

Table of Contents

	Page
Ag. Chairman's Statement	2
Board of Directors	3
Director's Foreword	4
Senior Management staff	5
Liquidation Agents	6
The Year under Review	7
Performance of Member Institutions	9
Review of DPFB Operations	12
Liquidation Activities	13
Statement of Director's Responsibilities	17
Report of the Auditors	18
Income and Expenditure account	19
Balance Sheet	20
Statement of Changes in Fund Balance	21
Cash Flow Statement	22
Accounting Policies	23
Notes to Financial Statements	26
Appendix I	33
Appendix II	40

Ag. Chairman's Statement



It is my
pleasure to
present the
Annual Report
and Statement
of Audited
Accounts of
the Deposit
Protection
Fund Board
(DPFB) for the
year ended
30th June, 2006.

The period under review witnessed further acceleration of economic growth to 5.8% in year 2005 from 4.9% in year 2004 and the trend is expected to continue in year 2006. The performance was achieved despite high cost of production induced by increased wages, soaring and volatile crude oil prices and hurdles posed by inadequate infrastructure. Sustained appropriate fiscal and monetary policies resulted in competitive interest rates and a stable exchange rate which provided a conducive macroeconomic environment for investment.

Monetary policy during the period under review was directed towards achieving and maintaining low inflation. As a result there was considerable success with the average annual overall inflation declining from 15.0% during the year ending June 2005 to 11.1% in the year to June 2006. Similarly, month-on-month overall inflation declined from 11.9% in June 2005 to 10.9% in June 2006. The monetary stance will be maintained in order to further suppress inflation to the single-digit level.

The banking sector remained stable, mainly due to favourable macroeconomic conditions prevailing during the period. Total assets expanded by 14.5% from Kshs 606.9 billion as at June 2005 to Kshs 695.1 billion as at June 2006. The growth was funded by increase in deposits, fresh capital injection and retained profits. Non-performing loans and advances net of provisions decreased while gross loans and advances increased, thus leading to improved asset quality and profitability. Risk Management requirements in the sector were enhanced with the introduction of the revised Prudential Guidelines on Risk Management issued in November 2005. All institutions in the sector are now required to have sound risk management policies which are reviewed on a regular basis.

The DPFB continued to perform well as total assets increased by 14.3% to Kshs 13.9 billion in the year to 30th June 2006 from Kshs 12.1 billion in the last financial year. Profitability of the Fund was also enhanced as surplus for the year was Kshs 1.8 billion, up from Kshs 1.2 billion in the previous year.

I wish to sincerely thank all the Board members and staff for their untiring efforts without which the operations of the Fund would not have been successful. I am confident that the measures being undertaken by the Board will enhance the role the Fund continues to play towards the stability and growth of the financial sector.

Jacinta W. Mwatela

Ag. Chairman

Deposit Protection Fund Board

Board of Directors



Jacinta W. Mwatela
Ag. Chairman



Joseph K. Kinyua
Permanent Secretary, Treasury



Albert J. K. Ruturi
Member



Isaac O. Awuondo
Member



Resiklal C. Kantaria
Member



Gideon M. Muriuki
Member



Terry Davidson
Member



Jeremy P. Okora
(Retired 21/01/2006)



Jane K. Ikunyua
Board Secretary

Director's Foreword



On behalf of
management,
I wish to thank
the Ag. Chairman,
Members of
the Board and
Staff for their
commitment to
the success of the
Board.

The core mandate of the fund continues to be the fostering of confidence in the financial system by ensuring that depositors' funds with licensed institutions are protected in the event of insolvency leading to failure of member institutions. The operations of the fund are therefore geared towards this mission in which the Board acts as a financial safety-net and include collection of premiums from member institutions, investing the contributions, liquidation

of collapsed institutions, payment of protected deposits, and payment of dividends to creditors.

During the 2005/6 financial year, the DPF member institutions declined from 47 to 45 after First American Bank of Kenya Limited was absorbed by Commercial Bank of Africa (K) Limited while East Africa Building Society and Akiba Bank Limited merged to form EABS Bank Limited. Charterhouse Bank Limited currently under statutory management continues to be a member of the Fund.

The Fund continued its growth trend and reached Kshs 13.9 billion in the year to 30th June 2006 from Kshs 12.1 billion in the last financial year. Profitability of the Fund was also enhanced as the surplus for the year was Kshs 1.8 billion, up from Kshs 1.2 billion in the previous year. The major source of income for the Fund continued to be investment in Government securities. Premium contributions also increased by 13.2% from Kshs 615 million in the previous year to Kshs 696 million buoyed by growth in the deposit base of member institutions.

Total deposits of member institutions amounted to Kshs 558.3 billion of which Kshs 88.4 billion (16%) are protected by DPF. The total assets of the DPF at Kshs 13.9 billion provide effective cover for 32% of the small depositors with Kshs 100,000 and below. The cover for all protected depositors was 16% as at 30th June 2006. It is therefore imperative that the fund continues to grow substantially to achieve higher levels of protection.

The number of institutions under liquidation remained 24 as no new institution was placed under liquidation. Attempts to wind up several institutions currently under liquidation continued and the Board engaged a consultant to advise on the modalities of winding up.

The future outlook of the fund continues to be one of challenges especially in attempts to map a way forward for the policy direction the fund will take. In the area of new legislation, the Banking Act is awaiting passage through Parliament. The amendments seek to enhance the authority of Central bank of Kenya in the area of Banking Supervision. There is also the Microfinance Bill before the House which shall substantially enhance the responsibilities of the Fund since depositors of institutions registered under this act will be required to be protected by the Board.

On behalf of the management I wish to thank the Ag. Chairman, Members of the Board and Staff for their commitment to the success of the Board. Additionally I also take this opportunity to reiterate our vision of being a leading, efficient and stable financial sector deposit insurance provider. As we address challenges confronting the Board, we look forward to a thorough review of the legislative framework underpinning all the operations of the DPF in order to be able to provide adequate powers for effectively carrying out the mandate of the Board.

Kakai Cheloti

Director

Deposit Protection Fund Board

Senior Management Staff



Kakai Cheloti
Director



Linah C. Soi
Ass. Director



Maina Getecha
Ass. Director



Charles T. Chege
Ass. Director



Jane K. Ikunyua
Board Secretary



Stanley N. Wainaina
Manager



Patrick N. Ndwiga
Manager

Liquidation Agents



Benjamin K. Mitei
Ass. Director, Liquidations
Kenya Finance Bank Ltd
Meridian BIAO Bank Ltd
Postbank Credit Ltd
Ari Bank Ltd



Ruth W. Ngure
Trust Bank Ltd



Simon C. Ngeny
Daima Bank Ltd



Leah A. Wambete
Pan African Bank Ltd
Pan African Credit & Finance Ltd
Prudential Bank Ltd
Prudential Building Society



Daniel L. Ng'atuny
Trade Bank Ltd
Trade Finance Ltd
Diners Finance Ltd
Thabiti Fin. Ltd



Mohamud A. Mohamud
Reliance Bank Ltd
Nairobi Finance Corp Ltd
Inter Africa Credit Fin. Ltd
International Fin. Co. Ltd
Fortune Finance Ltd
Middle Africa Co. Ltd
Euro Bank Ltd
Central Finance (K) Ltd
Allied Credit Fin. Ltd

The Year under Review

PERFORMANCE AND OVERVIEW OF THE ECONOMY IN 2005/06

Kenya's economic performance improved from 4.9% growth in 2004 to 5.8% in 2005 despite high cost of production induced by increased wages, soaring and volatile crude oil prices and hurdles posed by inadequate infrastructure. Sustained appropriate fiscal and monetary policies resulted in competitive interest rates and a stable exchange rate which provided a conducive macroeconomic environment for investment.

Implementation of the Government investment program outlined in the 2005/06 Budget and further articulated in the 2006/07 budget, particularly in the development and rehabilitation of major infrastructure and other projects, is expected to support accelerated economic growth in the financial year 2006/07 and through the medium term.

Monetary policy over the financial year 2005/06 was directed towards achieving and maintaining less than 5 % inflation. Accordingly, the Central Bank of Kenya determined the path for both reserve money and money supply consistent with the achievement of price stability. Money supply, and reserve money were targeted to grow by 5% and 7.8% respectively in the year to June 2006.

Open Market Operations (OMO) was used as the main monetary policy instrument for pursuing the inflation objective, complemented by cash ratio requirement which was maintained at 6% throughout the year. In addition, the CBK introduced the Central Bank Rate (CBR), which is the minimum rate that it charges on overnight loans to commercial banks, which at the same time serves to indicate to the financial market participants the expected direction of short term interest rates as a result of monetary policy operations.

