Annual Report & Accounts for the Year ended 30th June 2013

Deposit Protection Fund Board

VISION

To be a best-practice deposit insurance scheme

MISSION

We promote and contribute to public confidence in the stability of the nation's financial system by providing a sound safety net for depositors of member institutions.

STRATEGIC OBJECTIVES

- Promote an effective and efficient deposit insurance scheme
- Enhance operational efficiency
- Promote best practice

STRATEGIC PILLARS

- Strong supervision and regulation
- Public confidence
- Prompt problem resolutions
- Public awareness
- Effective coordination

OUR CORPORATE VALUES

- Integrity
- Professionalism
- Team work
- Transparency and accountability
- Rule of Law

Corporate Information

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Nairobi

AUDITORS

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Nairobi

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Chairman's Statement

Prof. Njuguna Ndung'u
CHAIRMAN

On behalf of the Board of Directors, management and staff of the Deposit Protection Fund Board, I have the honour to present the Annual Report of the DPFB for the year 2012/2013.

The period under review registered satisfactory performance as Deposit Protection Fund closed the year at Ksh.39.5bn having grown by 18.6% from Ksh.33.3bn the previous year. This growth was boosted by a surplus of Ksh 6.2bn in the period having increased by 21.6% from Ksh. 5.1bn in the previous period. The growth of the banking sector and prudent management of the Fund contributed to this favourable performance.

The period 2012/13 was a year of remarkable developments mainly geared towards our strategic efforts in progressing the transitioning of Deposit Protection Fund Board to Kenya Deposit Insurance Corporation (KDIC) in preparation to implement the new law, The Kenya Deposit Insurance ACT, 2012. This will allow an institution to be formed under the KDIC banner and form an important pillar of financial stability in Kenya.

In this regard, the Board commenced the drafting of Regulations that will operationalize the Kenya Deposit Insurance Act, 2012. The Draft Regulations were subjected to Stakeholders Review as well as Public Participation. Contributions and inputs from these reviews have been incorporated in the Draft Regulatory Framework that is before the National Treasury for further consideration. This effort will be concluded in the year ahead.

Going forward, as we undertake initiatives to usher in the new deposit insurance regime, our focus will be directed to strengthening the deposit insurance design that will add value to the depositors and the financial system in general. To this effect, the Board and Management will allocate time and resources to establish an effective KDIC operational structure as well as roll out tasks towards achieving the following milestones:

- Review the deposit insurance coverage which has remained constant since it was set up in 1989 when the deposit insurance system was first established. This coverage will be subjected to periodic reviews to ensure that it is credible enough to meet public policy objective;

- Review funding mechanism, including setting up a target fund and a means of obtaining supplementary back-up funding to support emergency liquidity needs to ensure prompt reimbursement of depositors' claims. Having fund buffers will create the required confidence in the markets; and

- Formulate problem bank resolution mechanisms effective enough in addressing risks inherent in the banking sector. As DPFB transforms into an autonomous corporation, we will establish an effective framework to foster closer coordination and collaboration between the Central Bank, the Deposit Insurer and other stakeholders so as to complement each other in promoting financial stability.

I take this opportunity to extend my sincere appreciation to the Board of Directors for having provided guidance so far in the transformation process, and to all our staff, for their diligent efforts the DPFB has been able to smoothly reach this advanced stage of transitioning. In this endeavor, I shall continue to solicit your ongoing concerted support.

Prof. Njuguna Ndung'u

Chairman

Deposit Protection Fund Board

Board of Directors

SEATED (LEFT TO RIGHT)
Terence Davidson, Prof. Njuguna Ndung'u (Chairman),
Nasim Devji (Mrs), Richard Etemesi

STANDING (LEFT TO RIGHT)
James Macharia, Rose Detho, Jane K. Ikunyua (Board Secretary)
and Martin S.O. Gumo

NOT IN THE PICTURE
Harun Sirma (Deputy Governor - CBK)

BOARD OF AUDIT COMMITTEE

Terence Davidson (Chairman), Richard Etemesi, Martin S.O. Gumo and
William Nyagaka (Director, Internal Audit, Central of Bank of Kenya)

Senior Management

SEATED (LEFT TO RIGHT)
Kimani Mwega (Assitant Director - Finance & Administration)
and
Rose Detho (Director, DPFB)

STANDING (LEFT TO RIGHT)
Mohamud A. Mohamud (Assitant Director - Liquidations),
Jane K. Ikunyua (Board Secretary)
and
Dr. W.O. Onyino (Assitant Director - ICT)

Message from the Director

Rose Detho
DIRECTOR

Looking back over the year 2012/2013, the banking sector continued its momentum in rapid innovations while interfacing with telecommunication platforms. This enhanced the promotion of financial inclusion and the proliferation of more depositors in the formal financial sector. The number of deposit accounts increased by 26.6 % from 16.5m in the previous period to 20.9m in the year under review. Majority having been micro accounts, the deposit cover remained constant at 94.5% of total deposit accounts. Correspondingly, the deposit insurance exposure expanded by 12.9% from Ksh 170.9bn to Ks.192.9bn within the period. It is pleasing to report that despite the growth in exposure, the deposit coverage was maintained at a high of 20.5%.

The Board continued with efforts to manage and liquidate assets of institutions in liquidation. During the year the Board declared dividends amounting to Ksh.849m to depositors and creditors of 17 institutions in liquidation. Reimbursements to depositors and creditors will progress in the coming period. The year also marked the dissolution of 2 institutions: Central Finance Kenya Limited and Inter Africa Finance Limited and the High Court released the Board as their Liquidator, respectively.

In pursuit of our vision, to align the Kenya deposit insurance design with international best standards, the Kenya Deposit Protection Scheme was subjected to assessment against the International Code of Core Principles for Effective Deposit Insurance System, by a team of international assessors who are experts in the field of deposit insurance under the auspices of the International Association of Deposit Insurers (IADI), an international financial standards setter. While lauding the DPFB Scheme being in compliance with most of the Core Principles for an Effective Deposit Insurance System, the assessment identified some areas of weakness that required remedial measures. It is pleasing to report that the outcome of this assessment has informed the enhancement of the Draft Regulations that will midwife the new law, The Kenya Deposit Insurance Act, 2012 as well as its amendments which are before Parliament for debate. Management has also endeavored to effect pertinent recommendations from the assessment by reviewing and enhancing internal business processes.

In closing the year, DPFB celebrates the land mark case delivered by the High Court during the period under review against the former executive directors who were also principle shareholders of Trust Bank Limited (In Liquidation). The High Court found the directors in breach of their fiduciary duties thereby causing loss to depositors of the collapsed bank. In making its land mark judgment and ruling, the High Court awarded depositors of the failed bank a total of Ksh. 1.5 billion (approximately USD 18 million) with interest from the year 2010 against the directors for their malfeasance. Whereas this case affords DPFB the opportunity to recover funds from the judgment directors for the benefit of depositors who lost their hard earned savings in Trust Bank Limited (In Liquidation) due to mismanagement and plunder, it also serves as a deterrent measure in mitigating moral hazard by directors and management of financial institutions who are entrusted with the fiduciary responsibility of safeguarding the interest of depositors and the general public.

