Central Bank of Kenya

TH ANNIVERSARY

1966 - 2016

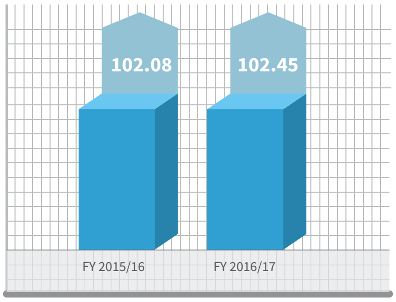
ANNUAL REPORT

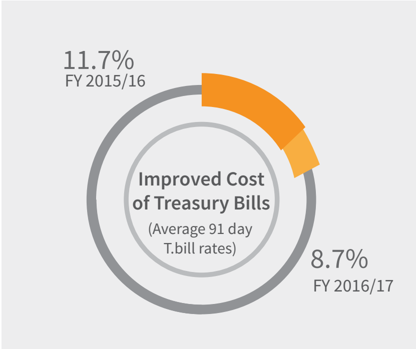
AND FINANCIAL STATEMENTS

2016/2017

HIGHLIGHTS

Average Exchange Rate (KSh/US$)

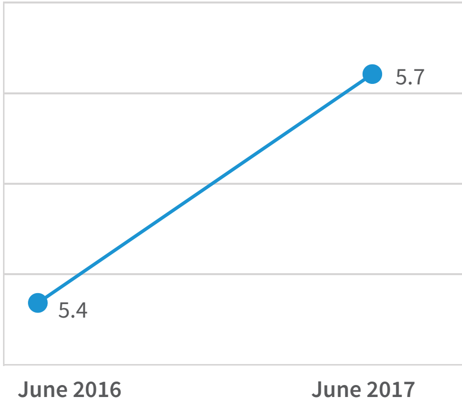




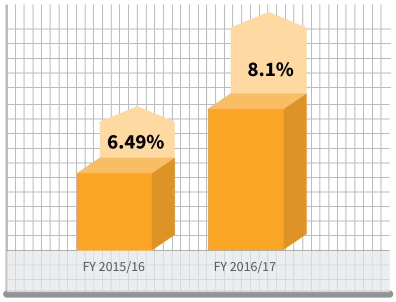
US$ 8.58 billion

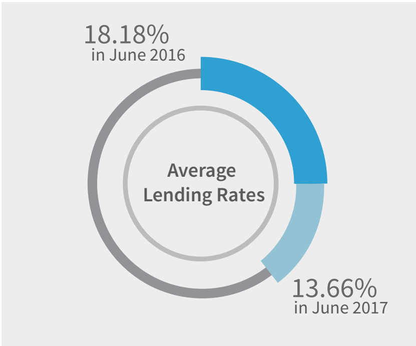
The level of Official Forex Reserves at end June 2017.

Months of Imports

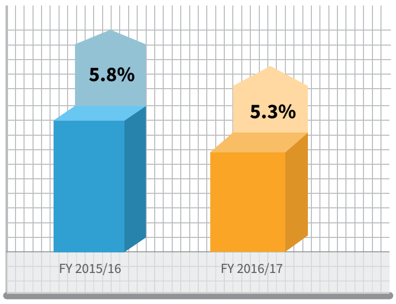


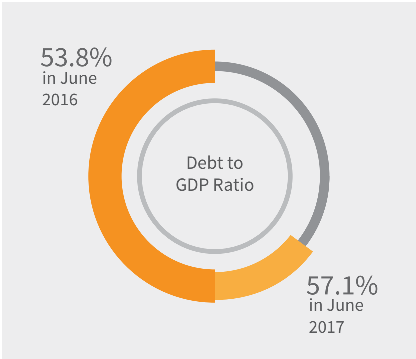
Average Inflation Rate (%)



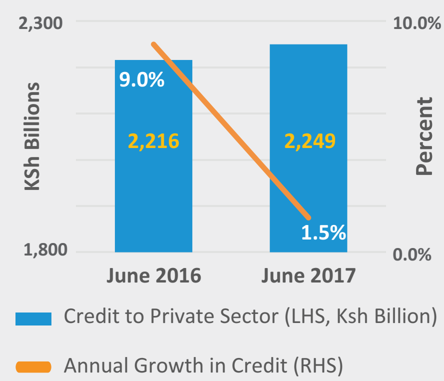


Real GDP Growth (%)

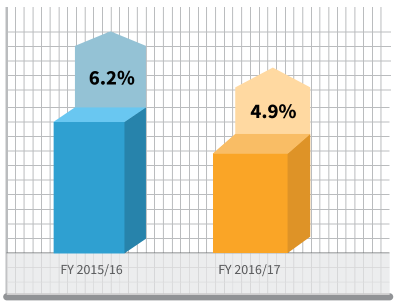




Credit to Private Sector



Current A/C Deficit (% of GDP)



MANDATES

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

i). Formulate and implement monetary policy directed to achieving and maintaining stability in the general level of prices.

ii). Foster the liquidity, solvency and proper functioning, efficient, sound and stable market-based financial system.

iii). Formulate and implement such policies as best to promote the establishment, regulation and supervision of efficient and effective payment, clearing and settlement systems.

iv). Design, issue and manage efficient distribution of quality currency (notes and coins) that are easily accepted and secure against counterfeiting.

v). Support the Government's economic and financial policies including its objectives for growth and employment.

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 authorized dealers; act as banker and adviser to, and fiscal agent of the Government.

OUR VISION

The Vision of the Bank is "To be a World Class Modern Central Bank."

OUR MISSION

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

Commitment

The Board and staff are committed to implementing the Bank's mandate as stipulated in the Constitution of Kenya and the CBK Act.

Professionalism and Relevance

The Board and staff will always endeavour to offer quality services to its internal and external customers, diligently observing high professional standards at all times and respecting the rules and regulations set by the Bank. All initiatives and activities undertaken remain relevant to the Bank's strategic objectives in pursuit of its core mandate.

Efficiency & Effectiveness

The Bank will at all times undertake its operations in the most cost efficient and effective manner while maintaining high standards of performance in execution of its mandate.

Innovativeness

The Bank will encourage, nurture and support creativity and the development of new ideas and processes for the continued improvement of organisational performance.

Transparency, Accountability and Integrity:

The Board and staff will always act in a transparent and accountable manner when handling all the affairs of the Bank both internally and with external parties so as to uphold the Bank's image at all times. In addition, the Bank will uphold high standards of ethics, integrity and honesty as guided by the Constitution, act in an ethical manner as guided by the Leadership and Integrity Act and the Public Officers' Ethics Act, and observe high moral standards.

Diversity and Inclusiveness:

The Bank appreciates and embraces the differences in its employees' skills sets and abilities and encourages consultations and inclusiveness in pursuit of its mandate across departments. This is aimed at maximising productivity and enhancing the Bank's overall performance.

Mutual Respect and Teamwork:

Mutual respect shall at all times be observed internally amongst colleagues and when dealing with the Bank's external clients. In addition, the Board and staff will cooperate and collaborate to enhance performance and create a healthy work environment.

TABLE OF CONTENT

LETTER OF TRANSMITTAL

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, the Annual Report of the Central Bank of Kenya for the Fiscal Year 2016/17. The Annual report contains economic and financial developments and the financial performance of the Central Bank of Kenya for the Fiscal Year ended June 30, 2017.

Patrick Njoroge

Dr. Patrick Njoroge

Governor

September 29, 2017

FOREWORD BY THE GOVERNOR

Steering the Central Bank of Kenya to be a Global Leader in Central Banking and Financial Sector Innovations

I am pleased to present the Central Bank of Kenya Annual Report for Financial Year 2016/2017. The year marked a momentous period in the history of the Central Bank of Kenya (CBK). The Bank celebrated its 50^{th} anniversary on September 14, 2016, marked by a series of events involving the youth, sponsorship of National Music Festival, a high level international Central Banking Symposium, introduction of an Internship programme, CBK@50 Book Project, CBK Numismatic Exhibition, support to St. Kizito School of the Blind, and issuance of a commemorative coin. The Bank has also enhanced health related activities that include weekly athletics, sports and mountain climbing, with the epic event being conquering the highest Mountain in Africa – Mt. Kilimanjaro. These events have resulted in enhanced team building, and cohesiveness in the Bank. The Bank jointly with the EuroMoney successfully hosted the International EuroMoney Conference on Financial Inclusion with the theme of expanding Kenya's Digital Financial Ecosystem. The conference brought together global and national experts to share lessons and experiences. I am delighted to report that modernization of the Central Bank website to enhance information dissemination resulted in the Bank wining the central bank of the Year Award for 2016, just behind the Bank of England and Bank of Canada.

In the year under review, the Bank pursued its primary objectives of achieving and maintaining monetary and financial stability. The CBK largely achieved its inflation target, except on occasions where it exceeded the upper band of 7.5 percent because of increases in food prices due to the prolonged drought in the first quarter of 2017. On the exchange rate, the Kenya Shilling remained relatively stable against the U.S dollar despite short-term global volatilities. The stability of the Shilling was partly due to a narrower current account deficit, enhanced flows from tea and horticultural exports, recovery of the tourism industry and resilience of diaspora remittances. The inflation and exchange rate outcomes reflected pursuit of appropriate monetary policy stance by the Monetary Policy Committee (MPC). In addition, the Bank continues to improve its monetary policy framework including adoption of forward-looking tools such as Forecasting and Policy Analysis System for predicting inflation. Modernization of the National Payments System has improved the efficiency and effectiveness of the monetary policy instruments. Furthermore, the MPC has enhanced the transparency and confidence in monetary policy decisions, thereby anchoring expectations around the policy direction and actions supported by effective communication.

FOREWORD BY THE GOVERNOR

The financial sector remained sound and resilient in the year under review, with a banking sector adequately capitalized despite spillover of vulnerabilities from 2015 and early 2016. The Bank took bold transformative reforms dubbed ‘New Normal’ based on three pillars – enhanced governance and integrity, greater transparency, and business models re-engineering and innovations by banks. In addition, the Bank took measures to strengthen its supervisory standards and capacity. These reforms will strengthen the entire financial sector in the long term.

On the downside, significant slowdown in credit to the private sector and the implementation of interest rate capping law in September 2016, posed challenges to the banking and financial sector. This has underscored the need to continuously monitor and assess underlying developments, in respect of which the Monetary Policy Committee commissioned respective studies to inform options for effective monetary policy.

Kenya’s banking sector continues to grow in terms of inclusiveness, efficiency and stability on the backdrop of legal, regulatory and supervisory reforms and standards. The key developments during the year are issuance of guidance note on Internal Capital Adequacy Assessment Process (ICAAP) in November 2016 to banks; implementation of the IFRS 9; the interest rates capping law; issuance of cyber security guidelines; and promoting transparency in pricing of credit.

On the outlook, we continue to monitor global developments and the Bank will appropriately respond to any shock that may create instability in the Kenyan economy.

Dr. Patrick Njoroge
Governor,
Central Bank of Kenya

STATEMENT BY THE CHAIRMAN OF THE BOARD

Laying the Foundation for World Class Central Bank to foster Inclusive Growth and Stability

The Central Bank of Kenya achieved significant milestones in the Financial Year (FY) 2016/17. The Government fully constituted the Bank's Board of Directors, paving way for effective oversight and policy direction. The Board established two committees – Human Resources Committee and the Audit Committee - to support the discharge of its mandates. It also reviewed the Bank's Strategic Plan and aligned the strategic focus areas to the Bank's mandates. In order to enhance operational efficiency, the Board laid the foundation to strengthen the Bank's organizational structure and human resource including staff alignment.

The CBK Board of Directors identified key strategic areas for implementation in FY 2017/2018. The priorities include fostering stability and integrity of the financial sector; stabilizing and enhancing core banking systems infrastructure; raising standards of premises, security infrastructure and systems; roll out of Phase II and III of the staff Re-visioning Plan; enhancing National Payments Systems Oversight and Risk Management Function. Further strategic initiatives will entail developing an impactful communication function; upgrading currency centres and branch premises, equipment and machines; enhancing operations in domestic debt management and promoting market development; re-aligning the procurement function and its systems; and improving provision of accurate, timely, relevant and sufficient data to support decision making.

The Bank has prioritized the establishment of a timely access to reliable and accurate data to aid analytical capability. In this regard, the Board has approved investment in an Enterprise Data Warehouse System and the modernization of the Bank's Libraries.

The Board adheres to best corporate governance standards and practices in performing its duties and responsibilities. It has established a monitoring and evaluation framework to track the implementation of the strategic plan 2015-18 on a quarterly basis in order to achieve the set goals. As an institution aspiring to be a modern world-class in line with global practice, we shall endeavor to establish and maintain productive working relationships with our key stakeholders. Against this background, the Board will engage and forge partnerships with relevant stakeholders in the implementation of the Bank's strategic plan.

The Board will continue to work closely with the Bank Management and other key stakeholders to ensure realization of the Vision and Mission of the Bank.

Mr. Mohamed Nyaoga
Chairman,
CBK Board of Directors

BOARD OF DIRECTORS

Mohammed Nyaoga
Chairman

Dr. Patrick Njoroge (Ph.D.)
Governor

Dr. Kamau Thugge (EBS)
National Treasury

Nelius Kariuki
Member

Ravi J. Ruparel
Member

Charity Kisotu
Member

Samson K. Cherutich
Member

Rachel Bessie Dzombo
Member

SENIOR MANAGEMENT

Dr Patrick Njoroge (Ph.D.)
Governor

Mrs Sheila M'Mbijjewe
Deputy Governor

Mr Kennedy Kaunda Abuga
Director, Governors' Office

Prof Kinandu Muragu (PhD)
Executive Director,
Kenya School of Monetary Studies (KSMS)

Mr Charles Gitari Koori
Director, Research

Ms Rose A. Detho
Director, Strategic Management Department

Mr Gerald Arita Nyaoma
Director, Bank Supervision Department

SENIOR MANAGEMENT

Mr Peter Rotich
Director, Finance Department

Ms Terry Wambui Ng'ang'a
Acting Director, Human Resources

Mr William Nyagaka
Director, Internal Audit

Mr John K. Birech
Acting Director, Financial Markets

Mr Paul K. Wanyagi
Acting Director, Currency Operations and Branch Administration

Eng Erastus Mwongera Miriti
Acting Director, Department of Procurement and Logistics Services

Mr. Mwenda K. M'Marete
Acting Director, Banking Services, National Payments System and Risk Management Department

MEMBERS OF THE MONETARY POLICY COMMITTEE

Dr Patrick Njoroge (Ph.D.)
Governor, Chairman

Mrs Sheila M'Mbijjewe
Deputy Governor, Vice Chair

Dr. Kamau Thugge (EBS)
PS, National Treasury

Mr John K. Birech
Member

Mr Charles Gitari Koori
Member

Mrs. Farida Abdul
Member

Prof. Francis Mwega
Member
Deceased

OVERVIEW

Central Bank of Kenya @50 Celebrations

The Central Bank of Kenya (CBK) turned 50 on Wednesday, September 14, 2016, a ripe age for its golden jubilee. The Bank celebrated its achievements in support of the nation's development. To commemorate its 50th Anniversary, CBK lined up a series of events targeted to encourage public ownership and participation in the golden jubilee celebrations. Several initiatives targeted the youth, in part, to respond to the growing demands of providing inspiration and opportunities to the future leaders of this nation. The celebrations had begun a year earlier, on September 14, 2015.

The culmination of the CBK@50 celebrations was the Epic Event, on September 14, 2016 at the Nairobi National Museum, with participants including Government officials, domestic and international stakeholders as well as development and strategic partners. The event was graced by His Excellency, the President of the Republic of Kenya, Hon. Uhuru Kenyatta, CGH. During the Epic celebration, H.E. the President launched the CBK Numismatic Exhibition. The Exhibition which was developed in collaboration with the National Museums of Kenya, featured various historical and current currencies and provided information on other significant developments over the past 50 years of central banking in Kenya. As part of the celebrations, CBK also minted a commemorative coin with a face value of KSh 50.

Global Economic Performance

Global economic activity is gaining momentum from a broad-based recovery in investment, trade, and industrial production both in advanced economies and emerging market and developing economies. Global growth will strengthen to 3.6 per cent in 2017 and 3.7 per cent in 2018, from 3.2 per cent in 2016 (IMF, World Economic Outlook, dated October 2017). Growth in advanced economies will increase to 2.2 per cent in 2017 from 1.7 per cent in 2016, following contributions from both domestic and external demand, as continued recovery in global investment spur stronger manufacturing activity. Among emerging markets and developing economies, growth is projected to increase to 4.6 per cent in 2017 and 4.9 per cent in 2018, from 4.3 per cent in 2016, anchored on higher domestic demand in China and continued recovery in key emerging market economies.

Growth in Sub-Saharan Africa (SSA) is expected to rise 2.6 per cent in 2017 and 3.5 per cent in 2018 from 1.4 percent in 2016, with sizeable differences across countries. The recovery reflects improved performance of the two large economies, Nigeria and South Africa, attributed to the impact of improvement in commodity prices and favorable weather conditions.

While risks around the global growth forecast appear broadly balanced in the near term, they remain skewed to the downside over the medium term with protracted policy uncertainty, adverse weather conditions and financial sector vulnerabilities affecting market confidence and asset valuations, and thus weighing down on global growth.

Kenya Economic Performance

The Kenyan economy remained strong in 2016, growing by 5.8 per cent compared to 5.7 per cent in 2015. The resilience emanated from favourable weather conditions that boosted agricultural production, public investment spending, lower global oil prices and strong recovery in tourism. In the first quarter of 2017, however, growth decelerated to 4.7 per cent mainly due to prolonged drought conditions, which prevailed from late 2016, adversely affecting agriculture production. Nevertheless, the economy recovered in the second quarter of 2017 and recorded an improved growth of 5.0 per cent, which was supported by a modest recovery of the agriculture sector and robust growth of other sectors such as real estate, and transport and storage. These non-agriculture sectors have continued to support growth even when agriculture had declined.

Inflation

Annual average inflation increased to 8.1 per cent in June 2017 from 6.5 per cent in June 2016, largely driven by increases in food prices since February 2017 following prolonged drought conditions experienced in the last quarter of 2016 and first quarter of 2017. The 12-month overall inflation, accelerated from 7.0 per cent in January 2017 to 11.7 per cent in May 2017, and breached the 7.5 per cent upper bound on its target range from February. The drought adversely affected production of key food crops, resulting in food shortages. However, the Monetary Policy Committee (MPC) considered the surge in overall inflation in the first half of 2017 as temporary phenomenon that did not require changing the stance of monetary policy as indicators of demand pressures remained subdued. The surge in the 12-month inflation turned around in June 2017, supported by improved weather conditions in the second quarter of 2017, which resulted in increased supply of vegetables and other fast growing foods. The Government interventions also helped to stabilise prices of key food items.

Monetary Policy Management

The Central Bank of Kenya conducted monetary policy focused on achieving and maintaining stability in the general level of prices. The MPC had retained the CBR at 10.5 per cent in July 2016 given moderate inflationary pressures. Furthermore, the effects of the fuel tax increase imposed in December 2015 exerted temporary upward pressure on consumer prices. The MPC eased the policy rate (CBR) to 10 per cent in September 2016 on the back of favourable inflation outlook in the short term, and persistent slowdown in private sector credit growth. The MPC retained the CBR at 10 percent through June 2017 signalling absence of significant demand pressures in the economy and the need to continue anchoring inflationary expectations.

The MPC noted with concern the continued slowdown in credit to the private sector, and the implementation of interest rate caps in September 2016. Underscoring the need to assess the impact of the interest rate capping law on the banking sector, the MPC also noted that banks were reviewing their business models aimed at enhancing the resilience of their operations in the new environment.

The enactment of the interest rate capping law is against the government's commitment to a market based economy. The post-independence era controls, which were abolished in the early 1990's caused financial repression resulting in low savings rate in the economy, systemic weaknesses, heavy burden on the exchequer and slow economic growth. The liberalised environment has supported achievement of great strides in the development of the financial sector and the economy since the 1990s. There is no reason to believe that a new era of interest controls would not bring these negative consequences to the Kenyan economy.

Kenya's foreign exchange market remained relatively stable despite global volatilities arising from uncertain economic and trade policies in the US and the Brexit negotiations during the year to June 2017. This stability was derived from the narrowing of the current account deficit reflecting a lower import bill, enhanced flows from tea and horticultural export, recovery of the tourism industry and resilience of diaspora remittances. Oil prices in the international markets will remain relatively low, resulting in a moderately lower import bill. Foreign exchange earnings from key commodities such as tea and horticulture and inflows from diaspora remittances remain resilient. Consequently, these developments may put less pressure on the current account deficit. Receipts from tourism are also on a recovery path reflecting Government's focus on new regions to cushion against the volatility of the European Market; lifting of travel bans by governments in key source markets in Europe and America; global increase in awareness of Kenya as a tourist destination; and recovery of Kenya's cruise tourism business. The stock of international reserves at USD 8.58 billion as at June 2017, equivalent to 5.7 months of imports, reflects an adequate buffer in relation to the 4.5 months of import cover target floor. In addition, the precautionary arrangements with the IMF amounting to USD 1.5 billion continue to provide an additional buffer against short term external and domestic shocks.

Government Budgetary Operations

Government budgetary operations in the Fiscal Year (FY) 2016/17 resulted in a deficit of 8.9 per cent of GDP on a commitment basis, compared to 7.7 per cent of GDP in the FY 2015/16. The deficit was, however, within the target 10.9 per cent of GDP. Government expenditure increased steadily, against constrained revenue growth despite tax reform measures. The domestic financing of the deficit decreased to 44.7 per cent from 53.9 per cent in the FY 2014/15. Over the last 5 years, the domestic financing component has been coming down as the government continues to have more access to the cheaper external financing options.

Kenya's public and publicly guaranteed debt increased by 22.0 per cent during FY 2016/17. In both the domestic and external debt components. Public debt portfolio comprised 47.9 per cent and 52.1 per cent of domestic and external debt, respectively by the end of FY 2016/17. This was reflective of the financing mix in recent financial years with external financing preferred over domestic financing owing to lower financing costs. The ratio of public debt to GDP rose to 57.1 per cent in nominal terms, but at 49.2 per cent in present value terms remained within the EAC convergence criterion.

Banking Sector Developments

Kenya banking sector continued to grow in terms of inclusiveness, efficiency and stability on the backdrop of legal, regulatory and supervisory reforms and initiatives. The main developments include issuance of guidance note on Internal Capital Adequacy Assessment Process (ICAAP) in November 2016 to all commercial banks and mortgage finance companies; setting out the general rules to govern an institution's ICAAP, its key features and disclosure requirements. Two new commercial banks; DIB Bank Kenya Ltd and Mayfair Bank Limited were licensed in April 2017 and June 2017, respectively. DIB Bank Kenya Ltd is the third fully sharia compliant bank in Kenya after Gulf African Bank Ltd in 2007 and First Community Bank Limited in 2008.

Several commercial banks introduced a payment system product, PESALINK, to provide a secure and efficient platform for money transfer across accounts held with banks. The platform, managed by Kenya Bankers Association (KBA) through its subsidiary, the Integrated Payment Services Limited, will complement the existing payment system infrastructure and provide customers with more choice. In order to promote transparency in pricing of credit, the Central Bank of Kenya jointly with the Kenya Bankers Association launched an on-line portal on cost of credit on June 22, 2017 to provide information on lending rates and charges offered by licensed banks. The portal aims at enabling users compare the price of credit from various banks. Central Bank of Kenya also issued for comments a Guidance Note on Cyber Risk, outlining the minimum requirements for banks to enhance cyber security.

CBK@50 CELEBRATIONS

The Central Bank of Kenya (CBK) officially opened its doors to the public on September 14, 1966. On **Wednesday, September 14, 2016**, the Bank turned **50**, its golden jubilee, and celebrated its achievements in support of the nation's macroeconomic development.

The Cabinet Secretary to the National Treasury, Mr. Henry Rotich, set the stage for the CBK@50 celebrations by launching the commencement of a year of the public celebrations on September 25, 2015. The CBK staff also held Thanksgiving Ceremony on the same day at the Head Office, Branches and Currency Centers.

To commemorate the 50th anniversary, CBK lined up a series of public events and activities that were targeted to encourage public ownership and participation in the Bank's Golden Jubilee celebrations. Several initiatives deliberately targeted the youth to respond, in part, to the growing demands of providing inspiration and opportunities to the youth as the future leaders of the nation. The initiatives and activities that marked the CBK's 50th anniversary celebrations included the following:

1. **The Internship Program**
   The Central Bank of Kenya Internship Program (**CBKIP**) launched on July 1, 2016. Currently in its third cohort, the **CBKIP** is a six-month programme that aims to expose talented youth to the work of central banking, improve financial sector literacy and generate a pool of skilled graduates for the broader financial sector.

2. **The Kenya School of Monetary Studies Support Initiatives**
   (i) Mathare Youth Empowerment Programme: KSMS and the CBK jointly organized and delivered the Mathare Youth Empowerment Programme. The Governor launched the programme on May 31, 2016 at KSMS. The objectives of the programme included imparting financial management skills to youth groups from the Mathare area and providing them with strategic linkages with the corporate sector. Over three hundred youths attended the three-day event.

   (ii) Financial Literacy Program for Athletes: This program sought to identify economic challenges faced by former, current and upcoming sports and athletics champions in Kenya. The objective was to assist in enhancing their financial literacy and capacity to resolve financial challenges that may inhibit their ability to invest in viable business ventures and manage their wealth. The event took place on October 28, 2016 in Eldoret.

3. **The Kenya Music Festival**
   The Bank collaborated with the Ministry of Education's Kenya Music Festival Committee (KMF), under the Ministry of Education Science and Technology, as the *Title and Thematic Sponsor* of the 2016 Primary and Secondary Schools Music Festival. CBK used the KMF platform to demonstrate the value it places on nurturing and developing youth talent as the next crop of leaders. In particular, CBK's sponsorship of the festival provided the opportunity for the youth to grow their financial literacy and artistic talents through music and poetry as well as connect with the public. This initiative registered great impact resulting in the Bank sponsoring, again, the Kenya Music Festival, 2017.

4. **Documentaries**
   CBK produced a documentary featuring the staff behind the Bank. This documentary featured in different media beginning the first week of September 2016.

5. **Publications**
   The Bank produced the following two commemorative publications:

CBK@50 CELEBRATIONS

(i) **History and Development of Money in Kenya**

This book chronicles the development of money as an important instrument in facilitation of trade in Kenya and the East Africa region. The book's pictorial nature gives an aesthetic appeal to every reader while sharing a piece of history. The Governor presented the book to His Excellency the President during the epic celebrations on September 14, 2016.

(ii) **The People of Central Bank**

A separate book produced to capture and celebrate CBK staff. In particular, the book tells captivating stories by staff that highlight the contribution of CBK staff to the society.

6. **Commemorative Coins/Memorabilia**

The Bank minted a commemorative coin that depicts the CBK@50 celebrations. The coin, with a face value of KES.50, is available in both gold and gold plated nickel brass. The gold plated nickel brass coin is embedded in an acrylic block as a paperweight. The Governor presented the gold commemorative coin to His Excellency the President during the epic celebrations on September 14, 2016. The Bank issued the coins as memorabilia to staff, CBK guests and key stakeholders.

7. **Painting/Art Competition**

CBK, in conjunction with the National Museums of Kenya (NMK), organized a painting competition for primary and high school students, sponsored by the Kenya Bankers Association (KBA). The competition entailed students representing the CBK@50 theme through creative and artistic forms such as paintings, collage, mosaic and other creative works of art. Forty-one children aged between 6 - 18 years from more than 18 schools took part in the competition. The paintings submitted were assessed and the winning art works put on display at the Nairobi National Museum throughout the CBK celebratory period.

8. **Central Banking Symposium**

CBK hosted an International Central Banking Symposium on September 13, 2016. This was a high level scholars' Symposium that brought together senior local and international economists, researchers, academia and other stakeholders to engage on emerging issues in central banking. Over 195 delegates attended the symposium.

The Cabinet Secretary to the National Treasury, Mr. Henry Rotich officially opened the Symposium while Mr. Mitsuhiro Furusawa, Deputy Managing Director, IMF, gave the keynote address.

9. **Numismatic Museum**

The National Museums of Kenya (NMK) collaborated with the CBK to host a temporary Numismatic Central Bank Exhibition at the National Museum. The Exhibition provides a platform for the Bank to educate the public on the evolution of the Kenya currency and other important artefacts and memorabilia of historic significance to the CBK and its mandate.

10. **Epic Celebration**

CBK's Golden Jubilee was marked with an Epic celebration, graced by His Excellency, the President of the Republic of Kenya, Hon. Uhuru Kenyatta, CGH, on September 14, 2016 at the Nairobi National Museum. During the auspicious occasion, the President officially launched the CBK Numismatic Exhibition.

Over 280 delegates (including high rank Government officials, local and international stakeholders as well as development and strategic partners) attended the Epic event. During this historic celebration, CBK reflected on its milestones over the auspicious 50-year journey as well as its future goals.

CBK@50 CELEBRATIONS

To conclude the Epic celebrations, CBK hosted a number of dignitaries to a game drive and a bush dinner at the Nairobi National Park.

11. **Other Events**

(i) **Beyond Zero First Lady's Half Marathon held on March 6, 2016** over 500 staff drawn from the Head Office, Branches and Currency Centres supported the First Lady's "*Beyond Zero Campaign*" half marathon.

(ii) **Financial sector chief executive officers (CEO's) run held on October 1, 2016:** The Kenya Institute of Bankers 32nd Edition of the Inter-Bank Games saw the inaugural of the CEO's run with the Bank emerging the overall winner.

(iii) **CBK Staff Party:** The CBK staff in Nairobi, the Branches and Currency Centers commemorated the 50th anniversary in celebrated parties, attended by their guests, CBK retirees and graced by the Governor.

1.0 WORLD ECONOMY

WORLD ECONOMY

Global economic growth is projected to strengthen to 3.6 per cent in 2017 and 3.7 per cent in 2018, from 3.2 per cent in 2016, (IMF, World Economic Outlook, October 2017). This is a 0.1 percentage point upward revision in both 2017 and 2018, relative to the July 2017 WEO. The pickup of global activity that started in the second half of 2016 and gained momentum in the first half of 2017 reflects firmer domestic demand growth in advanced economies and key emerging markets and developing economies as recovery in global investment spurred stronger manufacturing and trade activities. GDP growth in major advanced economies is projected at 2.2 per cent in 2017 and 2.0 percent in 2018 from 1.7 per cent in 2016.

The US economy is projected to expand at 2.2 percent in 2017 and 2.3 percent in 2018, from 1.5 percent in 2016. The projection is moderately above the potential of 1.8 percent and reflects supportive financial conditions and strong business and consumer confidence. However, growth is expected to moderate to below potential in the medium term following uncertainty in the implementation of fiscal stimulus from anticipated tax cuts, continued sluggish growth in total factor productivity and diminished growth of the workforce due to population aging.

The Euro Area growth is expected to rise to 2.1 per cent in 2017 and moderate at 1.9 percent in 2018 from 1.8 per cent in 2016. The increase in 2017 growth mostly reflects acceleration in exports in the context of the broader pickup in global trade and continued strength in domestic demand supported by accommodative financial conditions amid diminished political risk and policy uncertainty. The moderation in 2018 is on the backdrop of unwinding of the monetary policy measures by the ECB and public and private debt overhang.

Growth in the United Kingdom is projected at 1.7 percent in 2017 from 1.8 percent in 2016. The slowdown is attributed to a softer growth in private consumption as the Pound's depreciation weigh on household real income. Growth is expected to slow down further to 1.5 percent in 2018 on the back of increased barriers to trade, migration, and cross-border financial activity anticipated from the ongoing negotiations on the new economic relationship with the EU.

In Japan, growth is projected at 1.5 per cent in 2017 from 1.0 per cent in 2016, driven by strong global demand and policy actions to sustain a supportive fiscal stance. However, growth is expected to slow down to 0.7 percent in 2018 on the backdrop of moderate growth in private consumption, and assumed reduction in fiscal support.

Growth in emerging markets and developing economies, is expected to accelerate, rising from 4.3 per cent in 2016 to 4.6 per cent in 2017 and to 4.9 per cent in 2018, with the expansion anchored on gradual improvement of conditions among large commodity exporters that experienced recessions in 2015–16. This is mainly in Latin America and the Caribbean, where GDP growth had contracted by 0.9 percent in 2016, and is projected to increase by 1.2 percent in 2017 and 1.9 percent in 2018

In China growth is projected at 6.8 per cent in 2017, from 6.7 percent in 2016 reflecting stronger-than-expected outturn in the first half of the year underpinned by previous policy easing and supply-side reforms. However, growth is expected to moderate to 6.5 per cent in 2018 as supportive policies including strong credit growth and reliance on public investment to achieve growth targets are withdrawn.

In India growth is expected to increase from 7.1 per cent in 2016 to 6.7 per cent in 2017 reflecting persistent disruptions associated with the currency exchange initiative introduced in November 2016. However, growth is expected to pick up to 7.4 per cent in 2018 boosted by implementation of numerous structural reforms.

Growth in Sub-Saharan Africa (SSA) is expected to rise from 1.4 percent in 2016 to 2.6 per cent in 2017 and 3.5 per cent in 2018, with sizeable differences across countries. **Nigeria** is projected to grow by 0.8 per cent in 2017 and 1.9 percent in 2018 from a contraction of 1.6 per cent in 2016 anchored on recovery in oil production, continued growth in agriculture, and higher public investment. **In South Africa,** modest recovery is expected, with growth forecast at 0.7 per cent in 2017 from 0.3 per cent in 2016 after experiencing bumper harvest due to better rainfall and an increase in mining output prompted by a moderate rebound in commodity prices.

Table 1.1 below summarizes actual and projected world economic outlook, 2015 – 2018, by the IMF.

Table 1.1: Actual and Projected Output in Selected Countries/Regions (Per Cent Change)

	Actual		Projections		Difference from April 2017 WEO Projections	
Country/Region	**2015**	**2016**	**2017**	**2018**	**2017**	**2018**
World Output	**3.4**	**3.2**	**3.5**	**3.6**	**0.0**	**0.0**
Advanced Economies	**2.1**	**1.7**	**2.0**	**1.9**	**0.0**	**-0.1**
United States	2.6	1.6	2.1	2.1	-0.2	-0.4
Euro area	2.0	1.8	1.9	1.7	0.2	0.1
Japan	1.1	1.0	1.3	0.6	0.1	0.0
United Kingdom	2.2	1.8	1.7	1.5	-0.3	0.0
Emerging Market and Developing economies	**4.3**	**4.3**	**4.6**	**4.8**	**0.1**	**0.0**
Emerging and Developing Asia	6.8	6.4	6.5	6.5	0.1	0.1
China	6.9	6.7	6.7	6.4	0.1	0.2
India	8.0	7.1	7.2	7.7	0.0	0.0
Latin America and the Caribbean	0.1	-1.0	1.0	1.9	-0.1	-0.1
Brazil	-3.8	-3.6	0.3	1.3	0.1	-0.4
Sub-Saharan Africa	3.4	1.3	2.7	3.5	0.1	0.0
South Africa	1.3	0.3	1.0	1.2	0.2	-0.4
Nigeria	2.7	-1.6	0.8	1.9	0.0	0.0
Middle East, North Africa, Afghanistan and Pakistan	2.7	5.0	2.6	3.3	0.0	-0.1

** Source: IMF, World Economic Outlook, October 2017 update*

WORLD ECONOMY

Risks to the global growth outlook are broadly balanced. On the upside, momentum could prove to be more durable than expected amid strong consumer and business confidence, in especially the Euro Area and in East Asia. On the downside: -

- **Prolonged period of policy uncertainty**, would make it difficult to predict certain outcomes (for example U.S regulatory and fiscal policies; negotiations of post-Brexit arrangements, and rising geopolitical risks), and this could impact negatively on confidence, deter private investment and weaken growth.

- **Perceived likelihood of more inward-looking policies** could trigger a correction in asset valuations and higher financial market volatility, which will affect spending and confidence, especially in countries with financial vulnerabilities.

- **Adverse weather conditions** affect key sectors of the economy and the supporting infrastructure (including communication, port activity, and transport) and creates uncertainties for the affected economies in the near term; the net effect on GDP depends on how quickly economic activity in the affected sector and region recovers.

- **Rising geopolitical tensions,** domestic political discord, and shocks arising from weak governance and corruption can all weigh on economic activity.

Global Financial Flows

Net financial inflows (debt and equity) to low and middle income countries decreased by 67.3 per cent to USD 379.3 billion in 2015 (**Table 1.2**) reflecting lower net debt and equity inflows. Net debt accounted for most of the decline in 2015, recording an outflow of USD 184.5 billion, thereby reversing a trend of positive net inflows since 2010. The outflow reflected in short term debt. Meanwhile, the equity inflow, that comprise portfolio and foreign direct investment, decreased by a moderate 8.6 per cent, to USD 563.8 billion. The foreign direct investment (FDI) remained resilient at USD 543 billion in 2015 from USD 536.1 billion in 2014 having benefited from investors responding to improvements in business and regulatory environments, medium-term growth prospects, and expanding domestic markets in many low- and middle-income countries.