The average annual overall inflation declined from 15.0% during the year ending June 2005 to 11.1% in the year to June 2006. Similarly, month-on-month overall inflation declined from 11.9% in June 2005 to 10.9% in June 2006.

Macroeconomic developments in the first quarter of 2006 supported by the monetary policy stance adopted resulted in a stable inflation rate. While overall inflation peaked at 19.1% in March 2006 following drought related food shortages, it eased shortly thereafter to 10.9% in June 2006. Instability in crude oil prices continues, however, to be a major threat to domestic prices given the critical role of oil in production and distribution of commodities.

All short term interest rates eased from June 2005 to June 2006. On average, interest rate on the 91-day Treasury bill declined from 8.5% in June 2005 to 6.6% in June 2006. Similarly, the average interest rate on the 182-day Treasury bill declined to 7.3% in June 2006 from 9.0% in June 2005. Over the same period, the average inter-bank rate declined to 6.4% from 7.4%. The decline in short term interest rates during the year reflected the excess liquidity in the money market that led to frequent oversubscriptions for Government securities accompanied with lower interest rate quotations in the investors' bids thereby driving down the Treasury bill interest rates.

Kenya's overall balance of payments surplus improved from US\$ 187 million in the financial year 2004/05 to US\$ 839 million in the financial year 2005/06. This followed an improvement in the capital and financial account as a result of increased private sector financial flows, which more than covered the current account deficit. The deficit in the current account increased by US\$ 563 million to US\$ 1,083 million in the financial year 2005/06 following the worsening of the trade deficit by US\$ 844 million. The negative effect of the wider trade deficit on the current account was, however, mitigated by a pick up in exports of services.

Following improved overall balance of payments, the Central Bank of Kenya was able to build up official foreign exchange reserves predominantly through US\$ 813 million purchases of foreign exchange from the domestic inter-bank market. The Bank also received US\$ 290 million in interest on foreign exchange reserves, receipts from foreign grants and loans

in aid of Government projects. During the year, the bank spent US\$ 62 million on its own operations and paid out US\$ 316 million in order to meet external obligations on behalf of the Government. Gross official foreign exchange reserves therefore increased to US\$ 2,353 million, equivalent to 4.8 months of imports cover, at the end of June 2006 from US\$ 1,587 million at the end of June 2005.

The Kenya shilling strengthened against all major international and regional currencies between June 2005 and June 2006 with modest weakening of the shilling in June 2006. Against the US dollar, the Kenya shilling appreciated by 4.3% during the period. The strengthening of the shilling exchange rate over the review period reflected increased foreign exchange inflows from key exports and increased capital inflows resulting from stable and attractive domestic interest rates. In addition, disbursement of budgetary support by the Africa Development Bank, the European Union and improved investor confidence in the economy following continued engagement with the IMF under the PRGF supported arrangement also contributed to the strengthening of the shilling. Meanwhile, the strengthening of the Kenya shilling against the other major currencies reflected the weakening of these currencies in the international currency market.

The Government budgetary operations resulted in a widened deficit, both on commitment and cash basis, which reverses the trend of progressively narrowing deficits in the two preceding fiscal years. The Government budget deficit, on a commitment basis, amounted to 3.5% of GDP, an increase from 0.4 % of GDP in FY 2003/04 and a surplus of 0.1% in fiscal year 2004/05. On a cash basis, the fiscal operations resulted in a deficit of 2.4% of GDP, compared with a surplus of 0.1% of GDP in the fiscal year 2004/05 and a deficit of 0.3% in the fiscal year 2003/04.

The deterioration in the fiscal accounts in the fiscal year 2005/06 reflected a faster increase in Government expenditure than in revenue and grants. The faster growth in expenditure was mainly due to once off expenses relating to the constitutional review, drought and the referendum held in November 2005. There were also increases in expenditure on health and for improvement of terms of service for civil servants and teachers during the fiscal year. It is therefore expected that the performance will change in the fiscal year 2006/07 given the cost cutting measures implemented in the June 2006 budget. Among the notable cost cutting measures was the replacement of transport services for civil servants with commuter allowances and limiting to one the number of vehicles assigned to Ministers and Permanent Secretaries. These measures will culminate in the sale of excess Government vehicles in the course of the fiscal year 2006/07.

Performance of Member Institutions

BANKING SECTOR DEVELOPMENTS

Overview

The banking sector on an overall basis remained stable, mainly due to favourable macroeconomic conditions prevailing during the period. Non-performing loans and advances net of provisions maintained a downward trend while gross loans and advances increased leading to better asset quality ratios and improved profitability. The revised Prudential Guidelines that were issued to the sector in November 2005, became effective on 1st January 2006. Under the revised guideline, banks are required to discount securities over a period of five years while at the same time maintaining higher provisions for non-performing accounts.

Structure of the Banking Sector

The number of financial institutions declined from 47 in July 2005 to 45 in July 2006. The reduction of the institutions was as a result two mergers involving four institutions. The assets and liabilities of First American Bank Ltd and East Africa Building Society were acquired by Commercial Bank of Africa and EABS Bank respectively. The number of forex bureaus increased from 89 to 95 over the same period. The increase in the number of forex bureaus was due to licensing of new forex bureaus in the period under review.

Structure of the Balance Sheet

The balance sheet structure for the banking sector is as shown in Table 1 below. Due to improved economic environment, the banking sector total assets expanded by 14.5% or Kshs 88,200 million from Kshs 606,931 million as at June 2005 to Kshs 695,143 million as at June 2006. The assets growth was funded by increase in deposits, fresh capital injection and retained profits.

Loans and advances constituted 52% of the total assets while government securities were 21% of total assets. Investment in Government securities increased by 21% from Kshs 120,936 million to Kshs 146,309 million in June 2006.

Table 1:

Balance Sheet (Kshs Millions)			
Assets	Jun-06	Jun-05	% Change
Cash	11,346	9,612	18.0
Balances from CBK	56,147	28,356	98.0
Placements	50,361	17,070	195.0
Govt. securities	146,309	120,936	21.0
Other investments	7,697	4,517	70.4
Loans & advances (Net)	362,031	317,951	13.9
Foreign assets	4,437	49,631	-91.1
Other assets	56,815	58,858	-3.5
Total assets	695,143	606,931	14.5
Liabilities and shareholders funds			
Deposits	573,459	488,004	17.5
Foreign liabilities	2,542	3,138	-19.0
Other liabilities	32,216	42,419	-24.1
Capital & reserves	86,926	73,370	18.5
Total liabilities and shareholders funds	695,143	606,931	14.5

NON-PERFORMING LOANS

The stock of non-performing loans stood at Kshs 104,900 million or 23.6% of gross loans, having declined from Kshs 109,600 million as at the end of June 2005. The reduction in the level of non-performing loans is attributed to recoveries and write-offs. However, the level of non performing loans net of loan loss provisions stood at Kshs 26,400 million and accounted for 5.9% of gross loans. Consequently, asset quality which is measured by the ratio of net non-performing loans to gross loans improved from 8.4% to 5.9%.

DEPOSIT LIABILITIES

Deposit liabilities including accrued interest increased by 23.4% to Ksh 573,459 million as at the end of June 2006 from Kshs 487,567 million in June 2005. Local currency denominated deposits expanded by 34.0% from Kshs 382,859 million to Kshs 512,220 million in June 2006, while foreign currency denominated deposits declined from Kshs 81,708 million to Kshs 61,239 million over the same period. This overall increase in the deposit base was attributed to external donor inflows, remittances from Kenyans living abroad and earnings from tourism and exports. As shown in Table 2 demand deposits accounted for 51.7% of total deposits followed by Time and Savings deposits at 29.7% and 18.6% respectively.

Table 2:

Composition of Deposits (Kshs Millions)

	Jun-06	Jun-05	Share in 2006	% Change
Type of Deposits				
Demand deposits	296,385	247,660	51.7	19.7
Kenya shillings	236,943	190,440	41.3	24.4
Foreign currency	59,442	57,220	10.4	3.9
Time deposits	170,540	143,780	29.7	18.6
Kenya shillings	169,417	119,780	29.5	41.4
Foreign currency	1,123	24,000	0.02	-95.3
Savings deposits	106,534	73,125	18.6	45.7
Kenya shillings	105,860	72,639	18.6	45.7
Foreign currency	674	488	0.1	38.1
Total	573,459	487,567	100.0	23.4

CAPITAL AND RESERVES

Capital and reserves of the banking sector increased by 18.5% to Kshs 86,926 million from Kshs 73,370 million. The increase in capital and reserves in the sector was a result of fresh capital injection by some institutions and retention of profits. Capital adequacy in the sector, as measured by the ratio of total capital to total risk weighted assets increased to 16.7% from 16.1% in 2005.