In pursuing directors, management and any third party who plays a role in the collapse of an institution, the DPFB discharges its mandate of instilling confidence in the financial system thereby contributing to financial stability.

We, at DPFB, will continue to discharge our mandate with diligence.

Rose Detho

Director,

Deposit Protection Fund Board

The Year under Review

PERFORMANCE OF THE ECONOMY

The economy grew at 4.6 percent in 2012 compared to 4.4 percent in 2011. Real GDP growth in the first quarter of 2013 increased by 5.2 percent compared with a growth of 4.0 percent in the first quarter of 2012. The recovery in the first quarter of 2013 partly reflects in the agriculture sector where output increased by 8.3 percent compared to 2.1 percent in the first quarter of 2012. Most sectors of the economy recorded growth except tourism and air transportation which recorded marginal decline.

Overall 12-month inflation increased from 4.1 percent in May 2013 to 4.9 percent in June 2013 reflecting an increase in food inflation accentuated by a base effect. However, non-food, non-fuel inflation remained on the downward trend, declining from 3.91 percent in May 2013 to 3.86 percent in June 2013 while annual average inflation declined from 5.0 percent in May 2013 to 4.6 percent in June 2013.

The Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 8.50 percent through June 2013 from 18 percent in June 2012, while the weighted average interbank interest rate decreased to 7.14 percent from 17.09 percent in June 2012 reflecting stable liquidity conditions in the interbank market. Commercial banks average lending rate decreased from 20.30 percent in June 2012 to 16.97 percent in June 2013, while the average deposit rate declined from 7.88 percent to 6.65 percent over the same period. Consequently, the interest rate spread narrowed from 12.52 percent in June 2012 to 10.32 percent in June 2013. The 91 day and 182-day Treasury bill rate registered similar declines, from 10.09 percent and 10.67 percent in June 2012 to 6.21 percent and 7.12 percent respectively reflecting the Government borrowing profile.

Kenya's overall balance of payments surplus decreased to US$ 597 million in the year to June 2013 compared with US$ 841 million in the year to June 2012. The reduction reflected partial financing of a larger current account deficit, complementary to the smaller build up in the surplus of the capital and financial account. As a proportion of GDP the cumulative current account deficit increased from 9.54 percent in June 2012 to 11.35 percent in June 2013.

The Kenya Shilling weakened against major international currencies but appreciated against EAC currencies in the year to June 2013 compared to the year to June 2012. The Shilling weakened against the US$ to exchange at an average of Ksh 85.49 per US$ in June 2013 compared to Kshs 84.1 in June 2012. The depreciation of the Kenya shilling during this period is attributed to increased demand for foreign exchange that outweighed the supply. Official reserves held by the Central Bank constituted the bulk of gross reserves and increased by 15.3 percent to US$ 6,089 million (equivalent to 4.4 months of import cover) in June 2013. Official reserves level therefore remained above the statutory minimum 4 months of imports during the period under review.

The Central Government budgetary operations for the fiscal year 2012/13 resulted in a deficit of Ksh 249.6 billion (6.6 percent of GDP) on commitment basis, compared with Ksh 181.5 billion (5.5 percent of GDP) incurred during the 2011/12 fiscal year. The budget deficit was within the Ksh 324.2 billion (8.6 percent of GDP) programme target for the fiscal year.

Kenya's public and publicly guaranteed debt increased by Ksh 270.8 billion during the twelve months of the fiscal year 2012/13 to reach Ksh 1,894.1 billion at the end of June 2013 from Ksh 1,623.4 billion at the end of June 2012. The total debt-to- GDP ratio increased to 51.7 percent in June 2013 from 49.3 percent in June 2012, largely on account of domestic debt, of which the ratio as a percent of GDP increased from 26.1 percent to 28.7 percent. External debt to GDP ratio declined to 23.0 percent from 23.2 percent in June 2012.

Capital markets performance was subdued in the equities segments in June 2013, with all equities indices recording a decline as activity in the bonds segment improved.

BANKING SECTOR DEVELOPMENTS

The Kenyan banking sector comprised 43 commercial banks, 1 mortgage finance company, 9 deposit taking microfinance institutions, 7 representative offices of foreign banks, 107 foreign exchange bureaus and 2 credit reference bureaus as at end June 2013. The sector recorded improved performance in June 2013 with its balance sheet growing by 14.5 percent. Profitability improved by 15.6 percent in pre –tax profits. The sector operated within the liquidity ratio (monitored for prudential purpose) and the cash reserve ratio (imposed for liquidity management purpose), and remained well capitalized.

The banking sector balance sheet size increased by 14.5 percent from Ksh 2,195.0 billion in June 2012 to Ksh 2,513.5 billion in June 2013. The major components of the balance sheet on the asset side were loans and advances, government securities and placements, which accounted for 55.7 percent, 22.4 percent and 6.2 percent of total assets respectively.

The banking sector gross loans and advances increased from Ksh 1,289.3 billion in June 2012 to Ksh 1,454.9 billion in June 2013, which translated to an increase of 12.8 percent. The incremental credit was channeled to households, trade, manufacturing and real estate sectors. Loans and advances net of provisions stood at Ksh 1,400.0 billion in June 2013, up from Ksh 1,242.4 billion registered in a similar period in 2012.

Deposits from customers were the major source of funding for the banking sector, accounting for 73.9 percent of total funding liabilities. The deposit base increased by 12.1 percent from Ksh 1,656.4 billion in June 2012 to Ksh 1,857.3 billion in June 2013 mainly supported by aggressive mobilization of deposits by banks, remittances and receipts from exports.

The banking sector registered growth in capital levels in June 2013 with total shareholders' funds increasing by 25.2 percent from Ksh 315.1 billion in June 2012 to Ksh 394.4 billion in June 2013. As a result, the ratios of core and total capital to total risk-weighted assets increased from 17.7 percent and 20.3 percent in June 2012 to 20.2 percent and 23.3 percent, respectively.

The stock of gross non-performing loans (NPLs) rose by 34.4 percent from Ksh 57.5 billion in June 2012 to Ksh 77.3 billion in June 2013 attributed mainly to high interest rates and the reduced economic activities during the period towards and after the March 2013 general elections. Similarly, the ratio of gross NPLs to gross loans increased from 4.5 percent in June 2012 to 5.3 percent in June 2013. On the other hand, the coverage ratio which is measured as a percentage of specific provisions to total NPLs declined from 56.2 percent to 47.2 percent in June 2013 due to a higher growth in NPLs than the increase in provisions. The quality of assets, measured as a proportion of net non-performing loans to gross loans deteriorated from 1.6 percent in June 2012 to 2.3 percent in June 2013.

