGS

	CONSOLIDATED AND BANK	
	2022	2021
	KShs' million	KShs' million
Gold holdings	120	106

18. (a) RIGHT OF USE ASSETS

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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

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

CONSOLIDATED AND BANK

Year ended 30 June 2021	Leases relating to buildings KShs' million	Leases relating to equipment KShs' million	Total KShs' million
COST			
At 1 July 2020	151	204	355
Additions	28	-	28
Disposal	(1)	-	(1)
At 30 June 2021	178	204	382
ACCCUMULATED DEPRECIATION			
At 1 July 2020	62	71	133
Charge for the year	61	74	135
At 30 June 2021	123	145	268
CARRYING AMOUNT			
At 30 June 2021	55	59	114

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	
	2022	2021
	KShs' million	KShs' million
At start of the year	55	209
Additions	97	28
Accretion of interest	6	12
Payment of principal	(61)	(171)
Terminated lease	-	(1)
Payment of interest	(7)	(22)
At 30 June	90	55

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

	CONSOLIDATED AND BANK	
	2022	2021
	KShs' million	KShs' million
Depreciation expense for right-of-use assets	121	135
Interest expense on lease liabilities	6	12
Expense relating to short-term leases (included in Other administrative expenses)	7	10
Total amount recognised in profit or loss	134	157

The Bank had total cash outflows for leases of KShs 68 million (2021: KShs 193 million) during the year. No impairment loss or reversals of impairment loss has been recognized in profit or loss during the period.

The bank also had non-cash additions to the right-of-use assets and lease liabilities of KShs 97 million (2021: KShs 28 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

18. (b) PROPERTY AND EQUIPMENT

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	-
Disposal	-	-	-	-	(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
Revaluation	-	-	-	-	(34)	(34)
Disposals						
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 2022

18. (b) PROPERTY AND EQUIPMENT (continued)

CONSOLIDATED AND BANK

Year ended 30 June 2021	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 2020	19,282	5,410	2,963	431	9,140	37,226
Additions	455	-	1,711	17	701	2,884
Revaluation	(753)	79	-	-	-	(674)
Capitalization of work in progress	545	-	(2,024)	-	1,479	-
WIP write off	-	-	(590)	-	-	(590)
Transfers	31	(31)	-	-	-	-
Disposal	-	-	-	(22)	(68)	(90)
At 30 June 2021	19,560	5,458	2,060	426	11,252	38,756
DEPRECIATION						
At 1 July 2020	928	227	-	385	4,068	5,608
Charge for the year	752	158	-	29	1,186	2,125
Revaluation	(1,622)	(371)	-	-	-	(1,993)
Disposals	-	-	-	(22)	(67)	(89)
At 30 June 2021	58	14	-	392	5,187	5,651
CARRYING AMOUNT						
At 30 June 2021	19,502	5,444	2,060	34	6,065	33,105

The WIP write off represents consultancy costs for projects in the bank that were determined to be no longer feasible for implementation.

Land and buildings were revalued as at 30 June 2021 by Regent Valuers International (K) Ltd and SEC & M Co. Ltd. The valuation resulted in an overall revaluation increase of KShs 1,319 million.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

18. (b) PROPERTY AND EQUIPMENT (continued)

The treatment of the revaluation changes in the current financial year in the financial statements is as follows:

Revaluation increase on fixed assets (Note 9(a))	2022	2021
	KShs' million	KShs' million
Freehold land	-	2,607
Buildings	-	521
Leasehold land	-	751
The revaluation increase has been posted to Other Comprehensive Income	-	3,879
Revaluation decrease on land and buildings (Note 9(a))		
Buildings	-	(2,259)
Leasehold land	-	(301)
Revaluation decrease has been charged to profit and loss	-	(2,560)

The overall revaluation increase in 2021 was KShs 1,319 million.

Land and buildings are included in the level 3 of the fair valuation hierarchy.

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

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

The reported revaluation decrease arose mainly from buildings at the Kenya School of Monetary Studies (KSMS). KSMS is the training institution for the CBK. As with other Central Banks, the training institution supports the mandate of the Bank of supporting financial sector stability.

Financial participants in the Kenyan market and regionally can be upskilled on all matters financial, which then provides a strong, informed and well educated financial sector. This is a critical basis for stability and will support the vision of Kenya to be a financial centre in East and Central Africa.

In assessing the valuation methodology to use, the Valuer considered the following:

i. That the KSMS complex is not operated for profit but rather to support the CBK mandate of financial sector stability
ii. Volatility in the national and global economy and disruption in travel as a result of the Covid-19 pandemic that has a negative impact on the operations of KSMS.
iii. The Covid-19 pandemic outbreak which has negatively impacted property prices.

18. (b) PROPERTY AND EQUIPMENT (continued)

As a result of the above, the valuation method settled on was the Cost approach. Whereas the ongoing Covid-19 pandemic has depressed the global economy, we expect a reversal of the impact as result of the vaccine roll out and appropriate government interventions, and thus will impact future revaluations.

The remainder of the revaluation decrease relates to leasehold land that have been impacted by the slump in real estate prices.

