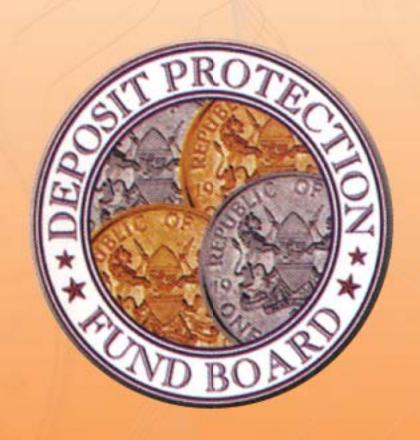
DEPOSIT PROTECTION FUND BOARD KENYA



Annual Report & Accounts for the year ended 30th June 2010

Annual Report & Accounts for the year ended 30th June 2010



Deposit Protection Fund Board

Vision

The vision of the Deposit Protection Fund Board (DPFB) is to attain international standards of efficiency and best practices in deposit insurance.

Mission

The mission of the DPFB is to build confidence in the Banking Sector through an effective deposit insurance scheme thereby fostering financial stability.

Mandate / Objectives

The principle objects are:

- · To provide a deposit insurance scheme for customers of member institutions;
- To hold, manage and apply funds levied as contributions from member institutions;
 and
- To liquidate any member institution in respect of which it is appointed by CBK as liquidator.

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Statement from the Chairman of the Board



Prof. Njuguna Ndung'u Chairman

A review of the Deposit Protection Fund Board (DPFB) operations in the past year shows that it achieved its objectives, having closed the year in a strong financial position. The Board has continued to make prudent investments with a portfolio mix that has leaned towards long term bonds. The DPFB has made a notable contribution to the building of the country's infrastructure through continuous investment in infrastructure bonds which offer relatively higher returns in the current regime of low interest rates. As the year comes to a close, the Board's investment in infrastructure bonds is Ksh.4.5 billion, which is 18.65 percent of the Fund's total investment portfolio.

The Fund has, yet again, registered a satisfactory growth of 14.1 percent to close the year at Ksh.24.2 billion. The grown trajectory is expected to be sustained in the coming period. This will place DPFB in a strong financial position to meet potential challenges in the banking system on the backdrop of a promising economy where the GDP is expected to grow at 4.5 percent in the next financial year.

New challenges to DPFB include the entry of the Deposit Taking Microfinance Institutions. These are new intermediaries under a new regulatory framework but strategically important from the perspective of financial inclusion and with capability to contribute to poverty reduction.

The DPFB's Strategic Plan for the period 2010/2011 and beyond presents a raft of objectives that will further enhance efficiency and add value to stakeholders. The focus of these objectives will be on the development and implementation of appropriate systems needed to improve the effectiveness of the Board's operations.

In tandem with the strategic objectives, the Board has set aside resources required for the continuous training and development of our staff who are a critical ingredient to our success. In this regard, I wish to pay special tribute to the Financial and Legal Sector Technical Assistance Project (FLSTAP) for the support they have continued to extend to DPFB towards the achievement of this objective.

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The Board acknowledges that strengthening the confidence of depositors in our banking sector can be greatly reinforced by educating the public on the benefits of an effective deposit protection scheme. It is therefore imperative that the general public is informed of the tenets of deposit insurance and its contribution towards the stability of the financial system and the country as a whole. For this reason, the Board will continue to lend its full support to management as it directs its efforts towards public awareness campaigns for the period 2010-2011, with the intention of raising awareness on the mechanisms currently in place, the rights and responsibilities of the public towards the protection of the financial system for the benefit of the country.

The achievements posted in 2009/2010 would not have been possible without the hard work of our Management Team. I take pride, on behalf of the Board of Directors, to record our appreciation of this clear testimony of their commitment and dedication to duty.

As we register the achievement of continued growth, we take cognizance of the challenges ahead posed by emerging developments in the financial sector. However, we will continue to bank on our astute Board members and the continued support of our management team to meet these challenges successfully, as we deploy concerted efforts towards yet another year of studious work.

Prof. Njuguna Ndung'u Chairman Deposit Protection Fund Board

PROFESA NJUGUNA NDUNG'U Mwenyekiti

Tahakiki ya utendakazi wa Bodi ya Hazina ya Ulinzi wa Arabuni - DPFB katika mwaka uliopita inaonyesha kuwa ilidiriki malengo yake, ikiwa imemaliza mwaka katika hali nzuri na dhabiti ya kifedha. Bodi imezidi kuwekeza kwa mpangilio changamano unaoegemea upande wa hati za kudhaminiwa za muda mrefu. Bodi ya Hazina ya Ulinzi wa Arabuni – DPFB imechangia kimsingi ujenzi wa miundo msingi hapa nchini kupitia uwekazaji katika hati za kudhaminiwa za miundo msingi zilizo na faida nyingi hasa katika mfumo wa sasa ulio na viwango vya chini vya riba. Mwaka unavyokaribia kuisha, uwekezaji wa Bodi katika hati za kudhaminiwa za miundo msingi ni shilingi Bilioni 4.5, ambayo ni asilimia 18.65 ya jumla ya wekezo za Hazina hii.

Hazina imeandikisha, mara nyingine, ustawi wa kiwango toshelezi wa asilimia 14.1 ili kufunga mwaka na shilingi Bilioni 24.2. Mwelekeo wa ustawi unatarajiwa kuimarishwa katika muhula ujao. Jambo hili litaiweka Bodi ya Hazina ya Ulinzi wa Arabuni – DPFB katika nafasi bora na dhabiti ya kifedha ili kukumbana na changamoto zozote katika mfumo wa benki, ikizingatiwa hali ya uchumi iliyokomaza ambapo Makadirio ya Mapato ya Kinyumbani – GDP yanatarajiwa kuimarika kwa kiasi cha asilimia 4.5 katika mwaka ujao wa kifedha.

Changamoto mpya za Bodi ya Hazina ya Ulinzi wa Arabuni – DPFB ni pamoja na kuingia kwa Mashirika Madogo Yanayopokea Arabuni – Deposit Taking Microfinance Institutions. Hawa ni wahusika wageni katika utaratibu mpya wa udhibiti. Hata hivyo, mashirika haya ni ya manufaa sana hasa katika mtazamo wa utoaji wa huduma za kifedha kwa gharama ya chini kwa wote bila ubaguzi pamoja na kuwa na uwezo wa kuchangia kupunguzwa kwa hali ya umasikini hapa nchini.

Mpango maalum wa Bodi ya Hazina ya Ulinzi wa Arabuni – DPFB wa muhula wa 2010/2011 na mihula ijayo inatoa malengo kadhaa ambayo yatazidi kukoleza utendakazi bora na kuwaongeza thamani washika dau. Malengo haya yatazingatia ustawi na utekelezaji wa mifumo mwafaka inayohitajika kuimarisha utendakazi bora wa Bodi.

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Pamoja na malengo maalum, Bodi imetenga rasilimali kwa minajili ya kutoa mafunzo na kuwaendeleza wafanyakazi wetu ambao ni sehemu muhimu ya ufanisi wetu. Ni kwasababu hii, ningependa kutoa shukrani zangu kwa Mradi wa Usaidizi wa Kiufundi kwa Sekta ya Kifedha na Sheria (Financial and Legal Sector Technical Assistance Project - FLSTAP) kwa usaidizi ambao wanazidi kutoa kwa Bodi ya Hazina ya Ulinzi wa Arabuni – DPFB ili kudiriki lengo hili.

Bodi pia inatambua kuimarisha imani ya wawekaji katika sekta yetu ya benki inaweza kukolezwa zaidi kupitia kuielimisha umma kuhusu manufaa ya mfumo bora wa ulinzi wa arabuni. Hivyo basi ni muhimu wananchi wote wakijulishwa kuhusu kanuni za bima ya arabuni na michango yake katika udhibiti wa mifumo ya fedha na ustawi wa nchi nzima. Kwa hiyo, Bodi itazidi kutoa usaidizi kwa usimamizi inapoelekeza jitihada zake kuielimisha umma katika muhula wa 2010/2011, likinuia kuongeza kutambulika kwa mifumo iliyoko kwa sasa, haki na majukumu ya wanananchi kuhusu ulinzi wa mfumo wa fedha kwa manufaa ya taifa lote.

Mapato yaliyochapishwa muhula wa 2009/ 2010 hayangepatikana bila ya utendakazi bora wa timu yetu ya usimamizi. Najivunia, kwa niaba ya Bodi ya Wakurugenzi Wakuu, kutoa shukrani zetu kwa ithibati hii dhahiri ya kujitolea muhanga kwa timu yetu ya usimamizi.

Tunapoandikisha mapato ya ustawi uliokolea, tunatambua kuwepo kwa changamoto zinazotokana na maendeleo yanayochipuza katika sekta ya fedha. Hata hivyo, tutazidi kuwategemea wanachama wetu wa Bodi pamoja na usaidizi wa timu yetu ya usimamizi ili kufaulu tunapokumbana na changamoto hizi, tunapoelekeza juhudi zetu kuelekea mwaka mwingine wa kazi nzuri na makini.

Profesa Njuguna Ndung'u

Mwenyeketi
Bodi ya Hazina ya Ulinzi wa Arabuni - DPFB



STANDING FROM LEFT TO RIGHT

Richard Etemesi, James Macharia, Rose Detho (Director, DPFB), Martin S. O. Gumo (Alt. to P.S. Treasury), Jane K. Ikunyua (Assistant Director DPFB & Board Secretary), Terry Davidson

SEATED FROM LEFT TO RIGHT

Nasim Devji, Prof. Njuguna Ndung'u (Chairman), Anne W. Amissabour

NOT IN THE PICTURE



Joseph K. Kinyua (Permanent Secretary Treasury)

Message from the Director



Rose Detho Director

The Deposit Protection Fund Board ("DPFB") maintained its strategic focus in the past year with the ultimate goal of furthering its mandate of building public confidence and maintaining stability in the financial system. In order to enhance its operations, the Ministry of Finance presented to Parliament, on behalf of DPFB, much needed amendments to the Banking Act. The proposed amendments seek to achieve expedited winding up of institutions that are currently under liquidation by DPFB.

DPFB actively participated in a number of financial reforms, notably, the ushering in of Credit Information Sharing Mechanism in the Kenya banking sector.

DPFB is obligated under the recent amendments of the Banking Act, as one of the reporting institutions for the Credit Reference Bureaus to share information. Credit Referencing has been a great milestone achieved towards the improvement of the lending environment and enhancement of access to credit for economic development and DPFB is proud to contribute to this noble financial reform agenda.

As we celebrate the deepening of financial access through initiatives such as agency banking, deposit taking microfinance institutions includes the acceleration in the convergence between mobile phone base payment system and the mainstream banking platform, no doubt this has continued to put pressure on deposit protection as the exposure to the DPFB has increased exponentially. Despite this, the benefits derived from financial deepening and economic inclusion to the economy cannot be gainsaid. DPFB will therefore support this economic agenda by continuing to play its role of fostering depositor confidence as we continue to bank on the continued growth of the Fund, the resilience of our banking system and the vigilance of the supervisory authority that has ensured the maintenance of a strong and sound financial system.