The banking sector registered an increase of 15.6 per cent growth in pre-tax profits, from Ksh 53.2 billion in June 2012 to Ksh 61.5 billion as at end of June 2013. Similarly, the annualised return on assets marginally increased from 3.8 percent in June 2012 to 3.9 percent in June 2013. However, return on equity declined from 33.7 percent to 31.2 percent over the same period. Total income increased marginally by 0.5 percent from Ksh 176.4 billion in June 2012 to Ksh 177.3 billion in June 2013, while total expenses declined by 6.0 percent from Ksh 123.3 billion in June 2012 to Ksh 115.9 billion in June 2013 with the decline largely attributed to interest expenses. Interest on loans and advances, fees and commissions and government securities were the major sources of income accounting for 57.8 percent, 18.4 percent and 15.0 percent of total income respectively. On the other hand, interest on deposits, staff costs and other expenses were the key components of expenses, accounting for 30.6 percent, 28.9 percent and 23.8 percent, respectively.

For the month ended June 30, 2013, average liquid assets amounted to Ksh 769.0 billion while total short-term liabilities stood at Ksh 1,801.9 billion, resulting to an average liquidity ratio of 42.7 percent, against 38.2 percent registered in June 2012.

The proportion of cash to deposit liabilities held by commercial banks at the Central Bank for reserve requirements averaged 5.31 percent in June 2013 compared with 5.49 percent in May 2013, and 5.25 percent minimum statutory level. Commercial banks maintained an average of Ksh 1.04 billion above the 5.25 percent monthly average cash reserve requirement at the Central Bank in June 2013 compared with Ksh 4.17 billion in May 2013. Commercial banks are required to maintain Cash Reserve Ratio (CRR) on a monthly average of 5.25 percent in the 30 day maintenance cycle from 15th through 14th of every month but subject to a daily minimum of 3.0 percent.

Stress tests performed confirm the resilience of Kenya's banking system towards credit growth, increase in NPLs and appreciation of the shilling. All banks are expected to remain solvent in the medium term.

The revised prudential and risk management guidelines issued in November 2012, became effective in January 2013 and are expected to address emerging risks and ensure the continued stability and integrity of the sector.

Going forward, the banking sector is expected to sustain its growth momentum largely driven by adoption of cost effective delivery channels and increased presence of Kenyan banks in the East African Community Partner States and South Sudan.

FINANCIAL INCLUSION INITIATIVES

In line with Kenya's economic development blueprint, Vision 2030, the expansion of financial services is a priority area for Kenya. Financial sector development, in particular, is one of the critical pillars being relied upon to realise the Vision, which aims at creating a vibrant, efficient and globally competitive financial system to drive savings and investments. In this regard, a number of reforms and initiatives have been employed to make the financial system more inclusive over the last ten years.

a) Deposit Taking Microfinance Institutions

The Microfinance Act was enacted in 2006 and operationalized in 2008 to provide for the licensing, regulation and supervision of deposit-taking microfinance business by the Central Bank of Kenya. This Act was developed to enhance governance, accountability and transparency, high performance standards, deposit protection and promote competition to enhance efficiency and access as well as promote stability. As at June 2013, CBK had licensed nine DTMs with 86 branches, 1.54 million number of deposit accounts valued at Ksh. 19.75 billion (USD 225.7 million); and 0.4 million number of loan accounts with an outstanding loan portfolio of Ksh. 37.75 billion (USD 431.5 million).

b) Credit Information Sharing Mechanism

The Banking (Credit Reference Bureau) Regulations, 2008, were operationalized in 2009 and further amended in 2012 following the amendment of the Banking Act and Microfinance Act through the Finance Act, 2012; all institutions licensed under the two statutes are now required to share credit information through licensed credit reference bureaus (CRBs). The objective of the amendment is to harmonise the credit information sharing (CIS) framework between these institutions. The amended CRB Regulations have been submitted to the State Law Office for publication and gazettement. As at the end of June 2013, two Credit Reference Bureaus i.e. CRB Africa and Metropol CRB Ltd were in operation. Since the rollout of credit referencing mechanism, close to 3 million credit reports had been requested from the CRBs by banks while approximately 41,681 reports had been requested by individuals as at June 2013.

c) Agency Model

The amendment of the Banking Act through the Finance Bill, 2009 permitted commercial banks to use third parties to provide specified banking services on their behalf. Since January 2012, DTM's were also allowed to engage in agency banking. The agency banking model was designed to assist financial insisutions in providing services cost effectively and to enhance outreach in order to promote financial inclusion of the unbanked population. As at June 2013, thirteen banks had 19,649 agents, with 58.65 million transactions valued at over Kshs 310.54 billion(USD 3.54 billion) transacted through the agents. One DTM was also granted a agency network approval.

d) Mobile Financial Services

The mobile phone financial transfer services have been a phenomenal success and have put the country at the global centre stage of financial inclusion and innovation. Initially the service started as a cash in/cash out money transfer payments service, with e-value backed by funds in bank accounts. With time, increased competition and innovation has led to the development of Interfaces, linkages and integration of mobile payment platforms with financial institutions.

Currently there are close to 100,000 agents handling over 23.7 million customers. Approximately 60 million transactions valued at Ksh. 152.5 billion (USD 1.8 billion) are effected through mobile financial services on a monthly basis.

e) Shariah Compliant Banking

The financial needs of those excluded from conventional banking products based on religious beliefs were catered for through the introduction of Shariah Compliant/Islamic Banking Products in December 2005 into the formal banking industry. The products took the form of deposit products tailored in line with Shariah principles. The Shariah prohibits 'interest' but it does not prohibit all gains on capital. As at June 2013, two sharia compliant banks were in operation having commenced business in 2007/8, namely, Gulf African Bank and First Community Bank. The two banks control approximately 1% of the banking sector market share.

Corporate Governance

MANDATE AND RESPONSIBILITIES

The Deposit Protection Fund Board (DPFB) was established in 1985 under Section 36 of the Banking Act, Chapter 488, Laws of Kenya, and commenced operations in 1989. The Board was created in response to the challenges presented by the banking crises and bank failures that took place in Kenya in the 1980s.

The mandate of the DPFB is to build confidence in the banking sector through an effective deposit insurance scheme and to foster financial stability.

The objectives of the DPFB include the following:-

i) Deposit protection; to safeguard depositors (specifically small depositors) by providing insurance cover.

ii) Liquidation of operations of an institution in respect of which the Board is appointed as liquidator.

iii) Holding and managing the Deposit Protection Fund.

iv) Levying contributions for the Fund from member institutions.

The Deposit Protection Fund Board comprises of seven members. The Governor of the Central Bank is the Chairman of the Board while the Principal Secretary of the National Treasury is an ex-officio member. In addition, there are five other members drawn from the banking industry.

The management of DPFB is charged to the Central Bank. Section 36(b) of the Banking Act, provides that the Central Bank shall make available to the Board such facilities as are necessary for the proper and efficient exercise of the functions of the Board. All staff deployed to DPFB are, therefore, on secondment from the Central Bank.

In efforts to transform the current Deposit Protection Fund Board, The Kenya Deposit Insurance Act, 2012 was promulgated on May 14th, 2012. The Act seeks to expand the mandate of DPFB transforming it from a 'pay-box plus' scheme to a risk minimiser. The new deposit insurance regime, which is aligned with international best standards, seeks to:

a) create a new institution, the Kenya Deposit Insurance Corporation (KDIC);

b) enhance its corporate governance; and

c) provide incentives for sound risk management and generally promote the stability of the financial system.