PROFITABILITY

As a result of favourable economic and financial condition of individual institutions, gross un-audited profit before tax of the banking system increased by 39.7% to Kshs 12,570 million in 2006 from Kshs 8,999 million in 2005. The increase in profits reflected increase in interest income on advances which rose by 18.1% to Kshs 22,200 million in June 2006 from Kshs 18,800 million in June 2005.

Table 3:**Banking Sector Profits (Kshs Millions)**

	Jun-06	Jun-05	% Change
Total income	44,983	36,936	21.8%
Expenses before provisions	28,698	24,551	16.9%
Profit before provisions	16,285	12,385	31.5%
Provisions for bad debts	3,715	3,386	9.7%
Profit before tax	12,570	8,999	39.7%

OUTLOOK FOR THE BANKING SECTOR

The banking sector has become highly competitive and as a result, banks have undertaken extensive re-branding and re-packaging of their services and products to satisfy the needs of the customers and retain their market shares. An increasing number of institutions are offering e-banking services for both residents and non-residents. The Central Bank will therefore continue to strengthen supervisory practices and methodology in order to enhance stability and soundness of the banking sector. In the year under review, Central Bank issued revised Prudential and Risk Management Guidelines aimed at enhancing corporate governance, provisioning levels and risk management in the sector.

In the long run, the success and soundness of the financial institutions and the entire sector will depend on the achievement of operational efficiency through the application of prudential practices, good corporate governance and robust risk management frameworks.

Review of DPFB Operations

FUND MEMBERSHIP

At the end of the financial year, the total number of member institutions comprised 41 commercial banks 1 non-bank financial institution, 2 mortgage finance companies and 1 building society.

During the year, First American Bank of Kenya Limited was absorbed by Commercial Bank of Africa (K) Limited while East African Building Society and Akiba Bank Limited merged to form EABS Bank Limited. Charterhouse Bank Limited currently under statutory management continues to be a member of the fund.

FINANCIAL PERFORMANCE

The Fund's net income increased by 47.8% to Kshs 1,800 million compared with Kshs 1,218 million recorded in the last financial year. Interest earned on Government Securities increased by 42.9% from Kshs 811 million to Kshs 1,159 million during the financial year under review. Assessed premium increased by 13.2% from Kshs 615 million to Kshs 696 million during the financial year due to increased deposit base of the member institutions.

Total net assets increased by 14.3% to Kshs 13,855 million from Kshs 12,123 million in the last financial year. The increase was mainly due to re investment of the surplus in government securities which also increased by 14.2% to Kshs 13,816 million from Kshs 12,091 million in the last financial year. The Fund balance grew by 15% to Kshs 13,808 million from Kshs 12,009 million recorded the previous year. Highlights on the trend in some selected financial indicators are summarised in Table 4 below:

Table 4:

Selected Financial Indicators (Kshs Millions)								
Year	1999	2000	2001	2002	2003	2004	2005	2006
Assessment	399	445	465	486	497	544	615	696
Int. on T/Bills	737	831	499	387	165	63	235	479
Int. on T/Bonds	25	11	293	538	709	608	576	680
Surplus	199	1,333	943	1,195	1,297	1,478	1,218	1,800
Net Assets	4,707	5,995	6,915	8,108	9,407	10,885	12,009	13,809

Liquidation Activities

PAYMENT OF PROTECTED DEPOSITS

Total protected deposit payments made by the 24 institutions in liquidation as at June 30, 2006 amounted to Kshs 1,107 million compared with Kshs 1,034 million as at June 30, 2005. The increase totalling Kshs 73 million is accounted for by the payment of protected deposits by Daima Bank Ltd which came into liquidation in June 2005.

Except for three, all the institutions have settled 50% or more of the protected deposits. The three which have not achieved this level are Trust Bank Ltd., Prudential Building Society Ltd. and Euro Bank Ltd. which came into liquidation between the years 2001 and 2005. Daima Bank Ltd. which was the latest entrant has paid over 78% of its protected deposits. Cumulative average settlement by the 24 institutions in liquidation has increased slightly to 72% of the total exposure compared to 68% during the same period last year.

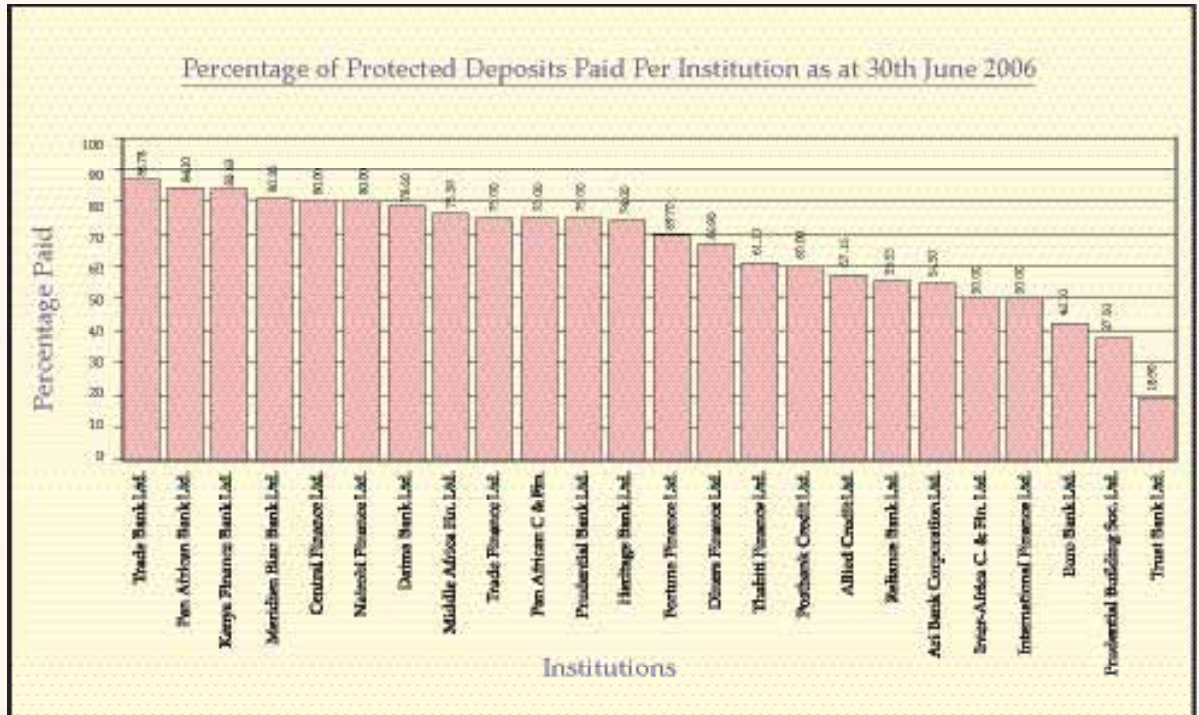
This performance has been rated as very high considering that the unpaid portion relates to those claimants who have not filed claims. However, it is unlikely for this percentage to grow much further since a limitation period for which such claims can be settled has already elapsed for most of the institutions with the exception of three, which include Trust Bank Ltd. where the limitation period had to be extended owing to certain factors. Details of payment of protected deposits by each institution are shown on Table 5 and Graph 1 below:

Table 5:
Protected Deposits Paid As At 30th June 2006 (Kshs Millions)

Name of Institution	Liquidation Date	Total Deposits as at Liquidation	Total Protected Deposits	Protected Deposits paid as at 30.06.2005	Protected Deposits paid as at 30.06.2006	% of Protected Deposits paid as at 30.06.2006
1. Inter-Africa C. & Fin. Ltd.	31 Jan. 1993	138	4	2	2	50.00
2. International Finance Ltd.	16 April 1993	168	2	1	1	50.00
3. Central Finance Ltd.	19 May 1993	111	15	12	12	80.00
4. Postbank Credit Ltd.	20 May 1993 *	3,834	50	30	30	60.00
5. Trade Bank Ltd	18 Aug 1993 **	4,181	280	243	243	86.78
6. Trade Finance Ltd.	18 Aug 1993	203	8	6	6	75.00
7. Middle Africa Fin.	20 Aug 1993	236	17	13	13	76.50
8. Diners Finance Ltd.	20 Aug 1993	700	142	95	95	66.90
9. Nairobi Finance Ltd.	20 Aug 1993	188	5	4	4	80.00
10. Allied Credit Ltd.	20 Aug 1993	81	14	8	8	57.15
11. Pan-African Bank Ltd.	18 Aug 1994***	2,421	107	90	90	84.10
12. Pan-African C.& Fin..	18 Aug 1994	445	8	6	6	75.00
13. Thabiti Finance Ltd.	19 Dec 1994	850	54	33	33	61.10
14. Meridien Biao Bank Ltd.	15 Apr 1996	805	47	38	38	80.85
15. Heritage Bank Ltd.	13 Sep 1996	376	10	7.4	7.4	74.00
16. Kenya Finance Bank Ltd.	29 Oct 1996	1,782	386	323	323	83.68
17. Ari Bank Corporation Ltd.	05 Dec 1997	286	11	6	6	54.50
18. Prudential Bank Ltd.	05 May 2000	600	16	12	12	75.00
19. Reliance Bank Ltd.	12 Sept 2000	969	90	50	50	55.55
20. Fortune Finance Ltd.	14 Sept 2000	320	33	23	23	69.70
21. Trust Bank Ltd.	15 Aug 2001	154	111	21	21	18.90
22. Euro Bank Ltd.	21 Feb 2003	2,040	19	8	8	42.10
23. Prudential Building Society	18 Jan 2005	2,025	8	3	3	37.50
24. Daima Bank Ltd.	13 Jun 2005	669	93	-	73	78.50
TOTAL		23,582	1,530	1,034.40	1,107.40	72.37