19. INTANGIBLE ASSETS

	CONSOLIDATED AND BANK		
	Software KShs' million	Work in progress KShs' million	Total KShs' million
Year ended 30 June 2022			
COST			
At 1 July 2021	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			
At 30 June 2022	310	-	310
Year ended 30 June 2021			
COST			
At 1 July 2020	2,428	741	3,169
Additions	57	666	723
At 30 June 2021	2,485	1,407	3,892
ACCUMULATED AMORTISATION			
At 1 July 2020	1,945	-	1,945
Charge for the year	163	-	163
At 30 June 2021	2,108	-	2,108
NET CARRYING AMOUNT	377	1,407	1,784

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

In 2021, 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 2022

20. RETIREMENT BENEFIT ASSET

	CONSOLIDATED AND BANK	
	2022	2021
	KShs' million	KShs' million
Present value of funded obligations	16,621	17,302
Fair value of plan assets	(30,430)	(32,048)
Net overfunding in funded plan	(13,810)	(14,746)
Limit on defined benefit asset	6,730	7,107
Retirement Benefit Asset	(7,081)	(7,639)
Movements in the net defined benefit asset recognised are as follows:		
At start of the year	7,639	6,537
Net income recognised in profit or loss (Note 9(b))	649	352
Net income recognized in other comprehensive income (OCI)	(1,276)	676
Employer contributions	69	74
At 30 June	7,081	7,639
Movements in the plan assets are as follows:		
At start of the year	32,048	30,270
Interest income on plan assets	3,746	3,382
Employer contributions	68	74
Employee contributions	34	37
Benefits expenses paid	(1,702)	(1,538)
Return on plan assets excluding amount in interest income	(3,737)	(32)
Prior year adjustments	(27)	(145)
At 30 June	30,430	32,048
Movements in the plan benefit obligation are as follows:		
At start of the year	17,302	17,910
Current service cost net of employees' contributions	227	229
Interest cost	1,990	1,986
Employee contributions	34	37
Actuarial gain due to participants' movement	-	(682)
Actuarial gain due to change in financial assumptions	(1,231)	(640)
Benefits paid	(1,702)	(1,538)
At 30 June	16,620	17,302
The principal actuarial assumptions at the reporting date were:	2022	2021
Discount rate (p.a.)	13.00%	12.00%
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 2022

20. RETIREMENT BENEFIT ASSET (continued)

Five-year summary	2022 KShs' million	2021 KShs' million	2020 KShs' million	2019 KShs' million	2018 KShs' million
Fair value of plan assets	30,430	32,048	30,270	30,640	30,279
Present value of funded obligations	(16,622)	(17,302)	(17,910)	(16,423)	(14,551)
Adjustment to retirement benefit asset	(6,730)	(7,107)	(5,823)	(9,889)	(9,144)
Net retirement benefit asset	7,081	7,639	6,537	4,328	6,584

Plan assets are distributed as follows:

	2022 KShs' million	%	2021 KShs' million	%
Quoted shares	4,998	16.4%	6,722	20.97%
Investment properties	9,717	31.9%	8,828	27.55%
Government of Kenya treasury bills and bonds	14,128	46.4%	14,621	45.62%
Commercial paper and corporate bonds	239	0.8%	81	0.25%
Offshore investments	432	1.4%	575	1.79%
Fixed and term deposits	545	1.8%	681	2.12%
Fixed assets	1	0.0%	2	0.02%
Private Equity	371	1.2%	284	0.89%
Net current assets	(1)	0.0%	254	0.79%
	30,430	100%	32,048	100%

Sensitivity of principal actuarial assumptions:
If the discount rate is 1% lower (higher), the present value of funded obligations would be KShs 17,708 million (increase by KShs 1,088 million). This sensitivity analysis has been determined based on reasonably possible changes of the assumption occurring at the end of 30 June 2022, while holding all other assumptions constant.

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

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

The scheme is funded by contributions from employer and employees. The average duration of the defined benefit plan obligation at the end of the reporting period is 7.0 years (2021: 7.4 years).

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

21. (a) IMF On-Lent to GOK

	CONSOLIDATED AND BANK	
	2022	2021
	KShs' million	KShs' million
Rapid credit facility	85,176	83,448
Extended credit facility	33,219	25,035
Extended fund facility	74,529	52,155
	192,924	160,638

The balance as at 30 June 2022 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 502.09 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 quartely within a period of 5 years from October 2026 to June 2031. EFF will be paid quartely within a period of six years from October 2025 to June 2031.

21. (b) DUE FROM GOVERNMENT OF KENYA

	CONSOLIDATED AND BANK	
	2022	2021
	KShs' million	KShs' million
Overdraft	58,502	59,279
Government loan	18,899	20,009
SDR Allocation due from National Treasury	40,862	-
	118,263	79,288

Movement in the government loan is as follows:

	2022	2021
At start of the year	20,009	21,783
Principal repayment	(1,110)	(1,665)
Interest charged	592	626
Interest paid	(592)	(735)
At 30 June	18,899	20,009

Section 46(3) of the *Central Bank of Kenya Act* sets the limit of the Government of Kenya's overdraft facility at the Bank at 5% of the Gross Recurrent Revenue as reported in the latest Government of Kenya audited financial statements. The limit for the year ending 30 June 2022 is KShs 75,453 million (2021: KShs 75,453 million) based on the gross recurrent revenue for the year ended 30 June 2020, which are the latest audited financial statements at the date of approval of these financial statements. Interest is charged at the Central Bank Rate, currently at 7%.

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

In financial year 2021/2022, 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 2022 in Kenya Shilling equivalent.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

		CONSOLIDATED AND BANK	
		2022	2021
22.	**CURRENCY IN CIRCULATION**	KShs' million	KShs' million
	Kenya bank notes	295,209	267,388
	Kenya coins	10,141	9,741
		305,350	277,129
	Movement in the account was as follows:		
	At 1 July	277,129	257,792
	Deposits by commercial banks	(564,500)	(577,361)
	Withdrawals by commercial banks	592,675	596,704
	Withdrawals/(Deposits)by CBK	46	(6)
	At 30 June	305,350	277,129

		CONSOLIDATED AND BANK	
23.	**DEPOSITS DUE TO BANKS AND GOVERNMENT**	2022	2021
		KShs' million	KShs' million
	Local commercial banks clearing accounts and cash ratio reserve	228,075	246,215
	Local banks foreign exchange settlement accounts	35,435	37,394
	External banks foreign exchange settlement accounts	2,416	2,851
	Other public entities and project accounts	39,278	49,655
	Government of Kenya	234,406	391,886
		539,610	728,001