ORGANIZATION STRUCTURE

DPFB is steered by a Board of Directors. The Board plays an oversight role on Management activities and is responsible for the DPFB performance.

Day to day operations is vested to a team of management, under a Director, who acts as the CEO of the Fund. The operations of the Fund are driven by four divisions, namely, Finance and Administration, Liquidations, Legal, and ICT. The DPFB establishment as at June 30th 2013 had 55 staff.

CORPORATE GOVERNANCE APPROACH

Section 36 of the Banking Act established the Deposit Protection Fund Board and defined the members, roles and functions of the Board. The Board is mandated to determine the Fund's procedures and operations. The Act further bestows the responsibility to make available to the Board such facilities and the services of such officers as are necessary for the proper and efficient exercise of the functions of the Board, to the Central Bank of Kenya.

The Board has delegated the day to day operations of the Fund to management staff seconded from the Central bank of Kenya, under an Executive Director who acts as the CEO of the Fund. The Executive Director is not a member of the Board and only presents management performance to the Board. Decision making on major operational issues is through various management committees, where each decision is subjected to critical analysis and review by the members of the committees. Major decisions on expenditure are however approved by the Chairman, who is also the Governor of the Central Bank of Kenya.

The current governance structure is however poised to change when KDIC becomes operational, with a new Board composition to include representation of other players in the sector and the general public.

HUMAN RESOURCES

As provided for in the Banking Act, all staff of DPFB are employees of the Central Bank of Kenya (CBK), seconded to the Fund. The Board determines the number and competencies of staff required and requests the CBK to provide as necessary. The Fund is responsible for HR development of its staff. Although under the management of the Central Bank, the Fund meets fully all expenditure on staff including salaries, other remunerations, medical expenses and pension. Suffice to mention that employee compensation and terms of service are pegged to the CBK schemes.

STRATEGIC PLANNING

DPFB is currently in a transition period after the passing of Kenya Deposit Insurance Act 2012. An interim transitional strategic plan has been developed charting the strategic direction of the Fund for the three year cycle, 2012 to 2015.

The strategic plan focuses on three strategic objectives:

i) Promoting effective deposit insurance scheme for depositors of member institutions

ii) Enhancing operational efficiency of the Fund

iii) Promoting international best practice on deposit insurance.

The implementation of the strategic plan is hinged on a number of performance goals. Notable among these are the prudent budgetary control and investment decisions that will see the growth of the fund by 15% annually; transforming the deposit insurance scheme from a pay-box to a risk minimizer and proactively participate in problem bank resolution thereby fostering financial stability. The Board has embarked on the implementation of its strategic plan with notable milestones at the end of the review period. The Fund was subjected to self assessment on its level of compliance with the core principles of deposit insurance system. This has informed remedial measures that will address identified gaps in the DPFB design to make it more effective.
Tremendous efforts were spent in drafting regulations that will implement the Kenya Deposit Insurance Act 2012, while the liquidation operations were streamlined to fast track the winding up of institutions in liquidations. The Board also engaged in continous capacity building with a bias on deposit insurance to sharpen skills and prepare staff and management towards the goal of attaining best practice.

It is expected that the strategic objectives will be achieved within the planned period.

CORPORATE SOCIAL RESPONSIBILITY

In fulfilling its mandate, the DPFB also recognises the need to make a positive contribution to the welfare of the society and, to this end, The Chairman's Philanthropic Fund was established in furtherance of Corporate Social Responsibilty.

In the year under review, DPFB extended financial support to needy projects all over the country covering orphanages, educational and health institutions. Some of the beneficiaries included: Handicapped Community Fellowship, Hope and Faith Centre for the Disabled, St. Prisca Childhood Development Rehabilitation Centre and Sons of Mannaseh Rehabilitation centre.

The Board shall continue to support needy projects in line with the DPFB objectives of making a difference to society.

Beneficiaries of HCF receiving donations from DPFB.

Deposit Insurance Activities

INTRODUCTION

Financial institutions differ from most industrial and commercial enterprises in that they depend mainly on deposits mobilized from the public for their working capital hence are highly leveraged. If a financial institution is unable to meet its obligation to depositors due to operational problems or business failure, anxious depositors may cause a run on the banks as well as other healthy institutions. The stability of the financial system and social order in general would also be at risk. Moreover, most depositors have small deposit amounts and therefore cannot cost-effectively collect information on the financial institutions they do business with.

The role of deposit insurance, is therefore to protect depositors particularly small vulnerable and less financially sophisticated against losses they may incur as a result of the failure of banks and other deposit taking institutions, thus creating public confidence in a financial system. In addition, the availability of deposit insurance serves to protect banks against the risk of 'runs' and thus contribute to financial stability.

One of the important lessons of the 2007-2008 global financial crisis is that effective systems of deposit insurance are important not only for the protection of individual depositors but also for financial stability. In response to the aftermath of the global financial crisis, many jurisdictions temporarily or permanently increased their insurance cover as one of the resolution measures undertaken to restore confidence in the financial systems.

DPFB CORE PRINCIPLES ASSESSMENT

Following the global financial crisis, there has been international endeavour to strengthen deposit insurance systems. In June 2009, the International Association of Deposit Insurers (IADI) and the Basel Committee on Banking Supervision (BCBS) jointly established and published a set of 18 Core Principles for Effective Deposit Insurance Systems. The Core Principles duly received the endorsement of the Financial Stability Board and were entered in the Compendium of International Financial Standards. The Core Principles serve as a valuable benchmark for jurisdictions to use to strengthen existing and develop new systems of deposit insurance.

In efforts to align its scheme with international best practice, the DPFB officially adopted the Core Principles for Effective Deposit Insurance Systems. In November 2012, DPFB objectives, policies and operations were subjected to assessment against these international financial standards for effective deposit insurance system by a team of experts in the field of deposit insurance. The experts were drawn from IADI, the Federal Deposit Insurance Corporation, US Department of Treasury, the World Bank, Canada Deposit Insurance Corporation, the Philippines Deposit Insurance Corporation, Nigeria Deposit Insurance Corporation, and the Deposit Protection of Swiss Banks and Securities Dealers.

The objective of the assessment was to determine the extent of DPFB's compliance with the Core Principles for Effective Deposit Insurance Systems and to address gaps and deficiencies, if any, as the Fund strives to strengthen its design features and enhance operational efficiency for the benefit of stakeholders.

The outcome of the above assessment has served as a valuable contribution to the review of DPFB's strategic direction and options, in particular, the drawing up of Regulations that are a roadmap to implementing the new deposit insurance regime under the Kenya Deposit Insurance Act, 2012. The assessment has also played a key role as an input to the legislative amendments to the KDI Act, 2012 that are before Parliament for enactment. DPFB management has, again initiated remedial measures through changes in internal operational policies, systems and processes.

Going forward, DPFB will embark on a significant review process to determine an adequate deposit protection coverage, a commensurate contribution by member institutions as well as an optimal target Fund as the Board strives to improve on its design of deposit insurance scheme.