Table 1.2: Net Financial Flows to Low and Middle Income Countries by Categories: 2010-2015 (USD Billion)

Net financial flows (USD billion)	2010	2011	2012	2013	2014	2015
Net inflows	**852.1**	**1,815.9**	**1,223.5**	**1,441.3**	**1,159.3**	**379.3**
Net debt inflows	195.0	1,207.8	585.1	785.2	542.3	-184.5
Official creditors	73.2	32.6	29.2	27.8	45.2	37.7
of which: World Bank	22.4	6.5	12.1	14.1	16.9	19.3
of which: IMF	13.4	0.5	-8.4	-17.7	-7.2	4.8
Private creditors	121.8	1,175.2	555.8	757.3	497.1	-222.2
Long term	200.2	338.3	407.9	404.8	366.7	176.2
Bonds	105.0	151.4	220.1	179.9	196.5	113.6
Banks and other private	95.2	186.8	187.8	224.9	170.2	62.7
Short term	-78.4	836.9	147.9	352.5	130.4	-398.4
Net equity inflows	657.0	608.1	638.4	656.1	616.9	563.8
Foreign Direct Investment	538.8	616.2	549.4	590.8	536.1	543.0
Portfolio equity	118.2	-8.1	89.0	65.3	80.8	20.8

Source: World Bank Group: International Debt Statistics, 2017

WORLD ECONOMY

A review across regions across, indicate general reduction to the key destinations. The net financial inflow to East Asia and Pacific region declined by 93.1 percent in 2015, from USD 652.7 billion in 2014to USD 45.2 billion. This reflects sharp contraction in net short term debt inflows to China. Europe and Central Asia recorded an outflow of USD 51.3 billion in 2015, building on the decline in 2014. The trend was largely driven by Russia where falling oil prices and geopolitical tensions eroded confidence and led to a slowdown in both debt and equity flows. Net inflows to Latin America and the Caribbean stood at USD 192.7 billion in 2015 from USD 304.7 billion in 2014 with the decline attributed to a fall in net debt flows. Net financial inflows to the peripheral destinations of the Middle East and North Africa, and Sub Saharan Africa improved in 2015 while South Asia region recorded a marginal decline. The improvement in Sub Saharan Africa largely reflect in net debt inflows (long term debt) and net equity inflows (FDI and Portfolio equity) on account of a relatively stable macroeconomic environment.

Table 1.3: Net Financial Flows to Low and Middle Income Countries by Region: 2010-2015 (USD Billion)

Net inflows USD billion	2010	2011	2012	2013	2014	2015
East Asia and Pacific	174.3	1194.9	506.9	727.6	652.7	45.2
Europe and Central Asia	177.0	202.9	229.7	211.4	-3.5	-51.3
Latin America and the Caribbean	320.9	263.8	285.3	292.4	304.7	192.7
Middle East and North Africa	32.1	12.8	26.9	35.1	23.8	28.1
South Asia	104.8	80.6	104.0	102.6	106.1	83.2
Sub-Saharan Africa	42.8	60.8	70.7	72.2	75.5	81.5

Source: World Bank Group: International Debt Statistics, 2017

Remittances to Developing Countries

Remittances to developing countries in 2016 are estimated to have declined to USD 429.3 billion from USD 439.8 billion in 2015 reflecting a decrease in flows to all regions except Latin America and the Caribbean (**Table 1.4**). This trend is expected to reverse in 2017 with remittances to developing countries rising by 3.3 per cent, to USD 443.6 billion reflecting improved economic activity in high income and developing economies.

Remittances to East Asia and Pacific region accounted for 29.3 per cent of flows to developing countries in 2016, a decline of 1.2 percent, to USD 125.8 billion on account of weak global economic prospects. A 2.5 per cent improvement, to USD 129 billion is expected in 2017 as oil prices stabilize.

Remittances to Europe and Central Asia accounted for 8.9 per cent of total flows to developing countries, a decline of 4.7 percent to USD 38.4 billion, largely driven by Russia's economic adjustment to low oil prices. In 2017, remittances to the region are expected to increase by 6.8 per cent to USD 41 billion reflecting stronger output in Russia and other European countries.

WORLD ECONOMY

Remittance flows to Latin America and the Caribbean accounted for 17 per cent of total flows to developing countries in 2016. Flows to the region increased to USD 73.1 billion reflecting supportive conditions experienced by remitters (a strong U.S labor market and beneficial exchange rates). In 2017, remittance flows to the region are forecast to increase by 3.3 per cent to USD 75.5 billion.

Flows to the Middle East and North African region, which accounted for 11.4 per cent of total flows to developing countries in 2016, declined by 4.5 per cent to USD 48.8 million on account of a decline in remittances to Egypt, the region's largest remittance recipient. In addition, owing to low oil prices and tightening of fiscal policy, economic activity slowed down in countries of the Gulf Cooperation Council (GCC). The slowdown led to job losses, delays and cuts in wages for migrant workers. In 2017, remittances to the region are forecast to increase by 6.1 per cent, to 51.8 billion reflecting expected growth in the Euro Area from where Maghreb countries receive most of their remittances, and positive economic conditions in Egypt.

Remittance flows to the South Asia region declined by 6.4 per cent to USD 110.1 billion but accounted for 25.6 per cent of total flows to developing countries in 2016. Flows to the region were affected by low oil prices and weak economic growth in Russia and the GCC countries. In 2017, subdued growth in remittance flows to the region is forecast on account of low growth and fiscal consolidation in GCC countries.

Remittance flows to Sub Saharan Africa accounted for 7.7 per cent of total flows to developing countries in 2016. Flows to the region decreased by 6 per cent to USD 33 billion from USD 35.1 billion in 2015 on account of slow economic growth in remittance sending countries; decline in commodity prices (especially oil prices) impacting countries receiving remittances from regional commodity exporters; and diversion of remittances to informal channels due to exchange rate regimes. Following the fall in oil prices, Nigeria faced a significant decline in foreign exchange revenue which led to tighter capital controls and managed exchange rate policy and a diversion of a large part of remittances to informal channels.

Table 1.4: Remittance Flows to Developing Countries: 2013-2018 (USD Billion)

				Estimate	Forecast	
	2013	2014	2015	2016	2017	2018
Developing Countries	**426.4**	**444.3**	**439.8**	**429.3**	**443.6**	**459.1**
East Asia and Pacific	114.3	122.7	127.3	125.8	129.0	132.7
Europe and Central Asia	54.6	51.7	40.3	38.4	41.0	43.6
Latin America and Caribbean	61.5	64.5	68.3	73.1	75.5	78.2
Middle-East and North Africa	50.5	54.4	51.1	48.8	51.8	53.5
South Asia	110.8	115.8	117.6	110.1	112.3	115.3
Sub-Saharan Africa	34.7	35.3	35.1	33.0	34.1	35.7

Source: World Bank Group: Migration and Development Brief April 2017

2.0 DOMESTIC ECONOMY

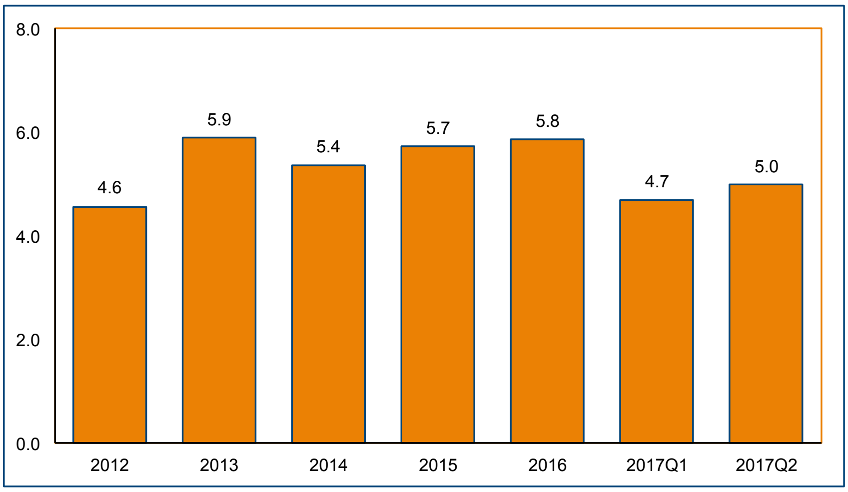
2.0 REAL SECTOR

Overview

The economy remained strong in 2016, growing by 5.8 per cent compared to 5.7 per cent in 2015. The growth performance in 2016 was supported by favourable weather conditions that boosted agricultural production, public investment spending, lower global oil prices and strong recovery in tourism (**Chart 2.1.1 and Table 2.1.1**). Construction, Information and Communication, Real Estate, Transport and Storage, and Accommodation and Restaurants were among the sectors that recorded strong growth.

In the first quarter of 2017, however, GDP growth decelerated to 4.7 per cent compared to 5.3 per cent recorded in a similar quarter of 2016. Growth was largely constrained by drought conditions which spilled over from the fourth quarter of 2016 and adversely affected agricultural output and electricity generation during the quarter.

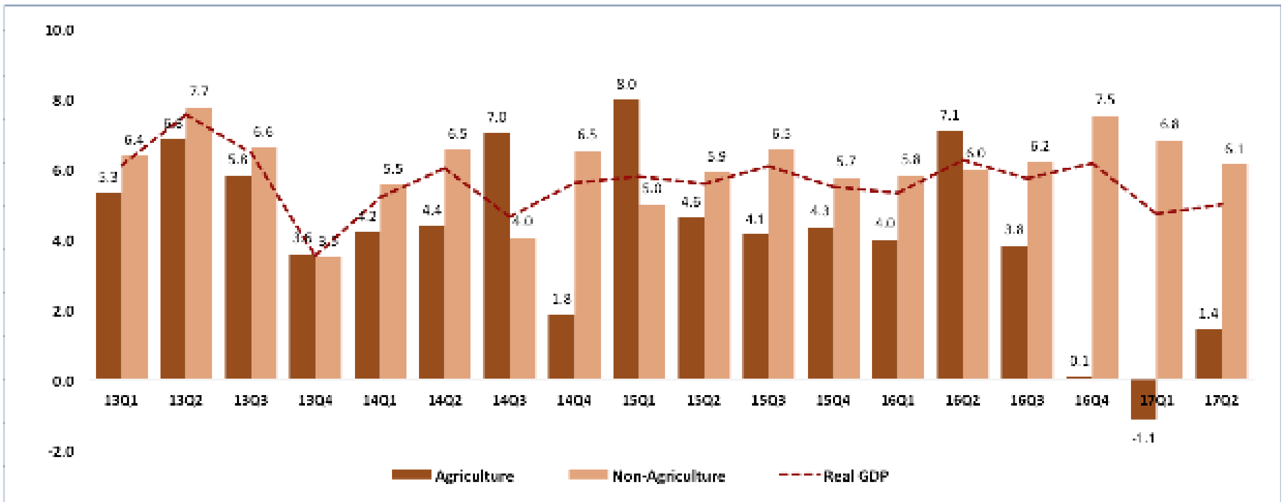
Chart 2.1.1: Real GDP Growth Rates 2012 – 2017 in per cent



Source: Kenya National Bureau of Statistics

The economy recovered in the second quarter of 2017 and recorded robust growth of 5.0 percent, largely on account of improvement h in Real Estate; and Transport and Storage sectors; coupled with robust growth in Construction; Wholesale and Retail Trade; and Information and Communication sectors (**Table 2.1.2**).

Chart 2.1.2: Evolution of Agriculture and Non-Agriculture Growth in Percent



Source: Kenya National Bureau of Statistics

DOMESTIC ECONOMY

Real GDP growth performance by Sector

Growth across sectors remained strong in 2016 partly supported by low international oil prices. As a result, the Transport and Storage sector grew by 8.4 per cent compared with 8.0 percent in 2015. Tourism recovered, as evidenced by notable growth of the Accommodation and Restaurant sector (13.3 per cent); and growth in the Real Estate, and Information and Communication sectors improved to 8.8 per cent and 9.7 per cent, respectively (**Table 2.1.1**).

Sectorial performance was mixed in the first half of 2017 with agriculture declining during the first and second quarters of 2017 due to the adverse weather conditions. However, overall GDP growth during the first half of 2017 remained resilient, supported by strong growth of the non-agriculture sectors of the economy (**Chart 2.1.2)**.

Table 2.1.1: Real Gross Domestic Product by Activity

MAIN SECTORS	Growth Rates (Percent)						
	2012	2013+	2014+	2015+	2016*	2017Q1	2017Q2
Agriculture	3.1	5.4	4.3	5.5	4.0	-1.1	1.4
Mining & Quarrying	19.0	-4.2	14.9	12.4	9.5	9.7	5.7
Manufacturing	-0.6	5.6	2.5	3.6	3.5	2.9	2.3
Electricity & water supply	9.6	6.6	6.1	8.5	7.1	5.1	6.1
Construction	11.3	6.1	13.1	13.9	9.2	8.4	7.5
Wholesale & Retail Trade	6.9	8.4	6.9	5.9	3.8	6.1	2.8
Accommodation & restaurant	3.1	-4.6	-16.7	-1.3	13.3	15.8	13.4
Transport & Storage	2.9	1.3	5.5	8.0	8.4	9.9	8.2
Information & Communication	2.6	12.5	14.5	7.4	9.7	11.4	9.2
Financial & Insurance	6.0	8.2	8.3	9.4	6.9	5.3	4.3
Public administration	4.0	2.8	5.6	5.5	5.3	5.4	6.3
Professional, Administration & Support Services	3.9	3.6	3.2	2.5	4.3	4.8	6.4
Real estate	4.0	4.1	5.6	7.2	8.8	9.3	9.7
Education	11.0	6.3	7.8	4.5	6.3	5.9	5.6
Health	-2.8	7.7	8.1	6.1	5.8	4.5	5.5
Other services	2.3	4.6	4.2	3.9	4.2	3.5	1.2
FISIM	10.1	5.2	11.3	13.5	3.0	3.3	-0.8
All Industries at basic prices	**4.2**	**5.4**	**5.6**	**6.1**	**6.0**	**4.5**	**4.8**
Taxes on products	7.5	9.5	3.4	2.8	4.5	6.0	6.1
Real GDP	**4.6**	**5.9**	**5.4**	**5.7**	**5.8**	**4.7**	**5.0**

+ Revised

*** Provisional**

Source: Kenya National Bureau of Statistics

Agriculture

Growth in the Agriculture sector slowed to 4.0 per cent in 2016 from 5.5 per cent in 2015 largely reflecting low production of maize, wheat, potatoes, rice sorghum and millet on account of depressed short rains in the second half of the year. However, production of tea, coffee sales, horticultural exports, sugarcane deliveries and milk intake increased in 2016, following favourable weather conditions experienced during the first half of 2016 (**Table 2.1.2**).

In the first quarter of 2017, agriculture declined by 1.1 per cent compared to 4.0 per cent growth in the first quarter of 2016 on account of prolonged drought conditions experienced during the second half of 2016.The sector recovered modestly in the second quarter of 2017 to 1.4 per cent growth as weather conditions improved during the quarter. However, production of key crops remained subdued on account of delayed onset of the long rains during the March-May 2017 season.

Available indicators of agricultural performance during the period January- June 2017, show decline in output of key agricultural products. Production of tea declined by 19.4 percent and coffee sales, horticultural exports, sugarcane deliveries, and milk intake in the formal sector declined by 13.4 per cent, 16.0 per cent, 44.4 percent, and 25.2 per cent, respectively, during the period under review (**Table 2.1.2**).

Table 2.1.2: Output Growth in Key Crops and Milk

	2011	2012	2013	2014	2015	2016	Jan-Jun 2017
Tea							
Production (Tonnes)	377,913	369,562	432,453	445,106	399,211	471,234	200,913
Annual Growth, %	*-5.3*	*-2.2*	*17.0*	*2.9*	*-10.3*	*18.0*	*-19.4*
Coffee							
Sales (Tonnes)	29,984	46,051	37,943	42,450	32,219	39,672	22,933
Annual Growth, %	*-23.0*	*53.6*	*-17.6*	*11.9*	*-24.1*	*23.1*	*-13.4*
Horticulture							
Exports (Tonnes)	238,562	250,814	309,029	303,254	310,458	365,357	170,037
Annual Growth, %	*-11.2*	*5.1*	*23.2*	*-1.9*	*2.4*	*17.7*	*-16.0*
Sugar Cane							
Deliveries (Tonnes)	5,338,571	5,716,379	6,671,800	6,477,650	6,849,224	7,160,840	2,108,490
Annual Growth, %	*-6.5*	*7.1*	*16.7*	*-2.9*	*5.7*	*4.5*	*-44.4*
Milk							
Intake (Million Litres)	549	495	523	544	611	648	246
Annual Growth, %	*7.5*	*-9.8*	*5.6*	*4.0*	*12.4*	*6.1*	*-25.2*

Source: Kenya National Bureau of Statistics

Manufacturing

The manufacturing sector recorded low but stable growth, at 3.5 per cent in 2016 compared with 3.6 per cent in 2015. The low performance reflects lower growth in other sectors such as agriculture and electricity that provide key inputs for manufacturing activities. In this regard, production of processed sugar, galvanized sheets and assembly of vehicles slowed down growth in manufacturing following low yields of sugarcane, use of alternative roofing materials such as shingles and solar tiles, cheap imports, and increased competition in the export market. On the other hand, the resilience in 2016 was supported by increased value of processed meat and dairy, following increased off take of livestock occasioned by dry weather conditions, and processed coffee and manufacture of pharmaceutical products.

In the first and second quarters of 2017, the sector recorded growth of 2.9 per cent and 2.3 per cent, respectively (**Table 2.1.1**). The subdued performance during the two quarters was largely attributed to reduced agro-processing activity following low supply of agricultural produce due to adverse weather conditions.

Available indicators for the period January-June 2017 point to a contraction in cumulative output of sugar, soft drinks, cement and assembled vehicles by 18.3 per cent, 7.1 per cent, 4.5 per cent, and 9.4 per cent, respectively, compared to a similar period in 2016.Production of galvanized sheets increased by 4.4 per cent during the same period (**Table 2.1.3**).

Table 2.1.3: Production of Selected Manufactured Goods

	2011	2012	2013	2014	2015	2016	Jan-Jun 2017
Processed Sugar							
Production (Tonnes)	475,061	494,030	600,210	616,852	631,957	491,144	201,705
Annual Growth, %	*-9.2*	*4.0*	*21.5*	*2.8*	*2.4*	*-22.3*	*-18.3*
Soft Drinks							
Production ('000 Litres)	371,353	359,518	403,981	459,464	490,570	551,387	260,579
Annual Growth, %	*2.8*	*-3.2*	*12.4*	*13.7*	*6.8*	*12.4*	*-7.1*
Galvanised Sheets							
Production (Tonnes)	268,095	235,812	306,100	284,509	256,936	247,278	132,938
Annual Growth, %	*33.1*	*-12.0*	*29.8*	*-7.1*	*-9.7*	*-3.8*	*4.8*
Cement							
Production (Tonnes)	3,969,003	4,639,693	5,059,129	5,856,828	6,338,185	6,707,230	3,158,405
Annual Growth, %	*7.0*	*16.9*	*9.0*	*15.8*	*8.2*	*5.8*	*-4.5*
Assembled Vehicles							
Production (Units)	6,049	6,218	6,948	9,246	10,181	6,295	3,063
Annual Growth, %	*5.7*	*2.8*	*11.7*	*33.1*	*10.1*	*-38.2*	*-9.4*

So*urce: Kenya National Bureau of Statistics*

Energy sector developments

The electricity and water supply sector recorded robust growth of 7.1 per cent in 2016, which was however, lower than 8.5 per cent growth in 2015. Growth in 2016 was mainly driven by increased generation of hydroelectricity as well as increased water supply occasioned by adequate rainfall in the main catchment areas during the March-May 2016 long rains season.

DOMESTIC ECONOMY

The sector grew by 5.1 per cent and 6.1 per cent in the first and second quarters of 2017, respectively (**Table 2.1.1**). However, this was lower than 8.6 per cent and 9.6 per cent growth recorded in the same quarters in 2016. The subdued performance was mainly attributed to the prolonged drought experienced from the fourth quarter of 2016 and delayed onset of the long rains in 2017, which resulted in lower generation of hydroelectricity and reduced water supply.

Total electricity generation grew by 1.5 per cent cumulatively in the first half of 2017, compared to the first half of 2016. Generation of hydroelectricity contracted by 31.7 per cent, while generation of geothermal electricity contracted by 1.4 per cent (**Table 2.1.4**). Consequently, thermal electricity generation was significantly higher during this period to compensate for the shortfall.

Table 2.1.4: Performance of Energy Sub-Sectors

	2011	2012	2013	2014	2015	2016	Jan-Jun 2017
Electricity Generation							
Output (Million KWH)	7,161	7,517	8,217	8,889	9,315	9,887	4,934
Annual Growth, %	*11.8*	*5.0*	*9.3*	*8.2*	*4.8*	*6.1*	*1.6*
Of which:							
Hydro-power Generation (Million KWH)	3,183	4,032	4,387	3,411	3,463	3,960	1,321
Annual Growth, %	*-0.4*	*26.6*	*8.8*	*-22.2*	*1.5*	*14.3*	*-31.9*
Geo-Thermal Generation (Million KWH)	1,444	1,522	1,781	2,917	4,521	4,484	2,273
Annual Growth, %	*0.1*	*5.4*	*17.0*	*63.8*	*55.0*	*-0.8*	*-1.4*
Thermal (Million KWH)	2,533	1,963	2,049	2,561	1,332	1,443	1,340
Annual Growth, %	*43.2*	*-22.5*	*4.4*	*24.9*	*-48.0*	*8.4*	*120.3*
Consumption of Electricity (Million KWH)	6,152	6,298	6,564	7,406	8,277	8,313	4,479
Annual Growth, %	*4.8*	*2.4*	*4.2*	*12.8*	*11.8*	*0.4*	*11.4*
Consumption of Fuels ('000 tonnes)	3,545	3,764	3,649	3,873	4,439	5,206	1,946
Annual Growth, %	*11.6*	*6.2*	*-3.1*	*6.2*	*14.6*	*17.3*	*-21.3*
International Oil Prices							
Murban crude oil (USD per barrel)	110.60	112.97	110.10	99.45	52.53	44.18	52.70
Annual Growth, %	*39.7*	*2.1*	*-2.5*	*-9.7*	*-47.2*	*-15.9*	*32.0*

Source: Kenya National Bureau of Statistics

Crude oil prices declined by 15.9 per cent in 2016, from an average USD 52.53 per barrel in 2015 to USD 44.18 per barrel. However, these prices were 32.0 per cent higher in the period January –June 2017, compared to the first half of 2016 **(Table 2.1.4).**

Building and construction

The construction sector recorded strong growth of 9.2 per cent in 2016, boosted by government investment in major infrastructure projects and the expansion of road networks in various parts of the country. However, growth of the sector in 2016 was lower compared to 13.9 per cent in 2015, with the slowdown attributed to near completion of the first phase of the Standard Gauge Railway (SGR) project in 2016. The SGR project was a major contributor to growth in the sector since 2015. The sector grew by 8.4 per cent and 7.5 per cent in the first and second quarters of 2017, respectively. Though performance of the sector was slightly lower during the first half of 2017 compared to the first half of 2016, growth was robust, supported by high public investment and private property development (**Table 2.1.1**).

Available indicators point to robust growth of the sector with consumption of cement up by 10.7 per cent to 6.3 million tonnes in 2016 from 5.7 million tonnes consumed in 2015, while the value of building plans approved by the Nairobi City County Planning Compliance and Enforcement Department increased by 29.8 per cent, supported by increased demand for residential and commercial space in Nairobi and its environs. In the period January-June 2017, cumulative consumption of cement declined by 2.7 per cent following completion of the first phase of the SGR project in 2017. The value of building plans approved by the Nairobi City County Planning Compliance & Enforcement Department also declined by 16.8 per cent in the period January-May 2017, with the decline reflected in both residential and non-residential subsectors (**Table 2.1.5**).

Table 2.1.5: Performance of Construction Sector

	2011	2012	2013	2014	2015	2016	Jan-Jun 2017
Cement Consumption							
Output (Tonnes)	3,433,004	3,937,263	4,266,486	5,196,681	5,694,146	6,301,977	2,983,220
Annual Growth, %	*10.6*	*14.7*	*8.4*	*21.8*	*9.6*	*10.7*	*-2.7*
Value of Building Plans Approved by Nairobi City County Planning Compliance & Enforcement Department							
Residential (KSh, millions)	153,641	75,185	129,634	132,128	146,953	186,571	70,367
Annual Growth, %	*132.6*	*-51.1*	*72.4*	*1.9*	*11.2*	*27.0*	*-22.6*
Non-residential (KSh, millions)	57,666	115,270	107,128	95,890	95,177	127,713	58,304
Annual Growth, %	*-8.0*	*99.9*	*-7.1*	*-10.5*	*-0.7*	*34.2*	*-8.4*
Total (KSh, millions)	**211,307**	**190,455**	**236,762**	**228,018**	**242,130**	**314,284**	**128,671**
Annual Growth, %	*64.2*	*-9.9*	*24.3*	*-3.7*	*6.2*	*29.8*	*-16.8*

Source: Kenya National Bureau of Statistics

Transport and storage

Performance in the transport and storage sector remained strong at 8.4 per cent growth in 2016 compared to 8.0 per cent in 2015, driven by low cost of transportation due to reduced diesel prices. Passenger flows through the Jomo Kenyatta International Airport, Nairobi, recorded minimal declines in 2016, while the volume of fuel put through the Kenya Pipeline increased by 2.4 per cent (**Table 2.1.6**).

In the first and second quarters of 2017, the sector recorded robust growth of 9.9 per cent and 8.2 per cent, respectively (**Table 2.1.1**). The strong performance was attributed to increased activity in passenger and freight road transport. The sector was further boosted by introduction of the SGR passenger train between Nairobi and Mombasa, which led to an upsurge in the number of passengers transported between Nairobi and Mombasa.

Available indicators for the first half of 2017 show marginal declines in cumulative passenger flows for the period January-June 2017, while the volume of fuel put through the Kenya Pipeline declined by 1.2 per cent over the same period (**Table 2.1.6**).

Table 2.1.6: Performance of Transport Sub-Sector

Activity	2011	2012	2013	2014	2015	2016	Jan-Jun 2017
Passengers through JKIA							
Total passenger flows	4,135,126	4,302,244	4,290,349	4,232,523	4,340,724	4,321,380	2,159,682
Annual Growth, %	*36.5*	*4.0*	*-0.3*	*-1.3*	*2.6*	*-0.4*	*-0.1*
Of which:							
Number of incoming passengers	2,088,798	2,148,105	2,144,002	2,102,886	2,166,669	2,156,907	1,077,207
Growth %	*38.4*	*2.8*	*-0.2*	*-1.9*	*3.0*	*-0.5*	*-0.2*
Number of outgoing passengers	2,046,328	2,154,139	2,146,347	2,129,637	2,174,055	2,164,473	1,082,475
Growth %	*34.6*	*5.3*	*-0.4*	*-0.8*	*2.1*	*-0.4*	*-0.03*
Throughput by Kenya Pipeline							
Output ('000 Litres Equivalent)	4,257,425	4,855,571	5,181,600	5,623,628	5,737,943	5,872,927	2,866,490
Output Growth %	*1.5*	*14.0*	*6.7*	*8.5*	*2.0*	*2.4*	*-1.2*

Source: Kenya National Bureau of Statistics and Kenya Pipeline Company

Tourism

The tourism sector continued to recover in 2016, with the Accommodation and Restaurant sector recording growth for the first time since 2012. The sector grew by 13.3 per cent in 2016 compared to a contraction of 1.3 per cent recorded in 2015. Overall tourist arrivals increased by 16.8 per cent in 2016, with all major points of entry recording increased arrivals (**Table 2.1.7**). This is attributable to increased conference tourism, lifting of travel advisories by key tourist source countries such as the United Kingdom and France, and continued aggressive marketing in both domestic and international markets.

Available data for the first half of 2017 shows continued recovery of the sector. The Accommodation and Restaurants sector recorded growth of 15.8 per cent and 13.4 per cent in the first and second quarters of 2017, respectively (**Table 2.1.1**). Additionally, cumulative tourist arrivals increased by 11.5 per cent in the first half of 2017 compared to a similar period in 2016.

Table 2.1.7: Tourist Arrivals by Point of Entry

	2011	2012	2013	2014	2015	2016	Jan-Jun 2017
JKIA	1,036,486	1,053,361	912,998	743,600	672,789	781,513	394,782
Growth %	*20.2*	*1.6*	*-13.3*	*-18.6*	*-9.5*	*16.2*	*11.7*
MIAM	227,794	187,151	168,654	117,796	75,921	93,872	43,131
Growth %	*-2.1*	*-17.8*	*-9.9*	*-30.2*	*-35.5*	*23.6*	*9.0*
Total	**1,264,280**	**1,240,512**	**1,081,652**	**861,396**	**748,710**	**875,385**	**437,913**
Growth %	*15.4*	*-1.9*	*-12.8*	*-20.4*	*-13.1*	*16.9*	*11.5*

Source: Kenya Tourism Board

2.2 INFLATION

Overview

Annual average inflation increased to 8.1 per cent in June 2017 from 6.5 per cent in June 2016, largely driven by increases in food prices following prolonged drought conditions experienced in the country since the second half of 2016 (**Table 2.2.1**). The 12-month overall inflation, which mirrors the inflationary pressures over a shorter time horizon, accelerated from 7.0 per cent in January to 11.7 per cent in May 2017, and breached the 7.5 per cent upper bound on its target range since February 2017. The drought adversely affected production of key food items, resulting in food shortages in the country. The surge in the 12-month inflation reversed from June 2017 supported by improved weather conditions in the second quarter of 2017, which resulted in increased supply of vegetables and other fast growing foods. The decline in inflation was also supported by Government interventions, which helped to stabilise prices of staple food items such as maize.

Table 2.2.1: Developments in Inflation in Per Cent

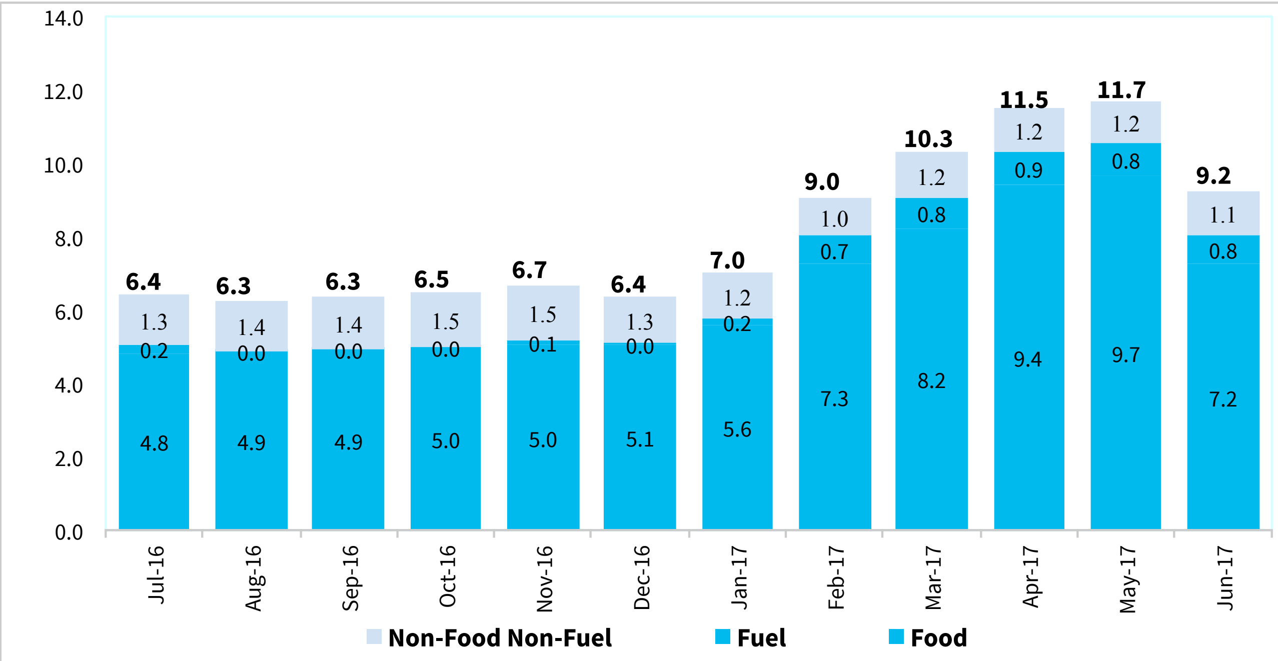
	2016						2017					
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Overall 12-month inflation	6.40	6.26	6.34	6.47	6.68	6.35	6.99	9.04	10.28	11.48	11.70	9.21
Food Inflation	10.21	10.31	10.38	10.49	10.60	10.61	11.75	15.29	17.19	19.49	19.99	14.83
Fuel Inflation	0.89	0.14	0.19	0.10	0.57	0.14	0.67	2.99	3.27	3.67	3.49	3.39
Non-(Food & Fuel) Inflation	4.89	4.98	5.09	5.43	5.48	4.64	4.48	3.68	4.48	4.30	4.28	4.24
Average annual	6.46	6.49	6.52	6.50	6.45	6.32	6.26	6.43	6.76	7.28	7.84	8.13
Three months annualised	9.35	7.28	4.30	4.24	6.93	8.72	10.36	14.85	19.03	22.78	18.13	5.37

Source: Kenya National Bureau of Statistics and Central Bank of Kenya

Food inflation remained the most significant driver of inflation during the financial year. While its contribution remained relatively stable at around 5.0 percentage points in the first half of the FY 2016/17, it increased gradually from 5.6 percentage points in January 2017 to 9.7 percentage points in May 2017 (**Chart 2.2.1**). Its contribution declined to 7.2 percentage points in June 2017 as improved weather conditions and Government interventions supported lower prices of key food items.

Non-Food-Non-Fuel (NFNF) inflation and fuel inflation had limited impact on inflation pressures during FY 2016/17. The contribution of Non-Food-Non-Fuel (NFNF) inflation remained low and relatively stable, ranging between 1.0 percentage points and 1.5 percentage points, reflective of minimal demand pressures in the economy, which moderated inflation. In addition, the contribution of fuel inflation was low during the FY 2016/17 as a result of relatively stable international oil prices **(Chart 2.2.1).**

Chart 2.2.1: Contributions of Food, Fuel, and Non-Food-Non-Fuel Inflation to Overall Inflation in Per Cent



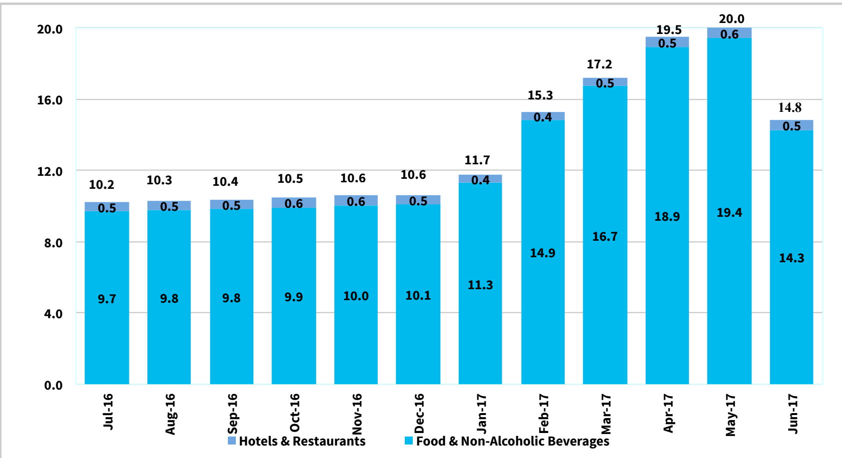
Source: Kenya National Bureau of Statistics and Central Bank of Kenya

Food inflation

Food inflation remained elevated during FY 2016/17. It increased from 10.2 per cent in July 2016 to a high of 20.0 per cent in May 2017, largely driven by adverse weather conditions that affected production in the agriculture sector, resulting in shortage of key staple food items such as maize, sugar, vegetables, fruits and milk. However, the upward trend reversed in June 2017 with food inflation declining to 14.8 per cent, following improved weather conditions from end of April 2017, which improved the supply of fast growing vegetables, and a raft of Government interventions aimed at bringing down the prices of maize grain and flour, sugar and milk.

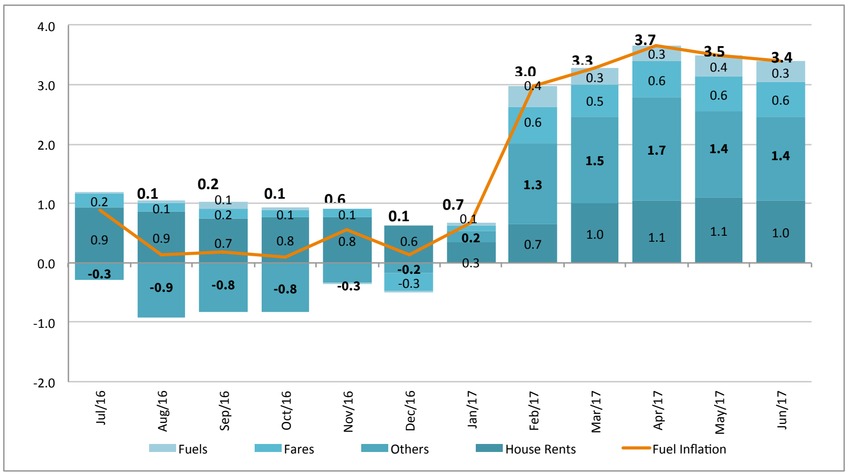
Food inflation was mainly driven by the contribution of 'Food and Non-Alcoholic Beverages' category, which rose from 9.7 percentage points in July 2016 to 19.4 percentage points in May 2017. Inflation of the Food and Non-Alcoholic Beverages category increased consistently from 10.78 per cent in July 2016 to 21.52 per cent in May 2017, owing to worsening weather conditions, which affected production of food in the country. Meanwhile, the contribution of 'Restaurants and hotels' category to food inflation remained low and stable, ranging between 0.4 percentage points to 0.6 percentage points during the period under review.

Chart 2.2.2: Evolution of Food Inflation in Per Cent



Source: Kenya National Bureau of Statistics

Chart 2.2.3 Evolution of Fuel Inflation in Per Cent



Source: Kenya National Bureau of Statistics and Central Bank of Kenya

Fuel Inflation

Fuel inflation remained low during FY 2016/17. It increased modestly from 0.89 per cent in July 2016 to 3.39 per cent in June 2017. The modest increase in fuel inflation was largely supported by recovery of international oil prices. In addition, the drought conditions witnessed in the country since first quarter of 2017 raised the cost of electricity with the attendant shift of electricity generation to thermal sources from the less expensive hydro power generation. The high cost of electricity generation was passed to the consumers.