The next financial year will see the admission of a number of new contributory members to the Fund as the market progresses the microfinance movement and the agenda on financial inclusion supported by technological advancements. DPFB will continue to play its role of protecting depositors who enter the financial system.

We look forward to yet another year of collaborating with our stakeholders and development partners to foster financial safety and soundness in our economy.

Rose Detho Director Deposit Protection Fund Board

Ujumbe kutoka kwa Mkurugenzi Mkuu



Rose Detho Mkurugenzi Bodi ya Hazina ya Ulinzi wa Arabuni - DPFB imedumisha shabaha na mikakati yake katika mwaka uliopita, lengo kuu likiwa kuendeleza jukumu lake la kujenga imani ya umma na kudumisha ustawi katika mfumo wa kifedha. Ili kukoleza utendakazi wake, Wizara ya Fedha iliwasilisha Bungeni, kwa niaba ya Bodi ya Hazina ya Ulinzi wa Arabuni - DPFB, marekebisho muhimu katika sheria za Benki. Marekebisho yaliyopendekezwa yananuia kufanikisha kufinginyikwa kwa haraka kwa mashirika yaliowekwa chini ya urasimu wa Bodi ya Hazina ya Ulinzi wa Arabuni - DPFB.

Mkurugenzi Bodi ya Hazina ya Ulinzi wa Arabuni - DPFB imeshiriki katika mageuzo kadhaa ya kifedha, mojawapo ikiwa kuanzishwa kwautaratibu utaratibu wa Ugavi wa Habari za Mikopo (Credit Information Sharing Mechanism) katika sekta ya Benki nchini Kenya. Bodi ya Hazina ya Ulinzi wa Arabuni - DPFB inahitajika kutoa habari za mikopo, katika marekebisho mapya ya sheria za Benki, kama moja wapo ya mashirika yanayoripoti kwa Afisi za Urejeleo wa Habari za Mikopo (Credit Referencing Bureaus). Ushirikiano katika utoaji wa habari za mikopo umekua sini unaolenga kuboreshwa kwa mandhari ya ukaridhi na kukoleza penyepenye za mikopo kwa maendeleo ya kiuchumi. Bodi ya Hazina ya Ulinzi wa Arabuni - DPFB inajivunia kuwa mshiriki katika mageuzo haya ya kimsingi ya kifedha.

Tunaposherehekea kukita kwa upenyu wa kifedha kupitia mikakati kama vile benki za uwakala na mashirika madogo yanayopokea arabuni pamoja na uchapuko katika kuoanisha mfumo wa malipo kupitia simu za rununu na sekta kuu ya benki, bila shaka jambo hili limeongeza shinikizo kwa ulinzi wa arabuni, kwani uponzi kwa Bodi ya Hazina ya Ulinzi wa Arabuni - DPFB umeongezeka maradufu. Licha ya haya, faida kwa uchumi kutokana na kukita kwa huduma za kifedha haiwezi kupuuzwa. Bodi ya Hazina ya Ulinzi wa Arabuni - DPFB hivyo basi itaunga mkono ajenda hii ya kiuchumi kwa kuzidi kutenda jukumu lake la kukuza imani ya wawekaji wote tunapozidi kutumaini kuimarika kwa hazina hii, unyumbufu wa mfumo wetu wa benki pamoja na uvinjari wa mamlaka ya ukiranja wa kifedha ambao umewezesha kudumishwa kwa mfumo wa kifedha ulioimara na nzima.

Mwaka ujao wa kifedha utashuhudia kuingizwa kwa wanachama wapya wahariji kwa Hazina, soko linapokubali nyendo za mashirika madogomadogo ya kifedha pamoja na ajenda ya utoaji wa huduma za kifedha kwa gharama ya chini kwa wote bila ya ubaguzi, jambo linalotegemea maendeleo ya kiteknolojia. Bodi ya Hazina ya Ulinzi wa Arabuni - DPFB itazidi kutenda jukumu lake la kuwalinda wawekaji wageni katika mfumo wa kifedha.

Tunatazamia mwaka mwingine wa kushirikiana na washika dau wetu pamoja na wabia wetu wa maendeleo kukoleza usalama wa kifedha na uzima katika uchumi wetu.

Rose Detho Mkurugenzi Mkuu Bodi ya Hazina ya Ulinzi wa Arabuni - DPFB

SENIOR MANAGEMENT TEAM



SEATED FROM LEFT TO RIGHT

- 1. Jane K. Ikunyua
- 3. Rose Detho
- 4. Linah C. Soi
- 5. Daniel L. Ng'atuny
- Assistant Director, DPFB & Board Secretary
- 2. Mohamud Assistant Director, Liquidations
 - Director, DPFB
 - Assistant Director, Finance & Administration
 - Liquidation Agent

STANDING FROM LEFT TO RIGHT

- 1. Paul Lenkume
- 2. Doris M. Mugambi
- 3. Irene B. M'rabu
- 4. Daniel N. Muguima
- 5. Jane Kamita
- 6. Job Naisho
- 7. Sophie Lang'at
- 8. Samson N. Aling'

- Manager Liquidations
- Liquidation Agent
- Manager, Deposit Ins. & Risk Mgmt
 - Liquidation Agent
 - Liquidation Agent
 - Liquidation Agent
- Manager, Godown
- Manager, Finance

THE YEAR UNDER REVIEW

I. Introduction

The DPFB performed well during the year ending June 2010 with significant improvements in its operations and activities. No institution was placed under liquidation during the financial year. The Board still awaits the approval of the "Kenya Deposit Insurance Bill" by parliament which will enable it to operate as an autonomous body with a broader mandate on deposit insurance in line with international best practice.

The financial position of the Fund strengthened registering net surplus of Kshs.3,407 million in the year compared with Kshs.2,771 million in the previous financial year. The payment of total protected deposits made by institutions in liquidation amounted to Kshs.1,004 million as at June 2010 while the cumulative dividends paid amounted to Kshs.4,916 million for the 20 institutions in liquidation. By June 30, 2010 cumulative debt recovery by all institutions in liquidation amounted to Kshs.5,644 million.

II. Performance of the economy

Real GDP for the year 2009 amounted to Ksh 1.39 trillion. This was equivalent to 2.6 percent growth compared with an output of Ksh 1.35 trillion in 2008. The year 2009 experienced mixed performances in the key sectors of the economy with the tourism sector, the transport and communication sector and the building and construction sector experiencing the most significant growth rates of 42.8 percent, 6.4 percent and 14.1 percent respectively. The services sector continued to drive economic growth in 2009 with tourism recording the highest growth rate as indicated above. Despite agriculture remaining a major contributor to GDP in 2009 at 24.4 percent, the sector expanded marginally from -4.1 percent in 2008 to -2.6 percent in 2009, owing to the persistent drought experienced in the year 2009.

12-month overall inflation maintained a general downward trend throughout the year, declining from 8.6 percent in June 2009 to 3.5 percent in June 2010. The trend reversed in December 2009, January 2010 and May 2010, as a result of rising inflation attributed respectively, to the festive season, the opening of the school year and the rising international crude oil prices in April 2010. The overall decline throughout the year was largely attributed to declining food prices following the rainfall experienced in the country towards the end of 2009 and early 2010 which ensured sufficient supply and fairly low prices of both seasonal and non-seasonal food items. During the period, food inflation declined by 9.7 percent, from 14.1 percent in June 2009 to 4.4 percent in June 2010. Similarly, the average annual inflation declined by 9.7 percent from 15.1 percent in June 2009 to 5.4 percent in June 2010.

Kenya's balance of payments developments in 2009 were mainly influenced by events in the global economy. While world output declined by 0.6 percent in 2009, it rebounded in the first quarter of 2010 to grow at an annualized rate of 5 percent. Receipts from Kenya's exports of goods increased by 5.4 percent while those from services increased by 40 percent in the fiscal year 2009/10. On the balance, the current account deficit narrowed by US\$ 627 million in 2009/10 from US\$ 2,296 million in 2008/09. Kenya's balance of payments position improved from a deficit of US\$ 422 million during the fiscal year 2008/09 to a surplus of US\$ 276 million during the fiscal year 2009/10.

The Kenya shilling depicted mixed performance against major world currencies in fiscal year 2009/10. The shilling depreciated against the US dollar by 4.1 percent between June 2009 and June 2010 to exchange at an average of Ksh 81.0 per US dollar in June 2010 compared with Ksh 77.9 per US dollar in June 2009.

Government budgetary operations in the fiscal year 2009/10 raised the budget deficit on commitment basis by 75.7 percent to Ksh 157.8 billion or 6.2 percent of GDP compared with Ksh 89.8 billion (3.8 percent of GDP) in a similar period in the fiscal year 2008/09. In addition, Government receipts fell below the target by Ksh 17.6 billion for the period, following missed targets on non-tax revenue and Appropriation-in-Aid (A-in-A). The deficit was well within the revised budget target of Ksh 172.3 billion or 6.8 percent of GDP for the fiscal year.

Cumulative tax revenue collection in the year to June 2010 was Ksh 543.8 billion, or 10.3 percent above Ksh 487.9 billion collected in a similar period of fiscal year 2008/09. The tax revenue was, however, below the target by Ksh 44.5 billion for the period. Appropriation-in-Aid (A-I-A) increased by Ksh 5.2 billion and non-tax revenue by Ksh 6.7 billion. External grants, however, declined by Ksh 1.3 billion.

III. Banking Sector Developments

Overview

During the period ended June 30th 2010, the Kenyan Banking sector maintained higher capital and liquidity ratios with low non-performing loans in relation to gross loans. The total shareholders' funds, deposits and assets expanded by 25.6 percent, 27.8 percent and 22.5 percent respectively. Liquidity was considered strong, with the average ratio of liquid assets to total deposit liabilities at 45.1 percent, well above the statutory minimum requirement of 20 percent. The overall performance of the banking sector was rated strong in June 2010.

Structure of the Banking Sector

As at June 30, 2010, the Kenyan banking sector comprised of 43 commercial banks, 1 mortgage finance company and 127 foreign exchange bureaus. The sector witnessed an increase in the branch network from 930 branches in June 2009 to 1,017 in June 2010 representing a growth of 9.4 percent. One Deposit Taking Microfinance Institution, Kenya Women Finance Trust was issued with a license during the period under review.

Structure of the Balance Sheet

Total assets of the banking sector rose by 22.5 percent from Ksh. 1,263.5 billion in June 2009 to Ksh. 1,548.4 billion as at June 2010. The major components of the assets comprised net advances, Government securities and placements accounting for 51.0%, 25.0% and 7.0% respectively. Deposits expanded by 27.8 percent from Ksh 954.2 billion to Ksh 1,219.6 billion in June 2010. The growth in deposits, retained profits and capital injections supported the growth in the asset base.