		CONSOLIDATED	
24.	**OTHER LIABILITIES**	2022	2021
		KShs' million	KShs' million
	Impersonal accounts*	809	997
	Sundry creditors	1,716	3,161
	Lease liability (Note 18(a))	90	55
	Refundable deposits	248	224
	Leave accrual	212	259
	Bond pending payables	1,329	1,515
	Gratuity to staff members	59	47
		4,463	6,258
		BANK	
	Impersonal accounts*	809	997
	Sundry creditors	1,583	3,054
	Lease liability (Note 18(a))	90	55
	Refundable deposits	248	224
	Leave accrual	212	259
	Bond pending payables	1,329	1,515
	Gratuity to staff members	59	47
		4,330	6,151

*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 2022

	CONSOLIDATED AND BANK	
	2022	2021
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	35,000	35,000

Ownership of the entire share capital is vested in the Principal Secretary to the National Treasury.

(b) GENERAL RESERVE FUND

CONSOLIDATED

The general reserve represents accumulated realized surpluses of KShs 54,470 million (2021: KShs 50,136 million) arising from normal operations of the Bank and unrealized gains on foreign deposits of KShs 172,516 million (2021: KShs 105,232 million).

BANK

The general reserve represents accumulated realized surpluses of KShs 54,490 million (2021: KShs 50,156 million) arising from normal operations of the Bank and unrealized gains unrealized gains on foreign deposits of KShs 172,516 million (2021: KShs 105,232 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	
	2022	2021
	KShs' million	KShs' million
At start of the year	5,500	2,500
Transfer from General reserve	4,000	10,500
Payments out of consolidated fund	(5,500)	(7,500)
At 30 June	4,000	5,500

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

26. CASH USED IN OPERATIONS	CONSOLIDATED 2022 KShs' million	2021 KShs' million
Surplus for the year	76,894	36,993
Adjustments for:		
Foreign exchange gains	(68,560)	-
Accrued Interest adjustment	(441)	-
Depreciation of property and equipment (Note 18(b))	2,589	2,125
Amortisation of intangible assets (Note 19)	188	163
Amortisation of right-of-use assets (Note 18(a))	121	135
Work-in-Progress (WIP) write off (Note 9(a))	-	590
Cloud computing Arrangement Adjustment	2,065	-
Gain on disposal of property and equipment (Note 7)	(3)	(11)
Loss on valuation of land and building	-	2,560
Impairment allowance on financial assets	4,095	4,350
Net interest income	(14,637)	(15,058)
Interest on lease liability (Note 9(a))	6	12
Provision for impairment loss on other assets (Note 9(a))	18	17
Net credit relating to the retirement benefit asset (Note 20)	(649)	(352)
Employer contributions on defined benefit asset (Note 20)	(68)	(74)
Reclassification from fair value reserve (Note 10(b))	(644)	(7,329)
Unrealised foreign exchange loss on due to IMF	15	37
Operating surplus before working capital changes	989	24,158
Changes in working capital:		
Loans and advances	(603)	148
Other assets	(2,949)	37
Due from Government of Kenya	(38,146)	(10,355)
Currency in circulation	28,221	19,337
Deposits	(190,504)	(4,186)
Investment by banks	-	(6,997)
IMF on-lent	(28,359)	(80,936)
Gold holdings	-	-
Consolidated fund (Note 25(e))	(5,500)	(7,500)
Other liabilities	(1,942)	810
Net cash used in operations	(238,793)	(65,484)

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

26. CASH USED IN OPERATIONS (continued)

	BANK	
	2022	2021
	KShs' million	KShs' million
Surplus for the year	76,894	36,993
Adjustments for:		
Foreign exchange gains	(68,560)	-
Accrued Interest adjustment	(441)	-
Depreciation of property and equipment (Note 18(b))	2,589	2,125
Amortisation of intangible assets (Note 19)	188	163
Amortisation of right-of-use assets (Note 18(a))	121	135
Work-in-Progress (WIP) write off (Note 9(a))	-	590
Cloud computing Arrangement Adjustment	2,065	-
Gain on disposal of property and equipment (Note 7)	(3)	(11)
Loss on valuation of land and building	-	2,560
Impairment allowance on financial assets	4,095	4,350
Net interest income	(14,637)	(15,058)
Interest on lease liability (Note 9(a))	6	12
Provision for impairment loss on other assets (Note 9(a))	18	17
Net credit relating to the retirement benefit asset (Note 20)	(649)	(352)
Employer contributions on defined benefit asset (Note 20)	(68)	(74)
Reclassification from fair value reserve (Note 10(b))	(644)	(7,329)
Unrealised foreign exchange loss on due to IMF	15	37
Operating surplus before working capital changes	989	24,158
Changes in working capital:		
Loans and advances	(603)	148
Other assets	(2,922)	37
Due from Government of Kenya	(38,146)	(10,355)
Currency in circulation	28,221	19,337
Deposits	(190,504)	(4,186)
Investment by banks	-	(6,997)
IMF on-lent	(28,359)	(80,936)
Gold holdings	-	-
Consolidated fund (Note 25(e))	(5,500)	(7,500)
Other liabilities	(1,969)	810
Net cash used in operations	(238,793)	(65,484)

27. NET CASH USED IN OPERATIONS

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

	CONSOLIDATED AND BANK	
	2022	2021
	KShs' million	KShs' million
Balances due from banking institutions (Note 11)	295,836	430,968
Financial assets – FVOCI (Note 15)	32,576	46,020
Securities discounted by banks and other advances (Note 13)	33,463	12,678
	361,875	489,666

27. NET CASH USED IN OPERATIONS (continued)

(b) Changes in liabilities arising from financing activities

At start of the year	221,174	151,841
Cash flow items:		
Repayments to IMF	(11,220)	(7,894)
Receipts during the year	110,597	77,190
Foreign exchange changes	4,594	37
At 30 June	325,145	221,174