Non-Food-Non-Fuel inflation

Non-Food-Non-Fuel (NFNF) inflation remained low and stable during FY 2016/17. It rose modestly from 4.89 per cent in July 2016 to 5.48 per cent in November 2016 and thereafter declined to 4.24 per cent in June 2017. The decline in Non-Food-Non-Fuel (NFNF) inflation since November 2016 followed the dissipation of the effect of the Excise tax which came into effect in December 2015, and mainly affected the prices of beer and cigarettes resulting in significant increase in inflation of the Alcoholic Beverages, Tobacco and Narcotics' category.

The low and stable Non-Food-Non-Fuel (NFNF) inflation, at below 5 per cent since December 2016, underscores minimal demand pressures in the economy and subdued second round effects of high food prices to the rest of the economy, mainly supported by appropriate monetary policy stance.

Table 2.2.2: Evolution of Non-Food-Non-Fuel Inflation in Per Cent

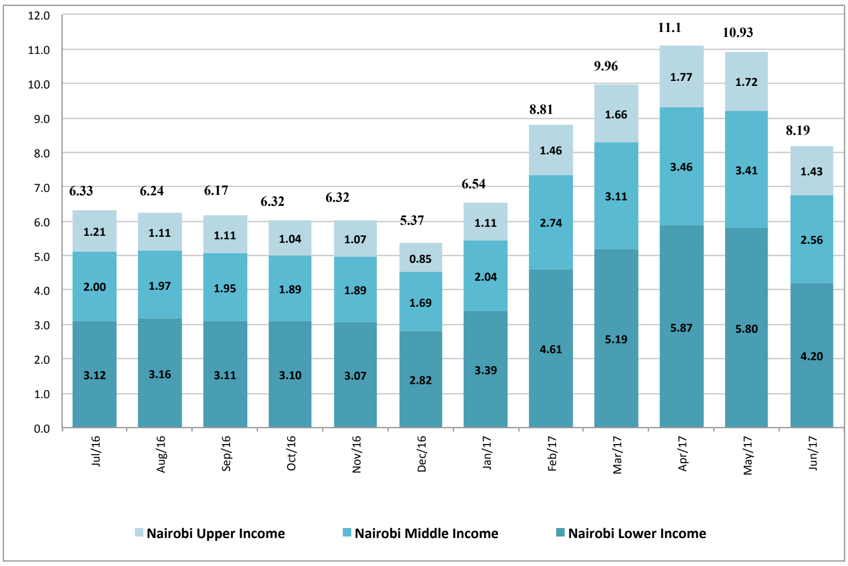
	Alcoholic Beverages, Tobacco & Narcotics	Clothing & Foot-wear	Furnishings, Household Equipment and Routine Household Maintenance	Health	Communica-tion	Recreation & Culture	Education	Miscel-laneous Goods & Services	Non-food Non-Fuel
Jul-16	1.10	0.92	0.79	0.44	0.20	0.39	0.47	0.59	4.89
Aug-16	1.10	0.96	0.82	0.42	0.19	0.40	0.46	0.63	4.98
Sep-16	1.11	1.00	0.82	0.43	0.20	0.40	0.46	0.66	5.09
Oct-16	1.14	1.14	0.78	0.46	0.25	0.45	0.51	0.69	5.43
Nov-16	1.12	1.25	0.80	0.44	0.24	0.45	0.49	0.68	5.48
Dec-16	0.35	1.20	0.79	0.44	0.24	0.46	0.51	0.65	4.64
Jan-17	0.40	1.15	0.77	0.40	0.27	0.34	0.45	0.69	4.48
Feb-17	0.33	1.10	0.67	0.42	0.07	0.21	0.34	0.54	3.68
Mar-17	0.43	1.17	0.78	0.50	0.17	0.32	0.43	0.68	4.48
Apr-17	0.41	1.12	0.77	0.46	0.16	0.30	0.42	0.66	4.30
May-17	0.42	1.09	0.79	0.44	0.14	0.27	0.40	0.72	4.28
Jun-17	0.40	1.10	0.82	0.42	0.14	0.25	0.40	0.71	4.24

Source: Kenya National Bureau of Statistics

Overall Inflation across Income Groups

Inflation in Nairobi rose from 6.3 per cent in July 2016, to a high of 11.1 per cent in April 2017 but declined thereafter to 8.19 per cent in June 2017, largely sustained by the contribution of the lower income group. The significant contribution of the low income group arises from elevated prices of key food items consumed by this category (**Chart 2.2.4**).

Chart 2.2.4: Evolution of Inflation in Nairobi by Income Group in Per Cent

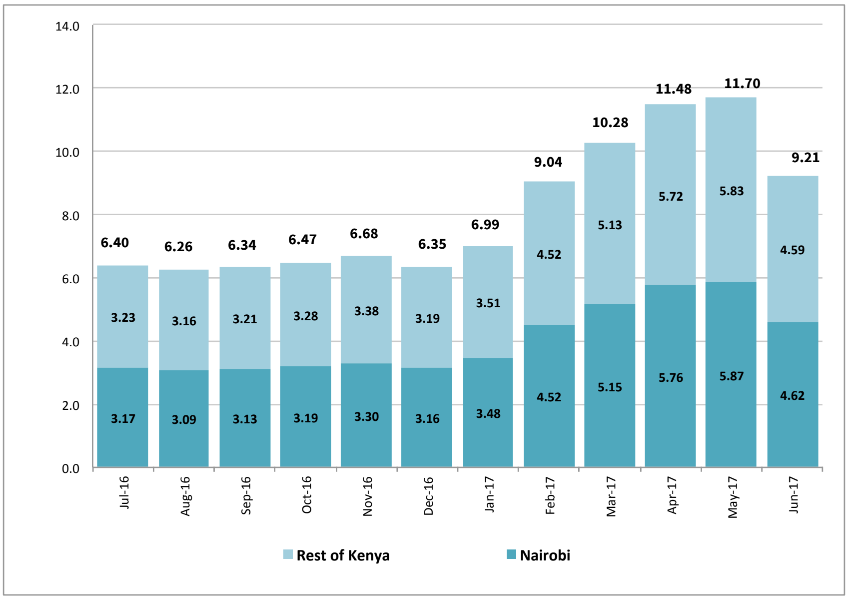


Source: Kenya National Bureau of Statistics

Overall Inflation across Regions

Developments in inflation in Nairobi and the Rest of Kenya tracked developments in the overall inflation. Inflation in Nairobi increased from 6.3 per cent in July 2016 to 11.1 per cent in May 2017 and 8.2 per cent in June 2017. In the Rest of Kenya inflation increased from 6.4 per cent in July 2016 to 12.2 per cent in May 2017, and declined to 9.9 per cent in June 2017. The contribution of Nairobi and the Rest of Kenya regions to overall inflation was fairly balanced in FY 2016/17, and ranged between 3.1 percentage points and 5.9 percentage points for Nairobi, and between 3.2 percentage points and 5.8 percentage points for the rest of Kenya **(Chart 2.2.5)**.

Chart 2.2.5: Evolution of Inflation by Region in Percent



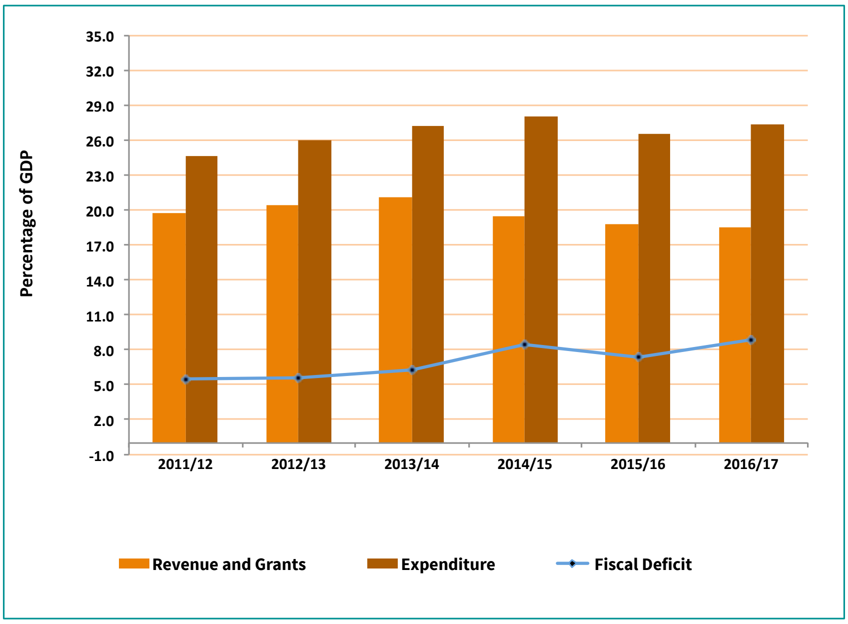
Source: Kenya National Bureau of Statistics

2.3 GOVERNMENT BUDGETARY OPERATIONS

Overview

Government budgetary operations in the Fiscal Year 2016/17 resulted in a deficit of KSh 683.1 billion (8.9 per cent of GDP) on a commitment basis, compared to KSh 519.6 billion (7.7 per cent of GDP) incurred in the FY 2015/16. The deficit was within the target level of KSh 812.8 billion or 10.9 per cent of GDP. Government expenditure continued to increase steadily, but revenue growth was somewhat constrained, despite tax reform measures (**Table 2.3.1 and Chart 2.3.1**). The domestic financing of the deficit declined to 44.7 per cent, from 53.9 per cent in the FY 2014/15. The domestic financing component has been declining over the last five years, reflecting more access to cheaper external financing options.

Chart 2.3.1: Government Budget Performance



Source: National Treasury & Central Bank of Kenya

Government Revenue

Government revenue (inclusive of grants) increased by 13.0 per cent to KSh 1,426.9 billion during the fiscal year 2016/17 from KSh 1,262.3 billion in fiscal year 2015/16 (**Chart 2.3.2**). As a proportion of GDP, total revenue and grants declined from 20.1 per cent during the FY 2015/16 to 18.5 per cent during the FY 2016/17. Tax revenue in fiscal year 2016/17 increased by 14.1 per cent and remained the dominant component of total revenue and grants, accounting for 85.5 per cent. Meanwhile, appropriations-in-aid increased by 51.9 per cent while external grants decreased by 11.3 per cent in the FY2016/17, but remained significantly below target (**Table 2.3.1**). The shortfall in A-I-A is attributed to under reporting in ministries expenditure return.

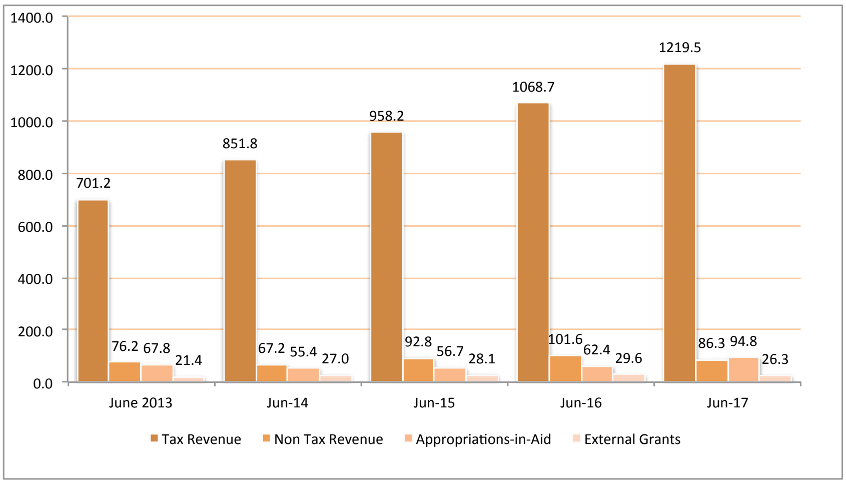
Table 2.3.1: Statement of Central Government Operations in KSh Billion

		FY 2012/2013	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17		
		Actual	Actual	Actual	Actual	Provisional	Target	Over(+) / Below (-)
1.	**Revenue & Grants**	**866.5**	**1,001.4**	**1,135.8**	**1,262.3**	**1,426.9**	**1,514.1**	**-87.2**
	Revenue	845.1	974.4	1,107.7	1,232.7	1,305.8	1,455.4	-149.6
	Tax Revenue	701.2	851.8	958.2	1,068.7	1,219.5	1,220.9	-1.4
	Non Tax Revenue	76.2	67.2	92.8	101.6	86.3	90.4	-4.1
	Appropriations-in-Aid	67.8	55.4	56.7	62.4	94.8	144.0	-49.2
	External Grants	21.4	27.0	28.1	29.6	26.3	58.8	-32.5
2.	**Expenditure and Net Lending**	**1,107.2**	**1,297.8**	**1,640.0**	**1,781.9**	**2,110.0**	**2,326.9**	**-216.9**
	Recurrent Expenditure	812.0	785.1	895.2	1,027.5	1,179.5	1,238.3	-58.8
	Development Expenditure	295.2	319.3	510.5	485.4	639.8	797.9	-158.1
	County Transfers	9.8	193.4	229.3	264.0	284.7	284.7	0.0
	Equalization fund			5.0	5.0	6.0	6.0	
3.	**Deficit On A Commitment Basis (1-2)**	**-240.7**	**-296.4**	**-504.2**	**-519.6**	**-683.1**	**-812.8**	**0.0**
	Deficit on a commitment basis as a % of GDP*	-5.6	-6.2	-8.6	-7.7	8.9	10.9	
4.	**Adjustment To Cash Basis**	**0.1**	**-12.7**	**16.9**	**22.4**	**0.0**	**0.0**	**-2.0**
5.	**Deficit on a Cash Basis**	**-240.6**	**-309.1**	**-487.3**	**-497.3**	**-683.1**	**-812.8**	**0.0**
	Deficit on a cash basis as a % of GDP*	-5.6	-6.5	-8.4	-7.4	8.9	10.9	
6.	**Discrepancy: Expenditure (+) / Revenue (-)**	**-9.4**	**0.0**	**1.5**	**-22.7**	**14.2**	**0.0**	**-2.0**
7.	**Financing**	**231.1**	**309.1**	**488.8**	**474.6**	**697.3**	**812.8**	**14.2**
	Domestic (Net)	168.9	203.0	130.9	202.3	309.8	346.8	-115.5
	External (Net)	62.2	106.1	217.5	269.9	385.7	463.9	-37.1
	Capital Receipts (net of restructuring costs)	0.0	0.0	0.0	2.4	1.8	0.0	-78.1
	Others	0.0	0.0	140.5	0.0	0.0	0.0	1.8

Source: National Treasury & Central Bank of Kenya

DOMESTIC ECONOMY

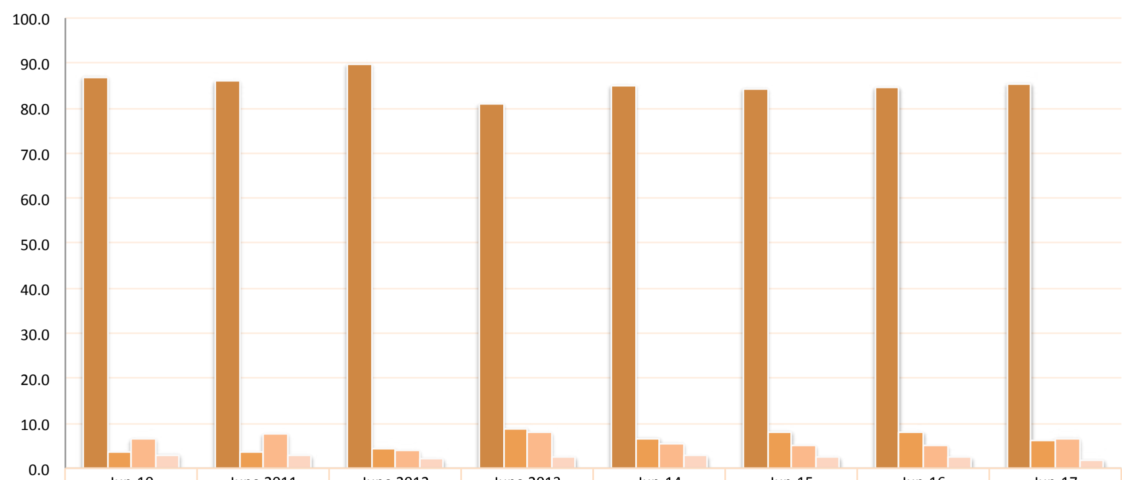
Chart 2.3.2: Composition of Government Revenue in KSh Billion



Source: The National Treasury

The measures implemented in the FY 2015/16 by the Kenya Revenue Authority to seal revenue leakages have borne fruit on account of increased revenue collection in the FY 2016/17. The Government continues to make progress towards broadening the tax base and improving revenue administration. The growth in tax revenue going forward is expected to benefit from Government's on-going reforms of various tax policies, revenue administration systems and the re-introduction of withholding VAT. The contribution of tax revenue to total government receipts is, therefore, expected to remain high (**Chart 2.3.3**).

Chart 2.3.3: Composition of Government Revenue (Per Cent of Total)



	Jun-10	June 2011	June 2012	June 2013	Jun-14	Jun-15	Jun-16	Jun-17
Tax Revenue	87.0	86.0	89.7	80.9	85.1	84.4	84.7	85.5
Non Tax Revenue	3.5	3.6	4.3	8.8	6.7	8.2	8.0	6.0
Appropriations-in-Aid	6.5	7.6	3.9	7.8	5.5	5.0	4.9	6.6
External Grants	3.0	2.8	2.1	2.5	2.7	2.5	2.3	1.8

Source: The National Treasury

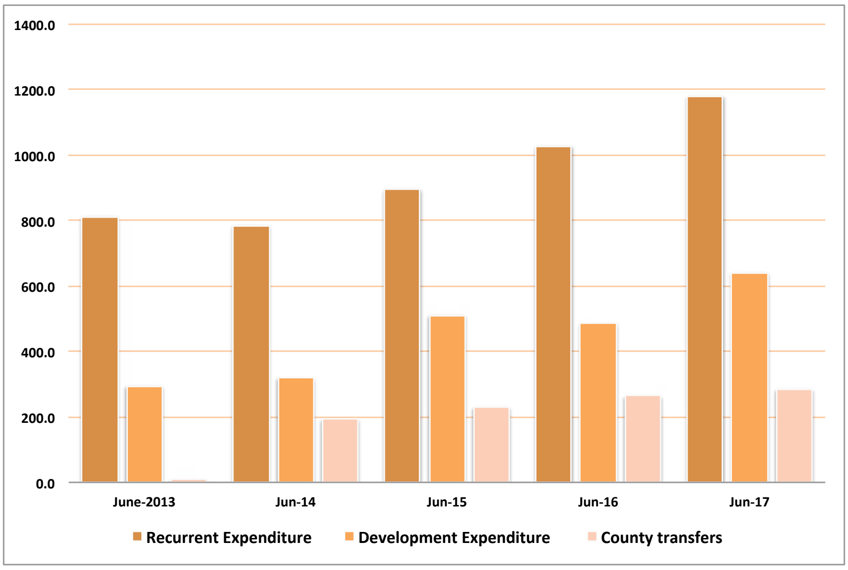
Expenditure and Net Lending

Government expenditure and net lending increased by 18.4 per cent, from KSh 1781.9 billion in the FY 2015/16 to KSh 2110.0 billion in the FY 2016/17 (**Chart 2.3.3**). Development expenditure increased most rapidly, by 31.8 per cent, and accounted for 30.3 per cent of the total Government expenditure and net lending. The development expenditure growth pattern is attributable to the continuing fiscal measures taken to reduce the growth of recurrent spending, thereby prioritizing finalization of ongoing development projects. The largest share of development outlay was absorbed by phase 1 of the Standard Gauge Railway Project, consistent with the government's fiscal policy objective of prioritizing infrastructural developments. Other beneficiary projects include construction and rehabilitation of roads and ports; enhanced electricity generation and connection; and modernization of the security sector. Recurrent expenditure increased by 14.8 per cent and accounted for 55.9 per cent of total central government expenditure and transfers to counties.

Expenditures generally fell short of target due to slow absorption in both recurrent and development components. Additionally, the discrepancy between actual and target expenditures partly reflect the non-capture of district expenditures and hence under reporting by ministries. County transfers increased by 7.8 per cent to KSh 284.7 billion and was in line with the target (**Table 2.3.1**).

The Government is committed to increasing the effectiveness and efficiency of public spending through saving on recurrent expenditures and prioritization of investment projects.

Chart 2.3.4: Government Expenditure in KSh Billion



Source: The National Treasury

Financing

Net domestic borrowing during FY 2016/17 amounted to KSh 309.8 billion and was within target. The borrowing comprised KSh 169.5 billion from Commercial Banks, KSh 160.7 billion from Non-Banking Financial Institutions and KSh 1.9 billion from Non Residents, and a repayment of KSh 22.4 billion by the National Treasury to the Central Bank of Kenya (**Table 2.3.2**).

Compared to the FY 2015/16, the net domestic borrowing totaled KSh 220.1 billion, comprising of KSh 187.15 billion from Commercial Banks, KSh 139.44 billion from Non-Banking Financial Institutions and KSh 4.6 billion from Non Residents, and a repayment of KSh 111.1 billion to the Central Bank.

DOMESTIC ECONOMY

Domestic financing in FY 2016/17 was 40.7 percent higher than in the previous year, and represented 44.7 per cent of total financing. It has increased steadily over the last 2 years. The net external financing accounted for the largest component at 55.3 percent of the financing requirement thereby maintaining an upward trend since FY 2014/15 when it accounted for 44.5 percent share. The sharp rise reflects easier terms of accessing external financing from commercial sources to finance priority infrastructure projects to support economic growth in the medium term.

Table 2.3.2: Domestic Financing (KSh Billion)

NET CREDIT TO GOVERNMENT	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17
1. From CBK	(25.30)	(121.09)	136.30	(111.11)	(22.37)
2. From commercial banks	112.38	73.44	108.00	187.15	169.54
3. From Non-banks	83.99	102.50	27.55	139.44	160.68
4. From Non-Residents	(1.30)	6.40	(3.48)	4.58	1.92
Change in Credit from banks (From 30th June 2016)	87.09	(47.65)	244.31	76.05	147.17
Change in Credit from non-banks(From 30th June 2016)	83.99	102.50	27.55	139.44	160.68
Change in Credit from non-residents(From 30th June 2016)	(1.30)	6.40	(3.48)	4.58	1.92
5. Total Change in Dom. Credit (From 30th June 2016)	**169.78**	**61.25**	**268.37**	**220.06**	**309.76**

NB. Treasury Bills are reflected at Cost

Source: The National Treasury

Outlook for FY 2017/18

In the budget estimates for the FY 2017/18, total revenue is projected at KSh 1,647.2 billion (18.7 per cent of GDP) while external grants are projected at KSh 59.6 billion (0.7 per cent of GDP). Government expenditure is projected at KSh 2,358.6billion (26.8 per cent of GDP), of which KSh 1,436.5 billion (16.3 per cent of GDP) will be for recurrent expenses, KSh 306.2 billion for transfers to county governments, and KSh 610.9 billion for development expenses.

The overall budget deficit including grants on commitment basis is, therefore, projected at KSh 651.8 billion (7.4 per cent of GDP) in 2017/18, to be financed through net external borrowing of KSh 332.4 billion and net domestic borrowing of KSh 319.4 billion (Budget Review and Outlook Paper, October 2017).

2.4 PUBLIC DEBT

Kenya's public and publicly guaranteed debt increased by 22.0 per cent during FY 2016/17 a slowdown from 27.0 per cent on the previous year. The increase in the total public debt stock in the review period comprised KSh 297.2 billion (37.7 percent share) in domestic debt and KSh 498.2 billion (62.3 percent share) in external debt. Public debt portfolio comprised 47.9 per cent and 52.1 per cent domestic and external debt, respectively by the end of FY 2016/17. This was reflective of the financing mix in the recent past where external financing was preferred over domestic financing. The ratio of public debt to GDP rose to 57.1 per cent in nominal terms, and in present value terms at 49.2 per cent was within the EAC convergence criterion **(Table 2.4.1)**.

Table 2.4.1: Public Debt

	June 2015		June 2016		June 2017	
	KSh Billion	%	KSh Billion	%	KSh Billion	%
DOMESTIC DEBT						
Securitised debt	**1,381.2**	**97.2**	**1,765.1**	**97.2**	**2,100.5**	**99.4**
Treasury Bills	345.5	24.3	613.0	33.8	768.5	36.4
Of which Repo Treasury bills	26.6	1.9	25.0	1.4	24.4	1.2
Treasury Bonds	1,035.7	72.9	1,152.0	63.5	1,332.0	63.1
Non Securitised debt	**39.2**	**2.8**	**50.1**	**2.8**	**11.1**	**0.5**
Overdraft at CBK	36.5	2.6	44.2	2.4	0.0	0.0
others	2.7	0.2	5.9	0.3	11.1	0.5
TOTAL DOMESTIC DEBT	**1,420.4**	**100.0**	**1,815.1**	**100.0**	**2,112.3**	**100.0**
(as a % of GDP)*	24.4		27.0		27.4	
(as a % of Total Debt)	50.2		50.2		47.9	
EXTERNAL DEBT**						
Bilateral	445.1	30.6	548.4	30.5	722.6	31.5
Multilateral	684.6	48.6	798.8	44.5	844.4	36.8
Comm. Banks	276.9	19.7	432.4	24.1	712.1	31.0
Export Credit	16.6	1.2	16.6	0.9	15.3	0.7
TOTAL EXTERNAL DEBT	**1,423.3**	**100.0**	**1,796.2**	**100.0**	**2,294.4**	**100.0**
(as a % of GDP)*	24.4		26.8		29.8	
(as a % of Total Debt)	49.8		49.8		52.1	
TOTAL PUBLIC DEBT	**2,843.7**		**3,611.3**		**4,406.7**	
(as a % of GDP)*	48.8		53.8		57.1	
* Estimates						
** Provisional						

Source: The National Treasury

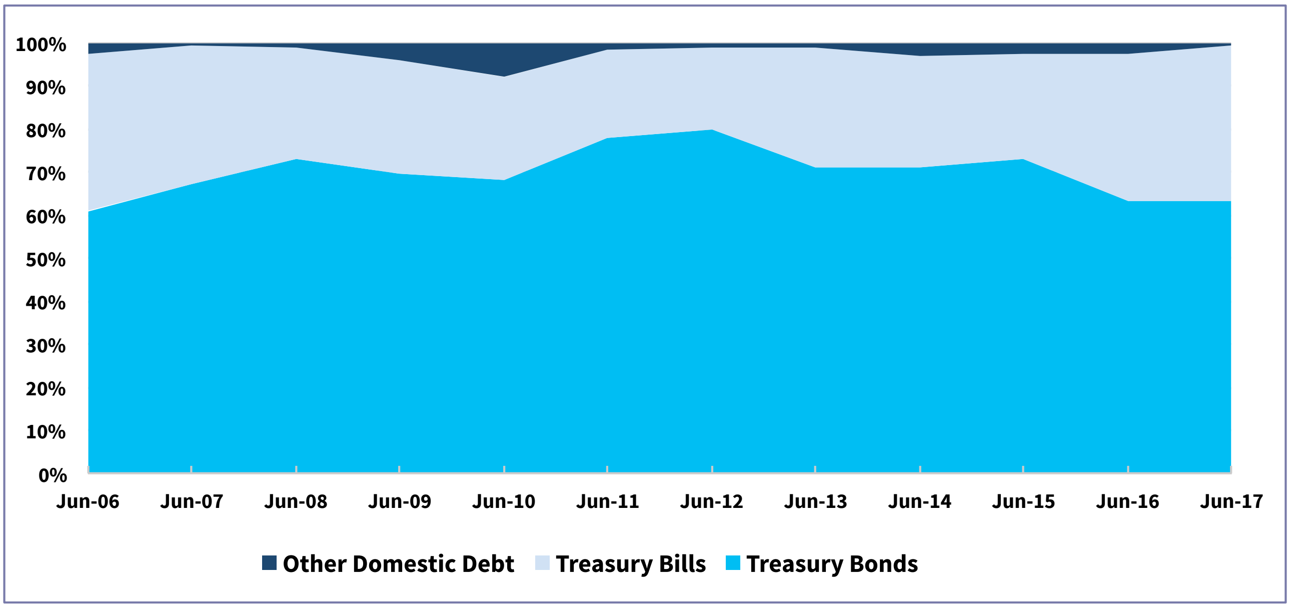
Both domestic and external debt contributed to the increase in total public debt. The key drivers of the increase in domestic debt was enhanced uptake of shorter dated securities due to uncertainities associated with August 2017 general elections. However, stabilization of interest rates during the FY 2016/17 also led to significant increase in longer term dated securities. On the other hand, disbursements from the Chinese government and Exim bank of China to finance the Standard Gauge Railway, proceeds of commercial loans from Eastern and Southern African Trade and Development Bank , the syndicated loan to Government and the explicit guarantee to Kenya Airways were the key drivers of the increase in external debt.

Public Domestic Debt

Total domestic debt increased by 16.4 per cent during FY 2016/17, mostly reflecting uptake of Government securities particularly Treasury Bonds. Despite a normalized yield curve during FY 2016/17, investors' appetite shifted towards shorter dated debt securities due to uncertainities associated with August 2017 general elections. The stock of Treasury bills and bonds increased by 26.5 per cent and 15.6 per cent, respectively. The average time to maturity of existing domestic debt declined marginally from 4 years and 3 months in June 2016 to 4 years and 2 months in June 2017indicating more refinancing risks, largely from increased uptake of short-dated securities issued in the fourth quarter of FY 2016/17.

As shown in **Chart 2.4.1 and Table 2.4.1**, the percentage of Treasury bonds in total domestic debt decreased from 63.5 per cent in June 2016 to 63.1 per cent in June 2017, while that of Treasury bills increased from 34.7 per cent of total domestic debt to 36.6 per cent during the review period. The increase in share of Treasury Bills relative to Treasury Bond's reflects investors' preferences for shorter dated maturities during the period of political uncertainity.

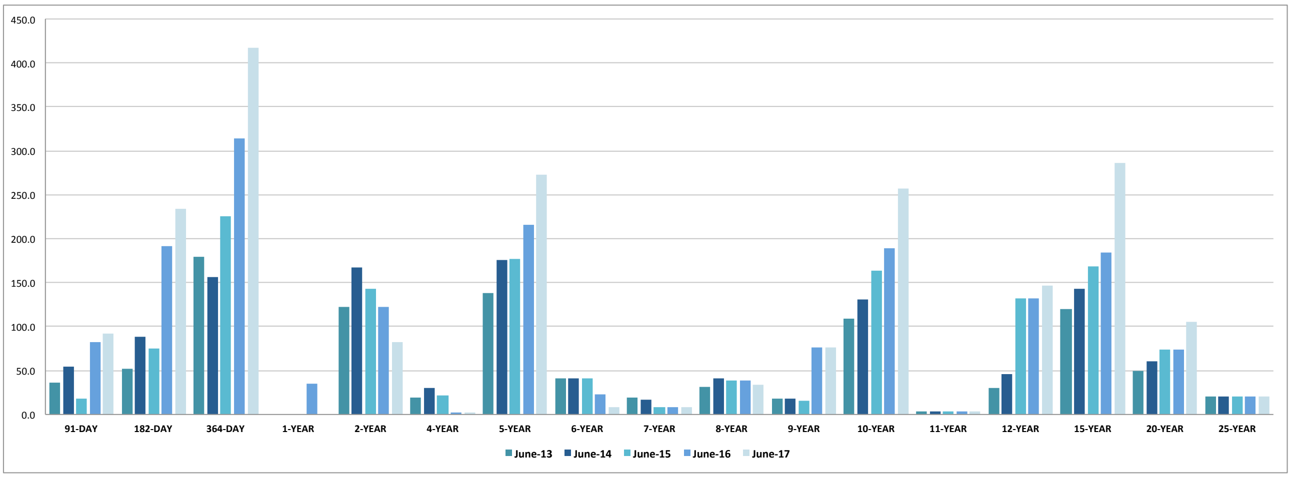
Chart 2.4.1: Composition of Government Domestic Debt



Source: The National Treasury and Central Bank of Kenya

The Government made significant progress in issuing and re-opening long-dated instruments during fiscal year 2016/17 **(Chart 2.4.2)**. The 15-year Treasury bond accounted for the largest increase of outstanding Government securities, by KSh 102.9 billion or 56.0 per cent by June 2017.

Chart 2.4.2: Outstanding Treasury Bills & Bonds by Tenor in KSh Billion



Source: Central Bank of Kenya

The trend in the holdings of Treasury bills by institutional holders showed a dominant banking sector in the short dated debt securities market. Uptake of commercial banks increased by 90 basis points and that of pension funds by 410 basis points. The increase in the uptake of Treasury bills by pension funds was mainly on account of the subdued performance of the equities market, which resulted in the pension funds looking for better yields in the Government securities. Holdings of Treasury bonds across institutional holders reflected a dominant banking sector as well. Commercial banks and pension funds increased their proportion of Treasury bonds by 440 and 60 basis points, respectively.

Table 2.4.2: Outstanding Stock of Treasury Bills by Holder (KSh Billion)

Holders	Jun-15		Jun-16		Jun-17	
	Ksh	%	Ksh	%	Ksh	%
Banking Institutions	244.4	70.7	386.8	63.1	457.1	59.5
Central Bank*	26.7	7.7	45.5	7.4	20.6	2.7
Comm. Banks	217.7	63.0	341.3	55.7	436.5	56.8
Insurance Companies	20.8	6.0	18.4	3.0	13.7	1.8
Parastatals	15.0	4.3	53.8	8.8	89.0	11.6
Pension Funds	40.9	11.8	117.9	19.2	179.5	23.3
Others	24.4	7.1	36.1	5.9	29.2	3.8
Total	**345.5**	**100.0**	**613.0**	**100.0**	**768.5**	**100.0**

* Includes Repo Treasury bills

Source: Central Bank of Kenya

Table 2.4.3: Outstanding Stock of Treasury Bonds by Holder (KSh Billion)

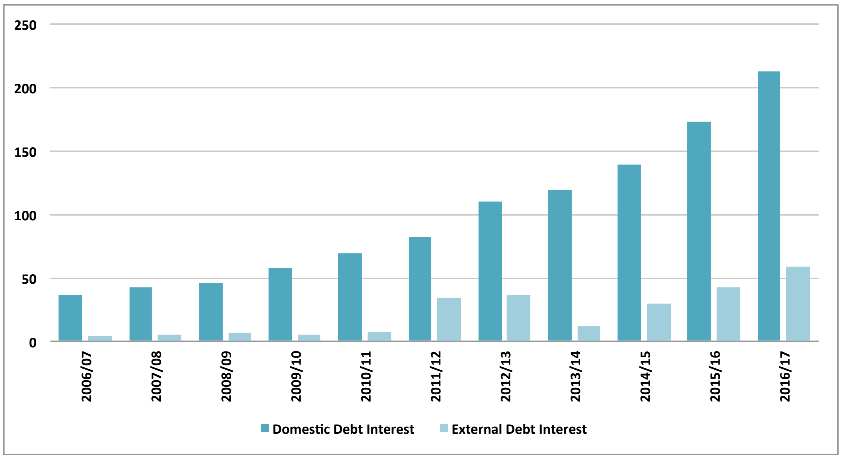
Holders	Jun-15		Jun-16		Jun-17	
	KSh	%	KSh	%	KSh	%
Banking Institutions	510.3	49.3	569.8	49.5	715.1	53.7
Central Bank	0.0	0.0	9.4	0.8	9.4	0.7
Comm. Banks	510.2	49.3	560.4	48.6	705.7	53.0
Insurance Companies	107.0	10.3	107.0	9.3	114.7	8.6
Parastatals	33.6	3.2	33.6	2.9	39.4	3.0
Pension Funds	311.8	30.1	351.0	30.5	400.1	30.0
Others	73.0	7.0	90.6	7.9	62.7	4.7
Total	**1035.7**	**100.0**	**1152.0**	**100.0**	**1332.0**	**100.0**

Source: Central Bank of Kenya

Interest Payments on Public Debt

Both external and domestic interest payments increased during FY 2016/17 consistent with accumulation of debt stock in recent years **(Table 2.4.1**). Cumulative interest and other charges on domestic debt amounted to KSh 212.9 billion (or 2.8 per cent GDP or 15.0 per cent of revenues) compared with KSh 172.9 billion (or 2.8 per cent GDP or 13.8 per cent of revenues) during the FY 2015/16. The largest component of domestic interest payments was for Treasury bonds, which is consistent with the domestic debt profile. Interest payments on external debt increased by 37.1 per cent from KSh 42.6 billion recorded in FY 2015/16. The major components of external interest payments were KSh 19.5 billion paid for the 2014 International Sovereign Bond and KSh 5.0 billion paid for the 2015 syndicated loan.

Chart 2.4.3: Domestic and External Debt Interest Payments in KSh Billion



Source: Central Bank of Kenya

Public and Publicly Guaranteed External Debt

Public and publicly guaranteed external debt increased by 27.7 per cent in FY 2016/17 (**Table 2.4.4**). The growth in external debt reflected disbursements from the Chinese Government and Exim Bank of China to finance the Standard Gauge Railway, proceeds from commercial loans procured from Eastern and Southern African Trade and Development Bank, the syndicated loan to Government and the explicit guarantee to Kenya Airways.