Table 1: Balance Sheet (Kshs.Million)

the property	June 2010	June 2009	% Change
Cash	29,641	24,848	19%
Balances at CBK	89,860	55,064	63%
Placements	102,614	122,392	-16%
Govt. securities	392,702	257,923	52%
Other Investments	36,439	20,500	78%
Loans & Advances	786,591	668,580	18%
Foreign Assets	3,744	2,219	69%
Other assets	106,817	111,938	-5%
Total Assets	1,548,408	1,263,464	23%
Deposits	1,219,531	954,162	28%
Foreign Liabilities	22,500	22,441	0%
Other liabilities	84,038	109,843	-23%
Capital & Reserves	222,339	177,018	26%
Total Liabilities and Share holders' Funds	1,548,408	1,263,464	23%

Source: CBK Returns

Non-Performing Loans

Non-performing loans (NPLs) declined by 7.9 percent from Ksh. 66.8 billion in June 2009 to Ksh. 61.5 billion as at the end of June 2010. Similarly, the ratio of gross non-performing loans to gross loans improved from 9.4 percent in June 2009 to 7.4 percent in June 2010 largely due to enhanced credit underwriting standards applied by financial institutions.

Deposit Liabilities

Total deposits which form a major component of the banking sector funding increased by 27.8 percent from Ksh. 954.2 billion as at end of June 2009 to Ksh. 1,219.5 billion as at end of June 2010. The growth in deposits was partly supported by aggressive marketing campaigns adopted by financial institutions, branch network expansion and inflows from exports.

Capital and Reserves

Capital and reserves of the banking sector increased by 25.6 percent from Ksh. 177.0 billion in June 2009 to Ksh. 222.3 billion in June 2010. Banking sector's total capital which comprises core and supplementary capital expanded by 16.6 percent from Ksh. 163.9 billion in June 2009 to Ksh. 191.1 billion. Similarly, core capital grew by 17.1 percent from Ksh. 145.8 billion in June 2009 to Ksh. 170.7 billion in June 2010. The growth was attributed to fresh capital injection and retention of profits. However, total capital to risk weighted assets ratio decreased marginally from 19.8 percent in June 2009 to 19.6 percent in June 2010 occasioned by a higher growth in risk weighted assets compared to growth in total capital.

Profitability

During the period ending June 30th 2010, the banking sector pre-tax profits increased by 41.9 percent from Ksh. 24.6 billion in June 2009 to Ksh. 34.9 billion in June 2010. Total income rose by 24.1 percent from Ksh. 81.8 billion in June 2009 to Ksh. 101.5 billion in June 2010 with interest on advances at Ksh. 50.6 billion constituting 50 percent of total income. The staff costs constituted 34 percent of total expenses. Similarly, return on assets increased from 3.1 percent in June 2009 to 3.5 percent in June 2010 occasioned by a higher growth in profits compared to growth in assets.

Table 2: Banking Industry Profits (Kshs. in Billion)

Item	June 2010	June 2009	% Change
Total income	101.5	81.8	24%
Expenses before provisions	62.6	54.0	16%
Profit before provisions	38.9	27.8	40%
Provision for bad debts	4.0	3.2	25%
Profit before tax	34.9	24.6	42%

Source: CBK Returns

Outlook for the Banking Sector

The banking sector growth momentum is expected to continue into 2010/11 as financial institutions spread their presence in the East African region and embrace ICT-banking. Introduction of Credit Reference Bureaus and Agent Banking are some of the emerging developments that will be critical in the banking sector development.

OTHER DEVELOPMENTS

The Proceeds of Crime and Anti-Money Laundering Act 2009

The Proceeds of Crime and Anti-Money Laundering Act, 2009 was passed by Parliament and assented to by His Excellency the President on December 31, 2009. The Deputy Prime Minister and Minister for Finance Hon. Uhuru Kenyatta gazetted 28th June, 2010 as the commencement date for the Proceeds of Crime and Anti-Money Laundering Act, 2009. The Act is quite comprehensive and will strengthen the country's anti-money laundering legal framework. It criminalizes money laundering, provides for elaborate criminal and civil restraint, seizure and forfeiture procedures. It requires Reporting Institutions to file reports on suspicious activities; verify their customers' identities and establish and maintain customer records & internal reporting procedures. The Act also establishes a Financial Reporting Centre whose purpose will be to receive, analyze and disseminate suspicious transaction reports and an Asset Recovery Centre whose purpose will be to undertake proceedings on asset forfeiture and to manage assets recovered under the Act.

Microfinance Institutions

Since the Microfinance Act and its attendant regulations came into effect in May 2008, the Central Bank of Kenya has licensed two deposit taking microfinance institutions. Faulu Kenya Ltd was the first to be licensed in May 2009. In March 2010, Kenya Women Finance Trust Deposit Taking Microfinance Ltd became the second deposit-taking nationwide microfinance institution to be licensed. CBK has so far approved thirty four (34) business names, which is the first step in the licensing process.

Agent Banking

The Banking Act was amended through the Finance Act, 2009, to allow banks to conduct banking business through third party agents. Consequently, in May 2010, the Central Bank of Kenya issued guidelines on Agent Banking. The salient features of the Guidelines include:

- Legal entities including natural persons will be permitted to undertake agent banking. Petrol stations, shops, chemists, telecommunication companies and sole proprietors are some of the envisaged legal entities.
- Agents will provide a wide range of services but excluding customer appraisal and loan approval.
- Electronic transactions like deposit, withdrawal, payment or transfer of funds will be real time.
- One agent will be at liberty to be contracted by more than one institution (non-exclusivity).
- Charges payable by the customers will be fixed by the institutions and not the
 agents.
- To protect consumers, agents will be required to make minimum disclosures like the name of the institution it is working for, the institution's logo, services it provides and the authorization documents from the institution and the Central Bank.

Arising from this development, a number of Banks have applied to the Central Bank seeking approval to roll out Agency Banking model. One bank received approval in May 2010 and has already obtained approval for over 4,000 agents.

The introduction of agent banking is intended to enable institutions to provide banking services in a more cost effective way which is equally cheaper to the customers. It is further intended to enhance financial access especially for those people who are currently unbanked.

Credit Reference Bureaus (CRBs)

Following the operationalisation of the Banking (Credit Reference Bureau) Regulations, 2008 (CRB Regulations) in February 2009, the first credit reference bureau, Credit Reference Bureau Africa Limited (CRB Africa) was licensed in February 2010. CBK is currently reviewing three other applications that are at various stages of processing.

CBK and the Kenya Bankers Association (KBA), through the Joint Task Force (JTF) on operationalisation of credit referencing mechanism, have continued their efforts towards realisation of full implementation of the information sharing mechanism. The JTF, through a project management team (Kenya Credit Information Sharing Initiative – KCISI), in August 2009, oversaw the completion of the Data Template to be used by the institutions to submit data to the licensed CRBs. The licensed CRBs will then collect, collate and process data received from the banking sector and generate credit reports to be used by lenders

The existing state of information asymmetry between borrowers and banks is a constraint to innovation and financial intermediation. Therefore, credit information sharing will facilitate the development of information capital. Credit information

sharing offers an opportunity to promote access to affordable credit to more Kenyans because information symmetry lowers the risk premium and search costs loaded in the cost of credit. In the past, banks have loaded a "risk premium" to borrowers because of lack of information. It is therefore the Central Bank's expectation that savings arising from the sharing of credit information shall translate to lower cost of credit and in turn, more Kenyans will be able to access credit from institutions. The information capital will support credit growth and financial development in Kenya in line with Vision 2030.

All institutions licensed under the Banking Act are required to submit data on nonperforming loans to all licensed CRBs by 10th August 2010. Subsequently, they will be reporting their incremental data to all licensed CRBs at the end of every month by the 10th day of the subsequent month.

Licensed CRBs will provide credit reports at a fee. The fee to be charged is based on the details contained in the credit reports requested but the CRB Regulations stipulate that the fee should be determined based on discussions between the licensed CRBs and the subscribing institutions. The tentative fees disclosed by the applicants range from Kshs.100 to Kshs. 250 per credit report but these are subject to the stipulated discussions with the institutions.

IV. Board Operations and Activities

Fund Membership

At the end of the financial year 2009/10, the total number of member institutions remained at 46 comprising 43 commercial banks, 1 mortgage finance company and 2 deposit taking micro finance institutions.

During the year, Southern Credit Bank Ltd merged with Equatorial Commercial Bank Ltd on 01.06.2010 and the resulting institution is called Equatorial Commercial Bank Ltd. City Finance Bank Ltd changed its name to Jamii Bora Bank Ltd on 02.03.2010 following its merger with Jamii Bora Kenya Ltd on 11.02.2010. Kenya Women Finance Trust also joined the Fund on 31.03.2010 as a deposit taking Microfinance institution.

Financial Performance

The Fund's net surplus increased by 23.0 per cent to Kshs 3,407 million compared with Kshs 2,771 million recorded in the previous financial year. Interest earned on Government Securities increased by 26.2 per cent from Kshs 1,756 million to Kshs 2,216 million during the financial year under review. Assessed premium increased by 22.3 per cent from Kshs 1,111 million to Kshs. 1,359 million during the financial year due to increased deposit base of the member institutions.

Total assets increased by 16.5 per cent to Kshs 24,179 million from Kshs 20,756 million in the previous financial year. The increase was mainly due to re-investment of the surplus in government securities, which also increased by 16.5 per cent to Kshs 24,136 million from Kshs 20,711 million in the previous financial year. The Fund balance grew by 16.4 per cent to Kshs 24,147 million from Kshs 20,739 million recorded the previous year. Highlights on the trend in some selected financial indicators are summarised in Table 3 below:

Table 3: Selected Financial Indicators (Kshs millions)

Year	2002	2003	2004	2005	2006	2007	2008	2009	2010
Premium Assessed	486	497	544	615	696	788	919	1,111	1,359
Int. on T.Bills	387	165	63	235	479	552	829	1,094	678
Int. on T.Bonds	538	709	608	576	667	683	619	662	1,538
Surplus	1,195	1,297	1,478	1218	1,800	1,914	2,245	2,771	3,407
Net Assets/Fund	8,108	9,407	10,885	12,009	13,809	15,723	17,968	20,739	24,147

Liquidation Activities

Payment of protected deposits

The total protected deposits paid so far by the 20 [twenty] institutions still in liquidation amounted to KShs.1,004 million as at June 30, 2010. This figure has remained unchanged from the year ended June 30, 2009 since no institution has been put under liquidation during the year under review. The Fund has paid an average of 75.2% of total insured deposits with the balance representing unclaimed deposits.

Details of payment of Protected Deposits by each institution are shown on Table 4.