- * Total figure shown includes CBK Balance of Kshs 1,433m
- ** Total figure shown includes CBK balance of Kshs 2,414m and DPFB balance of Kshs 659m
- *** Total figure shown includes investor's funds of Kshs 1,800m

Graph 1



DEBT RECOVERY/SALE OF ASSETS

Cumulatively the 24 institutions had collected Kshs 4,913 million from collection of loans/realization of assets by the end of 30th June, 2006 representing a slight increase of 3% against the total realization of Kshs 4,774 million achieved by the end of 30th June, 2005.

Total loans realized represents about 12% of the total loan amount outstanding as at liquidation which was Kshs 41,111 million.

During the year under review only 11 institutions made reasonable recoveries. The institutions which failed to make recoveries comprise a majority of those placed under liquidation between 1993 and 1997, with the exception of Post-bank Credit Ltd, Pan African Bank Ltd., Pan African Credit & Finance Ltd and Kenya Finance Bank Ltd. The main reasons for this down turn in loan receipts were lack of realizable securities, delay in determination of cases in court and inability to execute judgements. Due to these factors, loan receipts for the financial year dropped substantially from over Kshs 200 million in the last financial year to Kshs 133 million.

Table 6 below shows the performance by all institutions where only seven institutions recovered 20% or more of the outstanding debt at liquidation while seventeen institutions achieved less than 20% recoveries.

Table 6
Debt Recovery/Sale of Assets as At 30.06.2006 (Kshs Millions)

Name of Institution	Liquidation Date	Total Loans as at Liquidation Date	Total Loans Recovered as at June 2005	Total Loans Recovered as at June 2006	Recoveries in 2004/2005	Recoveries in 2005/2006	% of Original Debt Recovered
1. Inter-Africa C. &Fin. Ltd.	31 Jan 1993	155	35.70	35.70	0.00	0.00	23.03
2. International Finance Ltd.	16 Apr 1993	176	5.20	5.20	0.00	0.00	2.96
3. Central Finance Ltd.	19 May 1993	111	106.07	106.07	0.00	0.00	95.55
4. Postbank Credit Ltd.	20 May 1993	3,605	1,853.75	1,879.85	78.30	26.1	52.15
5. Trade Bank Ltd.	18 Aug 1993	3,955	745.04	746.17	1.19	1.13	18.87
6. Trade Finance Ltd.	18 Aug 1993	105	94.66	94.66	0.00	0.00	90.15
7. Middle Africa Finance Ltd.	20 Aug 1993	656	53.85	55.75	0.00	1.90	8.50
8. Diners Finance Ltd.	20 Aug 1993	358	116.13	116.13	0.00	0.00	32.44
9. Nairobi Finance Ltd.	20 Aug 1993	997	63.80	63.80	0.00	0.00	6.40
10. Allied Credit Ltd.	20 Aug 1993	111	4.40	4.40	0.00	0.00	3.96
11. Pan African Bank	18 Aug 1994	1,433	275.73	277.86	5.96	2.13	19.4
12. Pan-African C & Fin. Ltd.	18 Aug 1994	445	109.69	126.50	5.24	16.42	28.43
13. Thabiti Finance Ltd.	19 Dec 1994	1,217	101.46	101.79	1.38	.33	8.36
14. Meridien Biao Bank Ltd.	15 Apr 1996	224	74.25	74.35	0.10	.09	33.18
15. Heritage Bank Ltd.	13 Sept 1996	458	49.43	50.03	1.10	0.60	10.93
16. Kenya Finance	29 Oct 1996	2,329	399.01	406.14	10.34	7.13	17.44
17. Ari Bank Corporation Ltd	05 Dec 1997	453	24.74	24.74	0.00	0.00	5.46
18. Prudential Bank Ltd.	05 May 2000	633	58.69	60.32	0.90	1.63	9.53
19. Reliance Bank Ltd.	12 Sept 2000	1,591	128.52	129.14	6.40	0.62	8.12
20. Fortune Finance Ltd.	14 Sept 2000	345	34.43	34.43	0.00	0.00	9.98
21. Trust Bank Ltd.	15 Aug 2001	13,808	393.17	433.12	84.37	40.12	3.14
22. Euro Bank	21 Feb 2003	3,861	44.24	57.98	5.19	8.74	1.50
23. Prudential Build. Soc. L	18 Jan 2005	3,283	2.26	7.52	0.00-	5.26	0.23
24 Daima Bank Ltd.	13 Jun 2005	802	0.00	21.00	1.00	21.00	2.62
TOTAL		41,111.00	4,774.22	4,912.65	201.47	133.20	11.94

PAYMENT OF DIVIDENDS

During the year under review three institutions paid dividends totalling Kshs 81 million with Daima Bank Ltd. accounting for the lion's share of Kshs 77 million or 95%. Prudential Building Society Ltd. and Trust Bank Ltd. paid Kshs 3.83 million and Kshs 0.15 million, respectively.

The cumulative dividends so far paid by all the 24 institutions since their respective dates of liquidation amounted to Kshs 4,106 million as at 30th June, 2006. This represented a slight increase of 2% from Kshs 4,022 million as at the 30th June, 2005.

Postbank Credit Ltd. has declared the highest dividends of Kshs 1,285 million since liquidation representing 31% of the total dividends paid. Postbank Credit Ltd. together with Trade Bank Ltd. which paid Kshs 596 million and Pan African Bank Ltd which has paid Kshs 494 million account for about 58% of the total dividends paid.

Table 7 below shows dividends payments by individual institutions:-

Table 7
Dividends Paid As At 30.06.2006 (Kshs Million)

Name of Institution	Liquidation Date	Total Unprotected Deposits at Liquidation	Dividends paid as at 30.06.2005	Dividends paid as at 30.06.2006	Dividends paid in 2004/2005	Dividends paid in 2005/2006
1. Inter-Africa C. & Fin. Ltd.	31 Jan 1993	134	14.10	14.10	0.00	0.00
2. International Finance Ltd.	16 Apr 1993	166	0.00	0.00	0.00	0.00
3. Central Finance Ltd.	19 May 1993	96	104.10	104.10	0.00	0.00
4. Postbank Credit Ltd.	20 May 1993*	3,784	1,284.66	1,284.66	0.00	0.00
5. Trade Bank Ltd.	18 Aug 1993**	3,901	596.52	596.52	0.00	0.00
6. Trade Finance Ltd.	18 Aug 1993	195	80.23	80.23	0.00	0.00
7. Middle Africa Fin. Ltd.	20 Aug 1993	219	14.70	14.70	0.00	0.00
8. Diners Finance Ltd.	20 Aug 1993	558	244.84	244.84	0.00	0.00
9. Nairobi Finance Ltd.	20 Aug 1993	183	48.10	48.10	0.00	0.00
10. Allied Credit Ltd.	20 Aug 1993	67	0.00	0.00	0.00	0.00
11. Pan African Bank Ltd.	18 Aug 1994***	2,314	494	494	0.00	0.00
12. Pan African C & Fin.	18 Aug 1994	437	130	130	0.00	0.00
13. Thabiti Finance Ltd.	19 Dec 1994	796	71.45	71.45	0.00	0.00
14. Meridien Biao Bank Ltd.	15 Apr 1996	758	326.99	330.11	0.00	0.00
15. Heritage Bank Ltd.	13 Sept 1996	366	12.43	12.43	0.00	0.00
16. Kenya Finance Bank Ltd.	29 Oct 1996	1,396	177.29	177.29	0.00	0.00
17. Ari Bank Corporation Ltd.	05 Dec 1997	275	20.8	20.8	0.00	0.00
18. Prudential Bank Ltd.	05 May 2000	584	139.4	139.4	0.00	0.0
19. Reliance Bank Ltd.	12 Sept 2000	879	90.85	90.85	0.00	0.00
20. Fortune Finance Ltd.	14 Sept 2000	287	92.84	92.84	0.00	0.00
21. Trust Bank Ltd.	15 Aug 2001	43	60.89	61.04	4.11	0.15
22. Euro Bank Ltd.	21 Feb 2003	2,021	0.00	0.00	0.00	0.00
23. Prudential Building Society	18 Jan 2005	2,017	17.87	21.7	5.83	3.83
24. Daima Bank Ltd.	13 Jun 2005	576	0.00	77	0.00	77
TOTAL		22,052	4,022.06	4,106.16	9.94	80.98

* Total figure shown includes CBK Balance of Kshs 1,433m

** Total figure shown includes CBK balance of Kshs 2,414m and DPFb balance of Kshs 659m

*** Total figure shown includes investor's funds of Kshs 1,800m

Statement of Directors' Responsibilities

The Banking Act requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the fund as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure the fund maintains proper accounting records which disclose with reasonable accuracy the financial position of the fund.