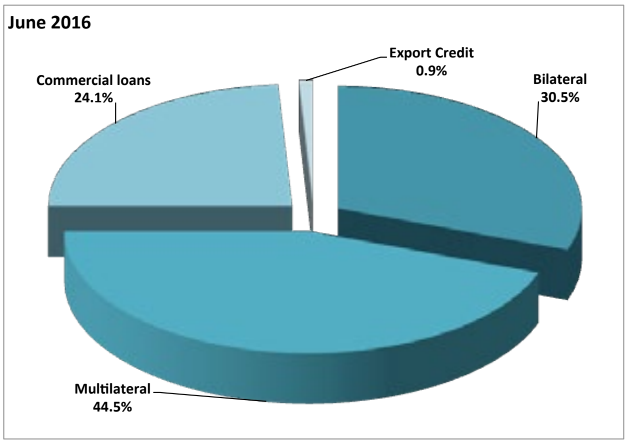
Table 2.4.4: Distribution of External Public Debt (KSh Billion)

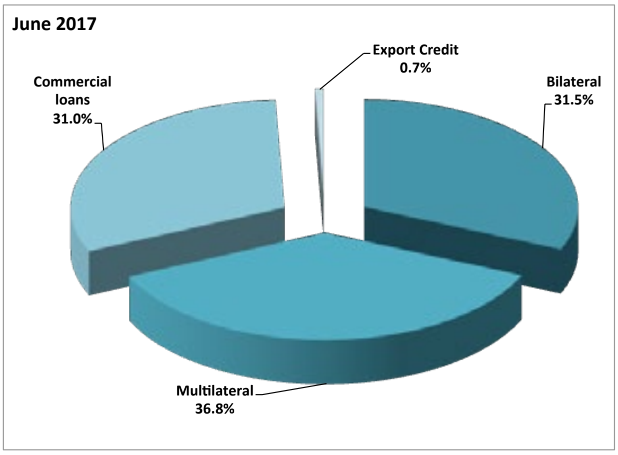
	Jun-15	%	Jun-16	%	Jun-17	%
Bilateral	445.1	30.6	548.4	30.5	722.6	31.5
Multilateral	684.6	48.6	798.8	44.5	844.4	36.8
Commercial loans	276.9	19.7	432.4	24.1	712.1	31.0
Export Credit	16.6	1.2	16.6	0.9	15.3	0.7
Total	**1,423.3**	**100.0**	**1,796.2**	**100.0**	**2,294.4**	**100.0**

Source: Central Bank of Kenya

The proportion of debt owed to multilateral lenders declined by 7.7 percentage points while that held by commercial banks and bilateral lenders increased by 6.9 and 1.0 percentage points, respectively. The increase in commercial debt was mainly on account of disbursements of US dollar 1.5 billion from the 3-year medium term syndicated loan contracted in March 2017, US dollar 500 million from Eastern and Southern African Trade and Development Bank and the explicit guarantee to Kenya Airways of US dollar 750 million. The increase in bilateral debt was driven by disbursements of loans contracted from the Chinese Government to finance the completion of Phase I and the onset of phase II of the Standard Gauge Railway.

Chart 2.4.4: Composition of External Public Debt



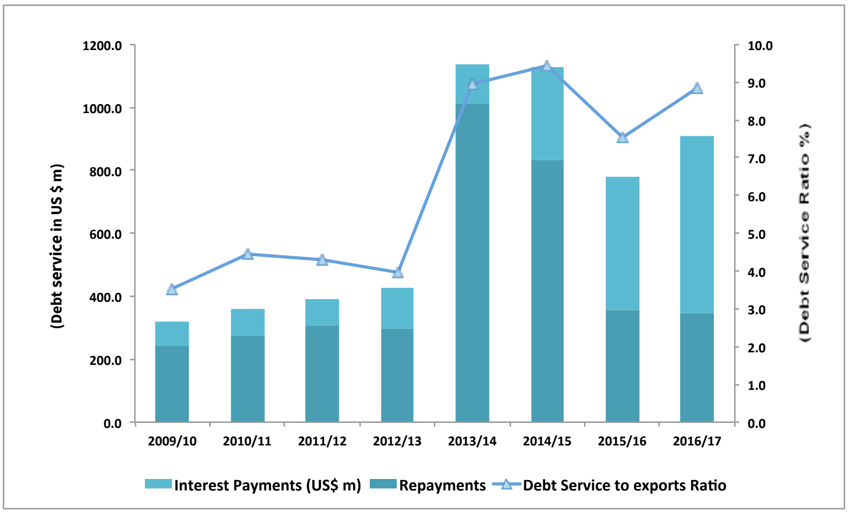


Source: Central Bank of Kenya

External Debt Service

Total external debt service increased from KSh 78.6 billion in FY 2015/2016 to KSh 94.3 billion in FY 2016/2017. The external debt service during the period comprised KSh 35.9 billion in principal repayments and KSh 58.4 billion in interest payments. Liquidity indicators of indebtedness, that is debt service to revenues and exports increased from 6.2 per cent and 7.5 per cent, to 6.6 per cent and 8.8 per cent, respectively. These indicators were way below the CPIA determined debt sustainability thresholds of 21 per cent of exports and 23 per cent of revenues, signaling low risk of external debt service default.

Chart 2.4.5: External Debt Service



Source: Central Bank of Kenya

Debt Sustainability Analysis

The December 2016 Debt Sustainability update showed that Kenya faces a low risk of external debt distress. All the liquidity and solvency debt burden indicators were below the [1]CPIA based thresholds both in the baseline and alternative scenarios. However, there is a temporary breach of debt service to exports ratio under standardized stress tests. Public DSA sensitivity analysis showed that if primary deficit were to remain at the current levels, public debt would take an upward trajectory and be way above the EAC convergence criterion. This is expected to improve in the medium term in case of fiscal consolidation.[2]

Outlook for Fiscal Year 2017/18

Total public and publicly guaranteed external debt is projected at KSh 2627.1 billion (29.8 per cent of GDP), while gross and net domestic debt are expected at KSh 2427.9 billion (27.6 per cent of GDP) and KSh 1993.4 billion (22.6 per cent of GDP), respectively (Budget Review and Outlook Paper October 2017).

[1] *The EAC public debt convergence criterion for PV of Debt/GDP is 50 percent*
CPIA stands for Country Policies and Institutions Assessment
The primary deficit is the non-interest budget balance, an increase in the primary deficit leads into an increase in public debt through the debt and deficit vicious cycle

[2] *The EAC public debt convergence criterion for PV of Debt/GDP is 50 percent*
CPIA stands for Country Policies and Institutions Assessment

2.5 DEVELOPMENTS IN BALANCE OF PAYMENTS

The Current Account

The current account balance widened to a deficit of USD 4,645 million (6.2 per cent of GDP) in the year to June 2017 from a deficit of USD 3,122 million (4.9 per cent of GDP) in the year to June 2016. The widening of the current account balance was attributed to an increase in payments for merchandise imports and a decline in earnings from merchandise exports **(Table 2.5.1)**.

Table 2.5.1: Balance of Payments (USD Million)

ITEM	FY 2015_16*	FY 2016_17 Jul-Sep Q1	FY 2016_17 Oct-Dec Q2	FY 2016_17 Jan-Mar Q3	FY 2016_17 Apr-Jun Q4	FY 2016_17**	FY 2016/17-2015/16 Change	FY 2016/17-2015/16 % Change
1. Overall Balance	**-1,109**	**56**	**569**	**-814**	**-224**	**-413**	**696**	**-62.7**
2. Current account	**-3,122**	**-1,151**	**-1,184**	**-1,187**	**-1,123**	**-4,645**	**-1,523**	**48.8**
Goods: Exports (fob)	6,090	1,407	1,370	1,480	1,488	5,746	-344	-5.7
Goods: Imports (fob)	13,543	3,567	3,498	3,978	3,988	15,031	1,488	11.0
Services: Credit	4,601	1,133	1,059	1,128	1,219	4,539	-62	-1.3
Services: Debit	3,058	740	681	743	850	3,015	-43	-1.4
Balance on goods and services	-5,910	-1,767	-1,750	-2,114	-2,131	-7,761	-1,851	31.3
Primary Income: Credit	462	110	109	122	122	463	1	0.2
Primary Income: Debit	1,114	269	329	182	224	1,004	-110	-9.9
Balance on goods, services, and primary income	-6,562	-1,926	-1,970	-2,174	-2,232	-8,302	-1,740	26.5
Secondary Income: Credit	3,499	784	797	1,000	1,123	3,705	206	5.9
Of which: Remittances	1,647	425	447	433	455	1,759	112	6.8
Secondary Income: Debit	59	10	11	14	14	48	-11	-18.8
3. Capital Account	**277**	**7**	**44**	**90**	**42**	**183**	**-93**	**-33.7**
4. Financial Account	**-3,822**	**-284**	**-2,016**	**-2,060**	**-2,126**	**-6,486**	**-2,665**	**69.7**

** Revised*

***Provisional*

Fob - free on board

Source: Central Bank of Kenya

DOMESTIC ECONOMY

The value of merchandise imports increased by USD 1,488 million (11 per cent) to USD 15,031 million in the year to June 2017, largely reflecting imports of: transport and office equipment related to the Standard Gauge Railway (SGR) project, food and oil. Food imports rose by USD 405 million to USD 1,492 million on account of increased importation of cereals and sugar during the first half of 2017 driven by prolonged drought conditions experienced from the last quarter of 2016 through early 2017. The increase in oil imports, by USD 270 million, reflected relatively higher oil prices on the international market, while the rise of payment for importation of machinery equipment, by USD 268 million, was mainly attributed to increased importation of office equipment related to the SGR project. Upward pressure on the import bill experienced during the first half of 2017 was as a result of importation of wagons and locomotives related to phase 1 of the SGR project.

The value of merchandise exports declined by USD 344 million (5.7 per cent) to USD 5,746 million in the year to June 2017, largely reflecting the effects of dry weather conditions on key commodity exports and relatively weaker global demand. The value of tea exports declined by 5 per cent to USD 1,268 million, while horticulture exports declined by 3.6 per cent to USD 805 million on the back of lower export volumes. The production of fresh vegetables, fruits and nuts (horticulture) and tea were affected by the dry weather spell which begun during the last quarter of 2016. Furthermore, there were declines in earnings from other exports including manufactured goods (14.1 per cent), chemicals (13 per cent) and re-exports (17.6 per cent) reflecting lower regional demand for Kenya's exports due to increased competition from other markets (**Table 2.5.2**).

Net Services recorded lower net inflows of USD 1,524 million during the year to June 2017 compared to USD 1,543 million on account of lower receipts from transport services and lower flows of other net services. Receipts from travel services, however, increased by USD 343 million to USD 1,065 million, boosted by recovery in tourist arrivals **(Table 2.5.2)**.

The primary income balance narrowed to USD 540 million in June 2017 from USD 651 in June 2016 occasioned mainly by lower payments of dividends and interest to non-residents, while improvement in the secondary income balance to USD 3,657 million in June 2017 from USD 3,440 million reflected increased workers' remittances and inflows to Non-Governmental Organizations **(Table 2.5.2)**.

Table 2.5.2: Balance on Current Account (USD Million)

ITEM	FY 2015_16*	FY 2016_17 Jul-Sep Q1	Oct-Dec Q2	Jan-Mar Q3	Apr-Jun Q4	FY 2016_17**	FY 2016/17-2015/16 Change	% Change
CURRENT ACCOUNT	**-3,122**	**-1,151**	**-1,184**	**-1,187**	**-1,123**	**-4,645**	**-1,523**	**48.8**
Goods	**-7,453**	**-2,159**	**-2,128**	**-2,498**	**-2,500**	**-9,286**	**-1,832**	**24.6**
Exports (fob)	**6,090**	**1,407**	**1,370**	**1,480**	**1,488**	**5,746**	**-344**	**-5.7**
Of which: Coffee	215	48	44	67	81	241	25	11.8
Tea	1,336	287	290	345	347	1,268	-67	-5.0
Horticulture	834	194	192	205	213	805	-30	-3.6
Oil products	55	16	12	13	14	56	1	1.4
Manufactured Goods	476	112	105	98	94	409	-67	-14.1
Raw Materials	445	122	131	142	133	528	84	18.8
Chemicals and Related Products	456	101	98	100	98	397	-59	-13.0
Miscellaneous Man. Articles	591	143	145	147	134	568	-22	-3.8
Re-exports	821	186	153	153	185	677	-144	-17.6
Other	861	198	200	209	190	797	-64	-7.4
Imports (fob)	**13,543**	**3,567**	**3,498**	**3,978**	**3,988**	**15,031**	**1,488**	**11.0**
Of which: Oil	2,159	554	588	636	651	2,429	270	12.5
Chemicals	2,236	567	534	621	561	2,282	46	2.0
Manufactured Goods	2,520	695	604	619	671	2,589	70	2.8
Machinery & Transport Equipment	4,972	1,134	1,108	1,329	1,179	4,749	-223	-4.5
Machinery	2,929	783	793	857	764	3,197	268	9.2
Transport equipment	2,043	351	315	471	415	1,552	-491	-24.0
Other	1,553	448	494	604	732	2,278	725	46.7
Of which: *Food*	1,087	260	305	371	556	1,492	405	37.3
Services	**1,543**	**393**	**378**	**384**	**369**	**1,524**	**-19**	**-1.2**
Transport Services (net)	**708**	**187**	**171**	**76**	**68**	**502**	**-206**	**-29.1**
Credit	1,885	434	395	297	322	1,449	-436	-23.1
Debit	1,177	247	224	222	254	947	-231	-19.6
Travel Services (net)	**511**	**193**	**208**	**200**	**281**	**881**	**370**	**72.5**
Credit	722	228	230	262	346	1,065	343	47.5
Debit	212	35	22	62	65	184	-27	-12.9
Other Services (net)	**325**	**12**	**0**	**109**	**20**	**141**	**-183**	**-56.5**
Primary Income	**-651**	**-159**	**-220**	**-59**	**-102**	**-540**	**111**	**-17.0**
Credit	462	110	109	122	122	463	1	0.2
Debit	1,114	269	329	182	224	1,004	-110	-9.9
Secondary Income	**3,440**	**775**	**786**	**987**	**1,109**	**3,657**	**217**	**6.3**
Credit	3,499	784	797	1,000	1,123	3,705	206	5.9
Debit	59	10	11	14	14	48	-11	-18.8

** Revised*
***Provisional*
fob - free on board

Source: Central Bank of Kenya

Remittances

The 12-month cumulative remittance inflows increased by 6.8 per cent to USD 1,759 million in June 2017 from USD 1,647 million during the same period in 2016 **(Table 2.5.3)**. The upward trend reflects continued resilience of remittance inflows in part supported by the success of mobile money services which have partnered with traditional remittance providers providing alternatives to the traditional models including instant online money transfers to mobile accounts. Over time, online transfers have become more convenient and cheaper thereby increasing the volume of inflows into the country.

Table 2.5.3 Remittance Inflows US$ Million (Cumulative 12 Months)

Month/Year	2011	2012	2013	2014	2015	2016	2017
January	661	917	1,184	1,299	1,432	1,571	1,729
February	675	960	1,183	1,307	1,445	1,585	1,735
March	695	995	1,180	1,323	1,452	1,599	1,741
April	712	1,020	1,189	1,331	1,463	1,619	1,736
May	729	1,053	1,198	1,341	1,472	1,636	1,751
June	748	1,081	1,199	1,357	1,492	1,647	1,759
July	770	1,101	1,219	1,361	1,506	1,650	
August	798	1,116	1,231	1,383	1,510	1,664	
September	824	1,123	1,246	1,403	1,511	1,679	
October	847	1,134	1,267	1,411	1,527	1,684	
November	871	1,150	1,283	1,412	1,544	1,697	
December	891	1,171	1,291	1,428	1,548	1,724	

Source: Central Bank of Kenya

Direction of Trade

During the year to June 2017, Kenya's imports were mainly sourced from China, India, Saudi Arabia and United Arab Emirates (UAE), which jointly accounted for 51.4 per cent of total imports. The share of imports from China increased to 26 per cent from 23 per cent in the year to June 2016, largely due to higher imports of SGR related machinery and transport equipment. The share of imports from the UAE and Saudi Arabia increased to 6.8 per cent and 6.4 per cent, respectively, by June 2017 from 6.6 per cent and 3.8 per cent respectively in June 2016, with imports mainly consisting of petroleum products. On the other hand, the share of imports from Africa increased to 10.9 per cent during the year to June 2017 from 10.1 per cent during the same period in the previous year. The increase reflected higher importation from both the EAC and COMESA regions. The share of Kenya's imports from the European Union, however, declined to 13 per cent from 16.2 per cent and this reflected lower imports from the United Kingdom (U.K), the Netherlands and Germany **(Table 2.5.4**).

DOMESTIC ECONOMY

Table 2.5.4: Kenya’s Direction of Trade

IMPORTS (in millions of US dollars)				Share of Imports (%)		
	Year to June			Year to June		
Country	2015	2016	2017	2015	2016	2017
Africa	**1,650**	**1,362**	**1,632**	**10.1**	**10.1**	**10.9**
Of which						
South Africa	660	542	567	4.0	4.0	3.8
Egypt	285	257	332	1.7	1.9	2.2
Others	706	563	732	4.3	4.2	4.9
EAC	**484**	**323**	**417**	**3.0**	**2.4**	**2.8**
COMESA	**744**	**625**	**854**	**4.6**	**4.6**	**5.7**
Rest of the World	**14,656**	**12,181**	**13,400**	**89.9**	**89.9**	**89.1**
Of which						
India	2,894	2,329	1,826	17.7	17.2	12.1
UAE	980	896	1,029	6.0	6.6	6.8
China	3,266	3,146	3,904	20.0	23.2	26.0
Japan	947	858	809	5.8	6.3	5.4
USA	1,872	978	515	11.5	7.2	3.4
United Kingdom	478	384	312	2.9	2.8	2.1
Singapore	98	91	65	0.6	0.7	0.4
Germany	518	449	385	3.2	3.3	2.6
Saudi Arabia	760	512	964	4.7	3.8	6.4
Indonesia	508	439	506	3.1	3.2	3.4
Netherlands	216	185	163	1.3	1.4	1.1
France	244	221	246	1.5	1.6	1.6
Bahrain	128	63	117	0.8	0.5	0.8
Italy	246	221	241	1.5	1.6	1.6
Others	1,500	1,407	2,315	9.2	10.4	15.4
Total	**16,307**	**13,543**	**15,031**	**100.0**	**100.0**	**100.0**
EU	2,480	2,198	1,947	15.2	16.2	13.0
China	3,266	3,146	3,904	20.0	23.2	26.0

EXPORTS (in millions of US dollars)				Share of Exports (%)		
	Year to June			Year to June		
Country	2015	2016	2017	2015	2016	2017
Africa	**2,456**	**2,462**	**2,201**	**42.2**	**40.4**	**38.3**
Of which						
Uganda	593	683	612	10.2	11.2	10.7
Tanzania	402	365	281	6.9	6.0	4.9
Egypt	184	220	170	3.2	3.6	3.0
Sudan	64	58	54	1.1	1.0	0.9
South Sudan	213	165	157	3.7	2.7	2.7
Somalia	140	164	202	2.4	2.7	3.5
DRC	230	197	197	4.0	3.2	3.4
Rwanda	151	183	167	2.6	3.0	2.9
Others	479	428	362	8.2	7.0	6.3
EAC	**1,234**	**1,301**	**1,136**	**21.2**	**21.4**	**19.8**
COMESA	**1,551**	**1,621**	**1,471**	**26.6**	**26.6**	**25.6**
Rest of the World	**3,363**	**3,628**	**3,544**	**57.8**	**59.6**	**61.7**
Of which						
United Kingdom	393	413	357	6.8	6.8	6.2
Netherlands	424	450	419	7.3	7.4	7.3
USA	413	412	464	7.1	6.8	8.1
Pakistan	279	390	516	4.8	6.4	9.0
UAE	244	319	274	4.2	5.2	4.8
Germany	128	113	123	2.2	1.9	2.1
India	86	115	81	1.5	1.9	1.4
Afghanistan	125	166	36	2.1	2.7	0.6
Others	1,272	1,250	1,274	21.9	20.5	22.2
Total	**5,819**	**6,090**	**5,746**	**100.0**	**100.0**	**100.0**
EU	1,267	1,291	1,185	21.8	21.2	20.6
China	83	79	122	1.4	1.3	2.1

Source: Kenya Revenue Authority and Central Bank of Kenya

The share of Kenya's exports to Africa declined to 38.3 per cent during the year to June 2017 from 40.4 per cent during the year to June 2016 **(Table 2.5.4)**. The decline was largely in exports to the EAC and COMESA region, following reduced exports of Portland cement, pharmaceuticals and re-exports of mineral fuels especially to Uganda, Tanzania and Rwanda. The share of exports to the European Union also declined to 20.6 per cent from 21.2 per cent over the review period mainly on account of lower horticulture exports. However, exports to Pakistan increased to 9.0 per cent in June 2017 from 6.4 per cent in June 2016 driven by higher demand for Kenyan tea, while the share of exports to USA rose to 8.1 per cent from 6.8 per cent over the same period attributed to higher exports of textiles and apparels. In the year to June 2017, the share of exports to China increased to 2.1 per cent from 1.3 per cent in the previous year.

Capital and Financial Account

The capital account surplus narrowed by 33.7 per cent in the year to June 2017 to USD 183 million from USD 277 million, reflecting lower capital transfers.

Meanwhile, surplus in the financial account improved by 67.7 per cent between June 2016 and June 2017, largely in 'other investment' liabilities, which increased by 99.4 per cent following higher uptake of project loans by Government. However, inflows related to direct investment decreased by 30.6 per cent, as those related to Portfolio Investment declined by 34.1 percent. Over the same period, resident investors increased their holdings of foreign portfolio investments to USD 647 million from USD 139 million, while resident investor holdings related to direct investment increased by USD 48 million to USD 227 million **(Table 2.5.5)**.

Table 2.5.5: Balance on the Capital and Financial Account (USD Million)

	FY	FY 2016_17				FY	FY 2016/17-2015/16	
	2015_16*	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	2016_17**		%
ITEM		Q1	Q2	Q3	Q4		Change	Change
Capital account credit	**277**	**7**	**44**	**90**	**42**	**183**	**-93**	**-33.7**
Capital account credit	277	7	44	90	42	183	-93	-33.7
Capital account: debit	0	0	0	0	0	0	0	0.0
Financial Account	**-3,822**	**-284**	**-2,016**	**-2,060**	**-2,126**	**-6,486**	**-2,665**	**69.7**
Direct investment: assets	178	41	50	59	76	227	48	27.1
Direct investment: liabilities	522	72	97	81	112	362	-160	-30.6
Portfolio investment: assets	139	162	157	155	173	647	508	364.1
Portfolio investment: liabilities	44	12	7	6	4	29	-15	-34.5
Financial derivatives: net	0	0	0	0	0	0	0	0
Other investment: assets	35	183	-374	406	10	226	191	552.2
Other investment: liabilities	3,609	587	1,746	2,592	2,270	7,195	3,586	99.4

** Revised*

***Provisional*

Source: Central Bank of Kenya

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased by 4.6 per cent in the year to June 2017. Official reserves held by the Central Bank of Kenya (CBK) constituted 78 per cent of gross reserves and stood at USD 8,580 million, equivalent to 5.7 months of import cover **(Table 2.5.6).** The precautionary arrangements with the IMF amounting to USD 1,500 million continued to provide additional buffer against short term external and domestic shocks.

Table 2.5.6: Foreign Exchange Reserves and Residents' Foreign Currency Deposits (End of Period, USD Million)

	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
1. Gross Reserves	**10,354**	**10,602**	**10,442**	**10,327**	**9,587**	**9,724**	**9,929**	**10,786**	**11,233**	**10,934**	**10,984**
of which:											
Official	8,144	8,200	8,155	7,872	7,573	7,466	7,475	8,379	8,715	8,591	8,580
*import cover**	*5.3*	*5.4*	*5.4*	*5.2*	*5.0*	*4.9*	*4.9*	*5.5*	*5.8*	*5.7*	*5.7*
Commercial Banks	2,210	2,402	2,287	2,455	2,015	2,258	2,454	2,407	2,518	2,343	2,405
2. Residents' foreign currency deposits	**4,630**	**4,723**	**4,439**	**4,606**	**4,323**	**4,381**	**4,506**	**4,503**	**4,663**	**4,660**	**4,733**

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

Source: Central Bank of Kenya

3.0 CENTRAL BANK OPERATIONS

CENTRAL BANK OPERATIONS

3.1 MONETARY POLICY MANAGEMENT

The Central Bank of Kenya conducted monetary policy focused on achieving and maintaining stability in the general level of prices in the economy. In this regard, monetary policy aimed to achieve the inflation target of 5.0 per cent set by the Cabinet Secretary at The National Treasury, during fiscal year 2016/17.

In the first half of the fiscal year 2016/17 the Monetary Policy Committee (MPC) held three meetings in July, September, and November 2016. The MPC retained the CBR at 10.5 per cent in the July 2016 meeting given moderate inflationary pressures, but observed that the effects of fuel tax increases in the same month was expected to exert temporary upward pressure on consumer prices. The month on month inflation had risen to 6.4 per cent in July 2016 from 5.8 per cent in June 2016 and 5.0 per cent in May 2016, respectively. The foreign exchange market had remained stable, reflecting a narrower current account deficit due to a lower import bill, improved tea and horticulture exports, and stronger diaspora remittances. In the September 2016 meeting, the MPC eased the policy rate (CBR) to 10.0 per cent on the back of favorable inflation outlook in the short term and persistent slowdown in private sector credit growth. In the subsequent meeting of November 2016, the Monetary Policy Committee retained the CBR at 10.0 per cent. Overall inflation stabilized at 6.4 per cent in December 2016 from a high of 6.5 per cent and 6.7 per cent in the months of October 2016 and November 2016, respectively. The marginal decline in December was due in part to the waning effect of the excise tax implemented in December 2015 and improvement in the current account due to lower imports of petroleum products, machinery and transport equipment.

In the second half of fiscal year 2016/17 the MPC retained the CBR at 10.0 per cent to continue anchoring inflation expectations. While observing that inflation was expected to remain within the Government target range in the short term, the Committee at the January 2017 meeting noted increased uncertainties with regard to the prevailing drought conditions and risks in the global markets. Furthermore, the Committee observed that available data was inconclusive for assessing the impact of the capping of interest rates that came into effect in September 2016. Underscoring the impact of the interest rate capping law on the banking sector, the MPC noted banks were geared towards reviewing their business models aimed at enhancing the resilience of their operations in the new environment. In March 2017 meeting, the MPC noted onset of inflationary pressures due to delayed long rains that resulted in shortage of key basic food items.

The month on month inflation rose to a high of 11.7 per cent in May from 10.3 per cent in March 2017, on account of the severe drought conditions. Nevertheless, onset of the long rains and interventions by the Government provided some relief resulting in overall inflation turning around to 9.2 per cent in June 2017, supported by a fall in the prices of key food items. In a complementary role, the foreign exchange market had stabilized despite uncertainties in the global economy, particularly with regard to the direction of U.S. economic and trade policies, normalization of monetary policies in the advanced economies and the Brexit outcome.

On January 25, 2017, the IMF Executive Board approved completion of the first review of Kenya's economic program supported under the Stand-By Arrangement (SBA) and the Arrangement of the Standby Credit Facility (SCF). The 24-month SBA/SCF signed in March 2016 has a combined total access of SDR 1.06 billion (about US$1.5 billion), available as precautionary loan to safeguard the economy against exogenous shocks and anchor economic policy. The Government does not intend to draw on the approved amount but retains the option to do so should need arise. The IMF support is predicated on commitments to fiscal consolidation, improved public finance management and gradual transition to forward-looking monetary policy framework.

CBK met the programme's performance criteria (PCs) targets for June 2017 on Net International Reserves (NIR) and Net Domestic Assets (NDA). However, the average inflation under the Monetary Policy Consultation Clause (MPCC) exceeded the upper bound of the target band (5 ± 2.5 per cent) in the June 2017 quarter owing to elevated food prices associated with the drought conditions that affected the country in the first quarter of 2017. The three months' average inflation increased to 10.8 per cent in the second quarter of 2017 (**Table 3.1.1**).

Table 3.1.1: Performance of Quantitative Targets Under SBA/SCF Arrangement for 2016/17

	NDA (KSh. Billion)			NIR (US$ Millions)			MPCC (%)		
	1. Target (Ceiling)	2. Actual (Avg.)	Assessment (Met/Not Met)	3.Target (Floor)	4. Actual (Avg.)	Assessment (Met/Not Met)	5. Inflation Band	6. Actual Inflation (Avg.)	Assessment (Met/Not Met)
Jun-16	-151.0	-301.5	**Met: Below Ceiling**	5,900.0	6,826.6	**Met: above floor**	5± 2.5	5.4	**Met: within the band**
Sep-16	-139.0	-329.9	**Met: Below Ceiling**	5,852.0	7,105.0	**Met: above floor**		6.3	**Met: within the band**
Dec-16	-99.0	-279.0	**Met: Below Ceiling**	5,633.0	6,788.0	**Met: above floor**		6.5	**Met: within the band**
Mar-17	-193.0	293.5	**Met: Below Ceiling**	6,944.1	6,266.0	**Met: above floor**		8.8	**Not Met: Above upper band**
Jun-17	-289.0	-351.4	**Met: Below Ceiling**	7,230.0	7,534.0	**Met: above floor**		10.8	**Not Met: Above upper band**

Source: Central Bank of Kenya

CENTRAL BANK OPERATIONS

Money supply

Annual growth in broad money supply (M3) decelerated to 6.0 per cent in June 2017 from 8.1 per cent in June 2016. The slowdown was largely on account of a decline in Net Foreign Assets (NFA) of the banking sector, coupled with the low credit uptake by the private sector. Consistent with the slowdown in M3 growth, time deposits declined by 10.4 per cent compared with 5.6 per cent growth in June 2016, underscoring the impact of the interest rate caps law on the deposits portfolio reallocation, from time (interest earning) deposits to demand (non-interest earning) deposits. The growth in M3 was largely dominated by demand deposits since the interest rate capping in September 2016 (**Table 3.1.2 and Chart 3.1.1**).

Net Foreign Assets

Growth of NFA of the banking system decreased to 15.5 per cent in FY 2016/17 from 29.2 per cent increase in FY 2015/16. The slowdown in NFA growth reflects a drawdown to settle official foreign debt service, and other Government payments. The NFA of the Central Bank grew by 7.3 per cent in the period under review compared with 22.9 per cent growth in the previous year, partly reflecting subdued inflows from abroad. Over a similar period, the NFA held by other banking institutions declined, on account of increased loans from non-residents and other accounts payable (**Table 3.1.2**).

Net Domestic Assets

The NDA of the banking system grew by 3.6 per cent in the FY 2016/17 compared to 3.8 per cent in FY 2015/16, largely reflecting net repayment by Government due to buildup of Government deposits and sluggish growth in credit to the private sector. The subdued private sector credit growth dampened recovery of M3 growth (**Table 3.1.2**).

Table 3.1.2: Monetary Aggregates (KSh Billion)

	END JUNE LEVEL			Annual Growth Rate	Annual Growth Rate	Annual Growth Rate	ANNUAL ABSOLUTE CHANGE (KSh BN)		
	Jun-15	Jun-16	Jun-17	Jun-15	Jun-16	Jun-17	Jun-15	Jun-16	Jun-17
COMPONENTS OF M3									
1. Money supply, M1 (1.1+1.2+1.3)	**1,002**	**1,136**	**1,394**	**10**	**13**	**23**	**88**	**134**	**258**
1.1 Currency outside banks	175	188	207	11	7	10	17	13	19
1.2 Demand deposits	776	881	1,106	13	14	26	**89**	**105**	**225**
1.3 Other deposits at CBK 1/	50	67	81	-27	33	22	-19	16	15
2. Money supply, M2 (1+2.1)	**2,155**	**2,353**	**2,485**	**16**	**9**	**6**	**304**	**199**	**131**
2.1 Time and saving deposits	1,153	1,217	1,090	23	6	-10	214	65	-127
3. Money supply, M3 (2+3.1)	**2,560**	**2,769**	**2,935**	**18**	**8**	**6**	**397**	**209**	**166**
3.1 Foreign Currency Deposits	406	416	451	30	2	8	93	10	35
SOURCES OF M3									
1. Net foreign assets 2/	**436**	**563**	**650**	**-18**	**29**	**16**	**-94**	**127**	**87**
Central Bank	565	695	745	-8	23	7	-50	129	50
Banking Institutions	-130	-132	-95	51	2	-28	**-44**	**-2**	**37**
2. Net domestic assets (2.1+2.2)	**2,125**	**2,206**	**2,285**	**30**	**4**	**4**	491	82	79
2.1 Domestic credit	**2,639**	**2,855**	**3,005**	**29**	**8**	**5**	**596**	**216**	**150**
2.1.1 Government (net)	522	560	649	84	7	16	239	39	89
2.1.2 Private sector	2,035	2,216	2,249	18	9	1	**315**	**181**	**33**
2.1.3 Other public sector	82	79	107	105	-4	36	42	-3	28
2.2 Other assets net	**-514**	**-649**	**-720**	**26**	**26**	**11**	**-105**	**-135**	**-71**
MEMORANDUM ITEMS									
Memorandum items									
2. Reserve money	**372**	**390**	**401**	**15**	**5**	**6**	1	2	-3
4. Overall liquidity, L (3+4.1)	**3,204**	**3,605**	**3,934**	**17**	**13**	**9**	**475**	**401**	**329**
4.1 Non-bank holdings of government securities	644	836	999	14	30	19	78	192	163

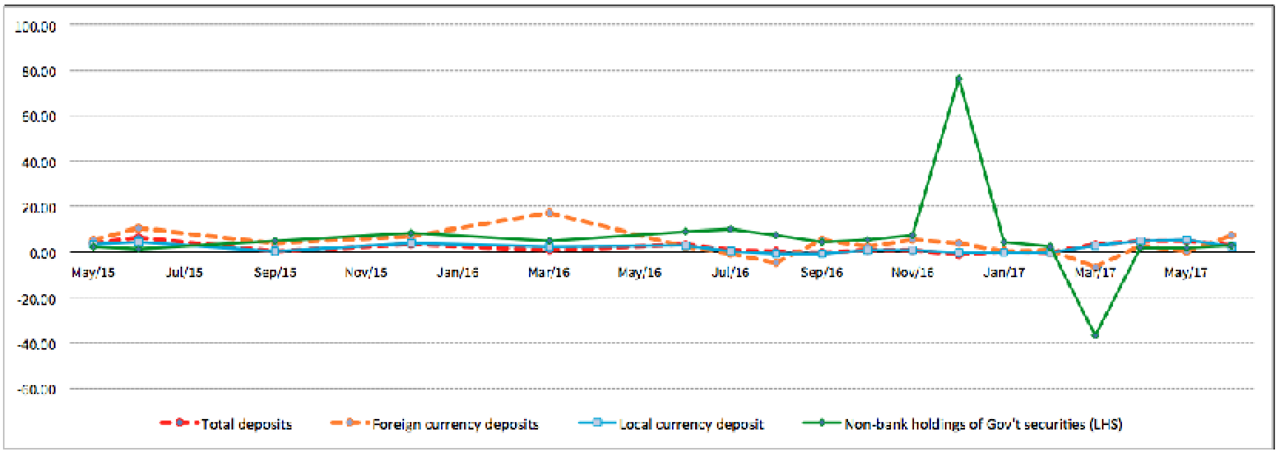
Absolute and percentage changes may not necessarily add up due to rounding

1/ Includes county deposits and special projects deposit

2/ Net Foreign Assets at current exchange rate to the US dollar.

Source: Central Bank of Kenya

Chart 3.1.1: Annual Growth in Deposits and Non-Bank Holdings of Government Securities in Per Cent



Source: Central Bank of Kenya

Domestic credit

Net domestic credit (NDC) grew by KSh 150.6 billion (5.3 per cent) in FY 2016/17 compared to KSh 215.8 billion (8.2 per cent) FY 2015/16. The decrease in annual growth of NDC reflected marginal growth of bank credit to the private sector. The sluggish in private sector credit fully offset increases in net credit to government (to 15.8 per cent from a growth of 7.1 per cent in the previous year) and to the 'other public sector' (to 36 per cent from a decline by 4.1 per cent over the review period) (**Table 3.1.3**).