Table 4: Payment of protected deposits (Kshs. Million)

	Name of Institution	Liquidation Date	Total Deposits as at Liquidation	Total Protected Deposits	Protected Deposits paid as at 30 th June 2009	Protected Deposits paid as at 30 ** June 2010	% of Protected Deposits paid as at 30 ° June 2010
11	Inter - Africa Credit Finance Ltd.	31 Jan 1993	138	4	2	2	50,00
2	Central Finance Ltd.	19 May 1993	106	15	12	12	80.00
3	Postbank Credit Ltd.	20 May 1993	3,834	.30	30	30	100,00
4	Trade Bank Ltd.	18 Aug 1993	4,766.5	280	248	248	88.57
5	Middle Africa Finance Ltd.	20 Aug 1993	242	17	13	13	76.47
6	Nairobi Finance Ltd.	20 Aug 1993	188	5	4	4	80.00
7	Pan -African Bank Ltd.	18 Aug 1994	614.5	107	90	90	84.11
8	Pan - African Credit & Finance Ltd.	18 Aug 1994	139	8	6	6	75.00
9	Thabiti Finance Co, Ltd.	19 Dec 1994	850	54	33	33	61.11
10	Meridien BIAO Bank Ltd.	15 Apr 1996	781	45	38	38	84.44
11	Heritage Bank Ltd.	13 Sept 1996	370	10	7	7	70.00
12	Kenya Finance Bank Ltd.	29 Oct 1996	1,782	381	323	323	84.78
13	Ari Bank Corporation Ltd.	05 Dec 1997	287	-11	6	/ 6	54.55
14	Prodential Bank Ltd.	05 May2000	600	16	12	12	75,00
15	Reliance Bank Ltd.	12 Sept 2000	969	88	50	50	56.82
16	Fortune Finance Co. Ltd.	14 Sept 2000	320	33	23	23	69.70
17	Trust Bank Ltd.	15 Aug 2001	159	111	20	20	18.02
18	Euro Bank Ltd.	21 Feb 2003	2,040	/19	8	8	42.11
19	Prodential Building Society	18 Jan 2005	2,025	- 8	3	3	37.50
20	Daima Bank Ltd.	13 June 2005	669	93	76	76	81.72
11	TOTALS		20,880	1335	1,004	1,004	75.21

Debt Recovery

The total number of institutions under liquidation in the year under review remained at 20. Cummulatively, these institutions have so far collected KShs. 5,643.68 million from collection of debts and realisation of other assets as at June 30, 2010. This amount represents an increase of Kshs.97.82m against the total cumulative asset realisation of KShs. 5,545.86 million achieved in the previous financial year. General

performance on debt recovery has remained low due to poor quality of assets at the time the institutions were placed in liquidation. In particular, loan recoveries have been hampered by cases of poor documentation, unrealizable rural based securities, insider borrowing, poorly secured debts and protracted legal cases that have presented insurmountable challenges in the realization process.

The table below illustrates the cumulative loan recovery and performance by all institutions. Only 6 [six] institutions have made recoveries above 20% of the outstanding debt portfolio from liquidation to date.

Table 5: Debt recovery (Kshs million)

	Name of Institution	Liquidation Date	Total Loans as at Liquidation	Total Loans Recovered as at 30 June 2009	Total Loans Recovered as at 30 June 2010	% of Original Debt 30 June 2010
1	Inter -Africa Credit Finance Ltd.	31 Jan 1993	155	35.70	35.90	23.16
2	Cent ral Finance Ltd.	19 May 1993	111	106, 98	109.59	98.73
3	Postbank Credit Ltd .	20 May 1993	3,605	2,035:00	2,045.20	56.73
14	Trade Bank Ltd .	18 Aug 1993	3,955	749.93	749,93	18.9 6
5	Middle Africa Finance Ltd.	20 Aug 1993	656	64.67	64.71	9.86
6	Nairobi Finance Ltd.	20 Aug 1993	997	63.86	63.96	6.42
7.	Pan - African Bank Ltd.	18 Aug 1994	1,433	291.30	293.18	20.46
8	Pan - African Credit & Finance Ltd.	18 Aug 1994	445	150.57	152.51	34.27
9	Thabiti Finance Co. Ltd.	19 Dec 1994	1,217	107.91	108.28	8.90
10	Meridien BIAO Bank Ltd.	15 Apr 1996	224	74.71	75,20	33.57
11	Heritage Bank Ltd.	13 Sept 1996	458	50,30	50.30	10.98
12	Kenya Finance Bank Ltd.	29 Oct 1996	2,329	449.21	449.21	19.29
13	Ari Bank Corporation Ltd.	05 Dec 1997	453	24.74	24,74	5,46
14	Prudential Bank Ltd.	05 May2000	633	78.18	78.25	12.36
15	Reliance Bank Ltd.	12 Sept 2000	1,591	129.39	129.39	8.13
16	Fortune Finance Co. Ltd.	14 Sept 2000	345	36.89	36.89	10.69
17	Trust Bank Ltd.	15 Aug 2001	13,808	868.63	915,88	6.63
18	Euro Bank Ltd.	21 Feb 2003	3,861	105:92	118.71	3.07
19	Prudential Building Society	18 Jan 2005	3,283	19.71	25.25	0.77
20	Daima Bank Ltd.	13 June 2005	802	102.26	116,60	14.54
	TOTALS		40,361	5,545.86	5,643,68	13.98

Payment of Dividends

During the year, payment of the second dividend declared by Trust Bank Limited [I.L.] ended in July 2009 while five institutions, namely, Kenya Finance Bank Limited [I.L.]; Daima Bank Ltd [I.L.]; Meridian Biao Bank Limited [I.L.]; Euro Bank Limited [I.L.] and Postbank Credit Limited [I.L.] declared dividends totalling Kshs.425.36 million in the course of the year.

The cumulative dividends so far paid by the 20 [twenty] institutions still under liquidation amount to KShs. 4,915.54 million. Among the institutions, Post Bank

Limited [I.L.] has made the highest dividend payout amounting to KShs. 1,724.27 million, followed by Pan African Bank Limited [I.L.] at KShs. 584.14 million and Trade Bank Limited [I.L.] at KShs. 540.72 million. Other institutions are also making the requisite arrangements to declare final dividends in preparation for final winding up.

Table 6 below shows cummulative dividend payments made to date by individual institutions.

Table 6 Dividends paid as at 30th June 2010 (Kshs. Million)

	Name of Institution	Liquidation Date	Total Unprotected Deposits as at Liquidation	Dividends paid as at 30 th June 2009	Dividends paid as at 30 th June 2010
1	Inter - Africa Credit Finance Ltd.	31 Jan 1993	134	18.98	24.21
2	Central Finance Ltd.	19 May 1993	96	104.10	104.10
3	Post bank Credit Ltd.	20 May 1993	3,784	1,604,27	1,724.27
4.	Trade Bank Ltd .	18 Aug 1993	3,901	540,72	540.72
5	Middle Africa Finance Ltd.	20 Aug 1993	219	14.70	14.70
6	Nairobi Finance Ltd.	20 Aug 1993	183	48.26	48.20
7	Pan -African Bank Ltd.	18 Aug 1 994	507	584.14	584.14
8	Pan -African Credit & Finance Ltd.	18 Aug 1994	131	136.45	136.45
9	Thabiti Finance Co. Ltd.	19 Dec 1994	796	77.48	77,48
10	Meridien BIAO Bank Ltd.	15 Apr 1996	736	330.11	33 5.7
11	Heritage Bank Ltd.	13 Sept 1996	366	37,90	37.90
12	Kenya Finance Bank Ltd.	29 Oct 1996	1,396	177.34	211.6
13	Ari Credit Corporation Ltd.	05 Dec 1997	275	20.80	20.80
14	Prudential Bank Ltd.	05 May2000	584	139.40	139.40
15	Reliance Bank Ltd.	12 Sept 2000	879	115.63	116.86
16	Fortune Finance Co. Ltd .	14 Sept 2000	287	96,95	96.9
17	Trust Bank Ltd.	15 Aug 2001	43	458	458.00
18	Euro Bank Ltd.	21 Feb 2003	2,021	0.00	16.88
19	Prudential Building Society	18 Jan 2005	2,017	15.85	15.83
20	Daima Bank Ltd.	13 June 2005	576	107.47	211.30
10	TOTALS	700	18,931	4,628.55	4,915.54

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STATEMENT OF DIRECTORS' RESPONSIBILITIES ON THE FINANCIAL STATEMENTS

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 Board as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure that the Board keeps proper accounting records, which disclose with reasonable accuracy the financial position of the Board. They are also responsible for safeguarding the assets of the Board.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, 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 Board and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial control.

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

CHAIRMAN

MEMBER

73/04/74

Date

REPORT OF THE INDEPENDENT AUDITORS TO THE MINISTER FOR FINANCE ON THE FINANCIAL STATEMENTS

Report on the Financial Statements

We have audited the accompanying financial statements of the Deposit Protection Fund Board set out on pages 6 to 27, which comprise the Statement of Financial Position as at 30 June 2010, and the Statement of Comprehensive Income, Statement of Changes in Fund Balance and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Deposit Protection Fund Board as at 30 June 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Banking Act (Cap 488).

Report on Other Matters

We also report to you, based on our audit, that:

- 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;
- In our opinion proper books of account have been kept by the Board, so far as appears from our examination of those books;
- iii) The Board's balance sheet and income statement are in agreement with the books of account.

Nairobi

23/09/2010

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BALANCE SHEET

		2010 KShs'000	2009 KShs'000
ASSETS	Note	KSIIS 000	KSHS 000
NON-CURRENT ASSETS			
Property and equipment	2	28,550	28,328
Prepaid operating lease rentals	3	3,713	3,812
Investment held for sale	4	100	100
Government securities	5	17,825,166	6,592,751
Government securities	1//////	17,023,100	0,072,101
	->\(\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\\	17,857,529	6,624,991
CURRENT ASSETS	N /////	11 11 15	
Receivables and prepayments	6	9,356	12,896
Government securities	5	6,311,333	14,118,498
Cash and bank balance		946	564
		_6,321,635	14,131,958
TOTAL ASSETS		24,179,164	20,756,949
FUND BALANCE AND LIABILITIE	ES		
FUND BALANCE	7	24,146,826	20,739,365
CURRENT LIABILITIES			
Payables and accruals	8	5,913	4,554
Due to related party	9	26,425	13,030
		32,338	17,584
TOTAL FUND BALANCE AND LI	ABILITIES	24,179,164	20,756,949

The financial statements were approved by the Board of Directors for issue on 23-09-2010 and signed on its behalf by:-

......Membe

The accounting policies and the notes on pages 30 to 46 form an integral part of these financial statements.

INCOME STATEMENT

		2010	2009
	Note	KShs'000	KShs'000
REVENUE		1/1	
Assessment income	11(a)	1,359,313	1,110,684
Investment income	11(b)	2,215,972	1,755,715
Other income	12	11,221	37,088
Write back of protected deposits	13	313	26,760
	\mathcal{N}	3,586,819	2,930,247
EXPENSES:			
Administration and establishment	14	175,328	142,082
Provision for doubtful debts	6(b)	4,030	17,116
		<u>179,358</u>	159,198
SURPLUS FOR THE YEAR		3,407,461	2,771,049

The accounting policies and the notes on pages 30 to 46 form an integral part of these financial statements.

STATEMENT OF CHANGES IN FUND BALANCE

	Fund Balance KShs'000
Balance at 1 July 2008	17,968,316
Surplus for the year	2,771,049
Balance at 30 June 2009	20,739,365
Balance at 1 July 2009	20,739,365
Surplus for the year	3,407,461
Balance at 30 June 2010	24,146,286

The accounting policies and the notes on pages 30 to 46 form an integral part of these financial statements.