DEPOSIT INSURANCE COVERAGE

In its endeavour to provide a Deposit Insurance Scheme to depositors of member institutions, DPFB has ensured that the level and scope of coverage meets public policy objective by covering majority of retail depositors in full.

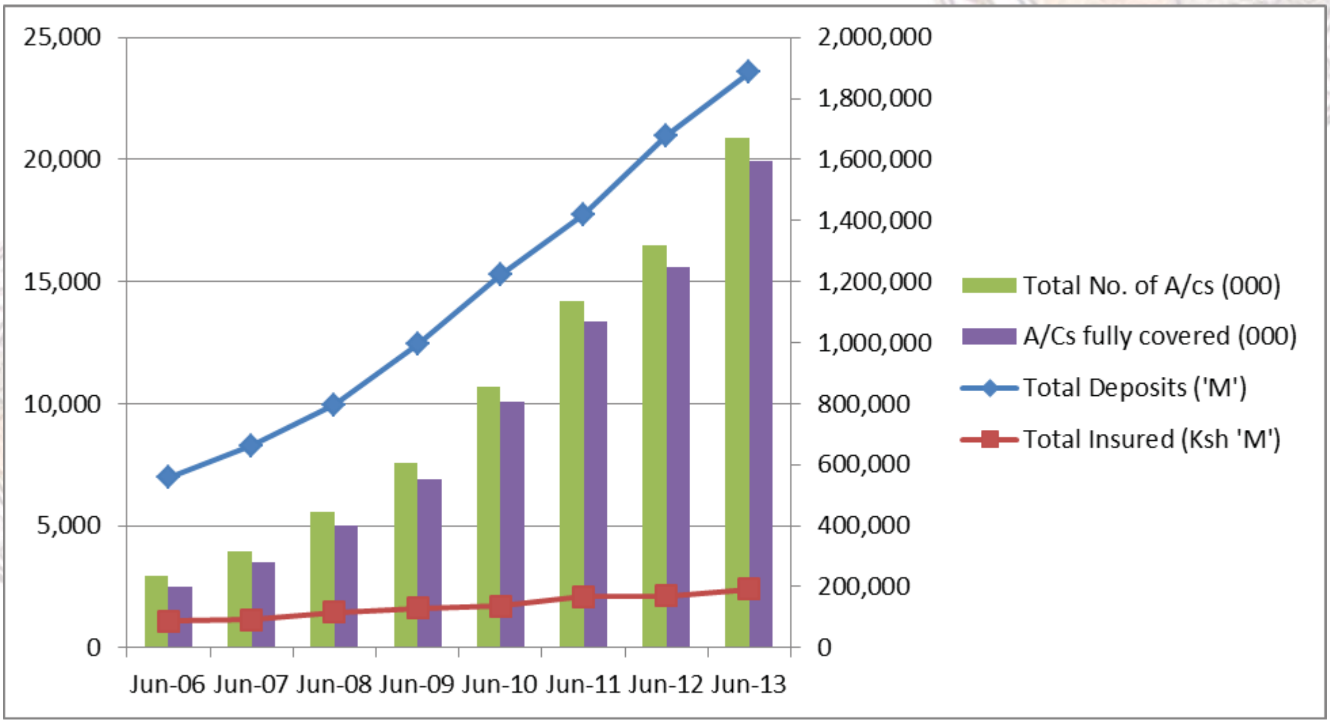
Membership to the fund is mandatory for all deposit taking institutions licensed by the Central Bank of Kenya while the coverage and limit of insured deposits has remained at a maximum of Ksh 100,000 (US $ 1,176) per depositor.

At the current level and scope of coverage, total depositors' accounts covered have been maintained at over 80% over the years, in line with IADI's minimum benchmark. This is attributed to national initiatives that have promoted financial inclusion which has seen previously unbanked retail depositors enter the formal financial system. For the period ended 30th June 2013, total accounts covered were at 95.2%. As shown in the Table and Chart below, the total amount insured increased by Ksh 21.96 billion from Ksh 170.90 billion in June 2012 to Ksh 192.9 billion in June 2013. The total number of deposit accounts increased by 4.437 million during the year under review, from 16.471 million in June 2012 to 20.908 million in June 2013.

Table 1: Trend in Deposits and Coverage

	June 2006	June 2007	June 2008	June 2009	June 2010	June 2011	June 2012	June 2013
Total Deposits (Kshs 'M')	558,454	662,987	795,726	994,292	1,222,160	1,420,457	1,678,590	1,884,784
Total Insured (Ksh 'M')	88,356	92,357	115,526	129,192	136,291	168,120	170,931	192,887
Total No of A/cs (000)	2,925	3,966	5,570	7,573	10,676	14,213	16,471	20,908
A/cs Fully Covered (000)	2,475	3,495	4,996	6,903	10,057	13,365	15,588	19,911

Chart 1: Trend in Deposits and Coverage



It is to be noted that the scope of deposit protection covers deposits received by deposit-taking financial institutions licenced by the Central Bank including balances in foreign currency accounts except inter-bank balances.

Whereas the maximum amount covered per depositor has remained at Ksh. 100,000 since the inception of the deposit insurance scheme in 1985, this is poised for review in the coming period.