The directors are also responsible for safeguarding the assets of the fund.

The directors accept the responsibility for the financial statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, consistent with previous years, in conformity with International Financial Reporting Standards and in the manner required by the Banking Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the fund as at 30 June 2006 and of its operating results for the year then ended. The directors further confirm the accuracy and completeness of the accounting records maintained by the fund which have been relied upon in the preparation of the financial statements as well as on the adequacy of the systems of internal financial controls.

Nothing has come to the attention of the directors to indicate that the fund will not remain a going concern for at least the next twelve months from the date of this statement.

Approved by the board of directors on 27th September 2006 and signed on its behalf by:


Ag. Chairman


Member

Report of The Independent Auditors

TO THE MINISTER FOR FINANCE ON THE FINANCIAL STATEMENTS OF DEPOSIT PROTECTION FUND BOARD

We have audited the financial statements on pages 5 to 16. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit.

RESPECTIVE RESPONSIBILITIES OF THE DIRECTORS AND THE INDEPENDENT AUDITORS

The directors are responsible for the preparation of the financial statements as set out on page 3. Our responsibility is to express an independent opinion on the financial statements based on our audit.

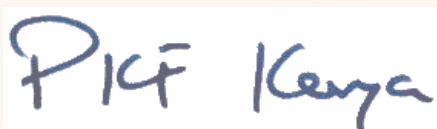
BASIS OF OPINION

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

As stated in note 17, the investment of the fund in Consolidated Bank of Kenya Limited is in contravention with the provisions of Section 37 (3) of the Banking Act.

OPINION

In our opinion, except for the matter referred to in the foregoing paragraph, proper books of account have been kept and the financial statements, which are in agreement therewith, give a true and fair view of the state of the financial affairs of the Deposit Protection Fund Board as at 30 June 2006 and of the surplus and the cash flows for the year then ended and comply with International Financial Reporting Standards and the Banking Act in all other respects.



Certified Public Accountants

Nairobi

PIN NO: P051130467R

25 September . 2006

430/06

Income and Expenditure Account

INCOME

	Notes	2006 KShs'000	2005 KShs'000
Assessed income		696,256	614,869
Investment income	1	1,159,356	811,426
Other income	2	72,129	11,637
Writeback of provisions for protected deposits	3	553	4,187
		1,928,294	1,442,119

EXPENDITURE

Administration and establishment expenses	4	116,059	95,465
Provision for protected deposits	6	-	102,197
Provision for doubtful debts	11	11,770	26,019
		127,829	223,681

SURPLUS FOR THE YEAR

		1,800,465	1,218,438
--	--	------------------	------------------

The accounting policies on pages 9 to 11 and the notes on pages 12 to 16 form an integral part of the financial statements.

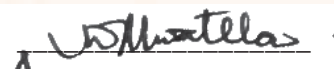
Report of the independent auditors - page 4.


Balance Sheet

ASSETS

	Notes	2006 KShs'000	2005 KShs'000
Non-current assets	7	28,124	20,226
Prepaid operating lease rentals	8	4,109	4,208
Available for sale investment	9	100	100
Government securities maturing after 12 months	10	6,276,117	3,985,333
		6,308,450	4,009,867
CURRENT ASSETS			
Debtors and prepayments	11	1,724	1,671
Government securities maturing within 12 months	10	7,539,883	8,106,183
Cash and cash equivalents	12	4,958	5,935
		7,546,565	8,113,789
Total assets		13,855,015	12,123,656
FUNDS BALANCE AND LIABILITIES			
Fund balance	13	13,809,151	12,008,686
CURRENT LIABILITIES			
Creditors and accruals	14	8,400	16,898
Due to Central Bank of Kenya	15	13,303	797
Provision for protected deposit claims	6	24,161	97,275
		45,864	114,970
Total fund balance and liabilities		13,855,015	12,123,656

The financial statements on pages 5 to 16 were approved for issue by the Board of Directors on 28th September 2006 and were signed on its behalf by:


Ag. Chairman



The accounting policies on pages 9 to 11 and the notes on pages 12 to 16 form an integral part of the financial statements.

Report of the independent auditors - page 4.

Statement Of Changes in Fund Balance

**Fund
balance
KShs'000**

YEAR ENDED 30 JUNE 2005

At start of year	10,790,248
Surplus for the year	1,218,438
At end of year	12,008,686

YEAR ENDED 30 JUNE 2006

At start of year	12,008,686
Surplus for the year	1,800,465
At end of year	13,809,151

The accounting policies on pages 9 to 11 and the notes on pages 12 to 16 form an integral part of the financial statements.

Report of the independent auditors- page 4.

Cash Flow Statement

	Notes	2006 KShs'000	2005 KShs'000
Cash flow from operating activities			
Surplus for the year		1,800,465	1,218,438
Adjustments for:			
Depreciation of property and equipment	7	4,077	2,173
Amortisation of prepaid operating lease rentals	8	99	99
Loss on property and equipment write off		575	-
Interest income		(1,159,356)	(811,426)
Operating surplus before working capital changes		645,860	409,284
Changes in working capital:			
Debtors and prepayments		(53)	16,524
Creditors and accruals		(8,498)	7,839
Central Bank of Kenya Account		12,506	642
Provision for protected deposits		-	98,782
Net cash flows from operating activities		649,815	533,071
Cash flow from investing activities			
Payment of protected deposit claims		(73,114)	(5,036)
Purchase of Investments		(772,329)	(214,954)
Purchase of property and equipment	7	(12,800)	(4,720)
Proceeds on sale of property and equipment		250	-
Interest received		1,159,356	811,426
Net cash flows from investing activities		301,363	586,716
Net increase in cash and cash equivalents		951,178	1,119,787
Cash and cash equivalents at start of the year	12	4,324,843	3,205,056
Cash and cash equivalents at end of year	12	5,276,021	4,324,843

The accounting policies on pages 9 to 11 and the notes on pages 12 to 16 form an integral part of the financial statements.

Report of the independent auditors- page 4

Accounting Policies

The principal accounting policies adopted in the preparation of the financial statements are set out below.

These policies have been consistently applied to all the years presented, unless otherwise stated.

a) Basis of preparation

The financial statements have been prepared under the historical cost convention and are in compliance with International Financial Reporting Standards (IFRS).

b) Revenue recognition

Assessed income comprises contributions levied to the contributory institutions and is recognised in the period when they are receivable. Such contributions are assessed at a rate of 0.15% of the average of the institutions' total deposit liabilities during the period of 12 months prior to the date of levy notice.

Interest income is recognised in the period in which it is earned based on the expired portion of the life of the investments it relates to. Interest is primarily earned on treasury bills and bonds and other interest carrying instruments.

Discounts and premiums on acquisition of government securities are amortised over the life of the security and are recognised within interest income.

c) Provisions for payments to depositors

Provisions for payments to protected depositors are recognised in the financial statements in the period the contributory institutions are placed under liquidation. Any payments that exceed the provisions made are taken into account in determining operating profit. Provisions that relate to unclaimed protected deposits are written back to income on expiry of the statutory notice period.

d) Taxation

The fund's income is not subject to tax as it has been granted exemption by the Commissioner of Income Tax. Therefore no provision for current tax or deferred tax is made in the financial statements.

e) Property and equipment

Depreciation on property and equipment is calculated at rates estimated to write off the cost of the assets concerned over their expected useful lives on the reducing balance basis except for computers which are depreciated on the straight line basis.

The annual rates in use are:-	<u>Rate %</u>
Furniture and fittings	12.50
Office and kitchen equipment	20.00
Motor vehicles	25.00
Computers	33.33

Leasehold buildings are written off over the estimated useful life of the building, or the remaining lease term, whichever is less.