CASH FLOW STATEMENT

	Note	2010 KShs'000	2009 KShs'000
Cash flows from operating activities:-		_//	
Surplus for the year		3,407,461	2,771,049
Adjustment for:-			11-130
Depreciation of property and equipment		3,452	3,446
Amortisation of prepaid operating lease rentals		99	99
Writeback of provision for protected deposits		VINTA PARA JONE WITH	(20,791)
Interest income		(2,215,972)	(1,755,715)
Operating surplus before working capital changes		1,195,040	998,088
Receivables and prepayments		3,540	9,400
Payables and accruals	XX	1,359	(6,090)
Related party account		13,395	_(1,489)
Net cash flows generated from operating activities		1,213,334	_999,909
Cash flows from investing activities:-			
Reversal (payment) of protected deposit claims	10	100	72
Purchase of investments		(10,727,802)	(586,158)
Purchase of property and equipment		(3,674)	(836)
Interest received		2,215,972	1,755,715
Net cash flows from investment activities		(8,515,504)	1,168,793
Net movement in cash and cash equivalents	//	(7,302,170)	2,168,702
Cash and cash equivalents at the beginning of the yea		8,708,657	6,539,955
Cash and cash equivalents at the end of the year	15	_1,406,487	8,708,657

The accounting policies and the notes on pages 30 to 46 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of preparation of financial statements

(i) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) and Interpretations of those Standards as adopted by the International Accounting Standards Board. The financial statements are presented in thousands of Kenya Shillings (KShs'000) and are prepared under the historical cost convention except for measurement at fair value of certain investments.

(ii) Statement of compliance

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) and interpretations of those Standards.

(iii) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

(iv) Standards, amendments and interpretations effective in 2009

The Board has adopted the following new and amended International Financial Reporting Standard (IFRS) as of 1 January 2009.

O IAS 1 Presentation of financial statements. This standard requires an entity to present all owner changes in equity and all non-owner changes to be presented in either in one statement of comprehensive income or in two separate statements of income and comprehensive income. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed. In addition, it requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative year when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements. The Board has elected to present comprehensive income in a single statements approach. Information about the individual components of comprehensive in come. The Board has not provided a restated comparative set of financial position for the earliest comparative period, as it has not adopted any new accounting

policies retrospectively, or has made a retrospective restatement or retrospectively reclassified items in the financial statements.

(v) Standards, amendments and interpretations effective in 2009

The following amendment to standard and interpretation are mandatory though not relevant to the Board

- O IFRS 7 Financial Instruments: Disclosures The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management.
- O IFRS 2, Amendments to IFRS 2 Share-based Payment Vesting Conditions and Cancellations (effective from 1 January 2009) - The IASB issued an amendment to IFRS 2 which clarifies the definition of vesting conditions and prescribes the treatment for an award that is cancelled. It also clarified the scope and the accounting for Organisation cash-settled share-based payment transactions.
- O IFRS 3 revised -Business combinations and IAS 27 revised -Consolidated and Separate Financial Statements. The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes,
- O IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. The changes by IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with minority interests. The standards may be early adopted.

- O IAS 39 Financial Instruments: Recognition and Measurement Eligible Hedged Items (effective 1 July 2009) - The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.
- O IFRS 8, Operating Segments (effective from 1 January 2009) clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- Instruments: Recognition and Measurement (effective for periods ending on or after 30 June 2009) This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss.
- O IFRIC 13 Customer Loyalty Programmes (effective from 1 July 2008) IFRIC 13 requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognised as revenue over the period that the award credits are redeemed.
- O IFRIC 16 Hedges of a net investment in a foreign operation (IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the Organisation the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.
- O IFRIC 18 Transfer of assets from customers (effective from 1 July 2009)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

O IFRIC 15 – Agreements for the construction of real estate IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18.

(vi) Amendments that are part of the IASB's annual improvement project published in April 2009 (not addressed above) are:

	William Control of the Control of th	Effective date
0	IFRS 2 (amendment), 'Share-based payments'	1 July 2009
0	IFRS 5 (amendment), 'Non-current assets held for sale	M JA Man
	and discontinued operations'	1 January 2010
0	IFRS 8 (amendment), 'Operating segments'	1 January 2010
0	IAS 1 (amendment), 'Presentation of financial statements'	1 January 2010
0	IAS 7 (amendment), 'Statement of cash flows'	1 January 2010
0	IAS 17 (amendment), 'Leases'	1 January 2010
0	IAS 18 (amendment), 'Revenue';	1 January 2010
0	IAS 36 (amendment), 'Impairment of assets'	1 January 2010
0	IAS 38 (amendment), 'Intangible assets'	1 July 2009
0	IAS 39 (amendment), 'Financial instruments: recognition	
	and measurement'	1 January 2010
0	IFRIC 9 (amendment), 'Reassessment of embedded	
	derivatives'	1 July 2009
0	IFRIC 16 (amendment), 'Hedges of a net investment in a	1. 1.
	foreign operation'	1 July 2009

The directors anticipate that the adoption of these standards will have no material effect on the financial statements of the Board.

b) Significant accounting judgments, estimates and assumptions.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The most significant use of judgment and estimates are as follows:

Property and Equipment

Critical estimates are made by the management in determining depreciation and amortisation rates for property and equipment. The rates used are set out in the accounting policy for property, equipment and depreciation.

Allowance for doubtful receivables

The Board reviews its receivables' portfolio regularly to assess the likelihood of impairment. This requires an estimation of the amounts that are irrecoverable especially debts incurred by institutions under liquidation.

Going concern

Management has made an assessment of the Board's ability to continue as a going concern and is satisfied that the Board has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Board's ability to continue as a going concern. Therefore the financial statements continue to be prepared on the going concern basis.

c) Revenue recognition

Assessed income comprises contributions levied to the contributory institutions and is recognized in the period when they are receivable. Such contributions are assessed at a rate of 0.15 per cent 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 recognized 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 amortized over the life of the security.

d) Provisions for payments to depositors

Provisions for payments to protected depositors are recognized 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.

e) Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Payments made under operating leases are recognized as an expense in the statement of comprehensive income on a straight line basis over the lease term.

f) Employee entitlements

Employee entitlements are recognized when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the Statement of Financial Position date. The estimated monetary liability for employees' accrued annual leave entitlement at the Statement of Financial Position date is recognized as an expense accrual.

The Board'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 Board and the Central Bank, the main sponsor. The retirement benefit asset is wholly recognized in the financial statements of the Central Bank while the Board recognizes 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 Board also contributes to a statutory defined contribution Pension Scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to KShs. 200 per employee per month. The contributions are charged to income and expenditure account in the year to which they relate.

g) Taxation

The Board'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.

h) Financial instruments

The Board's financial instruments which comprise government securities, receivables and payables fall into the following categories:

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Board has the positive intention and ability to hold to maturity. All Investments in government securities are classified as held to maturity and are initially recognized at cost and subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition. The amortisation of such investments is recognized in the statement of comprehensive income.

Receivables

Receivables which comprise debtors and prepayments are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the receivables are derecognised or impaired, as well as through the amortisation process.

Payables

Payables comprise creditors and accruals, provisions for protected deposit claims and amounts due to Central Bank of Kenya. They are classified as financial liabilities and are carried at amortized cost.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment losses are recognised in the statement of comprehensive income.

i) Investment held for sale

Investment held for sale relates to investment in a subsidiary which is accounted for under IFRS 5 'Non-current assets held for sale and discontinued operations'. The investment is stated at the lower of its carrying amount and the fair value less costs to sell.

j) Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand and in bank accounts. Cash and cash equivalents are carried at cost. For the purposes of the cash flow statement cash and cash equivalents comprise cash on hand, bank balances, and government securities maturing within 91 days of the Statement of Financial Position.

PROPERTY AND EQUIPMENT	Buildings	Furniture & fittings	Office and kitchen equipment	Motor	Computers	Total
	KShs'000	KShs'000	KShs'000	Kshs'000	KShs'000	KShs'000
	POSTIS LING	rebits out	TONS OUT	Kalla 000	145113 000	Acitis 000
COST						
At 1 July 2009	16,559	15,341	6,219	8,713	4,394	51,226
Additions	181	173	2,216		_1,104	3,674
At 30 June 2010	16,740	15,514	_8,435	8,713	_5,498	54,900
DEPRECIATION						
At 1 July 2009	2,583	5,280	4,821	6,175	4,039	22,898
Charge for the year	367	_1,279	528	634	644	3,452
At 30 June 2010	2,950	6,559	5,349	6,809	4,683	26,350
NET BOOK VALUE	3					
At 30 June 2010	13,790	8,955	_3,086	1,904	_815	28,550
COST						
At 1 July 2008	16,559	14,744	6,219	8,713	4,155	50,390
Additions		597		-	239	836
At 30 June 2009	16,559	15,341	6,219	8,713	4,394	51,226
DEPRECIATION						
At 1 July 2008	2,219	3,843	4,473	5,330	3,587	19,452
Charge for the year	364	1,437	348	845	452	3,446
At 30 June 2009	2,583	_5,280	4,821	6,175	4,039	22,898
NET BOOK VALU	E					
At 30 June 2009	13,976	_10,061	1,398	2,538	355	28,328

No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated assets with a cost of KShs 3,038,135 (2009: KShs 3,038,135) and are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates it would have amounted to KShs 1,012,712 (2009: KShs 1,012,712).

3. PREPAID OPERATING LEASE RENTALS

Cost	2010 Kshs'000	2009 Kshs'000
At 30 June	4,522	4,522
Amortisation		
At beginning of the year	710	611
Amortisation for the year	99	99
At end of the year	809	710
Net carrying value at end of the year	_3,713	3,812

KShs'000 KShs'000 Investment in Consolidated Bank of Kenya Limited 200,000 10,000,000 ordinary shares of KShs 20 each 200,000 Provision for diminution in value 100

The Board owns 50.2% of the ordinary share capital of the Consolidated Bank of Kenya Limited. At the time of acquisition of the investment, the Banking Act allowed the Board to acquire, hold or dispose shares of an institution that would result in a loss to the Board. The Banking Act was later amended and now prevents the Board from holding investments other than in government securities. The Government, through Treasury plans to privatize Consolidated Bank and has therefore directed the Privatization Commission to explore and advice on how the shares are to be sold. A Consortium has been appointed to advice on the intended Privatization. Due to the above, the requirement for consolidation on IAS 27 does not apply.

The investment was last 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.

		2010	2009
4.	GOVERNMENT SECURITY	KShs'000	KShs'000
	Treasury bills maturing within 91 days of the	200	
	Statement of Financial Position date (Note 15)	1,044,660	8,223,846
	Treasury bills maturing after 91 days of the Statement of Financial Position date	4,073,289	4,027,291
	Treasury bonds maturing within 91 days of the Statement of Financial Position date (Note 15)	360,880	484,247
	Treasury bonds maturing after 91 days of the Statement of Financial Position date but within 1 year	832,504	1,383,114
	Treasury bonds maturing after 1 year of the Statement of Financial Position date	17,825,166	6,592,751
		24,136,499	20,711,249
	Comprising:-		
	Maturing within 1 year of the Statement of Financial Position date	6,311,333	14,118,498
	Maturing after 1 year of the Statement of Financial Position date	17,825,166	6,592,751
		24,136,499	20,711,249

The weighted average effective interest rate on held to maturity investments as at 30 June 2010 was 8.57% (2009: 10.22%).