Table 3.1.3: Banking Sector Net Domestic Credit (KSh Billion)

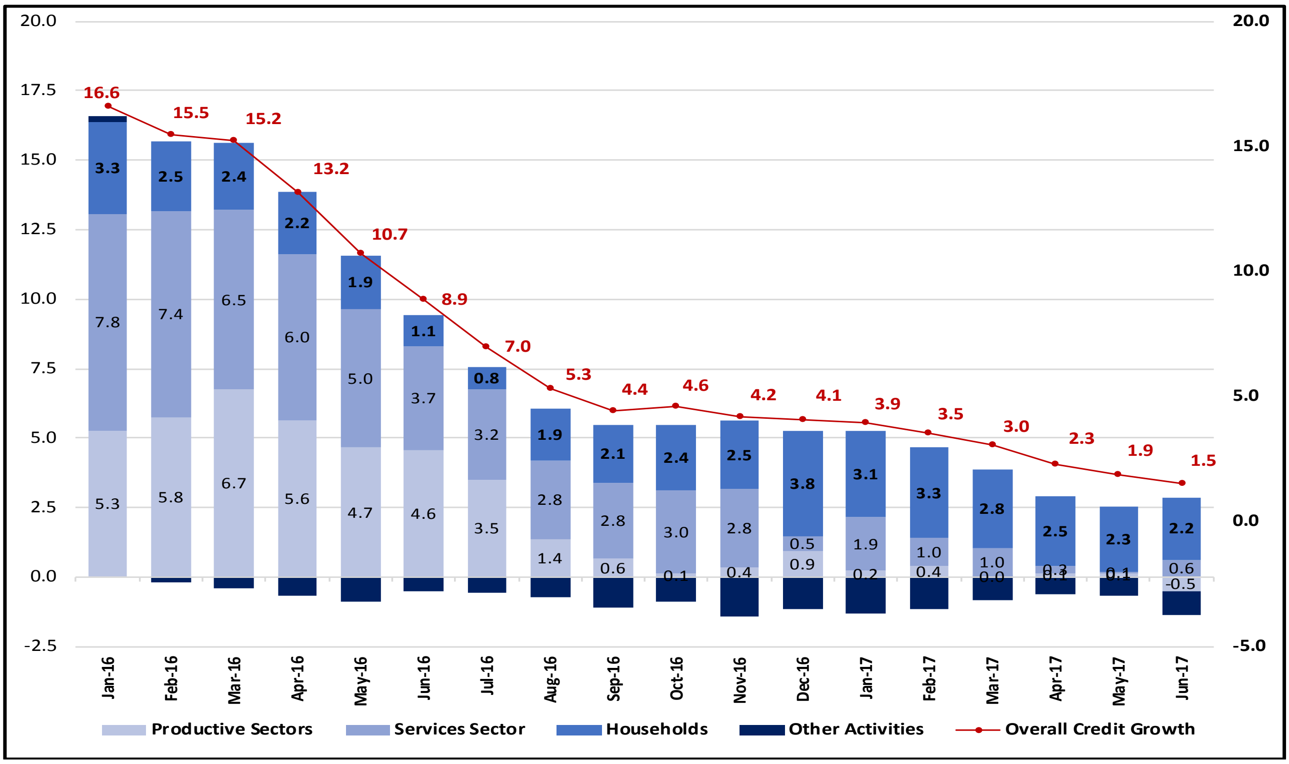
	END JUNE LEVEL			ANNUAL GROWTH RATE			ANNUAL CHANGES (KSh BN)		
	Jun-15	Jun-16	Jun-17	Jun-15	Jun-16	Jun-17	Jun-15	Jun-16	Jun-17
1. Credit to Government	**521.8**	**560.4**	**649.1**	**84.3**	**7.4**	**15.8**	**238.7**	**38.6**	**88.6**
Central Bank	-23.1	-156.1	-176.1	-86.9	576.1	12.8	153.0	133.0	-19.9
Commercial Banks & NBFIs	544.9	716.6	825.1	18.7	31.5	15.2	85.8	171.7	108.6
2. Credit to other public sector	**82.0**	**78.6**	**106.9**	**105.0**	**-4.1**	**36.0**	**42.0**	**-3.4**	**28.3**
Local government	0.4	3.6	3.9	-86.6	767.0	8.8	-2.7	3.2	0.3
Parastatals	81.6	75.0	103.0	120.9	-8.0	37.3	44.6	-6.6	28.0
3. Credit to private sector	**2,035.1**	**2,216.1**	**2,249.1**	**18.3**	**8.9**	**1.5**	**315.2**	**181.0**	**33.1**
Agriculture	85.7	97.5	85.5	31.4	13.7	-12.3	20.5	11.7	-12.0
Manufacturing	268.8	304.5	282.8	21.6	13.3	-7.1	47.7	35.8	-21.8
Trade	312.3	350.6	388.2	10.2	12.3	10.7	28.8	38.3	37.6
Building and construction	89.6	101.5	100.8	18.3	13.2	-0.7	13.9	11.9	-0.7
Transport & communications	157.5	179.6	185.5	41.3	14.1	3.2	46.1	22.1	5.8
Finance & insurance	81.4	88.8	84.9	109.3	9.1	-4.4	42.5	7.4	-3.9
Real estate	288.9	323.2	355.7	28.3	11.9	10.1	63.8	34.3	32.6
Mining and quarrying	24.0	23.6	14.7	-15.7	-1.6	-37.8	-4.5	-0.4	-8.9
Private households	329.8	348.7	386.7	23.9	5.7	10.9	63.6	18.9	38.0
Consumer durables	152.7	156.5	168.2	48.2	2.5	7.5	49.7	3.8	11.8
Business services	154.4	162.2	136.7	-4.9	5.1	-15.8	-7.9	7.8	-25.6
Other activities	89.9	79.3	59.5	-35.2	-11.8	-25.0	-48.8	-10.6	-19.8
4. TOTAL (1+2+3)	**2,638.8**	**2,855.1**	**3,005.0**	**29.2**	**8.2**	**5.3**	**596.0**	**216.2**	**150.0**

Source: Central Bank of Kenya

Annual growth in bank credit to the private sector reduced to 1.5 per cent in June 2017 from 8.9 per cent in June 2016, partly reflecting a number of factors including prioritization of loan recovery by banks, jitters in the banking sector precipitated by receivership of two non-systemic banks in late 2015 and early 2016, the interest rate capping law implementation from September 2016 and tightening of credit standards by banks. The monthly credit flows declined gradually in the first half of the year with the lowest uptake recorded in February 2017 and April 2017 (**Chart 3.1.3**). Similarly, annual credit growth decelerated faster in the productive activities compared to the private household and services sectors, respectively (**Chart 3.1.2**). Generally all the sectors recorded reduced credit uptake attributed to among other factors: the tough operating environment characterized by increased competition from cheap imports from China and rising cost of inputs; use of alternative sources of financing such as supplier (or trade) credit; delayed payments that compromised suppliers' ability to borrow and repay existing loans, with a ripple effect to other sectors of the economy particularly the manufacturing sector; inability to mobilize deposits particularly by the small banks; and portfolio shift by banks and nonbanks in favor of government securities and foreign assets.

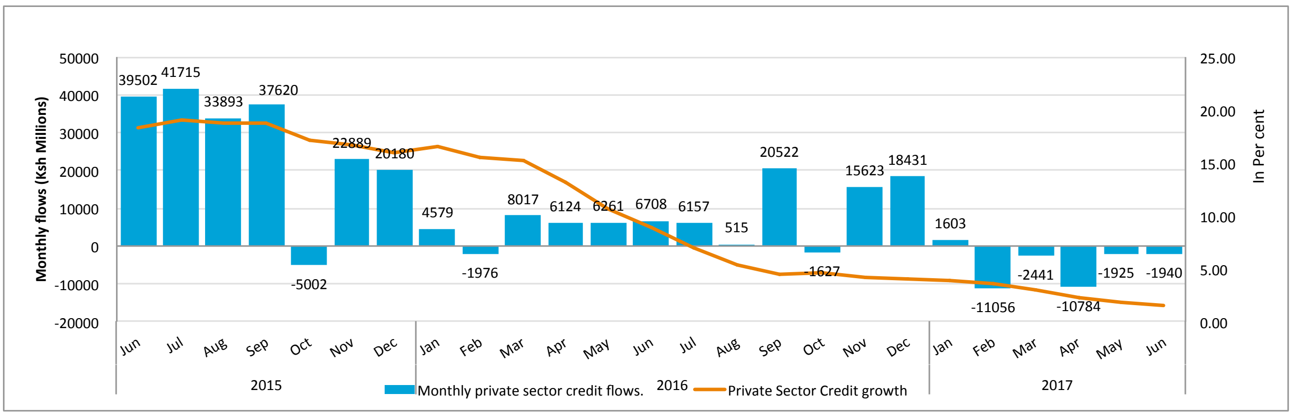
CENTRAL BANK OPERATIONS

Chart 3.1.2: Contributions to Overall Credit Growth by Activity Group in Per Cent



Source: Central Bank of Kenya

Chart 3.1.3: Monthly Uptake of Credit by the Private Sector



Source: Central Bank of Kenya

Reserve money

Reserve money grew by KSh 11.0 billion, or 2.8 per cent in FY 2016/ 2017 compared to an increase of KSh 18.2 billion, or 4.9 per cent in the year to June 2016. The slowdown mainly reflected the decline in bank reserves, by KSh 7.8 billion, or 3.9 per cent during the year under review. Currency outside banks, increased more rapidly, by 10.0 per cent from 7.2 per cent in the year to June 2016, which supported the growth in reserve money during FY 2016/17 (**Table 3.1.3 & Chart 3.1.4).**

The decrease in reserve money growth (Table 4.3) resulted from a decline in Net Domestic Assets and slower growth of Net Foreign Asset (NFA) of the Central Bank of Kenya (CBK). The slowdown in NDA reflected largely utilization of Government deposits at CBK and increases in commercial banks net credit by way of liquidity support from CBK largely through open market operations. However, Net Foreign Assets (NFA) of the Central Bank maintained a steady growth of KSh 50.4 billion or 7.3 per cent in FY 2016/2017, largely boosted by interbank purchases of forex and the receipt of the syndicated loan proceeds.

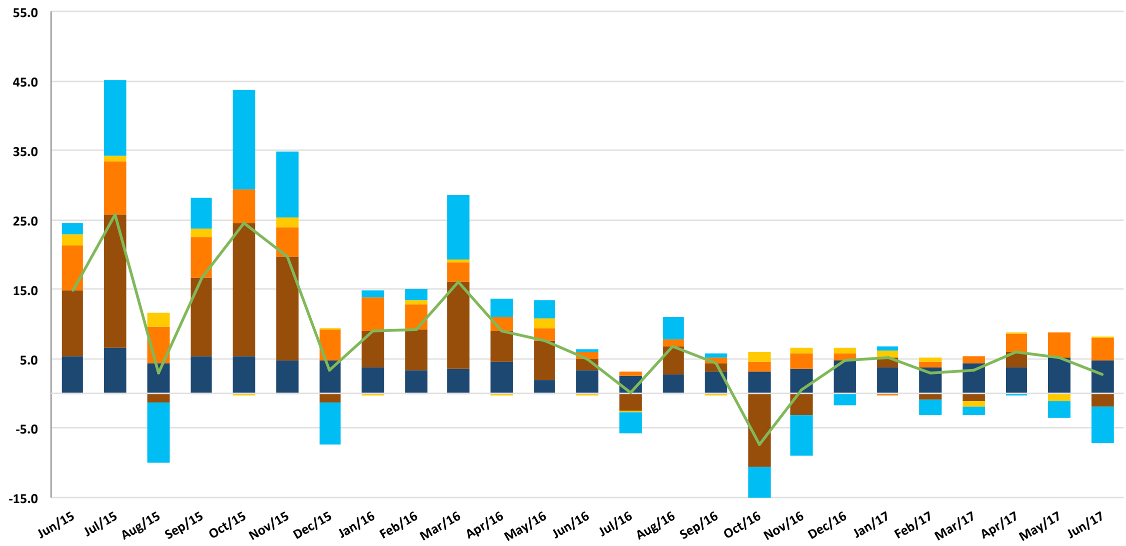
Table 3.1.4: Reserve Money and its Components

	END JUNE LEVELS			ANNUAL GROWTH RATE			ANNUAL CHANGES (KSh BN)			
	Jun-15	Jun-16	Jun-17	2014/15	2014/15	2016/17	2014/15	2015/16	Jul-16	2016/17
1. Net Foreign Assets	**565.2**	**694.6**	**745.0**	**-8.2**	**22.9**	**7.3**	**-50.3**	**129.4**	**125.3**	**50.4**
2. Net Domestic Assets	**-193.2**	**-304.4**	**-343.8**	**-33.8**	**57.6**	**12.9**	**98.5**	**-111.2**	**-124.9**	**-39.4**
2.1 Government Borrowing (net)	-23.1	-156.1	-176.1	-86.9	576.1	12.8	153.0	-133.0	-212.1	-19.9
2.2 Commercial banks (net)	-29.7	3.0	22.2	0.0	-110.0	647.6	-29.7	32.7	59.9	19.2
2.3 Other Domestic Assets (net)	-143.9	-154.7	-193.3	20.6	7.5	25.0	-24.6	-10.8	27.4	-38.6
3. Reserve Money	**372.0**	**390.2**	**401.2**	**14.9**	**4.9**	**2.8**	**48.3**	**18.2**	**0.3**	**11.0**
3.1 Currency outside banks	175.3	187.9	206.7	10.8	7.2	10.0	17.1	12.6	10.1	18.8
3.2 Bank reserves	196.7	202.3	194.5	18.8	2.8	-3.9	31.2	5.6	-9.7	-7.8
3.2.1 Required Reserves	128.1	131.8	143.9	19.3	2.9	9.2	20.8	3.7	2.2	12.1
3.2.2 Cash in Till	46.9	46.9	47.1	12.3	-0.1	0.4	5.1	-0.1	-0.7	0.2
3.2.3 Excess Reserves	21.7	23.7	3.5	32.2	9.1	-85.1	5.3	2.0	-11.3	-20.1

Source: Central Bank of Kenya

CENTRAL BANK OPERATIONS

Chart 3.1.4: Contributions to Annual Reserve Money Growth in Per cent



	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17
Excess Reserves	1.6	10.9	-8.7	4.4	14.2	9.6	-6.1	0.9	1.6	9.3	2.5	2.6	0.5	-2.9	3.2	0.6	-13.4	-5.9	-1.8	0.4	-2.3	-1.1	-0.2	-2.5	-5.2
Cash in Till	1.6	0.8	2.0	1.3	0.0	1.3	0.3	-0.3	0.6	0.5	0.0	1.5	0.0	-0.2	0.1	-0.3	1.4	0.8	0.8	1.1	0.5	-0.9	0.1	-1.1	0.0
Required Reserves	6.4	7.5	5.4	5.7	5.0	4.2	4.4	4.8	3.6	2.8	2.1	1.7	1.0	0.6	0.8	0.8	1.3	2.0	1.0	-0.2	0.9	1.0	2.5	3.6	3.1
Bank reserves	9.6	19.2	-1.3	11.4	19.1	15.1	-1.3	5.4	5.9	12.6	4.5	5.8	1.5	-2.5	4.2	1.2	-10.6	-3.1	0.0	1.4	-0.9	-1.0	2.4	0.1	-2.0
Currency outside banks	5.3	6.6	4.3	5.3	5.3	4.7	4.7	3.7	3.3	3.5	4.5	1.9	3.4	2.6	2.7	3.1	3.2	3.6	4.7	3.7	3.7	4.3	3.6	5.1	4.8
RM	14.91	25.82	2.92	16.71	24.46	19.78	3.36	9.06	9.17	16.06	9.03	7.63	4.89	0.08	6.85	4.28	-7.40	0.52	4.77	5.08	2.86	3.25	6.04	5.16	2.83

Source: Central Bank of Kenya

3.2 INTEREST RATES

Overview

A key development during the year was the enactment of legislation setting the maximum lending rate at no more than four per cent above the Central Bank base rate, and the minimum interest rate granted on a deposit held in interest earning account to at least seventy per cent of the same rate. Consequently, the CBK set the Central Bank Rate (CBR) as the base rate. It is too early to confirm the impact of the interest caps. However, the move undermines the independence of the Central Bank of Kenya, as anchored in Article 231 of the Constitution, which stipulates that the Bank shall not be under the direction or control of any person or authority in the exercise of its powers or in the performance of its functions. In the execution of its core mandate of formulating and implementing monetary policy directed at achieving and maintaining stability in the general level of prices, the Central Bank uses the Central Bank Rate (CBR) to achieve monetary policy objectives.

The interest rate capping law is likely to complicate the conduct and implementation of monetary policy, for example, a decrease in the CBR to stimulate the economy will require the banks to lower their lending rates. In the process, the banks will be forced to avoid lending to perceived risky borrowers and the resulting reduced lending will have the reverse of the intended effect. An ongoing study by the Central Bank will reveal the impact of the law but the emerging evidence shows that it will have negative consequences for both borrowers and lenders and eventually for the whole economy.

Central Bank Rate

The MPC reduced the Central Bank Rate, the rate that signals the stance of monetary policy, to 10.0 per cent in September 2016 from 10.5 per cent since May 2016, following stability of domestic prices, improved current account position and resilient economic growth on the back of improved weather conditions in the first two quarters of 2016.

Kenya Bankers Reference rate (KBRR)

During the MPC meeting held on July 25, 2016 the committee revised the Kenya Bankers Reference rate to 9.87 per cent from 8.54 per cent maintained since January 2015. This was consistent with the increase in the CBR rate to curb inflationary pressures arising from the pass through effects of the exchange rate. At the January 2017 meeting, the MPC considered the Kenya Banks' Reference Rate (KBRR), which was introduced to provide a transparent credit pricing framework. In view of the adoption of the new law capping interest rates in September 2016 the CBK suspended the KBRR framework.

Short Term Rates

Short term interest rates depicted mixed performance in the year to June 2017 (**Table 3.2.1**). The weighted average interbank interest rate remained stable at 3.99 per cent in the FY 2016/17 per cent compared with 4.56 per cent in FY 2015/16, reflecting improved liquidity conditions in the interbank market. However, the gap between the interbank rate and CBR continue to underscore the segmentation of the interbank market which was amplified by the jitters in the banking sector precipitated by receivership of two non-systemic banks in October 2015 and April 2016, respectively. The reverse repo rate was stable at 10.05 per cent in the FY 2016/17 compared with 10.59 per cent in the previous fiscal year. The 91-day Treasury bill rate, which largely reflects the government's borrowing profile rose to 8.42 per cent in the year to June 2017 from 7.25 per cent in the year to June 2016, while the 182-day Treasury bill rate increased to 10.38 per cent from 9.56 per cent **(Table 3.2.1).**

CENTRAL BANK OPERATIONS

Lending rates

The Commercial banks' average lending interest rate decreased from 2016 through May 2017, with a structural break from October 2016 following introduction of interest rate capping law in mid-September 2016. It declined from a high of 18.15 per cent in June 2016 to 13.84 per cent in September 2016 and remained stable at 13.71 per cent through May 2017. The decline was reflected in all loan categories. The overdraft rate decreased by 465.5 basis points, while the '1-5 years' and 'over 5 years' category rates decreased by 478.7 basis points and 398.4 basis points, respectively, from June 2016 through May 2017.

Deposit Rates

The average deposit rate increased to 7.07 per cent by May 2017 from 6.78 per cent in June 2016. The increase was reflected in the saving deposits category, by 408.5 basis points to 5.85 per cent from 1.60 per cent over the same period. However, the '0-3 months' and 'over 3 months' deposit categories registered a decrease (**Table 3.2.1**).

Overall, the interest rate spread narrowed to 6.64 per cent by May 2017 from 11.40 per cent in June 2016, reflecting the effect of the implementation of interest rate capping law.

Table 3.2.1: Interest Rates in Per Cent

	2016									
	Mar	Jun	Sep	Dec	Jan	Feb	Mar	Apr	May	Jun
91-day Treasury bill rate	8.72	7.25	8.06	8.44	8.58	8.64	8.69	8.77	8.73	8.42
182-day Treasury bill rate	10.83	9.56	10.85	10.55	10.50	10.53	10.53	-	10.41	10.38
Interbank rate	4.10	4.56	4.47	5.55	7.70	6.41	4.46	5.34	4.93	3.99
Repo rate	4.31	10.04	-	-	9.95	9.88	7.23	5.32	5.29	4.13
Reverse Repo rate	11.63	10.59	10.36	10.04	10.02	10.01	10.04	10.02	10.01	10.05
Central Bank Rate (CBR)	11.50	10.50	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Average lending rate (1)	**17.79**	**18.15**	**13.84**	**13.69**	**13.66**	**13.69**	**13.61**	**13.61**	**13.71**	
Overdraft rate	18.06	18.04	13.60	13.49	13.30	13.32	13.29	13.30	13.44	
1-5years	18.00	18.63	13.95	13.86	13.88	13.89	13.81	13.82	13.85	
Over 5years	17.31	17.64	13.83	13.59	13.60	13.66	13.55	13.52	13.68	
Average deposit rate (2)	**7.17**	**6.78**	**6.94**	**7.33**	**7.20**	**7.65**	**7.12**	**6.97**	**7.07**	
0-3months	9.78	8.80	8.21	7.16	7.19	7.32	7.28	7.22	7.25	
Over 3 months deposit	10.41	9.94	8.82	8.45	8.33	8.84	8.18	8.01	8.11	
Savings deposits	1.32	1.60	3.78	6.37	6.09	6.81	5.89	5.67	5.85	
Spread (1-2)	**10.62**	**11.40**	**6.93**	**6.36**	**6.46**	**6.04**	**6.49**	**6.64**	**6.64**	

Source: Central Bank of Kenya

3.3 EXCHANGE RATE

Kenya's foreign exchange market remained relatively stable despite short term global volatilities arising from uncertain economic and trade policies in the US and Brexit negotiations during the 2016/17 fiscal year. This stability was supported by a narrower current account deficit on account of lower import bill, enhanced flows from tea and horticultural export, recovery of the tourism industry and resilience of diaspora remittances over the review period.

The foreign exchange market remained relatively stable during FY 2016/17 supported by a generally narrowing current account deficit due to a lower import bill; and resilient inflows from exports of tea and horticulture, recovery in tourism, and diaspora remittances. Central Bank market operations mitigated exchange rate volatility following developments in international financial markets arising from US Fed rate hikes and geopolitical tensions.

Relative to internationally traded currencies, the Kenya Shilling strengthened against the Pound Sterling and the Euro by 14.3 per cent and 1.4 per cent, respectively, following general weakening of the two currencies on the international markets during the third and fourth quarters of FY 2016/2017. Against the US Dollar and the Japanese Yen, however, the shilling ended the financial year weaker by 0.4 per cent and 7.5 per cent respectively. The weakening of the Kenya Shilling against the US Dollar over the FY 2016/17 when compared to its performance during the FY 2015/16 was a reflection of a relatively strong US Dollar supported by positive US economic data in the second and third quarters of the year.

However, dynamics in the performance of the Kenya Shilling varied during the year with the shilling weakening in the second and third quarters of FY 2016/17, following strengthening of the US Dollar on the back of expectations of an increase in the US Federal Funds rate and the eventual increase of the rate in December 2016 and March 2017. However, during the fourth quarter of FY 2016/17 the shilling ended stronger against the US Dollar relative to the third quarter of FY 2016/17 on account of a weakening US Dollar arising from uncertainties regarding the direction of US economic and trade policies.

The weakening of the Kenya Shilling against the Pound Sterling and the Euro during the third and fourth quarters of 2017 was occasioned by the strengthening of the two currencies against the US Dollar during the first half of 2017 on account of positive sentiment surrounding the two currencies on the international market.

In the EAC region, the Kenya Shilling strengthened against all regional currencies based on economic fundamentals but weakened against the South African Rand **(Table 3.3.1)**. The strengthening of the South African Rand was boosted by global demand for high yielding assets in the emerging markets and a rise in commodity prices that generally supported emerging market currencies especially during the third and fourth quarters of FY 2016/17.

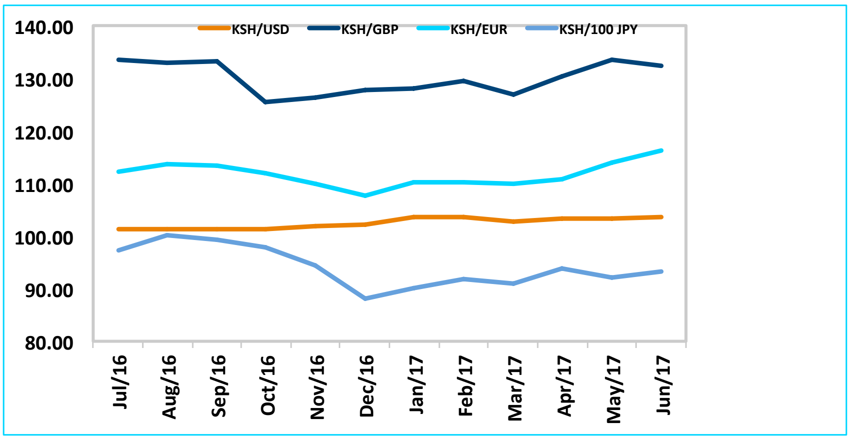
Table 3.3.1 Kenya Shilling Exchange Rates

				2016_17				Average	% change 2016/17-2015/16
	2013/14	2014/15	2015/16	Q1 Jul-Sep	Q2 Oct-Dec	Q3 Jan-Mar	Q4 Apr-Jun	2016/17	
US Dollar	86.68	91.32	102.08	101.34	101.73	103.39	103.36	102.45	0.4
Pound Sterling	140.89	143.91	151.59	133.14	126.45	128.05	132.22	129.97	-14.3
Euro	117.56	109.73	113.28	113.11	109.89	110.12	113.75	111.71	-1.4
100 Japanese Yen	85.88	79.95	87.59	99.00	93.50	90.95	92.98	94.13	7.5
South Africa Rand	8.36	7.99	7.10	7.22	7.32	7.83	7.84	7.55	6.4
Uganda Shilling*	29.30	30.89	33.72	33.32	34.68	34.79	34.94	34.42	2.1
Tanzania Shilling*	18.76	19.74	21.24	21.58	21.44	21.57	21.63	21.55	1.5
Rwanda Franc*	7.72	7.58	7.31	7.56	7.83	7.99	8.04	7.86	7.5
Burundi Franc*	17.86	17.10	15.32	16.47	16.49	16.35	16.56	16.46	7.5

* Units of currency per Kenya Shilling

Source: Central Bank of Kenya

Chart 3.3.1: Kenya Shilling Exchange Rate



Source: Central Bank of Kenya

International reserves remain adequate at USD 8.58 billion at end-June 2017, equivalent to 5.7 months of imports. In addition, Precautionary Arrangements with the IMF amounting to USD 1.5 billion continue to provide additional buffer against short term external and domestic shocks.

Outlook for the Kenya Shilling

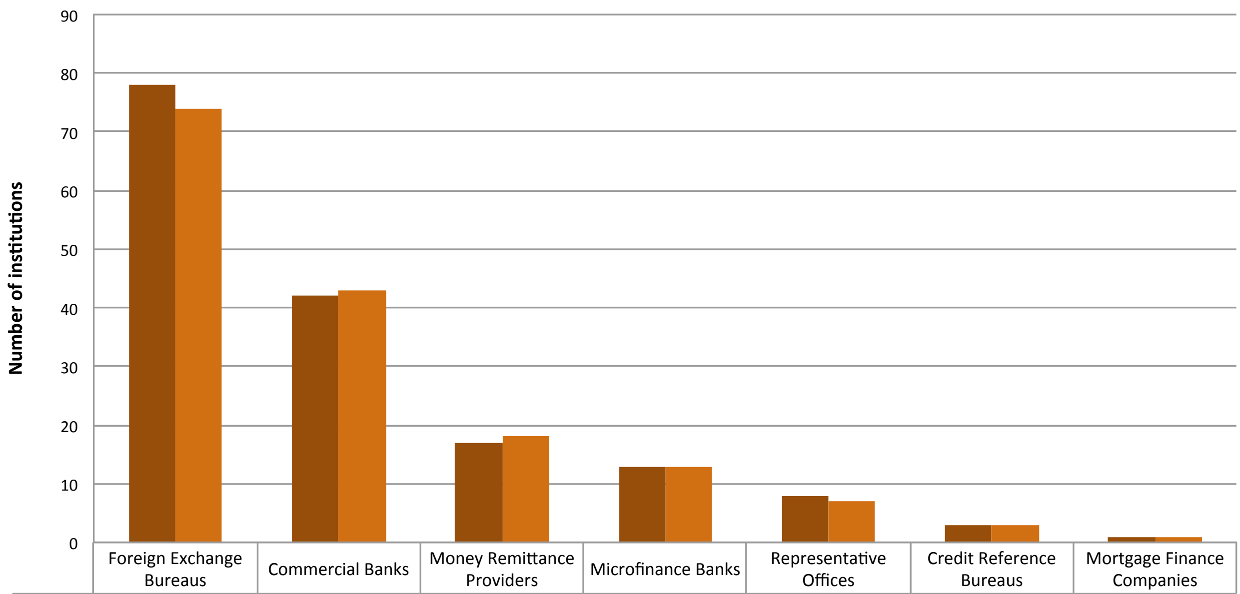
International oil prices are expected to remain relatively low, resulting in a moderately lower import bill. Foreign exchange earnings from key commodities such as tea and horticulture and diaspora remittances inflows are expected to remain resilient. Consequently, these developments are expected to put less pressure on the current account deficit. Receipts from tourism are also on a recovery path reflecting Government focus on new regions to cushion against the volatility of the European market; lifting of travel bans by governments from key source markets in Europe and America; global increase in awareness of Kenya as a tourism destination; and recovery of Kenya's cruise tourism business.

3.4 BANKING SECTOR

Structure of the Kenyan Banking Sector

The Kenyan banking sector as at June 30, 2017, comprised 43 commercial banks, 1 mortgage finance company, 13 microfinance banks, 7 representative offices of foreign banks, 74 foreign exchange bureaus, 18 money remittance providers and 3 credit reference bureaus (**Chart 3.4.1**). The highlights of the structure during the year to June 2017 include:

Chart 3.4.1: Structure of the Kenyan Banking Sector



	Foreign Exchange Bureaus	Commercial Banks	Money Remittance Providers	Microfinance Banks	Representative Offices	Credit Reference Bureaus	Mortgage Finance Companies
Jul/16	78	42	17	13	8	3	1
Jun/17	74	43	18	13	7	3	1

Source: Central Bank of Kenya

- Four forex bureaus wound up – three voluntarily due to non-compliance with the Forex Bureau Guidelines and requirements of the Central Bank of Kenya Act.
- Acquisition of Giro Commercial Bank Limited by I&M Bank Limited effective February 13, 2017.
- Two new commercial Banks, DIB Bank Kenya Ltd and Mayfair Bank Limited were licenced in April 2017 and June 2017, respectively; thereby increasing the number of commercial banks to 43.
- Licensing of one money remittance provider namely; Mobex Money Transfer Services Ltd on March 12, 2017.
- The Central Bank of Kenya on June 23, 2017 cancelled the authority granted to the Central Bank of India (CBI) to operate a Representative Office in Kenya under Section 43 of the Banking Act. This follows a strategic decision taken by CBI to close its foreign representative offices including the one in Kenya.

Financial Position and Performance of the Kenyan Banking Sector

Overview

The banking sector registered improved performance in the year ended June 30, 2017.

- Total net assets increased by KSh 273.7 billion, or 7.4 percent to KSh 3,951.6 billion as at June 30, 2017 from KSh 3,677.9 billion in June 30, 2016.
- Loans and advances grew by KSh 81.6 billion, or 3.8 percent to KSh 2,238.6 billion in June 30, 2017 compared to KSh 2,157.0 billion as at June 30, 2016.
- The deposit base expanded by KSh 230.9 billion, or 8.8 percent to KSh 2,858.2 billion in June 30, 2017 from KSh 2,627.3 billion reported on June 30, 2016.
- Profit before tax decreased by 14.6 percent from KSh 81.2 billion in the year to June 30, 2016 to KSh 69.3 billion.

Structure of the Balance Sheet

The banking sector balance sheet expanded by 7.4 percent to KSh 3.9 trillion in June 2017 from KSh 3.7 trillion in June 2016. The main assets include loans and advances, government securities and placements, which accounted for 56.6 percent, 25.6 percent and 4.6 percent of total assets, respectively. Customer deposits dominated among liabilities, and accounted for 72.3 percent (**Table 3.4.1).**

Table 3.4.1 Extract of the Kenya Banking Sector Statement of the Financial Position (KSh Million)

	Jun-16	Jun-17	Percent Change
Cash	55,350	56,177.00	0.02
Balances at CBK	171,155	151,737.00	-0.11
Placements	157,585	181,835.00	0.15
Government Securities	854,248	1,009,780.00	0.18
Other Investments	50,198	49,463.00	-0.02
Loans & Advances (Net)	2,157,952	2,238,564.00	0.04
Other Assets	231,379	264,049.00	0.14
Total Assets	**3,677,868**	**3,951,605.00**	**0.07**
Customer Deposits	2,627,345	2,858,197.00	0.09
Other Liabilities	473,355	469,777.00	-0.01
Capital & Reserves	577,169	623,631.00	0.08
Total Liabilities and Shareholders' Funds	**3677868**	**3,951,605.00**	**0.07**

Source: Central Bank of Kenya

Loans and Advances

The banking sector gross loans and advances rose by 4.3 per cent, from KSh 2.3 trillion in June 2016 to KSh 2.4 trillion in June 2017, with the increase largely allocated to 8 economic sectors (**Table 3.4.2**).

Table 3.4.2: Sectoral Distribution of Gross Loans (KSh Billion)

	Jun-16	Jun-17	percentage change
Personal/Household	552.5	605.5	9.60%
Trade	446.5	449.7	0.70%
Real Estate	342.4	375.5	9.70%
Manufacturing	272.3	288.2	5.80%
Transport and Communication	179.1	192.5	7.50%
Financial Services	114.3	81.9	-28.30%
Energy and water	102	110.1	8.00%
Building and construction	97.3	103.3	6.10%
Agriculture	94.1	88.7	-5.70%
Tourism, Restaurant and Hotels	54	60.4	11.80%
Mining and Quarrying	12.9	10.4	-19.60%
Gross Loans	**2,267.30**	**2,366.10**	**4.30%**

Source: Central Bank of Kenya

Personal/Household recorded the highest increase in credit flow at KSh 53 billion, representing 53.6 per cent of total gross loans. The other recipient sectors by magnitude included real estate (KSh 33.1 billion or 33.5 per cent share; manufacturing (KSh 15.9 billion or 16.1 per cent share); Transport and communication (KSh 13.4 billion or 13.6 per cent share). Tourism recorded KSh 6.4 billion increase in loans, or 11.8 per cent share; with the recovery attributed to lifting of travel advisories, enhanced marketing and increased conferences/business tourism.

Financial Services sector recorded the highest decline, at KSh 32.4 billion or 32.8 per cent share, following higher expenditures relative to uptake of new loans.

Deposit Liabilities

Banks relied on customer deposits as the main source of funding with the share in total liabilities increasing to 72.3 per cent by end June 2017, from 71.4 per cent as at end June 2016. Customer deposits base increased by 8.8 per cent from KSh 2.62 trillion in June 2016 to KSh 2.85 trillion in June 2017. This growth was supported by: -

- **Use of technological innovations for deposit mobilization -** The number of commercial banks deposit accounts increased by 6.5 million or 17.0 per cent, from 38.2 million in June 2016 to 44.7 million in June 2017. The new accounts were largely opened through the mobile phone platforms.
- **Agency banking model -** The value of all transactions through agents increased by KSh 883.4 billion in the year to June 2017.
- Several banks adopted aggressive deposit mobilization strategies to increase their deposit levels.

Capital Adequacy

The Central Bank of Kenya (CBK) Prudential Guideline on Capital Adequacy required banks to adhere to the prescribed minimum Core Capital and Total Capital to Total Risk Weighted Assets ratios of 10.5 per cent and 14.5

per cent, respectively. The core capital and total capital to total risk weighted assets ratios increased from 16.3 and 18.9 per cent in June 2016 to 16.8 and 19.6 per cent in June 2017, respectively. The growth in core capital and total capital at 8.4 per cent and 8.9 per cent respectively outpaced that of risk weighted assets at 4.8 per cent (**Table 3.4.3**).

Table 3.4.3: Capital Adequacy Ratios

	16-Jun	17-Jun	Minimum Capital Adequacy Ratios
Core Capital/TRWA*	16.30%	16.81%	10.50%
Total Capital/TRWA*	18.90%	19.58%	14.50%
Core Capital/Total Deposits	18.50%	18.42%	8.00%
*Total Risk Weighted Assets			

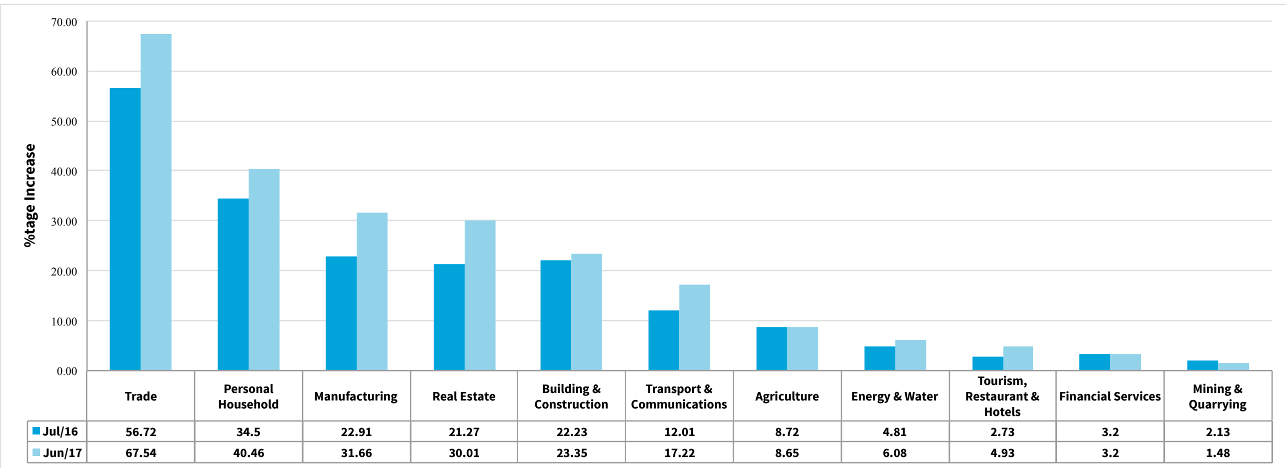
Source: Central Bank of Kenya

Banks are also required to maintain a core capital to total deposits ratio of not less than 8 per cent. This ratio decreased to 18.4 per cent in June 2017 from 18.5 per cent registered in June 2016 following a higher growth in deposits of 8.8 per cent compared to 8.4 per cent growth in core capital.