The assets useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

f) Financial Instruments

The fund's financial instruments which comprise investment in subsidiary, government securities and purchased receivables fall into the following categories:

- Equity investment in the subsidiary company is classified as available for sale and is accordingly carried at fair value.
- Government securities are classified as held to maturity and are accordingly carried at amortized cost using the effective interest rate method.
- Receivables which comprise debtors and prepayments are classified as originated loans and receivables and are accordingly carried at amortised cost.
- Creditors and accruals, provisions for protected deposit claims and amounts due to Central Bank of Kenya are classified as financial liabilities and are carried at amortised cost.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment losses are taken into account in determining operating profit.

g) Retirement benefit costs

The Fund's employees are eligible for retirement benefits under a defined benefit plan provided through a separate fund. The defined benefit plan is funded by the Fund and the Central Bank, the main sponsor. The retirement benefit asset is wholly recognised in the financial statements of the Central Bank while the Fund recognises contributions to the fund as if it were a defined contribution scheme by charging them to the profit and loss account in the year to which they relate.

The actuarial valuations of the scheme are performed using the Projected Unit Credit Method and resulting assets or liabilities recognised in the financial statements of Central Bank of Kenya. The Fund staff are seconded from the Central Bank and as such it is not possible to account for their proportionate share of the defined benefit obligation.

The Fund also contributes to a statutory defined contribution Pension Scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are correctly limited to KShs 200 per employee. The contributions are charged to income and expenditure account in the year to which they relate.

h) Employee entitlements

The monetary liability for employees accrued leave entitlement at the balance sheet date was in the prior years recognised as an expense accrual. However from 2004, the leave policy of the fund changed and accordingly no accrual is required.

i) Leases

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

Payments to acquire leasehold interest in land are treated as prepaid operating lease rentals and amortised over the period of the lease.

j) Comparatives

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



Notes to Financial Statements

	2006 KShs'000	2005 KShs'000
1. Investment income		
(a) Interest earned on Treasury bills received on matured bills	347,765	157,065
Discount on purchase	131,888	78,210
	479,653	235,275
(b) Interest earned on Treasury bonds received on matured bonds	583,003	442,487
Accrued interest	96,700	133,664
	679,703	576,151
Total investment income	1,159,356	811,426
2. Other income		
Recoveries from subrogated claims	71,221	11,637
Penalty charges on late contributions	764	-
Miscellaneous income	144	-
	72,129	11,637
3. Provision for protected deposits written back		
Write-back of provisions (Note 6)	-	3,415
Stale cheques written back	553	772
	553	4,187

The fund has been making provisions equivalent to the amount of its exposure to protected depositors whenever a bank/financial institution is put under liquidation. The period for claims to be made by protected depositors under the statute is two years after the date of notice

The fund has also written back cheques that were issued to protected depositors that have not been presented until the balance sheet date and are stale by virtue of being over 7 years old.

The directors are of the opinion that no claim will be payable in respect of these cheques.

	2006	2005
	KShs'000	KShs'000
4. Administration and establishment expenses		
Staff costs (Note 5)	79,197	51,956
Depreciation (Note 7)	4,077	2,173
Lease amortisation (Note 8)	99	99
Auditors' remuneration	450	450
Directors' emoluments		
- Fees	2,239	2,319
Legal and professional fees	390	9,796
Other	29,607	28,672
	116,059	95,465
5. Staff costs		
Salaries, wages and other staff costs	72,738	49,730
Other staff expenses	6,459	2,226
	79,197	51,956
6. Provision for protected deposits		
Balance brought forward	97,275	3,529
Additional protected deposit provision:		
Daima Bank Limited	-	92,533
Prudential Building Society	-	7,633
Others	-	2,031
	-	102,197
Payments during the year	(73,114)	(5,036)
Provision written back	-	(3,415)
Balance carried forward	24,161	97,275

7. Property and equipment

Year ended 30 June 2006

Cost	Buildings KShs'000	Furniture and fittings KShs'000	Office and kitchen equipment KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
At start of year	16,278	1,445	4,707	6,652	4,577	33,659
Additions	281	4,955	527	5,919	1,118	12,800
Disposals	-	(1,444)	-	(590)	-	(2,034)
At end of year	16,559	4,956	5,234	11,981	5,695	44,425

Depreciation

At start of year	1,127	724	3,234	4,276	4,072	13,433
On disposal	-	(724)	-	(485)	-	(1,209)
Charge for the year	364	620	400	2,047	646	4,077
At end of year	1,491	620	3,634	5,838	4,718	16,301
Net book value	15,068	4,336	1,600	6,143	977	28,124

Year ended 30 June 2005

Cost	Buildings KShs'000	Furniture and fittings KShs'000	Office and kitchen equipment KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
At start of year	16,278	1,412	3,508	3,858	3,883	28,939
Additions	-	33	1,199	2,794	694	4,720
At end of year	16,278	1,445	4,707	6,652	4,577	33,659

Depreciation

At start of year	771	621	2,866	3,484	3,518	11,260
Charge for the year	356	103	368	792	554	2,173
At end of year	1,127	724	3,234	4,276	4,072	13,433
Net book value	15,151	721	1,473	2,376	505	20,226

8. Prepaid operating lease rentals	2006	2005
Cost	KShs'000	KShs'000
At start and end of year	4,522	4,522
Amortisation		
At start of year	314	215
Charge for the year	99	99
At end of year	413	314
Net book value	4,109	4,208

9. Available for sale investment	Country of incorporation	Holding	2006	2005
			KShs'000	KShs'000
Consolidated Bank of Kenya Limited	Kenya	50.2%	200,000	200,000
Provision for diminution in value			(199,900)	(199,900)
			100	100

The investment in Consolidated Bank of Kenya Limited was valued in December 2004 by external consultants and the value of the shares was considered to be effectively nil. In the opinion of the directors, the additional diminution in value of Kshs.100,000 based on this valuation is not material for recognition in the financial statements.

The investment is treated as an available-for-sale investment as the board is in the process of finalising the proposal for disposal of the investment to the Treasury.

10. Government Securities	2006	2005
	KShs'000	KShs'000
Non-current		
Treasury Bonds	6,276,117	3,985,333
Current		
Treasury Bills	6,250,624	4,743,095
Treasury Bonds	1,289,259	3,363,088
	7,539,883	8,106,183
Total investment in government securities	13,816,000	12,091,516
Current - comprising:		
Maturing within 91 days of the balance sheet date (Note 12)	5,271,063	4,318,908
Maturing after 91 days of the balance sheet date	2,268,820	3,787,275
Total current	7,539,883	8,106,183

The effective interest rates on Treasury Bills as at 30 June 2006 was 8.1969% (2005: 6.626%). Investment in Treasury Bonds are initially stated at cost but subsequently restated at amortised cost at the year-end using the effective interest rate method. The Treasury bills and bonds are both held to maturity.

11. Debtors and prepayments	2006 KShs'000	2005 KShs'000
Debtors and prepayments	164,493	152,670
Less:		
Provision for bad debts at start of year	(150,999)	(124,980)
Recovery (Note 2)	-	-
Additional Provision (schedule D)	(11,770)	(26,019)
Provision for bad debts at end of year	(162,769)	(150,999)
	1,724	1,671

The additional provision for bad debts relates to debts owed by failed institutions that are considered irrecoverable.

Not included in the above debtors and prepayments is an amount of Kshs.558 million (2004: 557 million) due from institutions under liquidation. This has not been recognised in the financial statements as in the opinion of the directors, recovery of this amount is not certain.

12. Cash and cash equivalents	2006 KShs'000	2005 KShs'000
Cash and bank balances	4,958	5,935
Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:		
Government securities maturing within 91 days of the balance sheet date (Note 10)	5,271,063	4,318,908
Cash and bank balances	4,958	5,935
	5,276,021	4,324,843

13. Fund balance		
At start of year	12,008,686	10,790,248
Surplus for the year	1,800,465	1,218,438
At end of year	13,809,151	12,008,686

14. Creditors and accruals		
Sundry creditors and accruals	1,555	10,610
Unclaimed stale cheques	6,845	6,288
	8,400	16,898

15. Due to Central Bank of Kenya		
Amount due to Central Bank of Kenya	(13,303)	(797)

16. Risk management

Currency risk

The Fund operates wholly within Kenya and its assets and liabilities are reported in the local currency.

It does not transact in foreign currencies.

Interest rate risk

Excess funds held by the fund are invested in Government of Kenya Treasury bills and Treasury bonds.

No interest rate risk exposure is envisaged.

Liquidity risk

The Fund holds a significant portion of investments in Government securities that are readily convertible.

No significant risk is envisaged.