MEMBER INSTITUTIONS' CONTRIBUTIONS

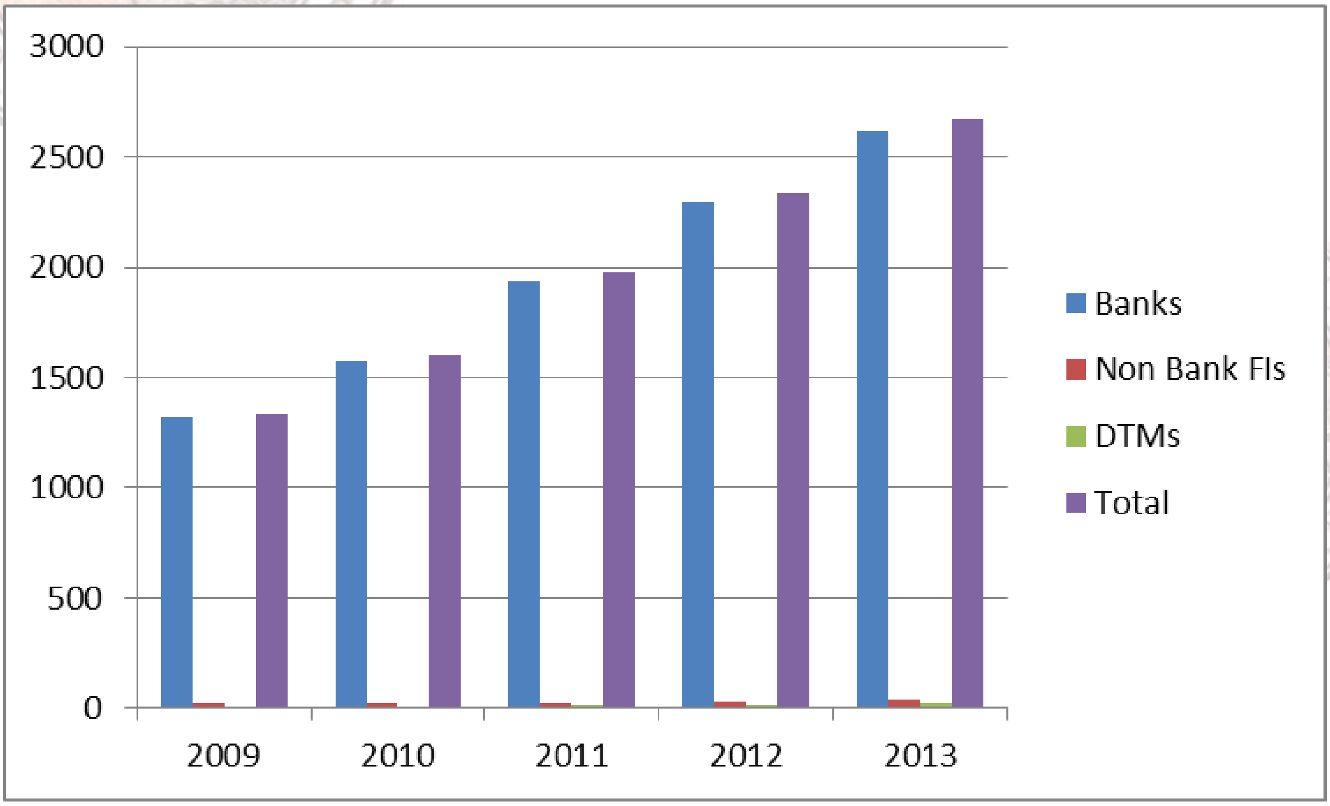
DPFB operates an ex-ante deposit insurance scheme where funding is through annual premium contribution by all member institutions. The major sources of funding are, therefore, member contributions and income from investments in Government Securities. The premium is currently charged at 0.15% of the average total deposit liabilities for the 12 months preceding the commencement of the financial year or ksh 300,000.00 whichever is higher. For the year ended 30th June 2013, DPFB collected a total of ksh 2.675billion from member contribution.

Table 2 and chart 2 shows the premium contribution by member institutions from 2009 to date.

Table 2: Trend in Premium Contribution (Kshs m)

	2009	2010	2011	2012	2013
Banks	1315.7	1574.1	1934.6	2294.3	2615.7
Non Bank FIs	21.6	24.2	25.4	28.3	35.4
DTMs		0.3	12.9	16.5	24.8
Total	1337.3	1598.6	1972.9	2339.1	2675.9

Chart 2 Trend in Premium Contribution (Kshs m)



In order to streamline risk management in member institutions, DPFB will, in the near future, conduct a study with a view to introduce Differential Premium. This methodology of contribution will take into account institutional risk profile of contributing members, hence make premium assessments risk-based and more objective.

RELATIONSHIP WITH IADI AND ARC

DPFB is a founder member of the International Association of Deposit Insurers (IADI) and a member of its various Standing Committees as well as the Africa Regional Committee (ARC).

IADI, founded in 2002, contributes to the stability of financial systems by promoting international cooperation in the field of deposit insurance. In advancing its course, IADI, among other strategic objectives, strives to: facilitate the sharing and exchange of expertise and information on deposit insurance through training, development, and education programs; and undertake research and provide guidance on issues relating to deposit insurance.

In line with the above IADI objectives, DPFB, during the year under review, actively participated in various IADI activities. Some of these include: IADI AGM in London; IADI Executive Council Meetings in Ottawa and Manila; and IADI training programs and conferences in Khartoum, Kuala Lumpur, Mumbai and Dar-es-Salam. DPFB also organized and hosted IADI Core Principles Assessment Workshop in Nairobi and participated in the assessment of other jurisdictions deposit insurance systems, namely, Malaysia, Turkey and Trinidad & Tobago.

DPFB will continue to cooperate with IADI and its members with the objective of sharing experience and continuously improving and aligning its deposit insurance system with best practice.

Regional Workshop for Deposit Protection Fund Board (DPFB) Assessment on IADI Core Principles for Effective Deposit Insurance System

The Deposit Protection Fund Board (DPFB), in collaboration with IADI, held a Regional Workshop on the Core Principles Self-Assessment using Kenya as a test case to evaluate the compliance status of DPFB system with the 18 Core Principles for an effective Deposit Insurance System, and to identify strengths and weaknesses in the current system and form a basis for remedial measures where needed.

The Workshop, funded by DPFB with the assistance of the Financial and Legal Sector Technical Assistance Programme (FLSTAP) and the International Association of Deposit Insurers (IADI), was held on 5th November to 9th November, 2012 at the Kenya School of Monetary Studies. It was officially opened by Prof. Njuguna Ndung'u, the Chairman, Deposit Protection Fund Board and closed by Mr. Richard Etemesi, Board Member and Chairman of the Kenya Bankers Association. All the continents except Australia were represented in the workshop. Forty five (45) participants, including Kenya's financial sector regulators and the National Treasury, were represented in the Workshop.

Seven (7) lead assessors were drawn from the Federal Deposit Insurance Corporation, the World Bank, Deposit Protection of Swiss Banks and Security Dealers, Nigeria Deposit Insurance Corporation, Philippines Insurance Corporation, Canadian Deposit Insurance Corporation and the US Treasury. The lead assessors prepared a report which was discussed with the DPFB Senior Management for input and review.

The assessors, thereafter, compiled the final report which was contained in an Aide Memoire dated November 20th, 2012. The Aide Memoire was discussed with the DPFB management and forwarded to the Principal Secretary, Treasury for information and support when implementing remedial actions as necessary.

While undertaking this assessment, the assessors observed areas of strength in the Kenyan economy, the financial system in general and Deposit Protection Fund Board in particular. These areas of strength included the following:

i) Kenya exhibited a strong macroeconomic environment. The economy grew by 4.3% in 2011 after registering real growth in GDP of 5.6% in 2010. It was pleasing to note that the Government was proactive in responding to the economic challenges encountered in 2012.

ii) The financial system has remained sound and CBK has in place strong prudential regulation and supervision framework with sound governance practices required of member institutions. This has been strengthened by the close collaboration among Kenya's financial safety-net participants including the Ministry of Finance, the CBK, CMA, IRA, RBA and SASRA.

iii) The Central Bank and the DPFB have a well-developed legal framework for handling bank failures that includes a method for failure resolution. Banking laws and regulations are updated as necessary to ensure that they remain effective and relevant to a dynamic industry.

iv) Transformation of the deposit insurance scheme from a 'pay-box plus' to a risk minimizer through the enactment of new legislation, the Kenya Deposit Insurance Act, 2012 will further strengthen the deposit insurance system.

v) The Fund has registered an annual growth of 16.4% and the level of the current fund would be capable of reimbursing cumulatively all insured depositors up to the 35th largest bank.

vi) DPFB has in place an Interim Strategic Plan for 2012-2015, that has been shared with key stakeholders.

vii) DPFB has participated in the national agenda for financial inclusion by presenting an element of reassurance to depositors, resulting in the growth of bank accounts to 16 million and six Deposit-taking Micro-Finance institutions becoming members of the Fund at the end of 2011.

viii) DPFB has successfully concluded dissolution of seven member institutions in liquidation, and declared dividends on ten other institutions since 2009.