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	
	2022	2021
Loans to key senior staff	KShs' million	KShs' million
At 1 July	26	52
Loans advanced during the year	38	7
Loan repayments	(19)	(33)
At 30 June	45	26
(ii) Directors' emoluments:		
Fees to non-executive directors	19	17
Directors' travelling expenses	2	-
Other remuneration to executive directors	35	34
	56	51
(iii) Remuneration to senior staff	**277**	**258**
(iv) Post–employment pension to senior management	**4**	**4**

28. RELATED PARTY TRANSACTIONS (continued)

(v) Government of Kenya

Due from Government of Kenya (Note 21(b))	118,263	79,288
Government of Kenya Deposits (Note 23)	234,406	391,886
IMF On-lent to GOK (Note 21(a))	192,924	160,638
Interest earned from Government of Kenya – Loan (Note 4)	592	626
Interest earned from Government of Kenya - Overdraft (Note 4)	2,064	2,208
Fees and commission income (Note 6(a))	3,000	3,000
Loan principal repayment (Note 21(b))	1,110	1,665

Transactions entered into with the Government include:

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

(vi) Kenya School of Monetary Studies (KSMS)

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

The permanent staff working at KSMS are employees of CBK. Fixed assets are also wholly owned by the Bank and a letter of support is issued annually to the external auditor of the school as part of the commitment of the Bank 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	
	2022 KShs' million	2021 KShs' million
CBK-KSMS related transactions and balances		
Grants from CBK	487	562
Due to CBK	21	123

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

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

(a) Strategy in using financial instruments

The bank holds foreign exchange reserves for the purpose of serving 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 2022

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 2022 and 30 June 2021:

	CONSOLIDATED	
	2022	2021
	KShs' million	KShs' million
Balances due from banking institutions	295,836	430,968
Funds held with International Monetary Fund (IMF)	71,639	2,201
Securities and advances to banks	71,829	59,540
IMF On-Lent to GOK	192,924	160,638
Loans and advances	3,726	3,131
Debt instruments at fair value through other comprehensive income	636,651	664,991
Other assets – sundry debtors	357	349
Due from Government of Kenya	118,263	79,288
	1,391,225	1,401,106

	BANK	
	2022	2021
	KShs' million	KShs' million
Balances due from banking institutions	295,836	430,968
Funds held with International Monetary Fund (IMF)	71,639	2,201
Securities and advances to banks	71,829	59,540
IMF On-Lent to GOK	192,924	160,638
Loans and advances	3,726	3,131
Debt instruments at fair value through other comprehensive income	636,651	664,991
Other assets – sundry debtors	219	263
Due from Government of Kenya	118,263	79,288
	1,391,087	1,401,020

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.

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 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	55,964	-	-	55,964
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	629,173	-	-	629,173
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	91,865	-	-	91,865
Gross carrying amount	91,865	-	-	91,865
Impairment allowance	(20,036)	-		(20,036)
Net carrying amount	71,829	-	-	71,829
Loans and advances				
Unrated	3,650	-	3,532	7,182
Gross carrying amount	3,650	-	3,532	7,182
Impairment allowance	(10)	-	(3,446)	(3,456)
Net carrying amount	3,640	-	86	3,726
Other assets				
Unrated	-	-	5,354	5,354
Gross carrying amount	-	-	5,354	5,354
Impairment allowance	-	-	(4,997)	(4,997)
Net carrying amount	-	-	357	357

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Credit quality analysis (continued)

Year ended 30 June 2021

	CONSOLIDATED			
	Stage 1 KShs' million	Stage 2 KShs' million	Stage 3 KShs' million	Total KShs' million
Balance due from banking institutions				
Rated AAA	-	-	-	-
Rated AA- to AA+	111,771	-	-	111,771
Rated A- to A+	222,295	-	-	222,295
Rated BBB – BB	659	-	-	659
Unrated	96,254	-	-	96,254
Gross carrying amount	430,979	-	-	430,979
Impairment allowance	(11)	-	-	(11)
Net carrying amount	430,968	-	-	430,968
Debt instruments at fair value through OCI				
Rated AAA	657,885	-	-	657,885
Rated AA- to AA+	7,106	-	-	7,106
Carrying amount	664,991	-	-	664,991
Due from Government of Kenya				
Unrated	79,288	-	-	79,288
Funds with IMF				
Unrated	2,201	-	-	2,201
IMF On-Lent to GOK				
Unrated	160,638	-	-	160,638

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Credit quality analysis (continued)

Year ended 30 June 2021

	CONSOLIDATED			
	Stage 1 KShs' million	Stage 2 KShs' million	Stage 3 KShs' million	Total KShs' million
Securities and advances to banks				
Unrated	75,514	-	-	75,514
Gross carrying amount	75,514		-	75,514
Impairment allowance	(15,974)	-	-	(15,974)
Net carrying amount	59,540	-	-	59,540
Loans and advances				
Unrated	3,051	6	3,522	6,579
Gross carrying amount	3,051	6	3,522	6,579
Impairment allowance	(7)	-	(3,441)	(3,448)
Net carrying amount	3,044	6	81	3,131
Other assets				
Unrated	-	-	5,328	5,328
Gross carrying amount	-	-	5,328	5,328
Impairment allowance	-	-	(4,979)	(4,979)
Net carrying amount	-	-	349	349

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Credit quality analysis (continued)
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 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	629,173	-	-	629,173
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

	BANK			
	Stage 1 KShs' million	Stage 2 KShs' million	Stage 3 KShs' million	Total KShs' million
Securities and advances to banks				
Unrated	91,865	-		91,865
Gross carrying amount	91,865	-	-	91,865
Impairment allowance	(20,036)	-		(20,036)
Net carrying amount	71,829	-	-	71,829
Loans and advances				
Unrated	3,650	-	3,532	7,182
Gross carrying amount	3,650	-	3,532	7,182
Impairment allowance	(10)	-	(3,446)	(3,456)
Net carrying amount	3,640	-	86	3,726
Other assets				
Unrated	-	-	5,216	5,216
Gross carrying amount	-	-	5,216	5,216
Impairment allowance	-	-	(4,997)	(4,997)
Net carrying amount	-	-	219	219