17. Investment in Consolidated Bank of Kenya Limited

The Fund owns 50.2% of the ordinary share capital of the Consolidated Bank of Kenya Limited.

This investment is not in compliance with the Banking Act which restricts the Fund's investments to government securities only. As stated in note 9, the fund is in the process of finalising the proposal for disposal of this investment to the Treasury.

18. Related party transactions

The Fund and Central Bank of Kenya are related parties, performing connected duties of bank supervision and deposit protection respectively. No trading is carried with Central Bank. The following transactions however take place between the two organizations:

- (a) The Central Bank pays some operating expenses on behalf of the Fund. These are fully reimbursed.
- (b) The staff of the Fund are contractually employees of Central Bank but seconded to the fund. Salaries of these staff are met by Central Bank and fully reimbursed by the Fund.
- (c) Central Bank is also the sponsor of the Staff Pension Fund to which the Fund contributes on behalf of employees seconded to it from Central Bank.
- (d) Central Bank provides the fund with office space and charges it rent. In the year, rent charged amounted to KShs 5.761 million (2005: KShs. 6,051 million).

The balance at year-end on transactions with Central Bank is shown in note 15.

19 Contingent liabilities

Litigation

Mr. Ajay Shah filed a case claiming general damages and special damages of KShs 144 million against Trust Bank Limited (In Liquidation) and the fund on allegations for defamation and publication of malicious false statements. The suit is pending for hearing.

No provision has been made in the financial statements because, in the opinion of the directors, the claim is unlikely to succeed.

20. Establishment

Deposit Protection Fund Board is established in Kenya under the Banking Act, 1985 and is domiciled in Kenya.

21 Currency

The financial statements are presented in thousands of Kenya shillings (KShs'000).



Member Banking Institutions, Directors and

Bank	Branch Network	Directors' Names	Status	Approved Auditors
1. African Banking Corp. P.O Box 46452-00100 Nairobi	8	N.P. Sheth R. Abdulla Richard Omwela Jonathan Campaigne Ashraf Savani Shamaz Savani	Non Executive Non Executive Non-Executive Non-Executive Executive Executive	Delloite & Touche
2. EABS Bank Ltd. P.O Box 49584-00100 Nairobi	8	N.P.Gibson Warren Rajesh L.Pandit Hon Moody Awori H.A.Damji D.L.Pandit Issac O.Okero S.M.Ndegwa Surinder Kapila Rajpal Arora Digvijay B.Mehta	Non Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Chief Exec. Officer	Price Waterhouse Coopers
3. Bank of Baroda (K) Ltd. P.O. Box 30033-00100 Nairobi	6	A.C.Mahajan Prof. F.F Ojany Milan R. Shah K. K. K. Shukla K.N.Manvi R.Sowrirajan	Chairman Non-Executive Non-Executive Non-Executive Managing Director Executive	M/S Grant Thornton
4. Bank of India Ltd. P.O. Box 30246-00100 Nairobi	4	Dr Manu Chandaria John Kariuki Allan Ngugi	Chairman Member Member	Ernst & Young
5. Barclays Bank of Kenya Limited. P.O. Box 30120-00100 Nairobi	64	Adan Mohamed Francis O.Okello P.A. Chemngorem R.N. Ogega J.W. Karuku Brown M. Ondego C.O. Ongwae D. Bruynseels	Managing Director Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Executive Executive	Price Waterhouse Coopers

Bank	Branch Network	Directors' Names	Status	Approved Auditors
6. CFC Bank Ltd. P.O. Box 72833-00200 Nairobi	5	S.W Lewis U.P.Njani A.D Gregory T.T.Naikuni F.N.Ojiambo C Njonjo J.G.Kiereini M.Soundararjan M.Blasseti A.A Munda	Non Executive Non Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Executive Executive Executive	Delloite & Touche
7. Charterhouse Bank Ltd. P.O. Box 43252-00100 Nairobi	9	Mehraz Eshani H. Eshani Atul Shah Manoj Shah Sanjay Shah M.W. Prabhu	Chairman Non-Executive Non-Executive Non-Executive Managing Director Executive	Delloite & Touche
8. Chase Bank (K) Ltd. P.O. Box 28987-00200 Nairobi	3	Osman Murgian James Gachui Rafiq Shariff Zafrullah Khan Duncan Kabui	Non-Executive Non-Executive Non-Executive Executive Executive	Delloite & Touche
9. Citibank N.A. P.O. Box 30711-00100 Nairobi	3	Sridhar Srinivasan Kellen Kariuki Edwin Ogbogu Sanjiv Sethi Abdoul A. Dia Jamal Hussein Arif Mukhtar Esther Ngaine Hilda Mucuha B. Adeya	General Manager Local Mgt. Comm. Local Mgt. Comm. Local Mgt. Comm. Local Mgt. Comm. Local Mgt. Comm. Local Mgt. Comm. Local Mgt. Comm. Local Mgt. Comm. Local Mgt. Comm.	KPMG Kenya
10. City Finance Bank Limited P.O. Box 22741-00400 Nairobi	1	R.G.Njoba A.Shah J.D.Kabeberi Vena Jewa Dhirajlal Shah	Non-Executive Non- Executive Non-Executive Non-Executive Non-Executive	Deloitte & Touche
11. Commercial Bank of Africa Kenya Ltd P.O. Box 30437-00100 Nairobi	13	M.H. da Gama Rose J.A.M. Docherty J.S. Armitage Muhoho Kenyatta I.O. Awuondo M. O. Bristow	Chairman Non-Executive Non-Executive Non-Executive Managing Director Executive	Price Waterhouse Coopers
12. Consolidated Bank of Kenya Ltd. P.O. Box 51133-00200 Nairobi	11	Philip G. Njuki A.K. Montet PS-Treasury NSSF. M.G. Kwali M.Mbui D. N. Wachira	Chairman Non-Executive Non-Executive Non-Executive Non-Executive Non Executive Managing Director	Deloitte & Touche

Bank	Branch Network	Directors' Names	Status	Approved Auditors
13. Co-operative Bank of Kenya Ltd. P.O. Box 48231-00100 Nairobi	32	S.C. Muchiri J. Riungu Dr.J.Kahunyo C.Kabira K. Mwangi P.K. Githendu S. Wakasiaka R.L. Kimanthi F.Odhiambo M.Malonza E.K. Mbogo J. Sitienei G. Mburia S.odhiambo G. Muriuki	Chairman Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Managing Director	Ernst & Young
14. Bank of Africa Kenya Ltd P.O. Box 69562-00400 Nairobi	3	P.Derreumaux Georges Aballo A..Randrianasolo F. Sueur P.Leon-Dufour	Chairman Non-Executive Non-Executive Non-Executive Managing Director	Price Waterhouse Coopers
15. Credit Bank Ltd. P.O. Box 61064-00200 Nairobi	4	Hon. Simeon Nyachae N.K. Agarwal G.W. Nyachae(Mrs) M.C. Patel H.K. Shah R.V.Karia M.M. Mwendwa	Chairman Managing Director Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	Price Waterhouse Coopers
16. Equity Bank Ltd. P.O. Box 75104-00200 Nairobi	36	P.K.Munga B.I.Wairegi F.M.Muchoki J.K.Kipngetch Beatrice Sabana Wanjiku Mugane Wagane Diouf L.W.Gitahi Ernest Nzovu Peter Gachuba J.N.Mwangi	Non-Executive Non Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Executive	Deloitte & Touche
17. Oriental Commercial Bank Ltd. P.O. Box 44080-00100 Nairobi	5	G.V. Shah V.T. Patel Girish Patel P.J. Shah N.M.Shah	Chairman Non-Executive Non-Executive Non-Executive Non-Executive	Ernst & Young
18. Development Bank of Kenya Ltd. P.O. Box 30483 Nairobi	1	Prof. H.K. Mengech Prof J.H.Kimura K. Gatabaki I.C,D.C. PS-Treasury	Chairman Non-Executive Non-Executive Non-Executive Non-Executive	KPMG Kenya