A summary of the findings of DPFB assessment against the 18 Core Principles are indicated here under:

DPFB Ratings	Number of Principles
Compliant	6 Principles
Largely Compliant	9 Principles
Materially Non- Compliant	2 Principles
Not Compliant	Nil
Not Applicable	1 Principle: Transitioning from blanket guarantee to explicit/limited cover

It is pleasing to note that DPFB was not rated "Not Compliant" on any of the Core Principles. The assessors, however, found DFPB Materially Non-Compliant with two Core Principles, namely, **"Funding"** and **"Effective Resolution Mechanism".** These require legislative amendments to address. The other areas of deficiencies require remedial measures through changes in internal operational processes which DPFB management has embarked on.

DPFB lacks a Target Funding Policy and the size of the Fund is yet to be fixed as provided for in the Banking Act. In addition, emergency back-up funding arrangements beyond the CBK maximum borrowing limit of Ksh.500 million need to be provided.

It is best practice that depositors' funds are reimbursed promptly yet depositors have no access to protected deposits during statutory management period when a moratorium is also declared nor does DPFB have powers to make partial payments and/or transfer deposits to other banks to facilitate prompt payments.

Following the Core Principles Assessment, DPFB is currently undertaking reviews and remedial measures to address identified deficiencies. Initiatives in progress include the following:

i) A Target Funding Policy is to be established and the National Treasury will fix the size of the Fund as provided for in the law.

ii) An emergency back-up funding arrangement will be set up beyond the CBK maximum borrowing limit.

iii) A framework will be introduced that will ensure that depositors access protected deposits during Statutory Management of a member institution.

iv) Legislation will be amended to grant DPFB powers to make partial payments and transfer deposits to other banks to facilitate prompt payments to depositors when a member institution is under financial strain or when circumstances deem appropriate.

v) DPFB will establish cross-border protocols given that its member institutions have expanded regionally.

vi) DPFB will establish a Communications Strategy to drive public awareness initiative and periodically conduct impact assessments to gauge the achievement of the publicity objectives.

vii) DPFB will initiate legislative amendments granting powers to access depositors' profiles to facilitate efficient reimbursement of protected deposits.

viii) Current deposit cover will be reviewed for adequacy.

The findings of the assessment on the Core Principles for Effective Deposit Insurance System have formed the basis for revisiting DPFB's Strategic Direction and Options. Suffice to mention that the outcome of the assessment has specifically informed the drafting of the Regulations that will operationalize the Kenya Deposit Insurance Act, 2012 and are the subject of the Draft Amendments to the Act already tabled in Parliament for debate and legislation.

The Aide Memoire on the Core Principles Assessment is annexed to this report.

Liquidation Activities

PAYMENT OF PROTECTED DEPOSITS

The total protected deposits paid by all the institutions so far placed under liquidation by the Deposit Protection Fund Board amounted to Kshs.1,114 million as at June 30, 2013. This figure has remained constant from the 2007/2008 financial year, when the two year limitation period for payment of protected deposits by Daima Bank Limited [I.L.] expired, being the last institution placed under liquidation by the Deposit Protection Fund Board. Cummulative payment for insured deposits since the Board commenced liquidation of banks and financial institutions averaged 74.12% of total insured deposits, with the balance representing unclaimed deposits.

Details of payment of Protected Deposits by each institution are shown on Table 3 below. Institutions which have already been wound up by the Board are listed in the shaded area at the bottom of the table.

Table 3. Payment of Protected Deposits as at June 2013 (Kshs. million)

	Name of Institution	Liquidation Date	Total Deposits as at Liquidation	Total Protected Deposits	Protected Deposits paid as at 30th June 2012	Protected Deposits paid as at 30th June 2013	% of Protected Deposits paid as at 30th June 2013
1	Postbank Credit Ltd.	20-May-93	3,834.00	30.00	30.00	30.00	100.00
2	Trade Bank Ltd.	18-Aug-93	4,766.50	280.00	248.00	248.00	88.57
3	Middle Africa Finance Ltd.	20-Aug-93	242.00	17.00	13.00	13.00	76.47
4	Pan-African Bank Ltd.	18-Aug-94	614.50	107.00	90.00	90.00	84.11
5	Pan-African Credit & Finance Ltd.	18-Aug-94	139.00	8.00	6.00	6.00	75.00
6	Thabiti Finance Co. Ltd.	19-Dec-94	850.00	54.00	33.00	33.00	61.11
7	Meridien BIAO Bank Ltd.	15-Apr-96	781.00	45.00	38.00	38.00	84.44
8	Heritage Bank Ltd.	13-Sep-96	370.00	10.00	7.00	7.00	70.00
9	Kenya Finance Bank Ltd.	29-Oct-96	1,782.00	381.00	323.00	323.00	84.78
10	Ari Bank Corporation Ltd.	05-Dec-97	287.00	11.00	6.00	6.00	54.55
11	Prudential Bank Ltd.	05-May-00	600.00	16.00	12.00	12.00	75.00
12	Reliance Bank Ltd.	12-Sep-00	969.00	88.00	50.00	50.00	56.82
13	Fortune Finance Co. Ltd.	14-Sep-00	320.00	33.00	23.00	23.00	69.70
14	Trust Bank Ltd.	15-Aug-01	159.00	111.00	20.00	20.00	18.02
15	Euro Bank Ltd.	21-Feb-03	2,040.00	19.00	8.00	8.00	42.11
16	Prudential Building Society	18-Jan-05	2,025.00	8.00	3.00	3.00	37.50
17	Daima Bank Ltd.	13-Jun-05	669.00	93.00	76.00	76.00	81.72
18	Inter-Africa Credit Finance Ltd. 07-Sep-12*	31-Jan-93	138.00	4.00	2.00	2.00	50.00
19	Central Finance Ltd. 07-Sep-12*	19-May-93	106.00	15.00	12.00	12.00	80.00
20	Nairobi Finance Ltd. 16-Aug-10*	20-Aug-93	188.00	5.00	4.00	4.00	80.00
21	Diners Finance Co. Ltd. 07-Nov-08*	20-Aug-93	667.00	142.00	95.00	95.00	66.90
22	Trade Finance Ltd. 23-Sep-08*	18-Aug-93	203.00	10.00	6.00	6.00	60.00
23	Allied Credit Ltd. 06-Nov-07*	20-Aug-93	81.00	14.00	8.00	8.00	57.14
24	International Finance Ltd. 06-Nov-07*	16-Apr-93	168.00	2.00	1.00	1.00	50.00
	TOTALS		**21,999.00**	**1,503.00**	**1,114.00**	**1,114.00**	**74.12**

* Date of Release of Liquidator

DEBT RECOVERY

As at June 30, 2013, the cummulative recovery of debts and realisation of other assets by all the institutions so far placed under liquidation by the Deposit Protection Fund Board totalled KShs. 6,934.73 million. This amount represents an increase of Kshs. 526.80 m against the total cumulative asset realisation of Kshs. 6,407.93 million achieved in the previous financial year. General performance on debt recovery continues to decrease due to poor quality of the remaining assets. While the exercise continues in earnest, focus has now shifted to reviewing and determining chances of recovering debts which have had long term realization challenges brought about by factors such as poor documentation; rural based securities that are difficult to sell; undocumented irregular insider borrowing; and court cases which have taken inordinately long to determine. However, with the ongoing reforms at the Judiciary and the establishment of Credit Referencing Mechanism, it is expected that debt recovery will improve.