6. (a) DEBTORS AND PREPAYMENTS	2010 KShs'000	2009 KShs'000
Debtors and prepayments Provision for bad debts (Note 6b)	112,631 (103,275)	162,158 (149,262)
	9,356	12,896

(b) PROVISIONS FOR IMPAIRED DEBTORS

As at 30 June 2010, debtors amounting to KShs 103 million were fully impaired and provided for. Movements in the provisions for impairment of receivables were as follows:

	Movements in the provisions for impairment of receivables were as	follows:	
		2010	2009
		KShs'000	KShs'000
	At 1 July	149,262	166,479
	Additional provision	4,030	17,116
	Write back -provision for bad debts (Note 11)		(34,333)
	Write off of bad debts	(50,017)	
	At 30 June (Note 6a)	103,275	149,262
7.	FUND BALANCE		
	At start of year	20,739,365	17,968,316
	Surplus for the year	_3,407,461	2,771,049
	At end of year	24,146,826	20,739,365
	The Fund balance relates to accumulated surpluses.		
8.	PAYABLES AND ACCRUALS		
	Sundry payables and accruals	5,913	4,241
	Unclaimed stale cheques	-	313
		5,913	4,554
9.	RELATED PARTY TRANSACTIONS		
	(a) Due to Central Bank of Kenya	_26,425	13,030
	(b) Directors' emoluments and senior management remuneration		
	Fees to directors	3,027	2,840
	Remuneration to senior management	_55,514	44,465

10. PROVISION FOR PROTECTED DEPOSIT CLAIMS	2010	2009
CLAINS	KShs'000	KShs'000
Balance brought forward	111	20,719
Reversal (payments) during the year	16 2	72
	111	20 701
Waite heals of protected deposit	111	20,791
Write -back of protected deposit	-	_(20,791)
Balance carried forward		
11. INCOME		
(a) Assessed Income		
Total average deposits of institutions assessed		
as contributors	906,008,854	740,255,964
0.15% of total average deposits	1,359,313	1,110,684
Minimum contribution from a bank (2009: 1 bank)	300	300
Total assessed income	_1,359,313	1,110,684
(b) Investment Income		
(i) Interest earned on Treasury bills received on		
Matured bills	498,508	1,089,958
Discount on purchase	179,017	3,743
	677,525	1,093,701
(ii) Interest earned on Treasury bonds received on Matured bonds		(10 001
Discount on purchase	1,448,553	612,904
Amortisation of premium	101,178	58,762 (9,652)
Thiotastion of premain	(11,204)	(9,032)
	1,538,447	662,014
Total investment income	2,215,972	1,755,715
12. OTHER INCOME		
Recoveries from subrogated claims	6,523	2,330
Penalty charges on late contributions	3,102	425
Bad debts recovered	4	34,333
Grant income	1,592	
	11,221	37,088

13. WRITEBACK OF PROTECTED DEPOSITS

	2010	ECT 1000
Write -back of provision for protected deposits	KShs'000	KShs'000 20,791
Stale cheques written back	313	_5,969
	313	26,760

The Board has been making provisions equivalent to the amount of its exposure to protected depositors whenever a bank or 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 Board wrote back cheques that were issued to protected depositors that have not been presented at June 30 2010 and were 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.

14. ADMINISTRATION AND ESTABLISHMENT EXPENSES

	2010 KShs'000	2009 KShs'000
Staff costs	133,710	108,784
Depreciation	3,451	3,446
Lease amortization	99	99
Auditors remuneration	601	601
Directors' emoluments	3,027	2,840
Legal and professional fees	174	375
Occupancy costs	10,196	8,035
Other	24,070	17,902
	175,328	142,082

15 CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprises the following Statement of Financial Position amounts

Trea sury bills maturing within 91 days of the
Statement of Financial Position date (Note 5)
Treasury bonds maturing within 91 days of the
Statement of Financial Position date (Note 5)
Cash and bank balance

8,223,846	1,044,661
484,247	360,880
564	946
8,708,657	1,406,487

COMMITMENTS

Authorised but not contracted for	16,450	17,150

Capital commitments authorised relates mainly to library books, safe, two motor vehicles and fittings and furnishing.

Operating lease commitments	2010 KShs'000	2009 KShs'000
Falling due within one year Falling due between one and five years	25 102	25 102
Falling due over five years	<u>856</u> <u>983</u>	1,008

17. RISK MANAGEMENT

Structure and Reporting

The Board of Directors is responsible for the overall risk management approach and for approving the risk management policy and strategies. There are other organs that monitor the assessment and management of risks within the Board including;

(a) Audit Committee of the Board

The Audit Committee assists the Board in the fulfillment of its oversight responsibilities. The Committee guides and monitors the implementation of controls by the Board.

(b) Deposit Insurance and Risk Management Section

The Board has an established Deposit Insurance & Risk Management Section that receives offsite information on deposits from member institutions for analysis and works closely with Central Bank of Kenya to monitor the performance of the Banking industry.

(c) Internal Audit and Risk Management Department (IARM)

The operations of the Board are subject to internal audit by the (IARM) department of the Central Bank of Kenya. The (IARM) department employs risk-based audit approach in planning and carrying out its audit engagements. The business processes are assessed with regard to business continuity procedures, physical safety, system safety, conformity to legal requirements and regulations, sufficiency of human resources and information safety. In addition, the financial risks and reputation risks are also determined. Controls that are designed to reduce these risks to acceptable levels are assessed in terms of sufficiency and effectiveness; additional controls are recommended in order to increase effectiveness.

The main risks faced by the Board in respect of its principal non-derivative financial instruments are interest rate risk and liquidity risk. The directors review and agree on policies for managing these risks. The Board maintains a conservative policy regarding interest rate and liquidity risks. The Board does not engage in speculation in the markets. In addition, the Board does not speculate or trade in derivative financial instruments.

The Board's principal financial instruments comprise investments held to maturity; cash and cash equivalents; debtors and prepayments; creditors and accruals; provisions for protected deposit claims; and amounts due to related parties.

Interest rate risk management

Interest rate risk is the risk that the value and cash flows of a financial instrument will fluctuate due to changes in market interest rates. Excess funds held by the Board are invested in Treasury bills and Treasury bonds.

The following table sets out the carrying amount by maturity, of the Board's financial instruments that are exposed to interest rate risk:

	Upto 3 months KShs'000	3-12 Months KShs'000	6 Years1 KShs'000	Non Interest Bearing KShs'000	Total KShs'000
Receivables and					
prepayments	///-	-W	X// =	9,356	9,356
Cash and bank balance	-/	1 -10	-	946	946
Investments held to			W.		
Maturity	1,405,540	4,905,793	17,825,166		24,136,499
Payables and accruals	: Desire ye resemble	77	-	(5,913)	(5,913)
Due to related party	//	1/1/2	100000	(26,425)	(26,425)
Interest sensitivity gap					
At 30 June 2010	_1,405,540	4,905,793	17,825,166	(22,036)	24,114,463
	3/	//	ANS		
At 30 June 2009	8,708,094	5,410,404	6,592,751	(4,124)	20,707,125

The following table demonstrates the sensitivity to a reasonably possible change in the interest rates, with all other variables held constant, on the Board's surplus. The sensitivity computations assume that financial assets maintain a constant rate of return from one year to the next.

	2010 KShs'000	2009 KShs'000
Effect on profit before tax of a +5% change in interest rates	110,799	87,786
Effect on profit before tax of a -5% change in interest rates	(110,799)	(87,786)

Liquidity risk management

Liquidity risk is the risk that the Board will encounter difficulty in meeting obligations from its financial liabilities. The Board's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Board's reputation. In the course of its operations the Board invests its capital in forms that vary in liquidity ranging from government securities that are readily convertible and sundry debtors Simultaneously it carries current liabilities in form of provisions for protected deposits, sundry creditors and related party liabilities. The entity matches its current assets to the current liabilities falling due to mitigate the risk of low liquidity.

The Board's financial liabilities amount to KShs 32,338 million (2009: KShs 17.584 million) and are all short term.

Currency risk

The Board operates wholly within Kenya and its assets and liabilities are reported in the local currency. It does not transact in foreign currencies.

Fair value

a) Determination of fair value and fair value hierarchy

The Board uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed government securities in Nairobi Stock exchange

Level 2 - other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy. This hierarchy requires the use of observable market data when available. The Board considers relevant and observable inputs in its valuation of fair value.

	Level 1	Level 2	Level 3	Total
	KShs'000	KShs'000	KShs'000	KShs'000
Held to Maturity investments				
Government securities		24,136,499	177	_24,136,499
		24,136,499	3037	24,136,499

b) Fair value of financial assets and liabilities not carried at fair value

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Board statement of financial position at their fair value. This table does not include the fair values of non-financial assets and non-financial liabilities.

	2	010	2	2009
Financial assets	Carrying value KShs'000	Fair value KShs'000	Carrying value KShs'000	Fair value KShs'000
Receivables and				
prepayments	9,356	9,356	12,896	12,896
Cash and Bank balance	946	946	564	564
Financial liabilities				
Payabl es and accruals	5,913	5,913	4,554	4,554
Due to Related Party	26,425	26,425	13,030	13,030
	4			

For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. The directors are of the opinion that the carrying value of financial instruments approximates their fair value.

18. RELATED PARTY TRANSACTIONS

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

- (a) The Central Bank pays some operating expenses on behalf of the Board. These are fully reimbursed.
- (b) The staff of the Board are contractually employees of the Central Bank but seconded to the Board. Salaries of these staff are met by the Central Bank and fully reimbursed by the Board. In the year, salaries paid to staff by the Central Bank amounted to KShs 104 million (2009: KShs 87.74 million).
- (c) The Central Bank is also the sponsor of the Staff Pension Fund to which the Board contributes on behalf of employees seconded to it from the Central Bank. In the year, the Board's contribution to the fund amounted to KShs 4.6 million (2009: KShs 3.7 million).
- (d) The Central Bank provides the Board with office space and charges it rent. The Board also reimburses maintenance costs incurred by the Central Bank on its behalf. In the year, rent and maintenance costs charged amounted to KShs 10 million (2009: KShs 8.11 million).
- (e) The balance at year-end on transactions with the Central Bank is shown in note 9.

19. CAPITAL MANAGEMENT

The primary objectives of the Board's capital management are to ensure that the Board maintains healthy capital ratios in order to support its business and to maximize the value for the insured depositors in member institutions. The Board manages its capital structure and makes adjustments to it, as per the requirements of the Banking Act. The total accumulated Fund as at 30 June 2010 was KShs 24.18 billion (2009: KShs 20.74 billion).

20. CONTIGENT LIABILITIES

Litigation

Mr. Ajay Shah filed a case in 2002 claiming general damages and special damages amounting to KShs 144 million against Trust Bank Limited (In Liquidation) and the Board on allegations of 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.

21. COMPARATIVES

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

23. CURRENCY

These financial statements are presented in thousands of Kenya Shillings (KShs'000), and are rounded to the nearest KShs 1,000.