Bank	Branch Network	Directors' Names	Status	Approved Auditors
19. Diamond Trust Bank of Kenya Ltd. P.O. Box 61711-00200 Nairobi	5	M.P.Manji N.N. Juma J.J. Kisa I.G. Mamdani A.E. Merali Abdul A. Samji M. N. Thobani Karim H, Kanj N.M. Devji(Mrs)	Chairman Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Managing Director	Price Waterhouse Coopers
20. Dubai Bank (K) Ltd. P.O. Box 11129-00400 Nairobi	3	Prof.El-Bussaidy Harakhcnd D.Shah H.A. Zubeidi Mayank Sharma Viju Cherian	Non-Executive Non-Executive Non-Executive Non-Executive Managing Director	Ernst & Young
21. Equatorial Comm. Bank Ltd. P.O. Box 52467-00200 Nairobi	3	M.H. Da Gama-Rose Akif H. Butt Edgar I.Manasseh Ahmed S. Ndope Martin Ernest Dr.Hasan Rizvi T.N. Khwaja	Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Executive Executive	KPMG Kenya
22. Fidelity Commercial Bank Ltd. P.O. Box 34886-00100 Nairobi	3	Ashok Shah A. Abdallah K. Khimji A Khimji James Birnie S.K. Khimji	Chairman Non-Executive Non-Executive Non-Executive Non-Executive Managing Director	Delotte & Touche <i>for the financial year 2006 (pending approval from CBK)</i>
23. FINA Bank Ltd. P.O. Box 20613-00200 Nairobi	5	D.H. Chandaria R.M. Patel N.N. Shah P. F. Hinton F. Griffiths	Non-Executive Non-Executive Non-Executive Non-Executive Executive	Delotte & Touche
24. Giro Commercial Bank Ltd P.O. Box 46739-00100 Nairobi	6	C.J. Gidoomal D.K. Ngini Carey M. Ngini (Alt. to D K Ngini) R.B. Singh P.J. Gidoomal	Non-Executive Non-Executive Non-Executive Managing Director Executive Director	Delotte & Touche
25. Guardian Bank. P.O. Box 46983-00200 Nairobi	5	Moganlal Chandaria M.M. Chandaria Raghibir S. Saini Raj Sahi Gopinath H. Bhatt	Non-Executive Non-Executive Non-Executive Non-Executive Executive Director	KPMG Kenya
26. Habib A.G. Zurich P.O. Box 30584-00100 Nairobi	4	I.A. Allawala N.A. Mohammed M.A. Hussain Zarir Somjee Mr. Mohammed Arif Mr. Syed M.S (Alternate Mr.Syed Murtaza(alt)	Chairman/CEO Local Committee Local Committee Local Committee Local Committee Local committee Local Committee	KPMG Kenya

Bank	Branch Network	Directors' Names	Status	Approved Auditors
27. Habib Bank Ltd. P.O. Box 43157-00100 Nairobi	4	M. Niaz Syed Ajmal M. Ansari Abdul Rashid Khatri Bilal A. Qureshi M. H. Ali M. H. Jilani R. Haider B.A.Aziz	Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Executive Secretary	KPMG Kenya
28. Imperial Bank Ltd. P.O. Box 44905-00100 Nairobi	5	Alnashir Popat Anwar Hajee Vishnu Dhutia Jinit Shah Mukesh K. Patel Hanif M.A. Somji A. Janmohamed	Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Executive	PKF Kenya
29. Investments & Mort. Bank Ltd. P.O. Box 30238-00100 Nairobi	9	S.B.R. Shah M.J. Karanja Brian Rogers Sachit Shah Eric M.Kimani Sarit Shah	Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Executive	KPMG Kenya
30. Kenya Commercial Bank Ltd. P.O. Box 48400-00100 Nairobi	116	Susan O. Mudhune J.K.Kinyua James Nairuti koome Catherine N. Kimura J.Isaac Adongo P. W. Muthoka S. N. Shah Mrs. S. N. Omanga Pro.P.Kimuyu Terence M. Davidson M.Oduor-Otieno	Chairman Non- Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Chief Executive Executive	Ernst & Young
31. K-Rep Bank Ltd P.O. Box 25363-00603 Nairobi	9	Bethuel Kiplagat Mary Houghton Leon Smith J.P.Prosper Mwenda Thiribi Tony Wainaina Kevin W.Njiraini F. Streppel M. V. Golstein Philippe Leclercq Kimanthi Mutua	Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Managing Director	Deloitte & Touche
32. Middle East Bank Ltd. P.O. Box 47387-00100 Nairobi	2	A.A.K. Esmail A.D. Raja Nancy Kaminchia Peter Harris B.S.Pai	Chairman Non-Executive Non-Executive Managing Director Executive	Price Waterhouse Coopers

Bank	Branch Network	Directors' Names	Status	Approved Auditors
33. National Bank of Kenya Ltd. P.O. Box 72866-00200 Nairobi	23	M.E.G. Muhindi A.C. Juma PS-Treasury NSSF Dr Jeniffer N. Riria F.L. Atwoli Peter W.D.Ngumi R.M. Marambii Anthony K.Mwangi Isaiah M.Mworia	Non-Executive Non Executive Non Executive Non Executive Non Executive Non Executive Non-Executive Managing Director Executive Executive	Deloitte & Touche
34. NIC Bank Ltd P.O. Box 44599-00100 Nairobi	4	James P.M.Ndegwa Andrew S.M.Ndegwa Mike L.Somen George A.Maina F.M. Mbiru F.N. Mwanzia Mrs B.O. Wilson James Macharia A. James Dodd Livingstone Murage	Chairman Non-Executive Non-Director Non-Executive Non-Executive Non-Executive Non-Executive Managing Director Executive Company Secretary	Deloitte & Touche
35. Paramount Universal Bank Limited P.O. Box 14001-00800 Nairobi	3	Anwarali N Padany Noorez Padamshi Bahadur Alibhai Mercy Kamau A.A. Merali	Chairman Non-Executive Non-Executive Non-Executive Managing Director	Deloitte & Touche
36. Prime Bank Ltd. P.O. Box 43825-00100 Nairobi	8	R.C. Kantaria R.N. Kantaria N.P. Thaker J.N. Mungai V.N. Ponda A. Abdalla S.K. Shah V.K Shetty	Chairman Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Chief Executive	Ernst & Young
37. Southern Credit Banking Corp. Ltd. P.O. Box 1166-00400 Nairobi	9	P.C. Chandarana J.C Bamford Renee K.Blasky Shashi Shah C.M.Kuria A.K. Kurji A. Yousuf	Chairman Non-Executive Non-Executive Non Executive Managing Director Executive Executive	KLSA Pannell Kerr Forster
38. Stanbic Bank Kenya Ltd. P.O Box 30550-00100 Nairobi	4	J.B. Wanjui J.P.Babsa J.Y. Kerrets E.A.W. Njoroge Rose W. Kimotho PS-Treasury M.L Du Toit N.G.Naibo	Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Executive Executive	Price waterhouse Coopers

Bank	Branch Network	Directors' Names	Status	Approved Auditors
39. Standard Chartered Bank (K) Ltd. P.O Box 30003-00100 Nairobi	28	David G.Njoroge Denis D. Afande Harris Mule Kaushik Shah Michael C. Hart Timothy Mwai R. M. Etemesi Jeremy Ngunze Mark Myers	Chairman Non-Executive Non-Executive Non-Executive Managing Director Executive Executive Executive Executive	KPMG Kenya
40. Transnational Bank Ltd. P.O. Box 34353-00100 Nairobi	8	Mwakai K. Sio Charles F. Marsham J.K.Kendiuwo Peter Kemei Charles Nyachae Ben K. Chepkoit	Chairman Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	Deloitte & Touche
41. Victoria Commercial Bank Ltd. P.O. Box 41114 -00100 Nairobi	1	K.D. Pattni Silvano O. Kola K.P. Jani Ketaki Sheth (Mrs) Y.K. Pattni	Chairman Non-Executive Non-Executive Non-Executive Managing Director	Price Waterhouse Coopers

Member Non-Banking Institutions, Mortgage Finance Companies And Building Societies; Directors And Approved External Auditors

Institution	Branch Network	Directors' Names	Status	Approved Auditors
1. Prime Capital & Credit Ltd. P.O. Box 46559-00100 Nairobi	1	A.C. Kantaria R.N. Kantaria J.Z. Onduko B.S. Rihal R.C. Kantaria	Non Executive Non-Executive Non-Executive Non-Executive Managing Director	Ernst & Young
2. Savings & Loan Kenya Ltd. P.O. Box 45129-00100 Nairobi	8	S. Mudhune Eng Musa Ndeto Philip Lopokoiyit Joshua S.Muiru T. Davidson Wangui Ngatia M.Oduor Otieno	Non-Executive Non-Executive Non-Executive Non-Executive Chief Executive Managing Director Executive	Ernst & Young
3. Housing Finance Company of (K) Ltd. P.O. Box 30088-00100 Nairobi	10	Kungu Gatabaki David Ansell Anne Ammissabour (Mrs) Mary Mukindia PS-Treasury Paul Ngugi (Alt to PS Treasury) Frank M.Ireri	Chairman Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Managing Director	KPMG Kenya
4. Family Finance P.O. Box 74145-00200 Nairobi	10	T.K. Muya C.N. Muchai L.W. Muya Prof. Kabiru Kinyanjui Dr, James M. Njau Prof.David K Some Mark Keriri Muya	Chairman/CEO Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Executive	Wachira Irungu & Associates