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Credit quality analysis (continued)

Year ended 30 June 2021

	BANK			
	Stage 1 KShs' million	Stage 2 KShs' million	Stage 3 KShs' million	Total KShs' million
Balance due from banking institutions				
Rated AAA	-	-	-	-
Rated AA- to AA+	111,771	-	-	111,771
Rated A- to A+	222,295	-	-	222,295
Rated BBB – BB	659	-	-	659
Unrated	96,254	-	-	96,254
Gross carrying amount	430,979	-	-	430,979
Impairment allowance	(11)	-	-	(11)
Net carrying amount	430,968	-	-	430,968
Debt instruments at fair value through OCI				
Rated AAA	657,885	-	-	657,885
Rated AA- to AA+	7,106	-	-	7,106
Carrying amount	664,991	-	-	664,991
Due from Government of Kenya				
Unrated	79,288	-	-	79,288
Funds with IMF				
Unrated	2,201	-	-	2,201
IMF On-Lent to GOK				
Unrated	160,638	-	-	160,638

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Credit quality analysis (continued)

Year ended 30 June 2021

	BANK			
	Stage 1 KShs' million	Stage 2 KShs' million	Stage 3 KShs' million	Total KShs' million
Securities and advances to banks				
Unrated	75,514	-	-	75,514
Gross carrying amount	75,514		-	75,514
Impairment allowance	(15,974)	-	-	(15,974)
Net carrying amount	59,540	-	-	59,540
Loans and advances				
Unrated	3,051	6	3,522	6,579
Gross carrying amount	3,051	6	3,522	6,579
Impairment allowance	(7)	-	(3,441)	(3,448)
Net carrying amount	3,044	6	81	3,131
Other assets				
Unrated	-	-	5,242	5,242
Gross carrying amount	-	-	5,242	5,242
Impairment allowance	-	-	(4,979)	(4,979)
Net carrying amount	-	-	263	263

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

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 2022	30 June 2021	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 2022, the Bank held advances to banks of KShs 33,171 million (2021: KShs 11,910 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 33,921 million (2021: KShs 13,796 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
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.	Existing and forecast changes in 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 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 the history of recovery rates, or parameters calculated by international credit rating agencies and regulatory institutions, of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset.

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

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

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

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include: instrument type, credit risk grading; collateral type; date of initial recognition; remaining term to maturity; industry; and, geographic location of the 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 2022	Exposure 2021	External benchmarks used	
	KShs' million	KShs' million	PD	LGD
Balances due from banking institutions	295,847	430,979	Bloomberg PD rating model	Basel II recovery studies
Debt instruments at fair value through other comprehensive income	636,651	664,991	Bloomberg PD rating model	Basel II recovery studies

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

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							
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	(441,861)	(76)	-	-	-	-	(441,861)	(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 Assests								
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

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

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	-	-	3,533	3,444	7,182	3,456

Year ended 30 June 2022

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 2020	724,892	78	-	-	-	-	724,892	78
New assets originated or purchased	394,863	106	-	-	-	-	394,863	106
Asset derecognized or repaid	(476,644)	(27)	-	-	-	-	(476,644)	(27)
Accrued interest	1,028	-	-	-	-	-	1,028	-
Realised gains	(2,420)	-	-	-	-	-	(2,420)	-
Foreign exchange adjustments	29,593	-	-	-	-	-	29,593	-
Changes in risk parameters	-	2	-	-	-	-	-	2
Fair value changes	(6,321)	-	-	-	-	-	(6,321)	-
At 30 June 2021	664,991	159	-	-	-	-	664,991	159
Balances due from banking institutions								
At 1 July 2020	369,533	28			-		369,533	28
Net movement during the year	61,446	(17)	-	-	-	-	61,446	(17)
At 30 June 2021	430,979	11	-	-	-	-	430,979	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 2021

				CONSOLIDATED				
Securities and advances to banks	Stage 1 Gross carrying amount KShs' million	ECL KShs' million	Stage 2 Gross carrying amount KShs' mil-lion	ECL KShs' million	Stage3 Gross carrying amount KShs' million	ECL KShs' million	Total Gross carrying amount KShs' million	ECL KShs' million
At 1 July 2020	65,114	9,553	-	-	2,147	2,147	67,261	11,700
New assets originated or purchased	368,604	6,421	-	-	-	-	368,604	6,421
Asset derecognized or repaid	(358,048)	-	-	-	(2,147)	(2,147)	(360,195)	(2,147)
Accrued interest	(156)	-	-	-	-	-	(156)	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Change in risk parameters	-	-	-	-	-	-	-	-
At 30 June 2021	75,514	15,974	-	-	-	-	75,514	15,974
Funds held with IMF								
At 1 July 2021	3,255	-	-	-	-	-	3,255	-
Net movement during the year	(1,054)	-	-	-	-	-	(1,054)	-
At 30 June 2022	2,201	-	-	-	-	-	2,201	-
Other assets								
At 1 July 2020	492	-	-	-	4,970	4,962	5,462	4,962
New assets originated or purchased	177	-	-		-	-	177	-
Asset derecognized or repaid	(311)	-	-	-	-	-	(311)	-
Transfer to Stage 3	(17)	-	-	-	17	17	-	17
At 30 June 2021	341	-	-	-	4,987	4,979	5,328	4,979

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

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 2020	3,172	4	11	-	3,544	3,449	6,727	3,453
New assets originated or purchased	781	3	-	-	-	-	781	3
Asset derecognized or repaid	(868)	(3)	-	-	(61)	(26)	(929)	(29)
Transfer to Stages	(33)	-	(5)	-	38	16	-	16
Changes in risk parameters	-	5	-	-	-	-	-	5
At 30 June 2021	3,052	9	6	-	3,521	3,439	6,579	3,448