Asset Quality

Banks downgraded loan accounts due to delayed payments by private and public sector entities, challenges in the business environment and low business turnovers. As a result, the gross non-performing loans (NPLs) increased by 54.3 per cent from KSh 191.2 billion in June 2016 to KSh 234.5 billion in June 2017, with 9 out of the 11 economic sectors recording higher NPLs (**Chart 3.4.2).**

Chart 3.4.2: Sectoral Gross NPLs June 2016 and June 2017



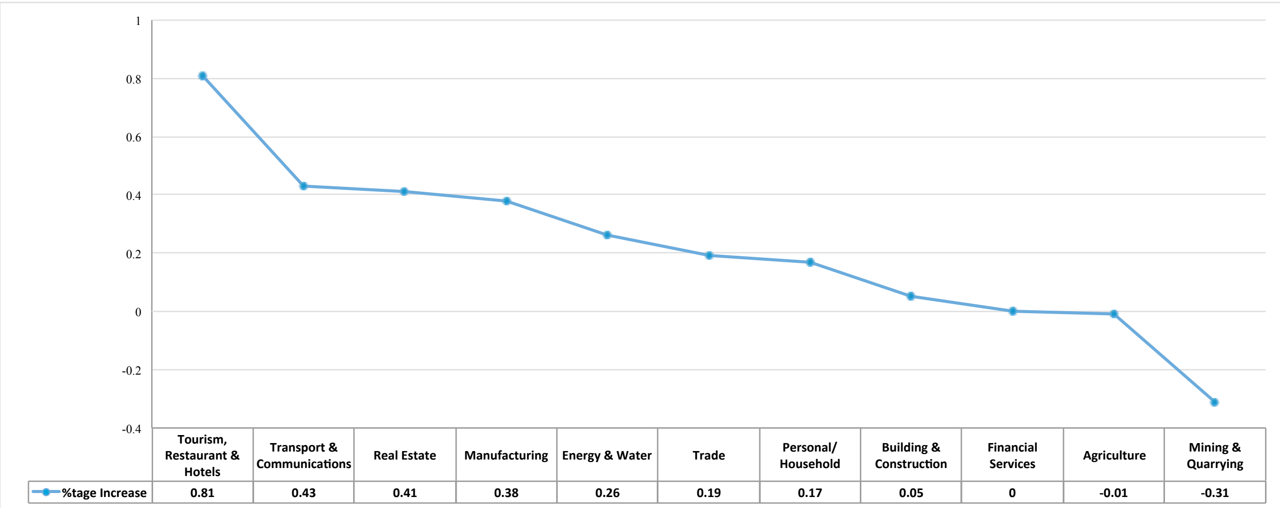
Source: Central Bank of Kenya

Mining and quarrying sector registered a decrease in NPLs of KSh 0.7 billion, or 30.5 per cent between June 2016 and June 2017 reflecting higher repayment.

NPLs in tourism, restaurants and hotels increased by KSh 12.2 billion or 80.6 per cent following low business turnover. Transport and communication sector NPLS increased by KSh 5.2 billion or 43.4 per cent on account of delayed payments. Real estate sector NPLs increased by KSh 6.7 billion or 41.1 per cent on account of low uptake of housing units.

Reflecting the upward trend in NPLs (**Chart 3.4.3**), the ratio of gross NPLs to gross loans increased from 8.4 per cent in June 2016 to 9.9 per cent in June 2017.

Chart 3.4.3: Sectoral Increase in Gross NPLs between June 2016 & June 2017 in Per cent



Source: Central Bank of Kenya

Profitability

The banking sector pre-tax profits declined by 14.7 per cent in the year to June 2017, largely reflecting an 18.5 per cent fall in earnings on advances, which constituted 54.4 per cent of total income. On the other hand, interest on deposits, staff costs and other expenses were the key components of expenditure, accounting for 31.1 per cent, 25.4 per cent and 22.3 per cent of total expenses, respectively.

The Return on Assets and Return on Equity decreased from 3.5 per cent and 33.8 per cent, respectively in June 2016 to 2.8 per cent and 22.3 per cent by June 2017 (**Table 3.4.4).** The deterioration is attributed to the significant decline in the sector's profitability.

Table 3.4.4: Extracts of Statement of Comprehensive Income (KSh Billion)

Item	June-16	June-17	Change
Total income	256.2	234.6	-8.43%
Expenses before provisions	164.17	149.13	-9.16%
Profit before provisions	92.03	85.48	-7.12%
Provisions for bad debts	17.59	16.06	-8.70%
Profit before tax	81.22	69.3	-14.68%
Return on Assets	3.50%	2.80%	-1.40%
Return on Shareholders’ Funds	33.80%	22.30%	-11.50%

Source: Central Bank of Kenya

Liquidity

Liquidity held by commercial banks underlines ability to fund increases in assets and meet obligations as they fall due. The banking sector’s overall liquidity ratio in June 2017 increased to 44.7 per cent from 40.4 per cent recorded in June 2016, with liquid assets increasing more rapidly than short term liabilities. The growth in assets reflected increased investments in government securities by commercial banks.

Performance of Microfinance Banks

The microfinance banks posted a loss of KSh 322.78 million in the period ended June 2017 compared to a loss of KSh 128.3 million in the period ended June 2016 (Table 10.5). The deterioration of the bottom line reflects increased funding costs. The total interest on deposits increased from KSh 0.9 billion for the period ended June 2016 to KSh 1.32 billion for the period ended June 2017. This was a 46.7 percent increase mainly attributable to an increase in customer deposits. The interest expense on borrowing increased from KSh 0.65 billion for the period ended June 2016 to KSh 0.86 billion for the period ended June 2017. This was attributable to increased borrowing by microfinance banks to fund their lending activities.

Customer deposits increased marginally by 0.8 per cent or KSh 0.32 billion in the year to June 2017 and the net loan portfolio decreased by 4.6 per cent (**Table 3.4.5**).

Table 3.4.5: Performance of MFBs (KSh Million)

Parameter	Jun-16	Jun-17	% Change
Pre-Tax Profits	-128.4	-322.78	-151%
Customer Deposits	40,395	40,718	0.80%
Loan Portfolio (Net)	49,064	46,818	-4.60%
Core Capital/Total Risk Weighted Assets	19%	20.10%	1.10%
Total Capital/Total Risk Weighted Assets	22%	22.50%	0.50%

Source: Central Bank of Kenya

As at June 2017, the MFBs' core capital and total capital to total risk weighted assets ratios increased to 20.1 per cent and 22.5 per cent respectively, from 19 per cent and 22 per cent respectively, in June 2016. These were above the minimum requirements of 10.0 per cent and 12.0 per cent for core capital and total capital, respectively.

Agency Banking

The use of the agency banking model by commercial and microfinance banks has continued to improve access to banking services since its launch in 2010. As at June 30, 2017, there were 18 commercial banks and 5 microfinance banks that had contracted a total of 60,102 active agents compared to 17 commercial banks and 3 microfinance banks with a total of 44,860 active agents as at June 2016. The number of banking transactions undertaken through agents stabilised at 385.6 transactions in the year to June 2017 compared with 386.3 million in the year to June 2016. However, the value of banking transactions undertaken increased by 56.5 per cent, to KSh 2,446.1 billion from KSh 1,562.7 billion over the same period.

Credit Information Sharing Mechanism

The credit information sharing mechanism remained a key consideration for credit providers in Kenya towards mitigating risks associated with information asymmetry. The credit reports requested, by commercial banks, microfinance banks and customers however, decreased by 60.2 per cent, 45.98 per cent and 5.98 per cent, respectively (**Table 3.4.6**)

Table 3.4.6: Credit Report Requests

	Jun-16	Jun-17	Change	% Change
Credit Reports Request - Banks only	6,300,246	2,507,561	-3,792,685	-60.20%
Credit Reports Request - MFBs only	295,893	159,309	-136,584	-45.98%
Credit Reports Request - Customers	88,371	83,083	-5,288	-5.98%
Totals	**6,684,510**	**2,749,953**	**-3,934,557**	

Source: Central Bank of Kenya

The decline in credit reports uptake is attributed to interest rate capping which has led to conservative lending policies by some banks.

Developments in the Banking Sector

Kenya's banking sector continued to grow in terms of inclusiveness, efficiency and stability on the backdrop of legal, regulatory and supervisory reforms and initiatives. This growth supports efforts by Government towards a vibrant and globally competitive financial sector pursuant to Vision 2030. Some of the key developments in the banking sector in the year June 2017 were: -

- A Guidance Note on Internal Capital Adequacy Assessment Process (ICAAP) was issued in November 2016 to all commercial banks and mortgage finance companies. It sets out the general rules to govern an institution's ICAAP, its key features and disclosure requirements.

- The Guidance Note was issued for purposes of guiding institutions in developing or revising their ICAAP documents and making regulatory submissions required under the Banking Act and CBK Prudential Guideline on Capital Adequacy.

- Two new commercial Banks; DIB Bank Kenya Ltd and Mayfair Bank Limited were licenced in April 2017 and June 2017 respectively.

    - **DIB Bank Kenya Ltd** is a fully owned subsidiary of Dubai Islamic Bank PJSC (DIB PJSC) of the United Arab Emirates (UAE). DIB PJSC founded in 1975 is the first bank to have incorporated the principles of Islam in all its practices and is the largest Islamic Bank in the UAE. DIB intends to exclusively offer sharia compliant banking services in Kenya. It becomes the third fully sharia compliant bank to be licensed in Kenya after Gulf African Bank Ltd in 2007 and First Community Bank Limited in 2008.

    - **Mayfair Bank Ltd** established by a group of local investors will provide banking services to both the retail and corporate market segments. The services will range from intermediation, credit extension, trade finance, liquidity management and custodial solutions to both individual and institutional clientele.

- **Innovative Payment Systems Platform:** Towards the end of 2016, several commercial banks submitted applications to CBK to introduce a payment system product, PESALINK. This is a secure and efficient platform for bank account to bank account money transfer. The platform which is managed by Kenya Bankers Association (KBA) through its subsidiary Integrated Payment Services Limited will complement the existing payment system infrastructure and provide customers with more choices.
- In order to promote transparency in pricing of credit, CBK jointly with the Kenya Bankers Association developed an on-line portal on cost of credit that was successfully piloted among banks effective May 23, 2017 and launched on June 22, 2017. The online portal will provide information on lending rates and charges offered by licensed banks. The portal is aimed at enabling users compare the price of credit from various banks. The basis of comparison will be in terms of Annual Percentage Rate (APR) (computed as a ratio of all costs incurred in borrowing and servicing a loan against the principal amount borrowed); Total Cost of Credit (TCC) (list of all costs incurred in borrowing and servicing a loan); and Repayment Schedule (RS) (periodic instalments due on a loan for its entire tenor as split into principal and interest components).
- **Draft CBK Guidance Note on Cyber Risk**: The increased leveraging on technology by banks exposes them to increased cyber risk. Cybercrime is one of the risks targeting the financial sector which is expected to increase in sophistication and frequency. Understanding these risks and related mitigation is important for business continuity as well as promoting the development of sound financial systems and risk management frameworks. In this regard, CBK drafted a Guidance Note on Cyber Risk that outlines the minimum requirements for banks to enhance cyber security. As at June 2017, CBK had invited comments from the public on the draft Guidance Note.

Banking sector 2017 Outlook

The elevated credit and liquidity risks experienced in the Kenyan banking sector in 2016 began to ease off and stabilise in 2017. This is informed by on-going efforts by banks to reposition their business models to suit their desired market niches and risk profiles. The strengthened business models will enable the banks to effectively identify and manage all potential risks they are exposed to in their activities. Effective risk management is a prerequisite for the banks to profitably exploit business opportunities in their market niches.

3.5 CURRENCY AND BANKING SERVICES

Currency in Circulation

Currency in circulation increased by 8 per cent during FY 2016/17. The currency was issued through the Central Bank of Kenya offices in Nairobi, Mombasa, Kisumu, Eldoret, Nyeri, Nakuru and Meru. Banknotes accounted for 97 per cent and coins 3 per cent of currency in circulation (**Table 3.5.1**).

Table 3.5.1: Value of Currency in Circulation

	Jun-16		Jun-17	
	Ksh bn.	%	Ksh bn.	%
Total Currency in Circulation	234.96	100%	253.68	100%
Banknotes	227.4	97%	245.48	97%
Coins	7.557	3%	8.19	3%

Source: Central Bank of Kenya, Currency Department

In terms of components, banknotes in circulation increased by 12 per cent from 474 million pieces in the year to June 30, 2016 to 531 million pieces in the year to June 30, 2017. There was notable increase in the usage of KSh 100 and KSh 50 notes which recorded increase of 26.1 and 17.2 per cent, respectively in FY 2016/17.

Coins in circulation increased by 5.4 per cent over the same period with notable increases in usage of the KSh 10, KSh 20 and KSh 5 coins (**Table 3.5.2**).

Table 3.5.2: Currency in Circulation (Millions of Pieces)

	Banknotes				Coins		
	2015/ 2016	2016/2017	%		2015/ 2016	2016/ 2017	%
	Pieces (m)	Pieces (m)	Change		Pieces (m)	Pieces (m)	Change
1000/=	185.92	201.13	8.18%	40/=	9.18	9.49	3.42%
500/=	35.98	33.47	-6.99%	20/=	133.28	144.62	8.51%
200/=	44.9	48.95	9.02%	10/=	232	256.77	10.68%
100/=	98.46	124.17	26.11%	5/=	263.62	286.46	8.66%
50/=	86.89	101.82	17.18%	1/=	748.93	779.91	4.14%
20/=	9.94	9.93	-0.12%	=/50	274.77	274.56	-0.08%
10/=	11.91	11.89	-0.15%	=/10	0	0	0.00%
5/=	0	0	0.00%	=/05	0	0	0.00%
	474	**531.36**	12.10%		**1661.77**	**1751.81**	5.42%

Source: Central Bank of Kenya, Currency Department

Cash Inflows and Outflows

Banknote deposits by banks (i.e. cash inflows) stabilized at KSh 513 billion by June 2017. However, banknote withdrawals (i.e. cash outflows) increased from KSh 524.8 billion to KSh 531.4 billion in the same period. The net currency outflow, equivalent to increase in currency issued, in the year to June 30, 2017 was KSh 18.9 billion, up from KSh 12.5 billion in the previous year (**Table 3.5.3**).

Table 3.5.3: Value of Currency Inflows and Outflows (KSh Million)

Inflow by banks	2015/2016	2016/2017
Bank Notes	513,024	513,159
Coins	63	103
Total	**513,086**	**513,262**
Outflows to banks		
Bank Notes	524,751	531,402
Coins	818	777
Total	**525,569**	532,179
Net Outflows	**-12,483**	**-18,917**

Source: Central Bank of Kenya, Currency Department

Combating Counterfeiting

The Central Bank of Kenya continued to create and enhance public awareness on security features of banknotes. The Bank encourages the public to visit its website to learn more on the various security features in the Kenya currency.

CBK together with other East African Community (EAC) member central banks held a joint meeting with the Eastern Africa Police Chiefs Cooperation Organisation (EAPCCO) in September 2016 to develop strategies for enhancing the fight against counterfeit crime, one of the emerging transnational crimes.

Regional Currency Convertibility

The Central Bank of Kenya in partnership with other East African Community (EAC) central banks have taken initiatives to enhance the acceptance and use of the EAC domestic currencies. The acceptance and use of the Partner States currencies in cross border trade is expected to lower transaction costs associated with cross exchange from local currencies to hard currencies.

3.6 NATIONAL PAYMENTS

MODES OF PAYMENTS

Commercial banks remain the dominant player in the large value payments settled through the Real Time Gross Settlement System (RTGS). Meanwhile retail payment system providers control the low value payments offered through mobile money transfers, Electronic Funds Transfers Point of Sale and cheques. Merchant payments, utility bill payments and person-to-person transfers are the most common transaction types supported in the retail payments sector.

NON-CASH INSTRUMENTS

Kenya Electronic Payment and Settlement System (KEPSS) and East African Payment System (EAPS)

The introduction of Kenya Electronic Payment and Settlement System (KEPSS) and East African Payment System (EAPS) in Kenya, in July 2005 was intended to reduce risk in the Kenyan payments system. The value of RTGS payments has grown significantly over time and the number of payments transactions have grown exponentially. The RTGS infrastructure is critical in facilitating the orderly settlement of payment obligations in Kenya and it has continued to function smoothly.

KEPSS and EAPS moved a volume of 4,461,270 transactions worth KSh 27,742 billion in the year to June 30, 2017, compared to 3,342,423 transactions worth KSh 29,301 billion in the same period last year. The average amount moved per transaction reduced from KSh 8.9 million to KSh 6.3 million signifying an increased use of the system by the public for lower value payments.

This increase is attributed to increased awareness by the public of the RTGS as a safe efficient mode of payment for both high value and time critical payments locally and within the region. Furthermore, during the period, a number of innovations in the retail payments sector supported growth in transactions including those for settlement in the RTGS of obligations from:
The Kenya Interbank Transfer Switch owned by IPSL which is a subsidiary of the Kenya Bankers Associations.
Payment Cards Switches, InterSwitch and Kenswitch.

Table 3.6.1 Trends in Total Annual Flows

Year to June 30	Total Value moved per year (KSh m)	No of Trans-actions	Average Value per Transaction	Days Worked	Per day Value (KSh m)	Per day Transactions
2010	16,806,252	673,368	28.78	254	66,259	2,663
2011	18,792,538	1,048,206	17.81	252	74,758	4,163
2012	20,886,830	1,406,886	14.98	252	82,884	5,583
2013	20,686,221	1,757,482	11.81	252	82,417	7,006
2014	24,311,160	2,230,049	10.94	250	97,443	8,954
2015	27,001,797	2,855,376	9.56	251	107,557	11,413
2016	29,301,126	3,342,423	8.93	255	115,382	13,122
2017	27,742,582	4,461,270	6.35	248	112,290	18,157

Source: Central Bank of Kenya

Table 3.6.2: Direct Payments Versus Net Settlement Instructions (NSI)

Year to June 30	Total Value moved per year (KSh m)	Settlement proportions Direct (KSh m)	%	Indirect {NSI (KSh m)}	%
2010	16,806,252	14,549,876	86.57	2,256,376	13.43
2011	18,792,538	16,360,759	87.06	2,431,779	12.94
2012	20,866,830	20,549,173	98.48	317,657	1.52
2013	20,686,221	20,355,986	98.4	330,235	1.6
2014	24,311,160	23,956,098	98.54	355,061	1.46
2015	27,001,797	26,558,355	98.72	345,539	1.28
2016	29,301,126	28,953,707	98.81	347,419	1.19
2017	27,742,582	27,398,280	98.76	344,302	1.24

Source: Central Bank of Kenya

THE AUTOMATED CLEARING HOUSE OPERATIONS

The Nairobi Automated Clearing House (ACH) operated smoothly without major hitches during the year to June 30, 2017 with clearing and settlement of Cheques and EFTs aligned to the T+1 policy implemented in August 2013.

Domestic Local Currency Cheques and Electronic Funds Transfer (EFT)

The ACH throughput during FY 2016/17 increased by 2.3 percent to 31.53 million transactions from 30.91 million transactions in the previous year. The corresponding value of transactions moved increased by 0.7 percent to KSh 3,215 billion for both Debit and Credit instruments from KSh 3,193 billion (**Table 3.6.3**). Cheques dominated the ACH payment instruments accounting for 60.8 percent of total volume of transactions through the Clearing House in FY 2016/17.

Table 3.6.3: Clearing House KSh Transactions to June 30, 2017

Financial Year	Items	Values (Ksh bn)	Volumes ('000')
2011	Debit	1,939	16,713
	Credit	345	11,942
	Total	**2,284**	**28,655**
2012	Debit	2,134	18,222
	Credit	363	9,409
	Total	**2,497**	**27,631**
2013	Debit	2,196	18,436
	Credit	411	9,386
	Total	**2,607**	**27,821**
2014	Debit	2,419	19,221
	Credit	471	10,328
	Total	**2,890**	**29,548**
2015	Debit	2,604	19,828
	Credit	513	11,146
	Total	**3,117**	**30,974**
2016	Debit	2,658	19,530
	Credit	535	11,281
	Total	**3,193**	**30,811**
2017	Debit	2,626	19,185
	Credit	589	12,347
	Total	**3,215**	**31,532**

Source: Central Bank of Kenya

Domestic Foreign Currency Cheques (DFCC)

DFCC Clearing declined in value in currency denomination during the year to June 30, 2017, thereby maintaining a downward trend since the year to June 2013. The value of US dollar, GBP and Euro denominated cheques processed through the clearing house decreased by 17.28 percent, 38.31 percent and 21.27 percent, respectively. The US dollar dominated the domestic foreign currency cheque clearing followed by the Euro and the Pound.

Table 3.6.4: Domestic Foreign Currency Cheque Clearing Transactions

Currency	USD		GBP		EURO	
	Value (m)	Volume ('000')	Value (m)	Volume ('000')	Value (m)	Vol-ume ('000')
2011	1,239.25	337.2	11.41	2.3	77.01	12.3
2012	1,475.46	393.9	6.43	1.97	57.02	11
2013	1,566.31	402.4	5.86	1.88	47.35	11.2
2014	1,436.98	408.6	6.93	1.74	40.48	10.2
2015	1,294.95	374.7	4.04	1.21	35.49	9.37
2016	1,157.24	363.1	5.85	1.32	34.07	8.87
2017	957.24	361.9	3.609	1.05	26.824	8.372
Growth (%)	-17.28%	-0.33%	-38.31%	-20.45%	-21.27%	-5.61%

Source: Central Bank of Kenya

AUTOMATED TELLER MACHINES (ATMS) AND PLASTIC CARD USAGE

The Payments Card Industry (PCI) has witnessed dynamism over time buoyed by changing customer demands and preferences. The innovations in the industry now include special features which allow cards to be loaded directly from Mobile Money wallets such as M-pesa. The payment cards can be used to withdraw cash from any Visa ATM worldwide, make purchases from any Visa merchant shop, restaurant etc. and also make online purchases.

The industry recorded a significant uptake of payment cards and notably the debit cards which increased from 11 million cards recorded in 2016 to 13.8 million cards as at June 30 2017. Generally, the uptake of cards increased from 11.5 million in June 2016 to 15.6 million cards as at June 2017. Concomitantly, access points for the cards via Automated Teller Machines (ATMs) also increased from 2,682 in 2016 to 2,782 in 2017 (**Table 3.6.5**).

Table 3.6.5: Number of Cards in Circulation

	2011	2012	2013	2014	2015	2016	2017
No. of ATMs	2,183	2,292	2,439	2,618	2,698	2,682	2,782
ATM Cards	1,439,729	1,640,004	1,625,895	906,908	240,817	199,054	206,974
Debit Cards	7,002,091	8,121,460	9,126,946	11,588,007	12,477,834	11,024,230	13,826,187
Credit Cards	117,835	131,397	133,137	187,765	220,475	238,068	233,563
Charge Cards	1,418	2,877	772	652	285	890	701
Total	**8,561,073**	**9,895,738**	**10,886,750**	**12,683,332**	**12,939,411**	**11,462,242**	**15,606,748**

Source: Central Bank of Kenya

Mobile Phone Usage for Funds Transfer

Mobile money providers continued to innovate both in product and services to serve better the unbanked and underserved population of Kenya.

In terms of usage, the number of mobile money service accounts increased by 8.9 percent, to 34.18 million accounts in June 2017 from 31.39 million accounts in June 2016. Transactions increased by 30.2 percent, to 1,699.57 million from 1,304.52 million over the same period (**Table 3.6.6**).

Table 3.6.6 Mobile Money Transfer Services

Year to June 30th.	2011	2012	2013	2014	2015	2016	2017
Amount transferred (KSh billion)	919.22	1381.52	1,689.04	2,148.13	2,575.44	3,094.92	3,574.43
Number of agents	46,588	61,313	103,165	120,781	131,761	162,465	165,109
Number of transactions (million)	364.06	507.9	643.01	824.26	1,002.25	1,304.52	1,699.57
Number of 'registered' customers / accounts	17.99	19.8	23.75	25.93	26.5	31.39	34.18

Source: Central Bank of Kenya

The number of mobile money service provider agents increased 16.3 percent and value transferred rose by 15.5 percent (**Table 3.6.6**).

CENTRAL BANK OPERATIONS

CURRENT AND FUTURE DEVELOPMENTS

Legal Framework

Subsequent to the enactment of the National Payment System Act (2011) and National Payment System Regulations (2014), CBK has continued to enhance compliance by Payment Service Providers (PSPs) with the legal framework. The Bank has authorized the existing PSPs that operated under a letter of no objection prior to the enactment of the Act. In addition, the Bank requires all PSPs to comply with the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 requirements in line with CBK mandate of formulating and implementing such policies as best promote the establishment, regulation and supervision of efficient and effective payment, clearing and settlement systems that promote social and economic activities.

Interoperability has been a key issue in the National Payments System and notably the retail payments sector. In this regard;

CBK continues to actively participate in interoperability discussions between stakeholders aimed to improve the end-to-end efficiency and affordability while preserving market competition and incentives for investment and innovation.

The National Payment System Act 2011 and National Payment System Regulations 2014 make provisions for the formation of a Payment System Management Body (PSMB) to facilitate interoperability. To this end, the payment industry sector has formed an Association named the Payment Association of Kenya (PAK) which was registered at the Registrar of Societies on May 19, 2017. The PAK will be self-regulating and its governance structure will be managed by a PAK Council, representing the participants in the PSMB and the Bank's role will be to ensure that the Association complies with the set rules, policies and procedures developed to govern it.

Internet Banking

Following the successful roll-out of Internet Banking (IB) to Ministries, Departments and Agencies (MDAs) in July 2015 and to County Governments (County Executives County Assemblies) in February 2016, the Central Bank of Kenya conducted refresher training to ensure that all IB users derived full benefits envisaged from use of the system.

The training also addressed emerging issues and received feedback from the users on their experience in using the Internet Banking system. Overall, the training was successful. Going forward, we have identified a need for regular refresher training particularly in the coming months, given the expected changes in County Governments after the General Elections.

4.0 REGIONAL INTEGRATION DEVELOPMENTS

REGIONAL INTEGRATION DEVELOPMENTS

THE EAC MONETARY COOPERATION PROGRAMME

Background

The Treaty for the establishment of the East African Community encapsulates the integration process of the EAC, commencing with a Customs Union which came into force in 2005 followed by the Common Market in 2010. The East African Monetary Union (EAMU) is the third stage in the process of East African Community (EAC) regional integration. The protocol on the establishment of the EAMU was signed on 30th November 2013 and lays groundwork for a Monetary Union within 10 years.

The EAMU Protocol sets out the scope of monetary and financial cooperation which includes harmonization and coordination of fiscal policy, formulation and implementation of a single monetary and exchange rate policy, development and integration of financial, payment and settlement systems and adoption of common principles and, rules for regulation and prudential supervision of the financial system amongst others. To facilitate the process towards the monetary union, the EAC Monetary Affairs Committee (MAC), which constitutes the Governors of the EAC Central Banks, developed an action plan to coordinate all areas of monetary and financial cooperation.

Republic of South Sudan became the sixth member of the East African Community after signing an accession treaty on April 15, 2016. South Sudan's membership was approved by EAC Heads of State at a regional meeting in Dar-es-Salaam, Tanzania. With a combined population of 150 million people by 2016, the accession of South Sudan is a boost to the EAC's GDP at current market prices to US$ 147.5 billion.

The Political Federation is the fourth stage and ultimate goal of EAC Regional Integration.

The EAC Common Market

The EAC Common Market provides a big opportunity for private sector growth and poverty reduction.

The EAC Common Market Protocol covers several commitments by Partner States – also known as four freedoms – on free movement of goods, labour, persons, services and capital, in its implementation. On services, Partner States committed to remove restrictions in 7 of 12 sectors. With regard to goods, Partner States committed to remove all internal tariffs, implement a common external tariff and remove non-tariff barriers to trade. Partner States made 20 commitments on the free movement of capital.

To monitor implementation of the Common Market Protocol, the EAC Partner States have adopted the EAC Common Market Scorecard to assess progress on country commitments. The report, which is published jointly by the EAC Secretariat and the World Bank, tracks EAC's compliance in the movement of capital, services and goods. Since publication of the first scorecard in 2014, Partner States have undertaken reforms as reported in the second scorecard published in 2016. These reforms were in the area of capital, goods and services.

Since 2014, Kenya has undertaken two reforms on capital. These relate to the provision of a framework for trading of derivatives, that is, sale or issue of derivate products locally by non-residents and sale or issue of derivative products abroad by residents.

Following the development of a regulatory framework to support the derivative market operations in Kenya, and other reforms by the Capital Markets Authority and Ken-Invest, Kenya has effectively eliminated all the restrictions identified in the 2016 CMS report.

The implementation of Article 25 of the EAC Common Market Protocol which provides for allowable restrictions to the commitment to free movement of capital proved a challenge. Article 25 allows restrictions on the free movement of capital upon justified reasons related to prudential supervision, public policy considerations, money laundering and financial sanctions agreed to by the Partner States subject to notification of other Partner States and the Secretariat. EAC Partner States have not shared the required notices for compliance, and have been slow in lifting non-tariff barriers (NTBs); besides introducing new ones post CMS 2014 (**Table 4.0.1**).

Table 4.0.1: Number of Reported NTBs Post-CMS 2014

	CMS 2014		CMS 2016			
	Reported 2008-June 2013	% share in total	Continu-ing NTBs from 2014	New NTBs	Total NTBs in review period	% share in total NTBs
Burundi	3	6	3	2	5	6%
Kenya	16	31	10	13	23	29%
Rwanda	5	10	6	4	10	13%
Tanzania	18	35	7	17	24	31%
Uganda	9	18	6	10	16	21%
Total	51	100	32	46	78	100%
Percent increase in reported NTBs post CMS 2014					53%	

Source: EAC Common Market Scorecard, 2016

An NTB that is common to all countries is considered an NTB for an individual country to reflect individual responsibility.

Table 4.0.2: Resolved NTBS Post CMS 2014

	NTBs brought forward (CMS 2014)			Post CMS 2014 NTB		
Partner States	Continuing NTBs	Resolved NTBs	Average period (months)	New NTBS	Resolved NTBs	Average period (months)
Burundi	3	0	0	2	1	4
Kenya	10	5	19	13	9	11
Rwanda	6	3	31	4	2	8
Tanzania	7	3	34	17	8	5
Uganda	6	2	13	10	5	10
Total	**32**	**13**	**24**	**46**	**25**	**8**

Source: EAC Common Market Scorecard, 2016

The average time taken to resolve reported NTBs was shortened for all the EAC Partner States (**Table 4.0.2**). However, there were four persistent unresolved NTBs that were common to all EAC Partner States including:

i) The lack of harmonization of the working hours for customs authorities
ii) Lack of coordination among institutions involved in testing goods
iii) Lack of harmonization of road user charges / road tolls
iv) Numerous monetary charges required by various agencies in the EAC Partner States for exports of milk

REGIONAL INTEGRATION DEVELOPMENTS

With regard to services, the EAC Common Market Scorecard 2016 identified 59 measures which were inconsistent with the liberalization of services compared with 63 previously. These measures were predominantly in professional services and specifically engineering, accounting and legal services.

The East African Monetary Union (EAMU)

The EAMU is the third stage in the process of the EAC regional integration. The objective of the Monetary Union is to promote and maintain monetary and financial stability aimed at facilitating economic integration of the East African Community (EAC). The protocol on the establishment of the EAMU was signed on November 30, 2013 and lays groundwork for a Monetary Union within 10 years. The requirements of the Protocol apply to activities undertaken by Partner States, co-operating in monetary and financial matters.

In accordance with the roadmap for implementation of the EAMU Protocol, four institutions were scheduled to be established by 2018. These are the East African Monetary Institute (EAMI) – responsible for preparatory work for the Monetary Union, the East African Surveillance, Compliance and Enforcement Commission (EASCEC); East African Statistics Bureau (EASB); and East African Financial Services Commission (EAFSC). Significant progress has been made towards the establishment of institutions of EAMU as follows:

i). The bills for establishment of the East African Monetary Institute and East African Statistics Bureau were forwarded, in April 2017, to the East African Legislative Assembly for enactment.
ii). The bill for the establishment of the East African Surveillance, Compliance and Enforcement Commission was forwarded to the Sectoral Council for Legal and Judicial Affairs for legal input.
iii). A study on the Financial Sector Regulatory and Supervisory Architecture was conducted by the IMF to inform the development of the bill for establishment of the East African Financial Services Commission.

During the FY 2016/17, Partner States' Central Banks continued to harmonize monetary policy frameworks, thereby commissioning studies on the exchange rate in FY 2016/17, to inform the roadmap to a common exchange rate policy. Significant progress was also made on harmonizing economic statistics. For instance, all Partners States migrated compilation of balance of payments data to 6th Edition of the IMF's Balance of Payments Manual.

Substantial progress was also made towards harmonizing Government Finance Statistics (GFS) in line with the 2014 GFS manual. Partner States' Central Banks cooperated on the adoption of common principles and rules for the regulation and supervision of the financial system. In this area, supervisory frameworks were continuously updated in readiness for the envisaged East African Monetary Union.

Realization of the Monetary Union will require EAC Partner States to attain and maintain for at least three consecutive years the following macroeconomic performance convergence criteria:

i) A ceiling on headline inflation of 8 per cent.
ii) A ceiling on fiscal deficit, including grants of 3 per cent of GDP.
iii) A ceiling on Gross Public Debt of 50 per cent of GDP in Net Present Value terms.
iv) A foreign exchange reserves cover of 4.5 months of imports.

REGIONAL INTEGRATION DEVELOPMENTS

Table 4.0.3: Kenya's Performance under the EAC Monetary Cooperation Programme for the Monetary Union

EAC Macroeconomic Convergence Criteria under the EAMU Protocol			
Performance convergence criteria	**2014_15**	**2015_16**	**2016_17**
8% ceiling on headline inflation [1]	6.63	6.48	8.13
Ceiling on fiscal deficit, including grants of 3% of GDP[2]	-8.66	-7.99	-8.85
Ceiling on gross public debt of 50 percent of GDP in Net Present Value terms[3]	48.79	55.49	57.15
Reserve cover of 4.5 months of imports[4]	4.52	5.35	5.68
Indicative convergence criteria			
5% ceiling on core inflation[5]	3.86	5.31	4.66
A ceiling on fiscal deficit, excluding grants of 6% of GDP[2]	-9.14	-8.44	-9.19
Tax to GDP ratio of 25%[6]	16.44	16.42	15.82

[1] Inflation annual average: CBK inflation data

[2] On commitment basis Quarterly Economic and Budget Review, August 2017 edition (Source National Treasury)

[3] Quarterly Economic and Budget Review, August 2017 edition (Source National Treasury)

[4] Based on 36 months of imports, CBK data

[5] Excludes food and fuel, CBK data

[6] Computed using Total Tax revenues-Quarterly Economic and Budget Review, August 2017 edition

(Source National Treasury)

Kenya is on track to meeting the EAC Macroeconomic Convergence Criteria under the EAMU Protocol (**Table 4.0.3**). However, challenges remain in attaining the criteria on the fiscal deficit and gross public debt.

THE COMESA MONETARY COOPERATION PROGRAMME

Background

The Heads of State and Government of COMESA Member countries adopted in 1992 the COMESA Monetary Cooperation Programme towards the establishment of a Monetary Union in the year 2025. The date for the achievement of the Monetary Union was later changed to 2018 by the COMESA Council of Ministers in 2006.

The primary objective of the COMESA Monetary Cooperation Programme is to create a common area of monetary and financial system stability which will facilitate integration of financial markets and achieve economic integration and economic growth. The achievement of monetary and financial system stability entails attainment of economic convergence by removing all macroeconomic impediments which exist among member states as a result of pursuit of divergent macroeconomic policies.

The revised COMESA convergence criteria are categorized into primary (preconditions for convergence) and secondary (reinforcement conditions) criteria, to be implemented in three phases;

- Stage 1 (2005-2010),
- Stage 2 (2011-15) and;
- Stage 3 (2016-18).

Table 4.0.4: Kenya's Progress in Implementation of COMESA Monetary Cooperation Programme

	Stages of implementation			Current Status		
Convergence criteria	**Stage I: 2005-2010**	**Stage 2: 2011-2015**	**Stage 3: 2016-2018**	**2014_15**	**2015_16**	**2016_17**
Primary Criteria						
Overall Budget Deficit to GDP ratio\1	Overall Budget Deficit to GDP Ratio **(excluding grants)** of not more than 5 **percent**	Overall Budget Deficit to GDP Ratio **(excluding grants)** not exceeding 4 **percent**	Overall Budget Deficit to GDP Ratio **(excluding grants)** not exceeding 3 **percent**	9.14	8.44	9.19
Annual average Inflation Rate\2	Not exceeding 5 percent	Not exceeding 3 percent	Not exceeding 3 percent	6.63	6.48	8.13
Central Bank financing of the budget deficit	Minimise towards 0 percent	Eliminate	Eliminate	0.00	0.00	0.00
External Reserves (months of import of imports of goods and non-factor services)\3	Equal to or more than **4 months** of imports of goods and non-factor services	Equal to or more than **5 months** of imports of goods and non-factor services	Equal to or more than **6 months** of imports of goods and non-factor services	4.52	5.35	5.68
Secondary Criteria						
Stable real exchange Rates	To be achieved and maintained	To be achieved and maintained	To be achieved and maintained	Stable	Stable	Stable
Market based positive real interest rates\4	To be achieved and maintained	To be achieved and maintained	To be maintained	8.26	7.25	8.42
Achievement and maintenance of sustainable real growth rate of real GDP\5	Not less than 7.0 percent	Not less than 7.0 percent	Not less than 7.0 percent	5.4	5.7	5.8
Debt reduction initiative on domestic and foreign debt; i.e reduction of total debt as a ratio of GDP\6	To be kept at a sustainable level	To be kept at a sustainable level	To be sustained	48.79	55.49	57.15
Total domestic revenue to GDP ratio\7	Not less than 20 percent	At least 20 percent	At least 20 percent	18.98	18.73	18.16
Current Account Deficit (excluding grants) percentage to GDP	To be reduced to a sustainable level	To be maintained and sustained	To be maintained and sustained	-10.0	-4.9	-6.2
Achievement and maintenance of domestic investment rate\8	At least 20 percent	At least 20 percent	At least 20 percent	20.79	20.76	15.98
Liberalisation of the capital account\9		Gradual	Full	85% Liberalised	85% Liberalised	95% Liberalised

Convergence criteria source: Assessing Integration in Africa III, Economic Commission for Africa

\1 On commitment basis Quarterly Economic and Budget Review, August 2017 edition (Source National Treasury)

\2 Overall inflation, annual average: CBK inflation data

\3 Based on 36 months of imports, CBK data

\4 91 day T-bill rate CBK Data

\5 GDP at market prices, Calendar years 2014, 2015, 2016_Economic Survey 2017

\6 Gross Public Debt to GDP ratio , Quarterly Economic and Budget Review, August 2017 edition (Source National Treasury)

\7 Total Revenue to GDP ratio, Quarterly Economic and Budget Review, August 2017 edition (Source National Treasury)

\8 Sum of Gross Capital Formation and Change in inventores Calendar years 2014, 2015, 2016, Economic Survey 2017

\9 EAC Common Market ScorZcard 2016

REGIONAL INTEGRATION DEVELOPMENTS

Kenya is on track to meeting the COMESA Macroeconomic Convergence Criteria under the COMESA Monetary Programme. However, challenges remain in attaining the criteria on fiscal deficit; annual average inflation; real GDP growth; debt reduction initiatives; and total domestic revenue to GDP ratio.