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COMMERCIAL BANKS AND OTHER FINANCIAL INSTITUTIONS ASSESSED CONTRIBUTORS FOR THE YEAR ENDED 30 JUNE 2009

COMMERCIAL BANKS

on.	Limite	d
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- 2 Bank of Africa Kenya Limited
- 3 Bank of Baroda Kenya Limited
- 4 Bank of India Limited
- 5 Barclays Bank of Kenya Limited
- 6 CFC Stanbic Bank Limited
- 7 Charterhouse Bank Limited
- 8 Chase Bank Limited
- Citibank N.A.
- 10 Commercial Bank of Africa Limited
- 11 Consolidated Bank of Kenya Limited
- 12 Co-operative Bank of Kenya Limited
- 13 Credit Bank Limited
- 14 Development Bank of Kenya Limited
- 15 Diamond Trust Bank of Kenya Limited
- 16 Dubai Bank Kenya Limited
- 17 Ecobank Kenya Limited
- 18 Equatorial Commercial Bank Limited
- 19 Equity Bank Limited
- 20 Family Bank Limited
- 21 Fidelity Commercial Bank Limited
- 22 Fina Bank Limited
- 23 First Community Bank Limited
- 24 Giro Commercial Bank Limited
- 25 Guardian Bank Limited
- 26 Gulf African Bank Limited
- 27 Habib Bank A.G. Zurich
- 28 Habib Bank Limited
- 29 Imperial Bank Limited
- 30 I & M Bank Limited
- 31 Jamii Bora Bank Limited
- 32 Kenya Commercial Bank Limited
- 33 K-Rep Bank Limited
- 34 Middle East Bank Kenya Limited
- 35 National Bank of Kenya Limited
- 36 NIC Bank Limited
- 37 Oriental Commercial Bank Limited
- 38 Paramount Universal Bank Limited
- 39 Prime Bank Limited
- 40 Standard Chartered Bank of Kenya Limited
- 41 UBA Kenya Bank Ltd
- 42 Transnational Bank Limited
- 43 Victoria Commercial Bank Limited

MORTGAGE FINANCE INSTITUTIONS

Housing Finance Company of Kenya Limited

DEPOSIT TAKING MICROFINANCE INSTITUTIONS

- Faulu Kenya Limited
- 2 Kenya Women Finance Trust

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Members Banking Institutions, directors and approved external auditors

Bank	Branch Network	Directors' Names	Status	Approved Auditors
African Banking Corporation Ltd P.O Box 46452-00100 Nairobi Tel 2223922 www.abcthebank.com	9	Ashraf Savani Shamaz Savani Nanalal P. Sheth Richard Omwela Joseph K. Muiruri Anil Ishani	Chairman Executive Non-Executive Non-Executive Non-Executive	Delloite & Touche
Bank of Africa (K) Ltd P.O. Box 69562-00400 Nairobi Tel 3275000 www.boakenya.com	13	Paul Derreumaux Kwame Ahadzi Jean-Geo Pastouret Ramesh R. Vora Vincent de Brouwer A. Randrianasolo Davinder Sikand Shakir M.Merali (Alt) Ben Zwinkels Benjelloun Touimi	Chairman Managing Director Dy. Managing Director Co. Secretary Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	Price Waterhouse Coopers
Bank of Baroda (K) Ltd. P.O. Box 30033-00100 Nairobi. Tel 248402 / 226416 barodabk_ho@kenyaweb.com	8	R. K Bakshi Arun Shrivastava S. S Mundra Joseph K. Muiruri Vikram C. Kanji M. S. Srivastav	Chairman Managing Director Non-Executive Non-Executive Non-Executive Executive	PKF Kenya
Bank of India Ltd. P.O. Box 30246-00100 Nairobi. Tel 221414 -1 6 ceboinrb@futurenet.co.ke	4	Dr M. P. Chandaria Hon. John Kariuki Allan N. Ngugi	Local Advisory Committee Local Advisory Committee Local Advisory Committee	PKF Kenya
Barclays Bank of Kenya Limited. P.O. Box 30120-00100 Nairobi. Tel 313405 /313364/ 2229125 www.barclays.com	119	Francis O. Okello Adan Mohammed Nick Mbuvi Yusuf Omari P. A. Chemng'orem Rose Ogega Jane. W. Karuku Brown Ondego Vinit Chandra	Chairman Managing Director Executive Director Executive Director Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	Price Waterhouse Coopers

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	Bank	Branch Network		Status	Approved Auditors
6	CFC Stanbic Bank P.O. Box 72833-00200 Nairobi Tel 3638000 / 3268000 www.cfcstanbicbank.co.ke	17	Fred O. O. N. Ojiambo Gregroy R. Brackenridge Kitili Mbathi Jeremiah G.Kiereini Jane Babsa - Nzibo Gayling R. May Edward W. Njoroge Rose Kimotho	Chairman Managing Director Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	Price Waterhouse Coopers
7	Charterhouse Bank Ltd. P.O. Box 43252-00100 Nairobi Tel 242246 - 53 info@charterhousebank.com		Mehraz Ehsani Sanjay R. Shah Manjunath W. Prabhu Hamed Ehsani Atul K. Shah Manoj R. Shah	Chairman Managing Director Executive Non-Executive Non-Executive Non-Executive	KPMG Kenya
8	(Under CBK statutory management) Chase Bank (K) Ltd. P.O. Box 66049 -00 800 Nairobi. Tel 2774000 / 4454803/4/6/8 Info@chasebank.co.ke	8	Zafrullah Khan Duncan Kabui Gichu Osman Murgian James M. Gachui Rafiq Shariff Anthony F. Gross	Executive Executive Chairman Non-Executive Non-Executive Non-Executive	Deloitte & Touche
9	Citibank N.A. P.O. Box 30711 -00100 Nairobi Tel 2754000 www.citibank.com	2	Ademola Ayeyemi Nathan Njoroge Rose Agutu David Abwoga Joyce - Ann Wainaina Esther Ngaine Ignatius Chicha Asim Rana Wycliffe Osso Kellen Kariuki Nicholas Kamere	Executive	KPMG Kenya
10	Commercial Bank of Africa Kenya Ltd P.O. Box 30437-00100 Nairobi Tel 2884000 www.cba.co.ke	14 Branches	M.H. da Gama-Rose Isaac O. Awuondo Michael O. Bristow John S. Armitage Muhoho Kenyatta	Chairman Managing Director Executive Director Non-Executive Non-Executive	Price Waterhouse Coopers
11	Consolidated Bank of Kenya Ltd. P.O. Box 51133 -00200 Nairobi Tel 340551/340836 www.consolidated-bank.com	13 Branches	Eunice Kagane (Ms.) David N. Wachira Shellomith Bobotti(Mrs) Dr. Alloys B.Ayako Dr. Cleopa K. Mailu Kamotho Waiganjo Mohamed Shidiye PS -Treasury	Chair person Executive Director Non-Executive Non-Executive Non-Executive Non Executive Non Executive Non Executive	Deloitte & Touche

	Bank	Branch Network	Directors' Names	Status	Approved Auditors
12	Co-operative Bank of	83	Stanley .C. Muchiri	Chairman	Ernst &
	Kenya Ltd.	1.30	Julius Riungu	Vice Chairman	Young
	P.O. Box 48231-00100		Gideon Muriuki	Managing Director	1///
	Nairobi		Julius K. Sitinei	Non-Executive	
			Maj (Rtd) G.Wakasyaka	Non-Executive	A STATE OF THE PARTY OF THE PAR
	Tel 3276100		Macloud Malonza	Non-Executive	
	10.0270100		Wilfred Ongoro	Non-Executive	Fall-
	100000000000000000000000000000000000000		Richard L. Kimanthi	Non-Executive	
	www.co-opbank.co.ke		John K. Murugu	Non-Executive	Sec. 17
			Fredrick Odhiambo	Non-Executive	74.7
			Rose K. Simani (Mrs)	Non-Executive	ALDA .
			Donald K. Kibera	Non-Executi ve	1500
			VIII/////		TO THE
13	Credit Bank Ltd.	4	Han Simon Number	Chairman	Dalas
L.S	P.O. Box 61064-00200	**	Hon. Simeon Nyachae Rabindra N. Patnaik		Price Waterhouse
	Nairobi		Grace W. Nyachae (Mrs)	Managing Director Non-Executive	
	Nairobi		Ketan Morjaria	Non-Executive	Coopers
	Tel 2222300 / 2222317		R. V. Karia	Non-Executive	
	101 2222300 / 2222311		M. M. Mwendwa	Non-Executive	
	Info@creditbankltd.co.ke		ni. ni. niwendwa	LVOII-L'ACCULIVE	
	anomereumankini.co.ke			11	11/2
1	and the same of th	100		-	Jane .
4	Development Bank of	2	Prof. H.K. Mengech	Chairman	KPMG
	Kenya Ltd.		Prof J. H. Kimura	Non-Executive	Kenya
	P.O. Box 30483-00100		Kungu Gatabaki	Non-Executive	
	Nairobi		Z. G. Mbugua	Non-Executive	
	T. 1. 2. 40.404		I.C.D.C.	Non-Executive	
	Tel 340401 / 2 / 3		PS-Treasury	Non-Executive	
	dbk@devbank.com				
15	Diamond Tour	30	Abdul Camii	Chairman	Price
3	Diamond Trust Bank Kenya Ltd.	30	Abdul Samji		Waterhouse
	P.O. Box 61711-00200		Nasim Devji (Mrs)	Managing Director Non-Executive	
	Nairobi		Nizar Juma Mwaghazi Mwachofi	Non-Executive Non-Executive	Coopers
	Nairobi		Amin Merali		160
	Tel 2849000		Nauman Dar	Non-Executive Non-Executive	
	101 204 7000		Farid Hamir	Non-Executive	
	www.dtbafrica.com		Moez Jamal	Non-Executive	
	www.mathattica.com		Sukh Dev Nayyar	Non-Executive	
			Jamaludin Shamji	Non-Executive	
6	Dubai Bank (K) Ltd.	4	Hassan Zubeidi	Chairman	Deloitte &
	P.O. Box 11129-00400		Mayank Sharma	Managing Director	Touche
	Nairobi		Prof.A.El-Busaidy	Non Executive	
			Harakhchand D.Shah	Non-Executive	
	Tel 311114/09/23/24/82		Dr.W. Hassan Nandwa	Non-Executive	
			Ali Bashir Sheikh	Non-Executive	
	dbk@dubaibank.co.ke				
	Ecobank Kenya Ltd.	19	Peter T. Kanyago	Chairman	Price
7			Anthony A. Okpanachi	Managing Director	Waterhouse
17	PU DOX 44304-UUUUU		Michael O. Monari	Executive Director	Coopers
7	P.O Box 49584-00100			Non-Executive	Coopers
7	Nairobi		Mmon Mauncho	THE RESIDENCE OF THE PARTY OF T	
7	Nairobi		Simon Mauncho Albert K. Essien		
7			Albert K. Essien	Non-Executive	
7	Nairobi		Albert K. Essien Rajesh L. Pandit	Non-Executive Non-Executive	
7	Nairobi		Albert K. Essien	Non-Executive	1