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	(441,861)	(76)	-	-	-	-	(441,861)	(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 Assests								
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	-	-	3,533	3,444	7,182	3,456

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

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 2021

	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 2020	724,892	78	-	-	-	-	724,892	78
New assets originated or purchased	394,863	106	-	-	-	-	394,863	106
Asset derecognized or repaid	(476,644)	(27)	-	-	-	-	(476,644)	(27)
Accrued interest	1,028	-	-	-	-	-	1,028	-
Realised gains	(2,420)	-	-	-	-	-	(2,420)	-
Foreign exchange adjustments	29,593	-	-	-	-	-	29,593	-
Changes in risk parameters	-	2	-	-	-	-	-	2
Fair value changes	(6,321)	-	-	-	-	-	(6,321)	-
At 30 June 2021	664,991	159	-	-	-	-	664,991	159
Balances due from banking institutions								
At 1 July 2020	369,533	28			-		369,533	28
Net movement during the year	61,446	(17)	-	-	-	-	61,446	(17)
At 30 June 2021	430,979	11	-	-	-	-	430,979	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 2021

	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 2020	65,114	9,553	-	-	2,147	2,147	67,261	11,700
New assets originated or purchased	368,604	6,421	-	-	-	-	368,604	6,421
Asset derecognized or repaid	(358,048)	-	-	-	(2,147)	(2,147)	(360,195)	(2,147)
Accrued interest	(156)	-	-	-	-	-	(156)	-
Transfer to Stage 3	-	-	-	-	-	-	-	-
Change in risk parameters	-	-	-	-	-	-	-	-
At 30 June 2021	75,514	15,974	-	-	-	-	75,514	15,974
Funds held with IMF								
At 1 July 2021	255	-	-	-	-	-	3,255	-
Net movement during the year	(1,054)	-	-	-	-	-	(1,054)	-
At 30 June 2022	2,201	-	-	-	-	-	2,201	-
Other Assests								
At 1 July 2020	492	-	-	-	4,970	4,962	5,462	4,962
New assets originated or purchased	91	-	-	-	-	-	91	-
Asset derecognized or repaid	(311)	-	-	-	-	-	(311)	-
Transfer to Stage 3	(17)	-	-	-	17	17	-	17
At 30 June 2021	255	-	-	-	4,987	4,979	5,242	4,979
Loans and advances								
At 1 July 2020	3,172	4	11	-	3,544	3,449	6,727	3,453
New assets originated or purchased	781	3	-	-	-	-	781	3
Asset derecognized or repaid	(868)	(3)	-	-	(61)	(26)	(929)	(29)
Transfer to Stages	(33)	-	(5)	-	38	16	-	16
Changes in risk parameters	-	5	-	-	-	-	-	5
At 30 June 2021	3,052	9	6	-	3,521	3,439	6,579	3,448

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

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 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**

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 2021

	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	151,636	49,961	24,900	13,792	31,731	7,467	151,492	430,979
Funds held with IMF	2,201	-	-	-	-	-	-	2,201
IMF On-Lent to GOK	-	-	-	-	-	160,638	-	160,638
Securities and advances to banks	-	-	-	-	-	75,514	-	75,514
Loans and advances	-	-	-	-	-	6,579	-	6,579
Debt instruments at fair value through OCI	588,033	12,235	-	-	2,844	-	61,879	664,991
Other assets - Sundry debtors	-	-	-	-	-	5,328	-	5,328
Due from Government of Kenya	-	-	-	-	-	79,288	-	79,288
Total financial assets	**741,870**	**62,196**	**24,900**	**13,792**	**34,575**	**334,814**	**213,371**	**1,425,518**

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(i) Credit risk (continued)

Concentrations of credit risk (continued)

Year ended 30 June 2022

	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	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 geography is set out below:

Year ended 30 June 2021

	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	151,636	49,961	24,900	13,792	31,731	7,467	151,492	430,979
Funds held with IMF	2,201	-	-	-	-	-	-	2,201
IMF On-Lent to GOK	-	-	-	-	-	160,638	-	160,638
Securities and advances to banks	-	-	-	-	-	75,514	-	75,514
Loans and advances	-	-	-	-	-	6,579	-	6,579
Debt instruments at fair value through OCI	588,033	12,235	-	-	2,844	-	61,879	664,991
Other assets - Sundry debtors	-	-	-	-	-	5,242	-	5,242
Due from Government of Kenya	-	-	-	-	-	79,288	-	79,288
Total financial assets	741,870	62,196	24,900	13,792	34,575	334,728	213,371	1,425,432

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	Fund 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	-	-	-	195,387
Commercial Banks	208,357	84,274		3,400	-	-	-	-	296,031
Foreign Agencies	-	-		-	35,391	-	-	-	35,391
Government of Kenya	-	7,592		-	-	118,263	192,924	-	318,778
Others	-	-	-	3,782	-	-	-	5,354	9,136
	295,847	91,865	71,644	7,182	636,651	118,263	192,924	5,354	1,419,730

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

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 2021

CONSOLIDATED

	Balances due from financial institutions KShs' million	Securities and advances KShs' million	Fund 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	32,777	-	-	-	-	-	-	-	32,777
Foreign Governments	-	-	-	-	-	587,336	-	-	587,336
Supranational Institutions	62,699	-	2,201	-	-	50,600	-	-	115,500
Commercial Banks	335,503	67,450	-	-	3,400	-	-	-	406,353
Foreign Agencies	-	-	-	-	-	18,205	-	-	18,205
Government of Kenya	-	8,064	-	160,638	-	-	79,288	-	247,990
Others	-	-	-	-	3,179	8,850	-	5,328	17,357
	430,979	75,514	2,201	160,638	6,579	664,991	79,288	5,328	1,425,518