THE ASSOCIATION OF AFRICAN CENTRAL BANKS

Background

The Association of African Central Banks (AACB) was established at the Summit Conference of African Heads of State and Government in May 25, 1963 in Addis Ababa, Ethiopia. The AACB was charged to: promote co-operation in the monetary, banking and financial spheres in the African region and strengthen efforts aimed at bringing about and maintaining price and financial stability in the African region. Membership of the AACB is open to all African central banks. The Association comprises an assembly of African Central Bank Governors, which is the governing body, the Bureau and, sub-regional committees composed of Governors of Central Banks of the five (5) sub-regions as defined by the African Union. In addition, the AACB has a Secretariat, which is headed by an Executive Secretary to provide secretarial services to the Association.

- The Association adopted, in 2000, an African Monetary Cooperation Programme (AMCP) whose aim is to establish a harmonized monetary system with a view to setting up a common organ to work towards the creation of a single monetary zone by 2021. The AMCP spells out a hierarchy of primary and secondary criteria, with their relative target values and deadlines for compliance.

- To facilitate implementation of the AACB objectives, the Association provides for periodic meetings of Governors of central banks to promote exchange of ideas and experiences on monetary, financial and banking matters and co-operation in Africa and facilitate the collection, pooling and dissemination of information on monetary, banking, financial and other economic matters of interest to its members. To this end, the Association holds the Assembly of Governors meetings, a symposium for governors and a continental seminar for technical staff in member central banks on annual basis.

Status of Implementation of the AMCP for 2016

The 40th ordinary meeting of the Assembly of Governors of the Association of African Central Banks (AACB) was held on the 16th August 2017, at the South African Reserve Bank (SARB).

The meeting reviewed the status of implementation of the African Monetary Cooperation Program (AMCP), among other issues, based on the targets set under stage III. Migration to Stage IV criteria has been delayed by weak country performance, largely on account of negative external shocks; and escalation of capital expenditures to address infrastructure gaps in most African States.

REGIONAL INTEGRATION DEVELOPMENTS

Table 4.0.5: Kenya's Macroeconomic Performance under the African Monetary Cooperation Programme (AMCP)

Primary Criteria					
Primary Criteria	**Stage III (to be achieved by 2016)**	**Stage IV (After 2016)**	**2014_15**	**2015_16**	**2016_17**
Overall Budget deficit/GDP excluding grants[1]/	not exceeding 3 percent	Continued observance of stage 3 criteria	9.14	8.44	9.19
Inflation rate Annual Average[2]/	less than 5 per-cent per annum	less than 3 percent per annum	6.63	6.48	8.13
Elimination of Central Bank Credit to Government	Eliminate	Eliminate	0.0	0.0	0.0
External reserves months of Imports cover[3/]	equal or greater than 6 months	Continued observance of stage 3 criteria	4.52	5.35	5.68
Secondary Criteria					
Domestic fiscal Receipts/GDP ratio [4/]	equal to or more than 20%	Continued observance of stage 3 criteria	18.98	18.73	18.16
Salary mass/total domestic fiscal receipt ratio[5/]	Less than 35 percent	Continued observance of stage 3 criteria	26.9	25.2	24.0
The sourcing of minimum of 20% Government investment capital from fiscal receipts[6/]	equal to or more than 20%	Continued observance of stage 3 criteria	8.7	6.8	7.8
Current Account/GDP ratio	Sustainable level	Continued observance of stage 3 criteria	-10.0	-4.9	-6.2
Real effective exchange rate	Maintenance of real exchange rate stability	Continued observance of stage 3 criteria	Stable	Stable	Stable

[1]/On commitment basis Quarterly Economic and Budget Review, August 2017 edition (Source National Treasury)

[2]/Overall inflation, annual average: CBK inflation data

[3/]Based on 36 months of imports, CBK data

[4/]Total Revenue to GDP ratio, Quarterly Economic and Budget Review, August 2017 edition (Source National Treasury)

[5/]Ratio of Wages and Salaries to Total Revenue, Quarterly Economic and Budget Review, August 2017 edition (Source National Treasury)

[6/]Development Expenditure (i.e. Development Projects and Appropriation in Aid) to Total Revenue, Quarterly Economic and Budget Review, August 2017 edition (Source National Treasury)

REGIONAL INTEGRATION DEVELOPMENTS

Kenya is on track to meeting the Macroeconomic Convergence Criteria under the AMCP. It however, did not meet most of the set targets under the primary criteria. The overall budget deficit (excluding grants) worsened during the FY 2016/17. The higher budget deficit was attributed to lower fiscal receipts. The overall annual average inflation increased to 8.13 per cent in 2016/17 from 6.48 per cent in 2015/16 and was above the government target range of (5+/-2.5 per cent) due to effects of prolonged drought that affected food prices. External reserves cover for imports of goods and services increased to 5.68 months in 2016/17 from 5.35 months in 2015/16 but remained below the target minimum of 6 months.

With regard to secondary criteria, challenges remain in attaining the domestic fiscal receipts to GDP ratio; and the sourcing of minimum of 20 per cent Government investment capital from fiscal receipts. The meeting of the Assembly of Governors took cognizance of the adverse impact of the international economic environment and, regional as well as domestic factors on the African States, which made it difficult to meet the macro convergence criteria. It adopted the work by a group of experts on the harmonization of convergence criteria across the different regions in Africa. The study by the experts group recommended among other things:

- Harmonization of the primary macroeconomic convergence criteria in terms of thresholds, definitions, and measurements; revision of secondary criteria to include general government debt to GDP ratio;
- Revision of the timelines for the establishment of the Regional Central Banks and the African Central Bank; and
- Establishment of the African Monetary Institute by 2020.

5.0 FINANCIAL PERFORMANCE

REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

REPORT

OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF CENTRAL BANK OF KENYA

FOR THE YEAR ENDED 30 JUNE 2017

CENTRAL BANK OF KENYA
ANNUAL REPORT AND
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2017

FINANCIAL PERFORMANCE

Table of contents

FINANCIAL PERFORMANCE

Board of Directors

Mr. Mohammed Nyaoga	Chairman
Dr. Patrick Njoroge	Governor
Mr. Samson Cherutich	Member
Mrs. Rachel Nzombo	Member
Mrs. Nelius W. Kariuki	Member
Mr. Ravi J. Ruparel	Member
Mrs. Charity S. Kisotu	Member
Dr. Kamau Thugge	Principal Secretary, The National Treasury

Senior Management

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

Heads of Department

Mr. Kennedy Abuga	Director - Governors' Office (Board Secretary)
Ms. Rose Detho	Director - Strategic Management Department
Mr. William Nyagaka	Director - Internal Audit Department
Mr. Charles Koori	Director - Research Department
Mr. Gerald Nyaoma	Director - Bank Supervision Department
Mr. Peter Rotich	Director - Finance and ICT Department - Retired on July 9 ,2017
Mr. Mark Lesiit	Director - Banking, National Payments and Risk Management Department - Retired on November 1, 2016
Mr. John Birech	Acting Director - Financial Markets Department
Ms. Terry Nganga	Acting Director - Human Resource and Administration Department
Mr. Paul Wanyagi	Acting Director - Currency Operations and Branch Administration Department
Mr. Mwenda Marete	Acting Director - Banking, National Payments and Risk Management Department Appointed on November 9, 2016
Eng. Erastus Miriti	Acting Director - Department of Procurement, Logistics and Supplies - Retired on April 24, 2017
Mr. Peter Kigondu	Acting Director - Department of Procurement, Logistics and Supplies Appointed on April 25,2017
Mr. Moses Ngotho	Acting Director - Finance and ICT Department- Appointed on July 10,2017
Prof. Kinandu Muragu	Executive Director - Kenya School of Monetary Studies-Retired on June 5, 2017
Mr. Joshua Kimoro	Acting Director - Kenya School of Monetary Studies - Appointed on April 19, 2017

Registered office and principal place of business

Central Bank of Kenya Building
Haile Selassie Avenue
P.O. Box 60000
00200 Nairobi, Kenya
Tel.(+254) (020) 2860000

Branches

Mombasa Branch
Central Bank of Kenya Building
Nkurumah Road
P.O. Box 86372
80100 Mombasa

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

Eldoret Branch
Kiptagich House
Uganda Road
P.O. Box 2710
30100 Eldoret

Currency Centres

Nyeri Currency Centre
Kenya Commercial Bank Building
Kenyatta Street
P.O. Box 840
10100 Nyeri

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

Nakuru Currency Centre
Central Bank of Kenya Building
George Morara Street
P.O. Box 14094
20100 Nakuru

Subsidiary

Kenya School of Monetary Studies
Off Thika Road
Mathare North Road
P.O. Box 65041
00618 Nairobi

Main Lawyers

Oraro and Co. Advocates
ACK Garden House
1st Ngong Avenue
P.O. Box 51236
00200 Nairobi

FINANCIAL PERFORMANCE

Auditor

Deloitte & Touche

Deloitte Place
Waiyaki Way, Muthangari

P.O. Box 40092

00100 Nairobi

On behalf of:-

The Auditor General
Kenya National Audit Office

Anniversary Towers

P.O. Box 30084

00100 Nairobi

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 business 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 the conduct of a competitive process and following the 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 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 judgement.

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 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 responsibility for determining the policies of the Bank.

The Members of the Board (all Kenyans) in the year ended 30th June, 2017 and their attendance and the number of meetings held in the year were as follows:

No.	Name	Position	Discipline	Date of Appointment / Retirement	Meetings Attended
1.	Mr. Mohammed Nyaoga	Chairman	Lawyer	Appointed – 19th June, 2015	4
2.	Dr. Patrick Njoroge	Governor	Economist	Appointed – 19th June 2015	4
3.	Principal Secretary/ National Treasury	Executive Officer	Economist	Permanent	2
4.	Mrs. Nelius Kariuki	Member	Economist	Appointed – 4th November, 2016	4
5.	Mr. Ravi Ruparel	Member	Financial Sector Expert	Appointed – 4th November, 2016	3
6.	Mrs. Charity Kisotu	Member	Accountant	Appointed – 4th November, 2016	4
7.	Mr. Samson Cherutich	Member	Accountant	Appointed – 5th December, 2016	4
8.	Mrs. Rachel Dzombo	Member	Management Expert	Appointed – 5th December, 2016	4

FINANCIAL PERFORMANCE

The remuneration paid to the Directors for services rendered during the financial year 2016/2017 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 in order to facilitate 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 30th June, 2017 were Mr. Samson K. Cherutich (Chairman), Mr. Ravi J. Ruparel, Mrs. Charity S. Kisotu and Mrs. Nelius W. Kariuki. They were appointed to the Committee by the Board of Directors on 6th April, 2017. The members are all Non-Executive Directors with experience in Accounting, Auditing, Financial and Business 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, Financial Reporting and Related Reporting Practices, External and Internal Audits.

The Audit Committee's mandate, under Internal Control, includes ensuring that the importance of internal control and risk management is communicated effectively to staff and that they have a clear understanding of their roles and responsibilities. It will also ensure that the Management has put in place adequate measures to ensure security of the bank's information technology resources and that appropriate contingency plans for processing the Bank's information in the event of unavailability of the IT resources are in existence. The Committee also ensures that internal and external audit recommendations 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.

The Committee's mandate on Internal Audit covers review of the activities and resources of the internal audit activity, 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 auditor 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 30th June 2017 were as follows:

No.	Name	Position	Discipline	Meetings Attended
1.	Mr. Samson Cherutich	Chairman of the Committee with effect from April 6, 2017	Accountant	2
2.	Mr. Ravi Ruparel	Member effective from April 6, 2017	Financial Sector Expert	2
3.	Mrs. Charity Kisotu	Member effective from April 6, 2017	Accountant	2
4.	Mrs. Nelius Kariuki	Member effective from April 6, 2017	Economist	2

1.4 Human Resources Committee (HRC)

The members of the HR Committee in the year ended 30th June, 2017 were Mrs Nelius Kariuki,
Mr Samson Cherutich, Mrs Charity Kisotu and Mrs Rachel Dzombo. The members are all Non-Executive Directors with experience in Accounting, Management and Business.

The mandate of the HR Committee is to perform an advisory role to the Board in the fulfilment of the following oversight role:

a) Overseeing the formulation and implementation of the HR Policies of the Bank;
b) Overseeing the Bank's compliance with the Constitution of Kenya 2010, Laws of Kenya, CBK regulations and the Code of Conduct;
c) Performing any other HR related function assigned by the Board;
d) Overseeing the implementation of the Board resolutions relating to the HR Committee.

The members of the Human Resources Committee in the year ended 30th June, 2017 and their attendance of the meetings held in the year were as follows:

No.	Name	Position	Discipline	Meetings Attended
1	Mrs. Nelius Kariuki	Chairperson	Economist	1
2	Mr. Samson Cherutich	Member	Accountant	1
3	Mrs. Charity Kisotu	Member	Accountant	1
4	Mrs Rachel Dzombo	Member	Management Expert	1

The HR Committee was constituted on April 2017 and held its first meeting on 24th May 2017.

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 in two (2) months. External members of the MPC are appointed by the Cabinet Secretary to The National Treasury for an initial period of three (3) years each, and may be reappointed for another final term of three (3) years.
During the FY2016/17, the MPC formulated monetary policy to achieve and maintain overall inflation within the allowable margin of 2.5 percent on either side of the 5 percent target. The period was characterised by amongst other factors, uncertainties with regard to the impact of interest rate capping on the economy and on the effectiveness of monetary policy; a persistent slowdown in the growth of private sector credit and a sharp increase in food prices due to

drought conditions experienced in the first quarter of 2017. Overall month-on-month inflation remained within the Government target range from July 2016 to January 2017, but rose above the target range in February 2017, peaking at 11.7 percent in May 2017. The Government instituted measures to mitigate the adverse effects of the drought on key food items, including zero-rating of taxes on maize and bread, duty free imports of maize and sugar. The impact of the Government interventions to lower prices of key food items and price responses to improved weather conditions were reflected in a fall in overall inflation to 9.2 percent in June 2017. The 12-month and 3-month non-food-non-fuel inflation measures remained stable, suggesting that there were no demand pressures in the economy.

Risks in the global financial markets remained elevated in the period due to uncertainties on the direction of United States of America (USA) economic and trade policies, normalization of monetary policies in the advanced economies and the British Exit from the European Union (Brexit) outcome. Kenya's foreign exchange market remained stable in the period reflecting a narrowing in the current account deficit due to resilient inflows from tea and horticultural exports, strong diaspora remittances, improved receipts from tourism and a lower import bill. CBK's foreign exchange reserves, together with the Precautionary Arrangements with the IMF provided a buffer against short-term shocks.

After every MPC Meeting, the Governor held meetings with Chief Executive Officers of banks to discuss the background to the MPC decisions and to obtain feedback from the market. Additionally, the Governor held press conferences with the media to brief them on the background of the MPC decisions and developments in the financial sector. The forums continued to improve the public's understanding of monetary policy decisions.

The MPC held six (6) meetings in the year ended June 30, 2017, and attendance was as follows:

No.	Name	Position	Discipline	Meetings Attended
1	Dr. Patrick Njoroge	Chairman	Economist	6
2	Ms. Sheila M'Mbijjewe	Vice Chairperson	Finance/ Accountancy	6
3	Mr. Nzomo Mutuku *	Representative of the Principal Secretary, The National Treasury	Economist	3
4	Mr. Musa Kathanje *	Representative of the Principal Secretary, The National Treasury	Economist	1
5	Prof. Francis Mwega **	Member	Economist	3
6	Mrs. Farida Abdul ***	Member	Economist	5
7	Mr. Charles Koori	Member (Internal)	Economist	6
8	Mr. John Birech	Member (Internal)	Economist	6

** Mr. Kathanje replaced Mr. Nzomo as the Representative of the Principal Secretary of The National Treasury in May 2017.*

*** Prof. Mwega's term ended on February 28, 2017.*

**** Mrs. Abdul's term ended on April 30, 2017.*

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 and meet regularly with the Heads of the Bank's various departments indicated on page 82, to review the overall performance of the Bank.

There are several other Management Committees, which advise the Governor on specific issues to enable him discharge his responsibilities as the Chief Executive Officer of the Bank.

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 systems 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. 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 is performed by Internal Audit Department. The Risk Management Unit is a separate function under Banking Department and is responsible for monitoring and providing advice on the Bank's risk management 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 Statement which explain current monetary policy and also, provide the expected monetary policy stance. 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 are also placed in the Bank's website.

2. Financial Performance

The Bank's financial performance is affected by Monetary Policy undertaken, interest rates and exchange rate changes. The Bank's financial performance is presented on page 82 of these financial statements.

During financial year ended 30 June, 2017, the Bank recorded a net surplus of Shs.17,050 million compared to a net deficit of Shs.4,640 million in financial year ended 30 June, 2016. The surplus has been added to the General Reserve Fund.

During the financial year ended 30 June, 2017, the Bank's net interest income after impairment charge was Shs.12,747 million (2016: Shs.11,917 million) subject to the Loan impairment adjustment. Interest income was Shs.14,441 million (2016: Shs.15,933 million). Interest earnings on foreign reserves was Shs.7,070 million (2016: Shs.4,065 million). The increase is attributed to relatively higher interest rates on term deposits, foreign reserve build up partly from loan receipts by the Government and optimization of reserve currency mix. Interest earned on loans and advances was Shs.7,011 million(2016: Shs.10,858 million). The drop is due to reduced utilization of Government of Kenya overdraft facility and also, reduced advances to commercial banks due to a relatively more stable market during the year as compared to the previous year.

The interest expense was Shs.1,718 million (2016: Shs.3,957 million). The main contributor is the drop in Interest on monetary policy to Shs.1,445 million (2016: Shs.3,819 million) attributed to the monetary policy stance of relatively stable markets compared to previous year. The unrealized foreign exchange gain was Shs.8,516 million (2016 Loss Shs.19,969 million). This resulted from movement of the Kenya shilling to the USD between the two periods. In the previous year, the shilling had strengthened against the British Pound and hence the loss recorded.

Trading income generated from sale of foreign currency is Shs.4,298 million (2016: Shs.6,496 million). The market was relatively stable compared to the previous year resulting in low volumes of sale of foreign currency during the period.

Operating expenses increased to Shs.11,137 million (2016: Shs.8,091 million) as a result of revaluation gains arising from retirement benefits assets of Shs.832 million (2016: Shs.1,835 million). In addition, Currency costs increased during the year to Shs.2,352 million (2016:Shs. 1,880 million) due to higher releases of currency notes and coins.

The Bank's Consolidated Statement of financial position for the year is set out on page 98.

The Bank's assets decreased marginally to Shs.975,623 million (2016: Shs.982,849 million) which is attributed mainly to the more than offset of, the increase in balances due from banking institutions Shs.735,548 million (2016: Shs.696,004 million), by decrease in both Securities & advances to banks Shs.34,870 (2016: Shs.44,675) and Government overdraft Shs.24,449 million (2016: Shs.69,762 million).

Liabilities also decreased to Shs.841,580 million (2016: 865,856 million) attributed to the decrease in deposits from banks and the Government which was largely contributed by the full repayment of government overdraft facility and the decline of Reverse Repo (Repurchase Agreements) investment by commercial banks.

FINANCIAL PERFORMANCE

Director's Report

The Directors submit their report together with the audited Financial Statements for the year ended 30th June 2017, which shows the state of affairs of Central Bank of Kenya (the "Bank"/"CBK").

Incorporation

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

Principal Activities

The Bank is established and administered under the Constitution of Kenya, 2010 with the principal object of formulating and implementing monetary policy directed to achieving and maintaining stability in the general level of prices. It is also the responsibility of the Bank to foster 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.

Results and Surplus

The surplus for the year of Shs.17,050 million (2016: Shs.4,640 million deficit) has been added to the General Reserve Fund. The Directors do not recommend distribution of surplus (2016: Nil).

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 1.

Auditor

The Bank is audited by the Auditor General in accordance with *Section 12 of the Public Audit Act* and the *Central Bank of Kenya Act*.

By order of the Board

Kennedy Abuga
Board Secretary

8th September 2017

FINANCIAL PERFORMANCE

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 surplus or deficit. 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 30th June 2017 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*.

Nothing has come to the attention of the Directors to indicate that the Bank and its subsidiary will not remain a going concern for at least twelve (12) months from the date of this statement.

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

Chairman, Board of Directors
Mr. Mohammed Nyaoga

8th September 2017

Patrick Njoroge

Governor
Dr. Patrick Njoroge

8th September 2017

Deloitte.

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place
Waiyaki Way, Muthangari
P.O. Box 40092 - GPO 00100
Nairobi
Kenya

Tel: +254 (0) 20 423 0000
Cell: +254 (0) 719 039 000
Dropping Zone No.92
Email: admin@deloitte.co.ke
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT
TO THE AUDITOR GENERAL ON CENTRAL BANK OF KENYA

Opinion

We have audited the accompanying consolidated financial statements of Central Bank of Kenya, set out on pages 14 to 57, which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position as at 30 June, 2017, and consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Central Bank of Kenya as at 30 June, 2017 and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and the requirements of the Central Bank Act, Cap 491 of the Laws of Kenya.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with other ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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 our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs, and for such internal controls as Directors determine are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are 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 the Directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement 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 consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 our 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.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

- Conclude on the appropriateness of the Directors' 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 we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the consolidated financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner responsible for the audit resulting in this independent auditor's report is ***CPA Fred Aloo P/No 1537.***

Deloitte & Touche

Certified Public Accountants (Kenya)

Nairobi, Kenya

8 September **2017**

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke

P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON CENTRAL BANK OF KENYA FOR THE YEAR ENDED 30 JUNE 2017

REPORT ON THE FINANCIAL STATEMENTS

OPINION

The accompanying financial statements of Central Bank of Kenya set out on pages 14 to 57, which comprise the consolidated statement of financial position as at 30 June 2017, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 Delloitte and Touche, 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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) and comply with the Central Bank Act, Cap 491 of the Laws of Kenya.

Basis for Opinion

The audit was conducted in accordance with International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the Auditor-General's Responsibilities for the audit of financial statements section of my report. I am independent of the Bank in accordance with the International Ethics Standard Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), together with other ethical requirements that are relevant to the audit of financial statements in Kenya. I have fulfilled my other ethical responsibilities in accordance with these requirements, and IESB Code. I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my opinion.

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.

In connection with the audit of the consolidated financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or the knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work performed on the other information that was obtained prior to the date of the audit report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Responsibilities of the Directors and Those Charged With Governance for the Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs, and for such internal control as Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are 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 the Directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor-General's Responsibilities for the Audit of the Financial Statements

The audit objectives are to obtain reasonable assurance about whether the consolidated 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 of the Constitution. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect material misstatements when they exist. 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 consolidated financial statements.

As part of audit in accordance with ISAs, the auditor exercises professional judgement and maintains professional scepticism throughout the audit. The auditor also:

- Identifies and assesses the risk of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting material misstatements resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal control;

Bank”

- obtains an understanding of the internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Bank's internal control;

- evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;

- concludes on the appropriateness of the Directors use of going concern basis of accounting and, based on the audit evidence obtained, concludes 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 the auditor concludes that a material uncertainty exists, the auditor is required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify the opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern;

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

- obtains sufficient appropriate audit evidence regarding the consolidated financial information of the entity or business activities within the Bank to express an opinion on the consolidated financial statements. The auditor is responsible for the direction, supervision and performance of the audit. I remain responsible for the audit opinion;

- communicates with directors among other matters, the planned scope and timing of the audit and significant audit findings, including any significant audit deficiencies in internal control that are identified during the audit.

FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

22 September 2017

FINANCIAL PERFORMANCE

Consolidated Statement of Comprehensive Income

	Notes	201 7 Shs' million	2016 Shs' million
		Year ended 30 June	
Interest income	4	14,441	15,933
Interest expense	5	(1,718)	(3,957)
Net interest income		**12,723**	**11,976**
Decrease/(increase) in loan impairment	15	24	(59)
Net interest income		12,747	11,917
Fees and commission income	2(s)	3,000	3,000
Net trading income	6	4,193	6,446
Other income	7	1,114	536
Operating income		**21,054**	**21,899**
Operating expenses	8	(11,137)	(8,091)
Operating surplus before unrealised gains/(losses)		**9,917**	**13,808**
Items that will not be reclassified subsequently to profit or loss:			
Unrealized gains and losses:			
Foreign exchange gain/(loss)		8,516	(19,969)
Fair value (loss)/gain on financial assets held for trading		(871)	347
Surplus/(deficit) for the year		**17,562**	**(5,814)**
Other comprehensive income			
Actuarial (loss)/gain in retirement benefit asset	17	(512)	1,174
Total comprehensive income/(loss) for the year		**17,050**	**(4,640)**

The notes on pages 102 to 140 are an integral part of these financial statements.

FINANCIAL PERFORMANCE

Consolidated Statement of Financial Position

	Notes	30 June 2017 Shs' million	30 June 2016 Shs' million
Assets			
Balances due from banking institutions	10	735,548	696,004
Funds held with International Monetary Fund (IMF)	13(a)	1,877	1,923
Securities & advances to banks	14	34,870	44,679
Loans and advances	15	2,575	2,566
Financial assets at fair value through profit or loss	11	134,777	133,253
Investments securities – Available-for-sale	12	9	9
Other assets	16	10,566	4,285
Property and equipment	18	22,703	22,385
Intangible assets	19	52	207
Retirement benefit asset	17	8,197	7,776
Due from Government of Kenya	20	24,449	69,762
Total assets		975,623	982,849
Liabilities			
Currency in circulation	21	253,787	234,751
Deposits from banks and government	22	470,109	496,044
Due to International Monetary Fund (IMF)	13(b)	115,125	122,438
Investments by banks	23	-	7,843
Other liabilities	24	2,559	4,780
Total liabilities		841,580	865,856
Equity and reserves			
Share capital	25(a)	5,000	5,000
General reserve fund	25(b)	114,253	97,203
Revaluation reserve	25(c)	14,790	14,790
Total equity		134,043	116,993
Total equity and liabilities		975,623	982,849

The financial statements on pages 102 to 140 were authorised for issue by the Board of Directors on 8th September 2017 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

	Notes	Share Capital Shs' million	General Reserve Fund Shs' million	Revaluation reserve Shs' million	Total Shs' million
Year ended 30 June 2016					
Balance at 1 July 2015		5,000	101,843	14,790	121,633
Deficit for the year		-	(5,814)	-	(5,814)
Actuarial gains in retirement benefit asset	17	-	1,174	-	1,174
Total comprehensive loss for the year		-	(4,640)	-	(4,640)
Balance at 30 June 2016		**5,000**	**97,203**	**14,790**	**116,993**
Surplus for the year			17,562		17,562
Actuarial loss on retirement benefit asset			(512)		(512)
Total comprehensive income for the year			**17,050**		**17,050**
Balance at 30 June 2017		**5,000**	**114,253**	**14,790**	**134,043**

The notes on pages 102 to 140 are an integral part of these financial statements.

FINANCIAL PERFORMANCE

Consolidated Statement of Cash Flow

	Notes	Year ended 30 June 2017 Shs' million	2016 Shs' million
Net cash generated from operating activities	**26**	**39,820**	**172,352**
Cash flow from investing activities			
Purchase of property and equipment	18	(1,273)	(2,592)
Purchase of intangible assets	19	(24)	-
Proceeds from disposal of property and equipment		3	8
Net (purchase)/sale of financial assets			
- Fair value through profit or loss		(10,464)	(9,309)
- Held to maturity	10	150,515	69,906
- Securities & advances to the Bank		(8,508)	(2,762)
- Funds held with International Monetary Fund (IMF)		46	2,462
Net cash generated from investing activities		130,295	57,713
Cash flows from financing activities			
Repayments to the International Monetary Fund (IMF)		(7,313)	(3,337)
Net cash used in financing activities		(7,313)	(3,337)
Increase in cash and cash equivalents		162,802	226,728
Cash and cash equivalents at start of year		421,593	194,865
Cash and cash equivalents at end of year	27	584,395	421,593

The notes on pages 102 to 140 are an integral part of these financial statements.

Notes to the Financial Statements (continued)

1 General information

Central Bank of Kenya (the "Bank"/"CBK") is established by and derives its authority and accountability from the *Central Bank of Kenya Act*, *Cap 491* of the Laws of Kenya (the "CBK Act"). The Bank is wholly owned by the Government of Kenya and is domiciled in Kenya. 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.

Changes in accounting policy and disclosures

(b) Adoption of new and revised International Financial Reporting Standards (IFRSs) and International Financial Reporting Interpretations Committee (IFRIC)

i) New standards and amendments to published standards effective for the year ended 30 June 2017

IFRS 14: Regulatory Deferral Accounts

IFRS 14 permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.

Applicable to annual periods beginning on or after 1 January 2016. The application of this Standard has had no effect on the consolidated financial statements.

Amendments to IFRS 11

Amends IFRS 11 Joint Arrangements to require an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 Business Combinations) to:

- apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11; and
- disclose the information required by IFRS 3 and other IFRSs for business combinations

Applicable to annual periods beginning on or after 1 January 2016. The application of these amendments has had no effect on the consolidated financial statements.

Amendments to IAS 16: Property, Plant and Equipment and IAS 38: Intangible Assets

Amends IAS 16 and IAS 38 to:

- clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment;
- introduce a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated; and

- add guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.

Applicable to annual periods beginning on or after 1 January 2016. The application of these amendments has had no effect on the consolidated financial statements.

Amendments to IAS 16: Property, Plant and Equipment and IAS 41: Agriculture

Amends IAS 16 Property, Plant and Equipment and IAS 41 Agriculture to:

- include ‘bearer plants’ within the scope of IAS 16 rather than IAS 41, allowing such assets to be accounted for a property, plant and equipment and measured after initial recognition on a cost or revaluation basis in accordance with IAS 16;
- introduce a definition of ‘bearer plants’ as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales; and
- clarify that produce growing on bearer plants remains within the scope of IAS 41.

Applicable to annual periods beginning on or after 1 January 2016. The application of these amendments has had no effect on the consolidated financial statements.

Amendments to IAS 27: Separate Financial Statements

Amends IAS 27 to permit investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.

Applicable to annual periods beginning on or after 1 January 2016. The application of these amendments has had no effect on the consolidated financial statements.

Amendments to IFRS 10: Consolidated Financial Statements and IAS 28: Investments in Associates and Joint Ventures (2011)

Amends IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) to clarify the treatment of the sale or contribution of assets from an investor to its associate or joint venture, as follows:

- require full recognition in the investor’s financial statements of gains and losses arising on the sale or contribution of assets that constitute a business (as defined in IFRS 3 Business Combinations); and
- require the partial recognition of gains and losses where the assets do not constitute a business, i.e. a gain or loss is recognised only to the extent of the unrelated investors’ interests in that associate or joint venture.

Applicable to annual periods beginning on or after 1 January 2016. The application of these amendments has had no effect on the consolidated financial statements.

Annual Improvements to IFRSs 2012-2014 Cycle

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarised below:

IFRS 5, Non-current Assets Held for Sale and Discontinued Operations- The amendments introduce specific guidance in IFRS 5 for when an entity reclassifies an asset or disposal group) from held for sale to held for distribution to owners (or vice versa).

The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in IFRS 5 regarding the change of sale plan do not apply. The amendments also clarifies the guidance for when held-for- distribution accounting is discontinued.

IFRS 7, Financial Instruments: Disclosures - The amendments provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

IAS 19, Employee Benefits (2011) - The amendments clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

ii) New and amended standards in issue but not yet effective in the year ended 30 June 2017

New standards and Amendments to standards	*Effective for annual periods beginning on or after*
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
IFRS 16 Leases	1 January 2019
Amendments to IAS 7 Statement of Cash Flows	1 January 2017

IFRS 9: Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for de-recognition.

Key requirements of IFRS 9:

Classification and measurement

Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.

Impairment

The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised

Hedge accounting

Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures

De-recognition

The requirements for the de-recognition of financial assets and liabilities are carried forward from IAS 39.

The directors of the bank are assessing the impact of the application of IFRS 9 in the future. The adoption of this standard may have an impact on the Bank's consolidated financial statements in future periods.

IFRS 15: Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

The directors anticipate that the adoption of this standard may not have a significant impact on the Bank's consolidated financial statements in future periods.

IFRS 16: Leases

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

The directors of the bank are assessing the impact of the application of IFRS 16 in the future. The adoption of this standard may have an impact on the Bank's consolidated financial statements in future periods.

Amendments to IAS 7: Statement of Cash Flows

Amends IAS 7 Statement of Cash Flows to clarify that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities

The directors anticipate that the application of these amendments may not have a significant impact on the Bank's consolidated financial statements in future periods.

(c) Accounting for currency expenses

The cost of unissued bank note stocks is recognised in the statement of financial position as deferred currency costs under 'other assets'. Bank note costs are charged to profit or loss in the year in which the bank notes are issued.

Coin minting costs are charged to profit or loss when issued to the public. The cost of new currency coins not yet issued is recognised as inventory within 'other assets' consistent with the accounting for the cost of unissued bank note stocks.

(d) Consolidation

Kenya School of Monetary Studies is a subsidiary of the Bank. The Bank has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank.
The group 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. 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.

(e) Functional currency and translation of foreign currencies

i) Functional and presentation currency

Items included in the financial 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 ("Shs") which is the Bank's Functional Currency.

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

(f) 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' and 'investments by banks'.

(g) Financial assets and liabilities

i) Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale financial assets. The directors determine the classification of its financial assets at initial recognition. The Bank uses trade date accounting for regular way contracts when recording financial asset transactions.

Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Bank designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed and can only be applied when the following conditions are met:

- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise or
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis or
- the financial assets consist of debt host and embedded derivatives that must be separated.

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to profit or loss. Gains and losses arising from changes in fair value are included directly in profit or loss and are reported as Fair value loss on financial assets held for trading '. Interest income and expense and dividend income and expenses on financial assets held for trading are included in interest income' and 'interest expense' respectively.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest method.

The Bank operates a staff loans scheme for its employees for the provision of facilities such as house and car loans. The loans are granted to staff at an interest rate of 3% per annum which generally below the prevailing market interest rates. Loans issued at non market rates are initially measured at fair value (by discounting the related cash flows using market rates of interest) and subsequently carried at amortised cost. The difference between the fair value of the loans and the carrying amount at inception is treated as a long term employee benefit and is accounted for as a deferred cost. The resulting loan adjustment account is released to interest income over the loan period in line with the unwinding of the discount, while the deferred cost is expensed to staff costs as the services are rendered to the Bank over the period of the loan.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

Available-for-sale financial assets are measured at fair value. Gains or losses arising from fair value re-measurements are included in other comprehensive income.

ii. Financial liabilities

The Bank's holding in financial liabilities represents mainly deposits from banks and government and other liabilities. Such financial liabilities are initially recognised at fair value and subsequently measured at amortised cost.

FINANCIAL PERFORMANCE

Cash Reserve Ratio are statutory deposits taken from commercial banks and non-bank financial institutions for liquidity management as part of monetary policies in accordance with the Kenyan Banking Act and are interest free.

iii. Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial instruments is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes from Bloomberg.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indicators that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

iv. De-recognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent de-recognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

FINANCIAL PERFORMANCE

v. Classes of financial instruments

Category (as defined by IAS 39)		Class (as determined by the Bank)		2017	2016
				Shs' million	Shs' million
Financial assets	Financial assets at fair value through profit or loss	Held for trading	World Bank Reserve Asset Management Programme (RAMP) financial assets	31,789	30,515
			Fixed income securities	102,915	102,662
		Designated at initial recognition	Gold holdings	73	75
	Loans and receivables	Advances to banks		34,870	44,679
		Funds with IMF		1,877	1,923
		Net advances to staff and banks under liquidation		2,575	2,566
		Other assets (classified as financial assets)		12,536	5,837
		Due from Government	Government loan	24,449	25,559
			Overdraft facility to Government	-	44,203
		Balances due from banking institutions	Foreign denominated Term deposits	735,548	696,004
	Available-for-sale	Investment securities	SWIFT shares	9	9
Financial liabilities	Financial liabilities at amortised cost	Deposits from banks	Cash reserve ratio and current account deposits	209,792	218,491
		Due to IMF		115,125	122,438
		Other liabilities		2,559	4,780
		Investment by Banks		-	7,843
		Deposits from Government institutions		253,787	277,481

vi. *Impairment of financial assets*

(a) Loans and receivables

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss on loans carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. A loan is normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount, and for a collateralised loan, after taking into account any value of the security which has been realised.

(b) Available for sale financial assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. If there is objective evidence that an impairment loss, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

If any such evidence exists for available-for-sale financial assets, impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

vii. *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 set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(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.

(i) Property and equipment

Land and buildings comprise mainly branches and offices. All equipment used by the Bank is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Land and buildings are stated at valuation less accumulated depreciation. Valuations are carried out every three years.

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.

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	20%
Furniture and equipment	5 - 10 years	10-20%

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.

(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.

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 place 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.

(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 to sell and value in use. 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 to sell 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.

(l) Employee benefits

The Bank operates a defined benefit and defined contribution pension schemes. 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 the defined benefit pension scheme is the fair value of the scheme's assets less the present value of the defined benefit obligation at the reporting date. The defined benefit obligation is calculated annually by an independent actuary using the projected unit method. The present value of the defined benefit obligation is determined by discounting the estimated cash outflows using interest rates of Kenya treasury bonds that have terms to maturity approximating to the terms of the related pension liability.