	Bank	Branch Network	Directors' Names	Status	Approved Auditors
18	Equatorial Commercial Bank Ltd. P.O. Box 52467-00200 Nairobi Tel 2710455	12	Dan Ameyo Peter Harris M.H. Da Gama-Rose Akif H. Butt Martin Ernest Abdul Ali Kurji	Chairman Managing Director Non-Executive Non-Executive Non-Executive Non-Executive	KPMG Kenya
19	Equity Bank Ltd. P.O. Box 75104 - 00200 Nairobi Tel 2736617 / 20/24 www.equitybank.co.ke	111	Peter Kahara Munga Dr. James N. Mwangi Benson I. Wairegi Fredrick M. Muchoki Julius K. Kipngetich Babatunde T. Soyoye Helen W. Gichohi Ernest Nzovu Temitope O. Lawani Prof. Shem Migot Adhola Alykhan Nathoo(Alt)	Chairman Managing Director Non Executive Non-Executive	Ernst & Young
20	Family Bank P.O. Box 74145 - 00200 Nairobi Tel 318173/ 318940/2 www.familybank.co.ke	50	Titus Kiondo Muya Mark Keriri Muya Charles N. Muchai Prof. Kabiru Kinyanjui Dr, James M. Njau Prof. David K. Some	Chairman Executive Non-Executive Non-Executive Non-Executive Non-Executive	Wachira Irungu & Associates
21	Fidelity Commercial Bank Ltd. P.O. Box 34886-00100 Nairobi Tel 2242348 /2244187 www.fidelitybank.co.ke	6	James Birnie Rana Sengupta Sultan Khimji Kabir Khimji Tom Diju Owuor Esther Muchemi (Mrs) Karim Khimji (Alt)	Chairman Managing Director Executive Director Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive (Alt)	PKF Kenya
22	Fina Bank Ltd. P.O. Box 2061300200 Nairobi Tel 3284000 www.finabank.com	13	Dhanu H. Chandaria Hanish D. Chandaria Nalinkumar Narshi Shah Ramesh Kumar Patel Robert Francis Binyon Steve Omende Mainda Macharia Njeru	Chairman Managing Director Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	Price Waterhouse Coopers
23	First Community Bank P.O.Box 26219-00100 Nairobi, Kenya Tel 2843000 www.firstcommunitybank.co.ke	17	Hassan Varvani Nathif Jama Adam Abdullatiff Essajee Ahmednasir Abdullahi Abdikadir M.Hussein Ameer Nahdi Mohamed Mbaye	Chairman Executive Executive Non-Executive Non-Executive Non-Executive Non-Executive	Price Waterhouse Coopers

	Bank	Branch Network	Directors' Names	Status	Approved Auditors
24	Giro Commercial Bank	7	C. J. Gidoomal	Chairman	Deloitte &
2.20	Ltd		T. K. Krishnan	Managing Director	Touche
	P.O. Box 46739 -00100		B. K. Patel	Executive	Todaciic
	Nairobi		P. J. Gidoomal	Non-Executive	
	TVALLOUS		Carey M. Ngini	Non-Executive	
	Tel 340537 /2216005		Carcy III . INgilii	1 von-Executive	
7					A Table
25	Guardian Bank.	6	Magan Chandaria	Chairman	KPMG
	P.O. Box 67681 -00200		Vasant K. Shetty	Managing Director	Kenya
	Nairobi		Mahesh Chandaria	Non-Executive	
			Raj Sahi	Non-Executive	
	Tel 8560548 / 8561411		Shantilal Shah	Non-Executive	
	161 6300346 / 6301411		Hetul Chandaria	Non-Executive	
			Diamond Jamal	Non- Executive	
	viewpark@guardian-bank.com		Diamond Jamai	IVOII- EXCEUTIVE	
26	Gulf African Bank Ltd	7	Suleiman S. S. Shahbal	Chairman	KPMG
	P.O.Box 43683 -00100		Ahmed A. Mazrui	Non-Executive	Kenya
	Nairobi		Mustafa Beg	Non-Executive	A STATE OF
			Ahmed Said Bajaber	Non-Executive	
	Tel 2718608 / 9		Ahmed M. A. Al Abri	Non-Executive	
			Dr Michael M. Gondwe		
			Andrew P. Bainbridge	Non-Executive	
27	Habib Bank AG Zurich	4	Iqbal A. Allawala	Local Committee	KPMG
	P.O. Box 30584 -00100		N. A. Mohammed	Local Committee	Kenya
	Nairobi		M.A. Hussain	Local Committee	50-7500 ft (50
			Zarir Somjee	Local Committee	
	m 1044470 / 6 / 7		Mohammed Arif	Local Committee	
	Tel 341172 / 6 / 7		Igbal H.Somani	Local committee	
	Email:		Syed Asad Mustafa	Local Committee	
	habibbank@wananchi.com		Syed M. Nadeem (Alt)	Local Committee (Alt)	
		1 2 -	The second of th	Country Manager	11777.140
28	Habib Bank Ltd.	3	Imran Bukhari	Local Mgt Committee	KPMG
	P.O. Box 43157 -00100		Haseeb Ali	Local Mgt Committee	Kenya
	Nairobi		Patrick M. Mwangi		
			Wajid Ali Shah	Local Mgt Committee	
	Tel 2222786		Said Omar	Local Mgt Committee	
	101 2222100		Raveda Shah	Local Mgt Committee	
	hblro@hblafrica.com		Grishon Mativo	Local Mgt Committee	
29	Imperial Bank Ltd.	12	Alnashir Popat	Chairman	PKF Ken
	P.O. Box 44905 -00100	10.000	A. Janmohamed	Managing Director	
	Nairobi		Anwar Hajee	Non-Executive	
	1 state of the		Jinit Shah	Non-Executive	
			Vishnu Dhutia	Non-Executive	
	Tel 2719617 / 8 / 9		Mukesh Kumar Patel		
	Info@imperialbank.co.ke		Hanif M. A. Somji	Non-Executive Non-Executive	
			(2//9/30)/11		
30	I &M Bank Ltd.	15	S. B. R. Shah	Chairman	KPMG
	P.O. Box 30238 -00100		Sarit S. Raja Shah	Executive Director	Kenya
	Nairobi		Michael J. Karanja	Non-Executive	
	1		Sachit S. Shah	Non-Executive	
	Tel 2711994 -8		Eric Munene Kimani	Non-Executive	
	www.imbank.com		Ghislain deValon	Non-Executive	
	www.minbank.com		Dr. Evans O. Kidero	Non-Executive	
			Mugo Kibati	Non-Executive	
			M. Soundararajan	Non-Executive	
			C. Boing	Non-Executive	
			E. Kaleja (Alt)	Non-Executive(Alt)	

	Bank	Branch Network	Directors' Names	Status	Approved Auditors
31	Jamii Bora Bank Ltd. P.O. Box 22741 -00400 Nairobi Tel 2210338 / 9 info@jamiiborabank.co.ke	1	Ingrid Munro (Mrs) Minnie Mbue Richard Njoba Lars – Olof Hellgren Mutuma Marangu	Chair person Executive Non- Executive Non-Executive Non-executive	Deloitte & Touche
32	Kenya Commercial Bank Ltd. P.O. Box 48400 -00100 Nairobi Tel 3270370 www.kcb.co.ke	167	Peter W. Muthoka Joseph K. Kinyua Catherine Kimura(Mrs) C. A. Kola (Mrs) S. N. Shah Susan N. Omanga(Mrs) Eng. J. M. Ndeto J. I. Adongo Prof.Peter K. Kimuyu Dr. Martin O. Otieno Samuel N. Kimani	Non-Executive Non-Executive	Ernst & Young
33	K-Rep Bank Ltd P.O. Box 25363 -00603 Nairobi Tel 3906000 www.k-repbank.com	29	Bethuel Kiplagat Albert Ruturi Kenny Nwosu Mwenda Thiribi Frank Streppel Alin Muhammed George W.Okado	Chairman Managing Director Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	Ernst & Young
34	Middle East Bank Kenya Ltd. P.O. Box 47387 -00100 Nairobi Tel 2723120 ho@mebkenya.com	2	A. A. K. Esmail Philip Ilako Sakwa J. Bunyasi Anil Raja Nancy N. Kaminchia	Chairman Managing Director Non-Executive Non-Executive Non-Executive	Price Waterhouse Coopers
35	National Bank of Kenya Ltd. P.O. Box 72866 -00200 Nairobi Tel 2828000 / 2226471 www.nationalbank.co.ke	43	M.E.G. Muhindi R.M. Marambii Alfred Charles Juma Dr Jeniffer N. Riria F.L. Atwoli NSSF PS-Treasury Isaiah M. Mworia A. N. Ismail	Chairman Managing Director Non Executive Non Executive Non-Executive Non-Executive Non-Executive Executive (Fin. Dir) Executive (HR &Adm)	Deloitte & Touche
36	NIC Bank Ltd P.O. Box 44599 -00100 Nairobi	13	James P. M. Ndegwa James W. Macharia A lan J. Dodd Fred M. Mbiru	Chairman Managing Director Executive Director Non-Executive	Deloitte & Touche
	Tel 2888000 www.nic-bank.com		I. Ocholla-Wilson(Mrs) George A. Maina Michael L. Somen Andrew S. M. Ndegwa Francis N. Mwanzia P. V. Shah	Non-Executive Non-Executive	1

	Bank	Branch Network	Directors' Names	Status	Approved Auditors
43	Victoria Commercial Bank Ltd. P.O. Box 41114 -00100 Nairobi.	1	Kanji.D. Pattni Yogesh .K. Pattni Silvano O. Kola Rajan P. Jani Ketaki D. Sheth (Mrs)	Chairman Managing Director Non-Executive Non-Executive Non-Executive	Price Waterhouse Coopers
	Tel 2719499/2719814/5		rectant D. Orietti (Mis)	Tion Diceutive	
	victoria@vicbank.com				
		7			
			V/////		
	111				

Appendix III
Members Deposit Taking Microfinance Institutions, directors and approved eternal auditors.

Bank	Branch Network	Directors' Names	Status	Approved Auditors
Faulu Kenya Ltd. P.O. Box 60240-00200 Nairobi Tel 3877290-3 / 7, 3872183 / 4 www.faulukenya.com	26	Ken Wathome John Mwara George A, Maina Beverl ey Nuthu Keith Wright Mwik ali Mut hiani	Chairman Managing Director Non-Executive Non-Executive Non-Executive Non-Executive	Deloitte & Touche
KWFT Microfinance P.O Box 55919-00200 Nairobi Tel 2470272 -5, 2715334 -5, 0729920920, 07366333332	4	Mary Okello Mary Ngatia Dr. Jennifer Riria Charity Muya Lucy Njoroge Rachael Dzombo Grace Ngala Jane Rotich Mwangi Githaiga Antony Chege Kariuki Kitabu	Chairperson Non- Executive Executive Executive Executive Executive Executive	Deloitte & Touche





DEPOSIT PROTECTION FUND BOARD

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Harambee Avenue
P.O. Box 45983 - 00100 Nairobi Kenya
Tel: +254 - 20 - 2861000/2863841
Fax: +254 - 20 - 2211122

Email: dpf@centralbank.go.ke Website: www.centrakbank.go.ke

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