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	Fund 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	-	-	-	195,387
Commercial Banks	208,357	84,274		3,400	-	-	-	-	296,031
Foreign Agencies	-	-		-	35,391	-	-	-	35,391
Government of Kenya	-	7,592		-	-	118,263	192,924	-	318,778
Others	-	-	-	3,782	-	-	-	5,216	8,998
	295,847	91,865	71,644	7,182	636,651	118,263	192,924	5,216	1,419,592

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

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 2021

	BANK								
	Balances due from financial institutions KShs' million	Securities and advances KShs' million	Fund 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	32,777	-	-	-	-	-	-	-	32,777
Foreign Governments	-	-	-	-	-	587,336	-	-	587,336
Supranational Institutions	62,699	-	2,201	-	-	50,600	-	-	115,500
Commercial Banks	335,503	67,450	-	-	3,400	-	-	-	406,353
Foreign Agencies	-	-	-	-	-	18,205	-	-	18,205
Government of Kenya	-	8,064	-	160,638	-	-	79,288	-	247,990
Others	-	-	-	-	3,179	8,850	-	5,242	17,271
	430,979	75,514	2,201	160,638	6,579	664,991	79,288	5,242	1,425,432

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

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 2022

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 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	**420,555**	**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 2022

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Market risk (continued)

Interest rate risk (continued)

CONSOLIDATED

At 30 June 2021	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	430,979	-	-	-	-	430,979
Securities and advances to banks	12,678	143	39,752	22,941	-	75,514
Debt instruments at FVOCI	46,020	200,012	418,959	-	-	664,991
Funds held with International Monetary Fund (IMF)	-	-	-	-	2,201	2,201
Loans and advances	159	473	1,856	691	3,400	6,579
Other assets	-	-	-	-	5,328	5,328
IMF On-lent to GOK	-	-	-	-	160,638	160,638
Due from Government of Kenya	59,279	1,110	4,440	14,459	-	79,288
Total financial assets	549,115	201,738	465,007	38,091	171,567	1,425,518
Liabilities						
Deposits due to banks and government	73,589	-	-	-	654,412	728,001
Other liabilities	-	-	-	-	5,952	5,952
Due to International Monetary Fund (IMF)	-	-	-	-	221,174	221,174
Total financial liabilities	73,589	-	-	-	881,538	955,127
Interest sensitivity gap	475,526	201,738	465,007	38,091	(709,971)	470,391

As at 30 June 2021, increase of 10 basis points would have resulted in a decrease/increase in profit and equity of KShs 470 million (2020: KShs 429 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

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 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)	-	-	-	-	71,645	71,645
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	**420,555**	**171,679**	**466,935**	**87,238**	**273,185**	**1,419,593**
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**	**(581,109)**	**550,779**

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 2022

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(ii) Market risk (continued)

Interest rate risk (continued)

BANK

At 30 June 2021	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	430,979	-	-	-	-	430,979
Securities and advances to banks	12,678	143	39,752	22,941	-	75,514
Debt instruments at FVOCI	46,020	200,012	418,959	-	-	664,991
Funds held with International Monetary Fund (IMF)	-	-	-	-	2,201	2,201
Loans and advances	159	473	1,856	691	3,400	6,579
Other assets	-	-	-	-	5,242	5,242
IMF On-lent to GOK	-	-	-	-	160,638	160,638
Due from Government of Kenya	59,279	1,110	4,440	14,459	-	79,288
Total financial assets	**549,115**	**201,738**	**465,007**	**38,091**	**171,481**	**1,425,432**
Liabilities						
Deposits due to banks and government	73,589	-	-	-	654,412	728,001
Other liabilities	-	-	-	-	5,846	5,846
Investment by banks	-	-	-	-	-	-
Due to International Monetary Fund (IMF)	-	-	-	-	221,174	221,174
Total financial liabilities	**73,589**	**-**	**-**	**-**	**881,432**	**955,021**
Interest sensitivity gap	**475,526**	**201,738**	**465,007**	**38,091**	**(709,951)**	**470,411**

As at 30 June 2022, increase of 10 basis points would have resulted in a decrease/increase in profit and equity of KShs 470 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 2021. Included in the table are the Bank's financial instruments categorised by currency:

	CONSOLIDATED AND BANK					
At 30 June 2022	USD KShs' million	GBP KShs' million	EUR KShs' million	SDR KShs' million	Others KShs' million	Total KShs' million
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**	**17,171**	**(253,501)**	**126,499**	**601,868**

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

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 2021						
Assets						
Balances due from banking institutions	207,710	26,124	21,539	-	175,614	430,987
Debt instruments at FVOCI	664,991	-	-	-	-	664,991
Funds held with International Monetary Fund (IMF)	-	-	-	2,201	-	2,201
Total financial assets	**872,701**	**26,124**	**21,539**	**2,201**	**175,614**	**1,098,179**
Liabilities						
Due to International Monetary Fund (IMF)	-	-	-	221,174	-	221,174
Deposits due to banks and government	81,804	3,051	4,519	-	526	89,900
Total financial liabilities	**81,804**	**3,051**	**4,519**	**221,174**	**526**	**311,074**
Net position	**790,897**	**23,073**	**17,020**	**(218,973)**	**175,088**	**787,105**

As at 30 June 2022, 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 34,535 million (2021: KShs 39,545 million)
- British Pound KShs 1,047 million (2021: KShs 1,154 million)
- Euro KShs 859 million (2021: KShs 851million)
- SDR KShs 12,675 million (2021: KShs 10,949 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