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 income, 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 scheme are charged to the 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.

(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. Provisions are not recognised for future operating losses.

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, off 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

Bank as lessee

The leases entered into by the Bank are primarily operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Bank as lessor

The group leases certain property, plant and equipment where it does not transfer substantially all the risks and benefits of ownership of the assets. The operating leases generate rental income which is recorded in the income statement on a straight-line basis over the period of the lease.

(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 the income statement. 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.

(s) Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided.

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 Sh.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.

(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 agent.

FINANCIAL PERFORMANCE

(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.

(v) Inventories

The Bank's inventory is comprised of new currency notes issued. 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 the profit or loss from the deferred costs account. The deferred amount is recognised as prepayment and represents un-issued bank notes and coins stock.

(w) 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 Shs 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 loan and receivables and is measured at amortised cost.

(x) 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 en cashable on demand security 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 shares.

(y) Comparatives

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

3 Critical accounting estimates and judgements in applying accounting policies

(i) Critical estimates in applying the entity's accounting policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

a. 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 17 which includes assumptions). The Board of Directors considers the assumptions used by the actuary in their calculations to be appropriate for this purpose.

b. Loans and advances

Critical estimates are made by the management in determining the recoverable amount of impaired loans and receivables.

c. 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.

d. Property and equipment

Land and buildings are carried at fair value; representing open market value determined periodically by internal professional valuers.

(ii) Critical judgements in applying the entity's accounting policies

In the process of applying the Bank's accounting policies, management has made judgements in determining:

- the classification of financial assets and leases
- whether assets are impaired.

FINANCIAL PERFORMANCE

		2017 Shs’ million	2016 Shs’ million
4	**Interest income**		
	Financial assets - held to maturity	7,070	4,065
	Loans and advances	6,040	10,858
	Financial assets at fair value through profit or loss	1,331	1,010
		14,441	15,933
	Interest income from loans and advances comprises:		
	Due from Government of Kenya – loan	759	794
	Due from Government of Kenya - overdraft	1,270	4,077
	Staff loans and advances	150	195
	Advances to banks	3,411	5,393
	Local commercial banks overnight loans	8	61
	Other interest income	442	338
		6,040	10,858
5	**Interest expense**		
	Interest on monetary policy issues – investments by banks	1,445	3,819
	Interest paid to IMF	273	138
		1,718	3,957
6	**Net trading income**		
	Net gain on sale of foreign exchange currencies	4,298	6,496
	Net loss on held for trading financial assets	(105)	(50)
		4,193	6,446

7 Other income

	2017 Shs’ million	2016 Shs’ million
Licence fees from commercial banks and foreign exchange bureau	292	250
Penalties from commercial banks and foreign exchange bureau	30	40
Rent income from Thomas De La Rue Kenya Limited	2	2
Kenya School of Monetary Studies operating income - hospitality services and tuition fee	379	217
Gain on disposal of property and equipment	1	4
Miscellaneous income	410	23
	1,114	536

8 Operating expenses

	2017 Shs’ million	2016 Shs’ million
Employee benefits (Note 9)	3,468	2,122
Currency production expenses	2,352	1,880
Property maintenance and utility expenses	1,135	834
Depreciation (Note 18)	1,016	946
Amortisation (Note 19)	116	287
Provision for impairment loss on other assets (Note 16)	18	13
Auditor’s remuneration	10	10
Transport and travelling	168	176
Office expenses	313	245
Postal service expense	165	120
Legal and professional fees	374	48
Other administrative expenses including KSMS	2,002	1,410
	11,137	8,091

9 Employee benefits

	2017 Shs’ million	2016 Shs’ million
Wages and salaries	3,663	3,390
Medical expenses	286	330
Other staff costs	300	210
Directors’ emoluments (Note 28)	51	27
Net income relating to the retirement benefit asset (Note 17)	(832)	(1,835)
	3,468	2,122

FINANCIAL PERFORMANCE

10 Balances due from banking institutions	2017 Shs' million	2016 Shs' million
Current accounts	25,184	69,108
Foreign currency denominated term deposits(cash & cash equivalents)	489,877	266,363
Accrued interest on term deposits	1,561	1,060
Special project accounts	21,180	16,693
Domestic foreign currency cheque clearing	20,827	15,413
Repos clearing and regional central banks	168	101
Cash and cash equivalents (note 27)	558,797	368,738
Foreign currency denominated term deposits (Long term)	176,751	327,266
	735,548	696,004

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 22)". The movement in the year is mainly attributable to the proceeds from sponsors of various government projects. This has corresponding transaction leg on the growth of foreign reserves during the year.

11 Financial assets at fair value through profit or loss	2017 Shs' million	2016 Shs' million
a. Designated at initial recognition		
Gold holdings	73	75

Movements in gold holdings are due to mark to market movements.

b. Held for trading		
Fixed income securities	102,915	102,663
Fixed income securities under World Bank RAMP	31,789	30,515
	134,704	133,178
	134,777	133,253

12 Investments securities – Available-for-sale

	2017 Shs' million	2016 Shs' million
Unlisted equity securities	9	9
At start of year	9	9
Additions	-	-
At end of year	9	9

"Unlisted equity securities" relate to the Bank's investment in shares of the Society for Worldwide Interbank Financial Telecommunication (SWIFT) which member is owned co-operative with its headquarters in Belgium. The Bank held 24 (2016: 24) SWIFT shares at 30 June 2017.

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

	2017 SDR million	2017 Shs' million	2016 SDR million	2016 Shs' million
(a) Assets				
IMF balances (SDR asset account)	13	1,877	14	1,923
(b) Liabilities				
International Monetary Fund Account No. 1	20	2,786	20	2,837
International Monetary Fund Account No. 2	-	12	-	-
International Monetary Fund – PRGF Account	520	74,916	588	82,995
IMF - SDR Allocation account	260	37,411	260	36,606
	800	115,125	868	122,438

The SDR assets account represents the Bank's current account with the IMF while, the liabilities Accounts 1 and 2 are IMF Kenya office balances deposited with the Bank. The PRGF and the SDR Allocation accounts are loans advanced to the Bank by the IMF.

The National Treasury is the Government of Kenya's Fiscal Agent. Commitments arising on transactions between IMF, Kenya Government and the National Treasury are not included in these financial statements as the Bank is not the Government's fiscal agent.

Kenya's quota in IMF of SDR 271.4 million (2016: SDR 271.4 million) are not included in the financial statements of the Bank as these are booked in the National Treasury with the Government of Kenya's Fiscal Agent and allocations of SDR 260 million (2016: 258.3 million) are included in the financial statements of the Bank as custodian.

FINANCIAL PERFORMANCE

14 Securities and advances to banks

	2017 Shs' million	2016 Shs' million
Treasury bonds discounted	10,918	2,629
Treasury bills discounted	36	6,751
Accrued interest Bonds Discounted	316	96
Repo Treasury Bills(Injection)	14,641	28,592
Accrued interest Repo	22	114
Liquidity Support framework	7,530	6,497
Due from Commercial banks	1,407	-
	34,870	44,679

As at 30 June 2017

Advances to Banks Analysis	Maturity period 1-3 months Shs' million	3-12 months Shs' million	Over 1 year Shs' million	Total Shs' million
Treasury bills discounted	-	36	-	36
Treasury bonds discounted		1,560	9,358	10,918
Accrued interest Bonds Discounted	-	316	-	316
Repo Treasury Bills & Bonds (Injection)	14,641	-	-	14,641
Accrued interest Repo	22	-	-	22
Due from Commercial banks	1,407	-	-	1,407
Liquidity Support framework	7,530	-		7,530
	23,600	**1,912**	**9,358**	**34,870**
At 30 June 2016				
Treasury bonds discounted	-	1,467	1,162	2,629
Treasury bills discounted	6,714	37	-	6,751
Accrued interest Bonds Discounted	-	96	-	96
Repo Treasury Bills(Injection)	28,592	-	-	28,592
Accrued interest Repo	114	-	-	114
Liquidity Support framework	6,497	-	-	6,497
	41,917	**1,600**	**1,162**	**44,679**

Financial sector have since stabilized and the industry is in sound footing.

15 Loans and advances

	2017 Shs' million	2016 Shs' million
Due from banks under liquidation	3,400	3,656
Advances to employees	2,643	2,657
	6,043	6,314
Allowance for impairment	(3,468)	(3,747)
Net advances	2,575	2,566
Movement in the loan impairment allowance is as follows:		
At start of year	3,747	3,688
(Decrease)/Increase in impairment allowance	(24)	59
Recoveries collected in the year	(255)	-
At end of year	3,468	3,747

16 Other assets

	2017 Shs' million	2016 Shs' million
Prepayments	319	889
Impersonal accounts	6,598	-
Deferred currency expenses	2,401	2,078
Sundry debtors	5,938	5,837
Items in the course of collection	181	297
Uncleared effects	43	80
	15,480	9,181
Provision for impairment	(4,914)	(4,896)
	10,566	4,285

All other assets balances are recoverable within one year.

Movement in the impairment allowance is as follows:

	2017	2016
At start of year	4,896	4,896
Increase in impairment allowance	18	13
At end of year	4,914	4,896

FINANCIAL PERFORMANCE

17 Retirement benefit asset

	2017 Shs' million	2016 Shs' million
Present value of funded obligations	13,440	17,623
Fair value of plan assets	(28,464)	(27,161)
Net overfunding in funded plan	(15,024)	(9,538)
Limit on defined benefit asset	6,827	1,762
Asset in the statement of financial position	(8,197)	(7,776)
Movements in the net defined benefit asset recognised are as follows:		
At start of year	7,776	4,668
Net income recognised in the income statement	832	1,835
Net income/(expense) recognized in other comprehensive income (OCI)	(512)	1,174
Employer contributions	101	99
At end of year	8,197	7,776
Movements in the plan assets are as follows:		
At start of year	27,161	27,156
Expected return on scheme assets	3,544	3,646
Actuarial (loss)/gain	-	(3,517)
Employer contributions	101	99
Employee contributions	51	48
Benefits expenses paid	(983	(1,119)
Adjustment for previous year values	(1,410)	848
At end of year	28,464	27,161
Movements in the plan benefit obligation are as follows:		
At start of year	17,623	17,820
Current service cost net of employees' contributions	193	347
Interest cost	2,286	2,313
Employee contributions	50	49
Actuarial loss due to experience	(3,078)	(1,787)
Acturial loss due to change in assumptions	(2,651)	-
Benefits paid	(983)	(1,119)
At end of year	13,440	17,623

FINANCIAL PERFORMANCE

The principal actuarial assumptions at the reporting date were:	2017	2016
Discount rate (p.a.)	13.9%	13.3%
Salary increase (p.a.)	7.0%	11.3%
Expected return on plan assets (p.a.)	12.9%	12.9%
Future pension increases	3.0%	3.0%

Five year summary	2017 Shs' million	2016 Shs' million	2015 Shs' million	2014 Shs' million	2013 Shs' million
Fair value of plan assets	28,464	27,161	27,156	24,665	21,173
Present value of funded obligations	(13,440)	(17,623)	(17,820)	(17,006)	(13,065)
Adjustment to retirement benefit asset*	(6,827)	(1,762)	(4,668)	-	-
Net retirement benefit asset	8,197	7,776	4,668	7,659	8,108

Plan assets are distributed as follows:

		2017		2016
	Shs' million	%	Shs' million	%
Quoted shares	7,977	28%	9,268	34%
Investment properties	6,336	22.3%	5,477	20%
Government of Kenya treasury bills and bonds	9,963	35.0%	9,672	36%
Commercial paper and corporate bonds	1,608	5.6%	1,760	6%
Offshore investments	208	0.7%	-	-
Fixed and term deposits	2,055	7.2%	603	2%
Net current assets	317	1.1%	381	1%
	28,464	100%	27,161	100%

Sensitivity of principal actuarial assumptions:

If the discount rate is 1% higher (lower), the present value of funded obligations would decrease by Shs 1,438 million (increase by Shs 1,438 million). This sensitivity analysis has been determined based on reasonably possible changes of the assumption occurring at the end of the reporting period, while holding all other assumptions constant.

FINANCIAL PERFORMANCE

18 Property and equipment

	Freehold land and Buildings Shs' million	Leasehold land and buildings Shs' million	Work in progress Shs' million	Motor vehicles Shs' million	Furniture and equipment Shs' million	Total Shs' million
Year ended 30 June 2016						
Opening net amount	10,529	2,203	5,918	88	2,005	20,743
Additions	1,962	-	413	25	192	2,592
Disposals-NBV	-	-	-	(3)	(1)	(4)
Charge for the year	(421)	(46)	-	(53)	(426)	(946)
At end of year	12,070	2,157	6,331	57	1,770	22,385
At 30 June 2016						
Cost	12,491	2,203	6,331	388	4,435	25,848
Accumulated depreciation	(421)	(46)	-	(331)	(2,665)	(3,463)
Net book amount	12,070	2,157	6,331	57	1,770	22,385
Year ended 30 June 2017						
Opening net amount	12,070	2,157	6,331	57	1,770	22,385
Additions	-	-	1,044	-	229	1,273
Transfer	-	-	(86)	-	86	-
Reclassification-Cost	-	-	-	-	64	64
Reclassification-Depreciation	-	-	-	-	(1)	(1)
Disposals-NBV	-	-	-	-	(2)	(2)
Charge for the year	(480)	(50)	-	(18)	(468)	(1,016)
At end of year	11,590	2,107	7,289	39	1,678	22,703
At 30 June 2017						
Cost	12,492	2,203	7,289	388	4,794	27,166
Accumulated depreciation	(902)	(96)	-	(349)	(3,116)	(4,463)
Net book amount	11,590	2,107	7,289	39	1,678	22,703

Land and buildings were revalued by internal professional valuers in 2015 on an open market basis and the revaluation has been included in the revaluation reserve. Land and buildings are included in the level 2 of the fair valuation hierarchy (that is, the fair value is based on inputs other than quoted prices that are observable).

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 based on the going 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 titles deeds and occupies all the properties.

19	Intangible assets Year ended 30 June 2016	Software Shs' Million	Work-in-Progress Shs' Million	Total Shs' Million
	Year ended 30 June 2016			
	Cost			
	At start of year	1,723	2	1,725
	Disposals	(4)	-	(4)
	Transfers	2	(2)	-
	At end of year	1,721	-	1,721
	Accumulated amortisation			
	At start of year	1,231	-	1,231
	Elimation on disposal	(4)	-	(4)
	Amortisation for the year	287	-	287
	At end of year	1,514	-	1,514
	Net carrying value	207	-	207
	Year ended June 30 2017			
	Cost			
	At start of year	1,721		1,721
	Additions	24		24
	Reclassification	(64)		(64)
	At end of year	1,681		1,681
	Accumulated amortisation			
	At start of year	1,514		
	Reclassification	(1)		
	Amortisation for the year	116		
	At end of year	1,629		1,681
	Net carrying value	52		52

20 Due from Government of Kenya	2017 Shs' million	2016 Shs' million
Overdraft	-	44,203
Government loan	24,449	25,559
	24,449	69,762

The Government of Kenya overdraft account is used to fund the treasury bills and interest related accounts that overdraw as a result of shortfalls from primary issues in the market. Whenever the previously funded account receives funding as a result of proceeds from primary issues of call-ups, the overdraft account is refunded the previously owed amount. The overdraft facility had been fully refunded at the close of the year.

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 2017 is Shs.52,102 million (2016: Shs.46,813 million) based on the gross recurrent revenue for the year ended 30 June 2015, which are the latest audited financial statements at the date of approval of these financial statements. Interest is charged at the Central Bank Rate currently at 10%.

The Bank converted the Government of Kenya overdraft facility (Shs.35,600 million) that exceeded statutory limit in 1997 into a loan at 3% interest repayable by 2039 and is guaranteed by a deed executed by the Minister of Finance. Principal repayments of Shs.555 million plus interest accruing are paid half yearly. The movement in the balance in the current year includes the year repayment of principal of Shs.1,110 million which was received by 30 June, 2017.

21 Currency in circulation	2017 Shs' million	2016 Shs' million
Kenya bank notes	245,595	227,192
Kenya coins	8,192	7,559
	253,787	234,751
Movement in the account was as follows:		
At start of year	234,751	222,178
Deposits by commercial banks	(513,252)	(513,086)
Withdrawals by commercial banks	532,179	525,568
Withdrawals by CBK	109	91
At end of year	253,787	234,751

22 Deposits from banks and government

Local commercial banks clearing accounts and cash ratio reserve	145,815	179,835
Local banks foreign exchange settlement accounts	28,526	14,133
External banks foreign exchange settlement accounts	179	36
Other public entities and project accounts	35,272	24,559
Government of Kenya	260,317	277,481
	470,109	496,044

23 Liquidity deposits

	2017 Shs' million	2016 Shs' million
Liquidity deposits	-	7,843
	-	7,843

Liquidity deposits relates to amounts arising from mopping up of excess liquidity in the market. This is managed through selling of repurchase agreements ('repos') to commercial banks .The liquidity deposits matured and they were paid in full.

24 Other liabilities

Impersonal accounts	-	1,399
Sundry creditors	2,106	2,402
Refundable deposits	243	797
Leave accrual	156	126
Gratuity to staff members	54	56
	2,559	4,780

Impersonal accounts are accounts to which the Bank posts amounts from the National Treasury temporarily pending allocation to a Government of Kenya Ministry.

25(a) Share capital

	Authorised share capital Shs' million	Authorised share capital Shs' million
Balance at 1 July 2015, 30 June 2016 and 30 June 2017	5,000	5,000

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

25(b) General reserve fund

The general reserve fund represents accumulated surpluses comprising surplus arising from normal operations of the Bank and unrealized gains on exchange rates fluctuations. The distribution of these amounts is subject to the Bank retaining at least 10% of annual surplus for the year or any other amount as the Board in consultation with the Minister may determine.

25(c) Revaluation reserve

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

26 Cash generated from operations

	2017 Shs' million	2016 Shs' million
Reconciliation of net surplus to cash flows from operations:		
(Deficit)/surplus for the year	17,562	(5,814)
Adjustments for:		
Depreciation (Note 18)	1,016	946
Amortisation (Note 19)	116	287
Gain on disposal of property and equipment (Note 7)	(1)	(4)
Net credit relating to the retirement benefit asset (Note 17)	(832)	(1,835)
Employer contributions on defined benefits scheme	(101)	(99)
Changes in working capital:		
Loans and advances	(9)	(233)
Other assets	(6,281)	246
Due from Government of Kenya	45,313	(6,599)
Currency in circulation	19,036	12,573
Deposits	(25,935)	164,728
Other liabilities	(2,221)	313
Investments by banks	(7,843)	7,843
Net cash generated from operations	39,820	172,352

27 Cash and cash equivalents

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

	2017 Shs' million	2016 Shs' million
Balances due from banking institutions (Note 10)	558,797	368,738
Financial assets - FVPL (Note 29 ii)	1,998	10,938
Securities discounted by banks and other advances (Note 14)	23,600	41,917
	584,395	421,593

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) and the Kenya Deposit Insurance Corporation (formerly, the Deposit Protection Fund Board) which is established by law as a deposit insurance scheme to provide cover for depositors and act as a liquidator of failed member institution. It is managed by a Board including the Governor of the Central Bank of Kenya.

The main transactions are ordinary banking facilities to government ministries included in Note 22 and lending to the Government of Kenya included in Note 20.

(i) Loans

The Bank extends loan facilities to the key management staff of the Central Bank. The advances are at preferential rates of interest determined by the Bank.

	2017 Shs' million	2016 Shs' million
Loans to key management staff		
At start of the year	52	60
Loans advanced during the year	16	8
Loan repayments	(24)	(16)
At end of the year	44	52

(ii) Directors' emoluments:

Fees to non-executive directors	13	6
Directors travelling expenses	4	-
Other remuneration to executive director	34	21
	51	27

	2017 Shs' million	2016 Shs' million
(iii) Remuneration to senior management	165	181
(iv) Post–employment pension to senior management	4	12
(v) Government of Kenya		
Due from Government of Kenya (Note 20)	24,449	69,762
Government of Kenya Deposits (Note 22)	260,317	277,481
Interest earned from Government of Kenya –Loan (Note 4)	759	794
Interest earned from Government of Kenya-Overdraft (Note 4)	1,270	4,077
Loans Principal repayment	1,110	1,110

Transactions entered into with the Government include:

i. Banking services;
ii. Management of issue and redemption of securities at a commission and;
iii. Foreign currency denominated debt settlement and other remittances at a fee.

(vi) Kenya Deposit Insurance Corporation (KDIC)

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

The balance outstanding from the KDIC has been included in sundry debtors (note 16) as at year end was Shs.20.5 million (2016: Shs. 2.4 million).

The deposits relating to KDIC has been included in deposits from banks and Government as at year end was Shs. 27 million (2016: Shs. 143 million)

The staffs of the Corporation are contractually employees of Central Bank but seconded to the Corporation. Salaries of these staff are met by the Central Bank and fully reimbursed by the Corporation. In the year, salaries paid to the staff of Corporation by the Central Bank amounted to Shs. 308 million (2016: Shs. 170,747 million)

(vii) Kenya School of Monetary Studies (KSMS)

The Kenya School of Monetary Studies (the "School") is a registered legal entity 99 % owned by the Bank and 1% by the National Treasury has 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 for going concern purposes.

During the year under review, the school's physical developments projects continued as planned with significant percentage of completion recorded. The completed projects include the school's library and Academic block which are now in use while, the construction of the hostels and a new restaurant is on schedule and expected to be completed during next financial year.

(vii) Kenya School of Monetary Studies (KSMS)

	2017 Shs' million	2016 Shs' million
CBK-KSMS related activities		
Grants from CBK	506	465
Buildings	3,223	3,223
Land	4,800	4,800
Deficit	-	(47)
Receivable from KSMS	58	58
Accumulated deficit	20	81

(viii) 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.

29 Financial risk management objectives and policies

The Group'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 Group'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 Banking 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, Internal Audit Department and Risk Management Unit.

(a) Strategy in using financial instruments

The Bank holds foreign exchange reserves for the purposes of servicing official foreign debt, paying non-debt government and Central Bank of Kenya expenditures abroad, and occasional intervention in the foreign exchange market to smoothen exchange rate volatilities. The Bank can only intervene in the foreign exchange market when there are sharp exchange rate movements which are likely to destabilize the financial market.

Governed by the Bank's reserve management policy of safe investment, liquidity and return, respectively, the Bank, with a prudent approach, subjects its foreign exchange reserves to investments in international markets.

In this framework, almost all the financial risks to which the Bank is exposed arise while fulfilling its duties of managing foreign exchange reserves and rendering certain banking services to the banking sector and the Government of the Republic of Kenya.

The Bank is exposed to credit, market and liquidity risks due to the aforementioned operations. The financial risks that arise during the management of foreign exchange reserves are the outcome of an investment choice. Nevertheless, the Bank endeavours to minimize such risks by managing them with a conservative approach.

Foreign exchange reserves are managed by observing the investment criteria defined in the Bank's Guidelines on Foreign Exchange Reserves Management.

(b) Risks facing the Bank

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

- Financial risks include:
    - Credit risk
    - Market risk:
- Interest risk
- Foreign currency exchange risk
    - Liquidity risk

- Non-financial risks include:
    - Operational risk
    - Human resource risk
    - Legal risk
    - Reputation risk

(i) Credit risk

Credit risk arises from investment securities, balances due from banking institutions, funds held with IMF, loans and advances as well as other assets. The Bank has no significant concentrations of credit risk except for the lending to the Government of Kenya.

Management of the credit risk is through the choice of depository banks. The Bank's choice of depository banks is confined to top international banks that meet the set eligibility criteria of financial soundness on long-term credit rating (A), short-term credit rating (F1), composite rating and capital adequacy.
The amount that best represents the Group's maximum exposure to credit risk is per the statement of financial position.

The Bank assesses the credit quality of these assets. 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. Net write back of Shs.24 million (2016: Shs.59 million) have been recognised due to impaired balances to related parties.

- The following amounts in loans and advances and other assets are neither past due nor impaired or individually impaired. All other financial instruments operate within their contractual terms.

FINANCIAL PERFORMANCE

	Neither past due nor impaired 2017 Shs' million	Individually impaired 2017 Shs' million	Neither past due nor impaired 2016 Shs' million	Individually impaired 2016 Shs' million
Balances due from banking Inst	735,548	-	696,004	-
Advances to banks	34,870	-	44,679	-
Investments securities – AFS	9	-	9	-
Funds held with (IMF)	1,877	-	1,923	-
Financial assets at FVPL	134,777	-	133,253	-
Due from Government of Kenya	24,449	-	69,762	-
Advances to employees	2,575	68	2,566	91
Due from banks under liquidation	-	3,400	-	3,656
Other assets	10,566	4,914	4,285	4,896
	944,671	8,382	952,481	8,643
Allowance for impairment				
- other assets (Note 16)	-	(4,914)	-	(4,896)
- loans and advances (Note 15)	-	(3,468)	-	(3,747)
	-	(8,382)	-	(8,643)
	944,671	-	952,481	-

There were no past due but not impaired balances as at 30 June 2017 - (2016: Nil).

No.	List of Foreign Correspondent Banks - Current Accounts Balances	Type of Institution	Credit Ratings as of 30th June 2017		
			Fitch	S & P	Moody's
1	Reserve Bank of Australia	Central Bank	NR	NR	NR
2	Bank of Canada	Central Bank	NR	NR	NR
3	Schwerizerische National	Central Bank	NR	NR	NR
4	Bank of China	Commercial Bank	A	A	NR
5	Danmarks National Bank	Central Bank	NR	NR	NR
6	Commerz Bank AG***	Commercial Bank	BBB+	A-	Baa1
7	Bank of France***	Central Bank	NR	NR	NR
8	Standard Chartered Bank, Germany	Commercial Bank	A+	BBB+	A2
9	Bank of England	Central Bank	NR	NR	NR
10	Bank of Japan	Central Bank	NR	NR	NR
11	Bank of Tokyo, Mitsubishi	Commercial Bank		A+	A1
12	Svariges Riksbank	Central Bank	NR	NR	NR
13	Central Bank of Uganda	Central Bank	NR	NR	NR
14	J P Morgan Chase, New York	Commercial Bank	A+	A-	A3
15	Citibank Na , New York	Commercial Bank	A	BBB+	Baa1
16	Federal Reserve , New York	Central Bank	NR	NR	NR
17	Bank of New York Mellon	Commercial Bank	AA-	A	A1
18	South African Reserve Bank	Central Bank	NR	NR	NR

Note: '***NR'*** refers to ***No Rating by Credit Rating Agencies. Central banks are not rated.***

*** No longer hold funds

FINANCIAL PERFORMANCE

No.	List of Active Depository Banks	Type of Institution	Credit Ratings as of 30th June 2017		
1	AUST AND NZ BANKING GROUP	Commercial Bank	AA-	AA-	Aa3
2	ABN AMRO BANK NV	Commercial Bank	A+	A	A1
3	BANK OF NEW YORK MELLON CORP	Commercial Bank	AA-	A	A1
4	BANK OF MONTREAL	Commercial Bank	AA-	A+	A1
5	BARCLAYS PLC***	Commercial Bank	A	BBB	Baa2
6	BNP PARIBAS	Commercial Bank	A+	A	A1
7	CAN IMPERIAL BK OF COMMERCE	Commercial Bank	AA-	A+	A1
8	COMMERZBANK AG***	Commercial Bank	BBB+	A-	Baa1
9	COMMONWEALTH BANK OF AUSTRAL	Commercial Bank	AA-	AA-	Aa3
10	RABOBANK	Commercial Bank	AA-	A+	Aa2
11	CREDIT AGRICOLE SA	Commercial Bank	A+	A	A1
12	CREDIT SUISSE GROUP AG-REG***	Commercial Bank	A-	BBB+	Baa2
13	DANSKE BANK A/S	Commercial Bank	A	A	A1
14	DZ BANK AG DEUTSCHE ZENTRAL-	Commercial Bank	AA-	AA-	Aa3
15	ING BANK NV	Commercial Bank	A+	A+	A1
16	JPMORGAN CHASE & CO	Commercial Bank	A+	A-	A3
17	LANDESBANK BADEN-WUERTTEMBER	Commercial Bank	A-	NR	A1
18	MIZUHO FINANCIAL GROUP INC***	Commercial Bank	A-	A-	A1
19	NATIONAL AUSTRALIA BANK LTD	Commercial Bank	AA-	AA-	Aa3
20	NORDEA BANK AB	Commercial Bank	AA-	AA-	Aa3
21	SKANDINAVISKA ENSKILDA BAN-A	Commercial Bank	AA-	A+	Aa3
22	SOCIETE GENERALE SA***	Commercial Bank	A	A	A2
23	STANDARD CHARTERED PLC***	Commercial Bank	A+	BBB+	A2
24	SVENSKA HANDELSBANKEN-A SHS	Commercial Bank	AA	AA-	Aa2
25	SWEDBANK AB - A SHARES	Commercial Bank	AA-	AA-	Aa3

ii. Market risk

The Group takes on exposure to market risks, which is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise 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 exposures to market risk into either trading or non-trading portfolios. Market risks 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 held-to-maturity and World Bank RAMP financial assets.

Interest rate risk

The Bank's interest rate risk arises from interest bearing investments, loans and advances to commercial banks and investments by banks. 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.

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

ii. Market risk (continued)

At 30 June 2017	1 – 3 months	3-12 months	1 - 5 years	Over 5 years	Non-interest Bearing	Total
	Shs' million	Shs' million	Shs' million	Shs' million	Shs' million	Shs' million
Assets						
Balances due from banking institutions	489,877	224,491	-	-	21,180	735,548
Securities & advances to banks	23,600	1,912	9,358	-	-	34,870
Financial assets at FVPL	1,998	40,984	91,722	-	73	134,777
Funds held with International Monetary Fund (IMF)	-	-	-	-	1,877	1,877
Investments securities – Available-for-sale	-	-	-	-	9	9
Loans and advances	111	342	1,100	1,022	-	2,575
Other assets	-	-	-	-	10,566	10,566
Due from Government of Kenya	-	1,110	4,440	18,899	-	24,449
Total financial assets	515,586	268,839	106,620	19,921	33,705	944,671
Liabilities						
Deposits from banks and government	-	-	-	-	470,109	470,109
Due to International Monetary Fund (IMF)	-	-	-	-	115,125	115,125
Other liabilities	-	-	-	-	2,559	2,559
Total financial liabilities	-	-	-	-	587,793	587,793
Interest sensitivity gap	515,586	268,839	106,620	19,921	(554,088)	356,878

As at 30 June 2017, increase of 10 basis points would have resulted in a decrease/increase in profit of Shs.91,096 million (2016:Shs 92,361 million)

FINANCIAL PERFORMANCE

ii. Market risk (continued)

Interest rate risk (continued)

At 30 June 2016	1 – 3 months Shs' million	3-12 months Shs' million	1 - 5 years Shs' million	Over 5 years Shs' million	Non-interest Bearing Shs' million	Total Shs' million
Assets						
Balances due from banking institutions	368,666	312,605	-	-	14,733	696,004
Securities & advances to banks	41,917	1,600	1,162	-	-	44,679
Financial assets at FVPL	10,938	31,862	90,378	-	75	133,253
Funds held with International Monetary Fund (IMF)	-	-	-	-	1,923	1,923
Investments securities – Available-for-sale	-	-	-	-	9	9
Loans and advances	111	342	1,109	1,004	-	2,566
Other assets	-	-	-	-	4,285	4,285
Due from Government of Kenya	-	45,303	4,440	20,019	-	69,762
Total financial assets	421,632	391,712	97,089	21,023	21,025	952,481
Liabilities						
Deposits from banks and government	-	-	-	-	496,044	496,044
Due to International Monetary Fund (IMF)	-	-	-	-	122,438	122,438
Other liabilities	-	-	-	-	4,780	4,780
Investments by banks	7,843	-	--	-	-	7,843
Total financial liabilities	7,843	-	-	-	623,262	631,105
Interest sensitivity gap	421,632	391,712	97,089	21,023	(602,237)	321,376

As at 30 June 2016, increase of 10 basis points would have resulted in a decrease/increase in profit of Shs 92,361 million (2015: 745 million)

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 2017. Included in the table are the Bank's financial instruments categorised by currency:

	USD Shs' million	GBP Shs' million	EUR Shs' million	SDR Shs' million	Others Shs 'million	Total Shs' million
At 30 June 2017						
Assets						
Balances due from banking institutions	501,045	82,272	3,186	-	149,045	735,548
Financial assets at fair value	134,704	-	-	-	73	134,777
Funds held with International Monetary Fund (IMF)	-	-	-	1,877	-	1,877
Total financial assets	635,749	82,272	3,186	1,877	149,118	872,202
Liabilities						
Due to International Monetary Fund (IMF)	-	-	-	115,125	-	115,125
Deposits from banks and government	23,489	2,020	3,017	-	147	28,673
Total financial liabilities	23,489	2,020	3,017	115,125	147	143,798
Net position	612,260	80,252	169	(113,248)	148,971	728,404

FINANCIAL PERFORMANCE

At 30 June 2016	USD Shs' million	GBP Shs' million	EUR Shs' million	SDR Shs' million	Others Shs ' million	Total Shs' million
Assets						
Balances due from banking institutions – Local	372,302	162,392	-	-	161,310	696,004
Financial assets at fair value through profit or loss	133,253	-	-	-	-	133,253
Funds held with International Monetary Fund (IMF)	-	-	-	1,923	-	1,923
Total financial assets	505,555	162,392	-	1,923	161,310	831,180
Liabilities						
Due to International Monetary Fund (IMF)	-	-	-	122,438	-	122,438
Deposits from banks and government	35,573	1,652	1,451	-	84	38,760
Total financial liabilities	35,573	1,652	1,451	122,438	84	161,198
Net position	469,982	160,740	(1,451)	(120,615)	161,226	669,982

As at 30 June 2017, if the shilling had weakened/strengthened by 5% against the major currencies with all other variables held constant, the impact on the Bank's profit would have been:

- USD Shs 31,072 million (2016: Shs 23,499 million)
- Euro Shs 8, million (2016: Shs 8,037 million)
- British Pound Shs 4,012 million (2016: Shs 73million)
- SDR Shs 5,662 million (2016: Shs 6,031 million).

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 flow.

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 statement of financial position 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 balances, as the impact of discounting is not significant.

	On demand	1 – 3 months	3-12 months	1 - 5 years	Over 5 years	Total
	Shs' million	Shs' million	Shs' million	Shs' million	Shs' million	Shs' million
At 30 June 2017						
Currency in circulation	-	-	-	-	253,787	253,787
Deposits from banks and government	434,837	-	35,272	-	-	470,109
Due to International Monetary Fund (IMF)	-	-	-	-	115,125	115,125
Other liabilities	-	-	2,559	-	-	2,559
Total financial liabilities	434,837	-	37,831	-	368,912	841,580
At 30 June 2016						
Currency in circulation	-	-	-	-	234,751	234,751
Deposits from banks and government	473,852	-	22,192	-	-	496,044
Due to International Monetary Fund (IMF)	-	-	-	-	122,438	122,438
Other liabilities	-	-	4,780	-	-	4,780
Repo sold to Banks	-	7,843	-	-	-	7,843
Total financial liabilities	473,852	7,843	26,972	-	357,189	865,856

Fair value of financial instruments

IFRS 7 specifies a fair value hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Bloomberg).
- 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). The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg.
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

	Level 1 Shs' million	Level 2 Shs' million	Level 3 Shs' million	Total Shs' million
At 30 June 2017:				
Financial assets at fair value	134,704	73	-	134,777
Investment securities – Available-for-sale	-	-	9	9
Total assets	134,704	73	9	134,786
As at 30 June 2016:				
Financial assets at fair value	133,178	75	-	133,253
Investment securities – Available-for-sale	-	-	9	9
Total assets	133,178	75	9	133,262

There were no changes in level 3 instrument as disclosed in Note 12 of the financial statements.

30 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. Appropriate provisions have been made where a liability is considered probable.
At 30 June 2017, the Bank had capital commitments of Shs.1,979 (2016: Shs.2,059 million) in respect of property and equipment purchases.

Operating lease commitments – Bank as lessee

	2017 Shs' million	2016 Shs' million
Not later than 1 year	164	151
Later than 1 year and not later than 5 years	483	176
	647	327

50TH ANNIVERSARY
Central Bank of Kenya
1966 - 2016

CENTRAL BANK OF KENYA - BRANCH NETWORK

HEAD OFFICE
Haile Selassie Avenue
P. O. Box 60000 - 00200 Nairobi
Tel: 20 - 2860000/2861000/ 2863000
Fax: 20 - 340192
Email: Comms@centralbank.go.ke

MOMBASA BRANCH
Nkurumah Road
P. O. Box 86372
Mombasa
Tel: 41 – 2121000/2122000
Fax: 41 - 222524
Email: Comms@centralbank.go.ke

KISUMU BRANCH
Jomo Kenyatta Highway
P. O. Box 4
Kisumu
Tel: 57- 2020128/2050000
Fax: 57 - 45388
Email: Comms@centralbank.go.ke

ELORET BRANCH
Uganda Road
P. O. Box 2710
Eldoret
Tel: 53-2033325/6-9
Fax: 53 - 2061052
Email: cbkeld@centralbank.go.ke

KSMS
Thika Road
P. O. Box 65041 - 00168
Ruaraka, Nairobi
Tel: 20-8646600/8646000
Fax: 20 - 8560430
Email: info@ksms.or.ke

NYERI CURRENCY CENTRE
KCB Building
Kenyatta Road
P.O. Box 840-10100
Nyeri
Tel: 61-2030779
Fax: 61 – 2030780

NAKURU CURRENCY CENTRE
Loncom House
George Morara Street
P. O. Box 14094
Nakuru
Tel: 51- 2210711
Fax: 51-2210713

MERU CURRENCY CENTRE
Njuri Ncheke Street
P. O. Box 2171 - 60200
Meru
Tel: 64 – 3132201/4
Fax: 64 – 32204