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 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	**525,090**	**14,538**	**9,860**	**64,192**	**255,357**	**869,037**
At 30 June 2021						
Deposits due to banks and government	654,412	73,589	-	-	-	728,001
Due to International Monetary Fund (IMF)	-	-	10,264	23,324	187,586	221,174
Lease liability	-	19	21	19	-	59
Other liabilities	-	-	5,952	-	-	5,952
Total financial liabilities	**654,412**	**73,608**	**16,237**	**23,343**	**187,586**	**955,186**
At 30 June 2021						

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

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 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**
At 30 June 2021						
Deposits due to banks and government	654,412	73,589	-	-	-	728,001
Due to International Monetary Fund (IMF)	-	-	10,264	23,324	187,586	221,174
Lease liability	-	19	21	19	-	59
Other liabilities	-	-	5,846	-	-	5,846
Total financial liabilities	**654,412**	**73,608**	**16,131**	**23,343**	**187,586**	**955,080**

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			
	2022		2021	
	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)	7,290	7,430	7,299	7,909
Loans and advances	3,726	3,552	3,131	3,271
Due from Government of Kenya	118,263	114,078	79,288	74,951
Financial liabilities				
Due to International Monetary Fund	325,145	123,208	221,174	90,522

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 2022

30. FAIR VALUE OF ASSETS AND LIABILITIES (continued)

b) Fair value hierarchy (continued)

	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	-	-	24,061
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	-

	CONSOLIDATED AND BANK		
Year ended 30 June 2021	Level 1 KShs' million	Level 2 KShs' million	Level 3 KShs' million
Assets measured at fair value:			
Property and equipment			
Land and buildings	-	-	24,946
Debt instruments at fair value through other comprehensive income	664,991	-	-
Equity instruments at fair value through other comprehensive income	-	-	10
Gold holdings	106	-	-
Assets for which fair values are disclosed:			
Securities and advances to banks (rediscounted treasury bonds)	7,909	-	-
Loans and advances	-	3,271	-
Due from Government of Kenya	-	74,951	-
Liabilities for which fair values are disclosed:			
Due to International Monetary Fund	-	90,522	-

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. The method of valuation of land and buildings is disclosed in note 18(b).

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	12%
Due from Government of Kenya	DCF	Interest rate	7%
Due to IMF	DCF	Interest rate	0.3%
LEVEL 3			
Land and buildings	Market/Income /cost approach	Comparable sales of similar properties in the neighbourhood	-

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

CONSOLIDATED AND BANK

	1 July 2021 KShs' million	Additions KShs' million	Change in Fair value KShs' million	Depreciation charge to profit or loss KShs' million	30 June 2022 KShs' million
Freehold land and buildings	19,502	-	-	(718)	18,784
Leasehold land and buildings	5,444	-	-	(168)	5,276
	24,946	-	-	(886)	24,060

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 2022, the Bank had capital commitments of KShs 7,310 million (2020: KShs 7,413 million) in respect of property and equipment purchases.

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 45 million (2021: KShs 49 million).

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

	2022 KShs' million	2021 KShs' million
Within one year	35	35
After one year but not more than five years	11	-
More than five years	45	-
	91	35

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

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 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 asset – leases	-	90	90
Property and equipment	-	31,910	31,910
Intangible assets	-	310	310
Retirement benefit assets	-	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 2022

32. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

	CONSOLIDATED		
Year ended 30 June 2021	Within 12 months KShs' million	After 12 months KShs' million	Total KShs' million
ASSETS			
Balances due from banking institutions	430,968	-	430,968
Funds held with International Monetary Fund (IMF)	2,201	-	2,201
Securities and advances to banks	12,821	46,719	59,540
Loans and advances	625	2,506	3,131
Debt instruments at fair value through other comprehensive income	246,032	418,959	664,991
Equity instruments at fair value through other comprehensive income	-	10	10
Other assets	5,541	-	5,541
Gold holdings	-	106	106
Right-of-use asset – leases	-	114	114
Property and equipment	-	33,105	33,105
Intangible assets	-	1,784	1,784
Retirement benefit assets	-	7,639	7,639
IMF Funds on – lent to GOK	-	160,638	160,638
Due from Government of Kenya	60,389	18,899	79,288
TOTAL ASSETS	**758,577**	**690,479**	**1,449,056**
LIABILITIES			
Currency in circulation	-	277,129	277,129
Deposits due to banks and government	728,001	-	728,001
Due to IMF	10,264	210,910	221,174
Other liabilities	6,239	19	6,258
TOTAL LIABILITIES	**744,504**	**488,058**	**1,232,562**
NET ASSETS	**14,073**	**202,421**	**216,494**

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

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 asset – leases	-	90	90
Property and equipment	-	31,910	31,910
Intangible assets	-	310	310
Retirement benefit assets	-	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 TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 30 JUNE 2022

32. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

		BANK	
Year ended 30 June 2021	Within 12 months KShs' million	After 12 months KShs' million	Total KShs' million
ASSETS			
Balances due from banking institutions	430,968	-	430,968
Funds held with International Monetary Fund (IMF)	2,201	-	2,201
Securities and advances to banks	12,821	46,719	59,540
Loans and advances	625	2,506	3,131
Debt instruments at fair value through other comprehensive income	246,032	418,959	664,991
Equity instruments at fair value through other comprehensive income	-	10	10
Other assets	5,454	-	5,454
Gold holdings	-	106	106
Right-of-use asset – leases	-	114	114
Property and equipment	-	33,105	33,105
Intangible assets	-	1,784	1,784
Retirement benefit assets	-	7,639	7,639
IMF Funds on – lent to GOK	-	160,638	160,638
Due from Government of Kenya	60,389	18,899	79,288
TOTAL ASSETS	758,490	690,479	1,448,969
LIABILITIES			
Currency in circulation	-	277,129	277,129
Deposits due to banks and government	728,001	-	728,001
Due to IMF	10,264	210,910	221,174
Other liabilities	6,133	18	6,151
TOTAL LIABILITIES	744,398	488,058	1,232,456
NET ASSETS	14,092	202,420	216,512

Notes

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