Table 4 below illustrates the cummulative loan recovery and performance by all institutions in liquidation. Only 10 [ten] institutions have managed to recover margins above 20% of the outstanding debt portfolio as at the date of liquidation.

Table 4: Debt recovery as at June 2013 (Kshs million)

	Name of Institution	Liquidation Date	Total Loans as at Liquidation	Total Loans Recovered as at 30 June 2012	Total Loans Recovered as at 30 June 2013	% of Original Debt 30 June 2013
1	Postbank Credit Ltd.	20-May-93	3,605.00	2,070.85	2,078.65	57.66
2	Trade Bank Ltd.	18-Aug-93	3,955.00	751.32	755.87	19.11
3	Middle Africa Finance Ltd.	20-Aug-93	656.00	71.24	71.24	10.86
4	Pan-African Bank Ltd.	18-Aug-94	1,433.00	340.50	344.90	24.07
5	Pan-African Credit & Finance Ltd.	18-Aug-94	445.00	176.52	176.52	39.67
6	Thabiti Finance Co. Ltd.	19-Dec-94	1,217.00	108.95	110.47	9.08
7	Meridien BIAO Bank Ltd.	15-Apr-96	224.00	87.70	87.80	39.20
8	Heritage Bank Ltd.	13-Sep-96	458.00	50.55	50.55	11.04
9	Kenya Finance Bank Ltd.	29-Oct-96	2,329.00	458.31	462.81	19.87
10	Ari Bank Corporation Ltd.	05-Dec-97	453.00	24.74	25.04	5.53
11	Prudential Bank Ltd.	05-May-00	633.00	79.73	80.09	12.65
12	Reliance Bank Ltd.	12-Sep-00	1,591.00	141.22	144.62	9.09
13	Fortune Finance Co. Ltd.	14-Sep-00	345.00	78.44	78.44	22.74
14	Trust Bank Ltd.	15-Aug-01	13,808.00	1,031.78	1,499.06	10.86
15	Euro Bank Ltd.	21-Feb-03	3,861.00	127.30	153.38	3.97
16	Prudential Building Society	18-Jan-05	3,283.00	205.47	206.31	6.28
17	Daima Bank Ltd.	13-Jun-05	802.00	172.58	178.25	22.23
18	Inter-Africa Credit Finance Ltd. 07-Sep-12	31-Jan-93	155.00	35.90	35.90	23.16
19	Central Finance Ltd. 07-Sep-12	19-May-93	111.00	110.38	110.38	99.44
20	Nairobi Finance Ltd. 16-Aug-10	20-Aug-93	997.00	63.96	63.96	6.42
21	Diners Finance Co. Ltd. 07-Nov-08	20-Aug-93	358.00	116.23	116.23	32.47
22	Trade Finance Ltd. 23-Sep-08	18-Aug-93	105.00	94.66	94.66	90.15
23	Allied Credit Ltd. 06-Nov-07	20-Aug-93	111.00	4.40	4.40	3.96
24	International Finance Ltd. 06-Nov-07	16-Apr-93	176.00	5.20	5.20	2.95
	TOTALS		**41,111.00**	**6,407.93**	**6,934.73**	**16.87**

PAYMENT OF DIVIDENDS

Trust Bank Limited [I.L.], Daima Bank Limted [I.L.] and Post Bank Limited [I.L.] declared their 3rd, 4th and 14th dividends respectively amounting to Kshs. 849 million during the year under review Further Pan African Bank Limited [I.L.], Pan African Credit & Finance Limited [I.L.], Prudential Building Society [I.L.] and Prudential Bank Limited [I.L.] continued paying their respective dividends during the year.

As at 30th June, 2013, the cummulative dividends paid by all the institutions in liquidation amounted to Kshs. 7,160.95 million compared to Kshs.6,304.90 million the previous year resulting in an increase of 13.58% in dividend payment for the year under review. Among the institutions in liquidation, Post Bank Credit Limited [I.L.] has made the highest dividend payout amounting to Kshs. 1,824.27 million, followed by Pan-African Bank Limited [I.L.] at Kshs. 1,179 million and Trust Bank Limited [I.L.] at Kshs. 1,120.31 million. Other institutions are also making the requisite arrangements to declare final dividends in preparation for winding up their respective liquidations.

Table 5 below shows cummulative dividend payments made as at 30th June, 2013 by individual institutions in liquidation.

Table 5: Dividends paid as at 30th June 2013 (Kshs. Million)

	Name of Institution	Liquidation Date	Total Unprotected Deposits as at Liquidation	Dividends paid as at 30th June 2012**	Dividends paid as at 30th June 2013**
1	Postbank Credit Ltd.	20-May-93	3,804.00	1,724.27	1,824.27
2	Trade Bank Ltd.	18-Aug-93	4,486.50	540.72	540.72
3	Middle Africa Finance Ltd.	20-Aug-93	225.00	14.70	14.70
4	Pan-African Bank Ltd.	18-Aug-94	507.50	1,179.00*	1,179.00*
5	Pan-African Credit & Finance Ltd.	18-Aug-94	131.00	272.00	272.00
6	Thabiti Finance Co. Ltd.	19-Dec-94	796.00	77.48	77.48
7	Meridien BIAO Bank Ltd.	15-Apr-96	736.00	335.71	335.91
8	Heritage Bank Ltd.	13-Sep-96	360.00	10.20	10.40
9	Kenya Finance Bank Ltd.	29-Oct-96	1,401.00	250.90	250.90
10	Ari Credit Corporation Ltd.	05-Dec-97	276.00	37.90	37.90
11	Prudential Bank Ltd.	05-May-00	584.00	201.00	216.00
12	Reliance Bank Ltd.	12-Sep-00	881.00	116.86	116.86
13	Fortune Finance Co. Ltd.	14-Sep-00	287.00	119.38	119.38
14	Trust Bank Ltd.	15-Aug-01	48.00	458.00	1,120.31
15	Euro Bank Ltd.	21-Feb-03	2,021.00	60.44	60.44
16	Prudential Building Society	18-Jan-05	2,017.00	193.4	219.00
17	Daima Bank Ltd.	13-Jun-05	576.00	211.30	264.04
18	Inter-Africa Credit Finance Ltd. 07-Sep-12	31-Jan-93	134.00	24.21	24.21
19	Central Finance Ltd. 07-Sep-12	19-May-93	91.00	104.10	104.10
20	Nairobi Finance Ltd. 16-Aug-10	20-Aug-93	183.00	48.26	48.26
21	Diners Finance Co. Ltd. 07-Nov-08	20-Aug-93	525.00	244.84	244.84
22	Trade Finance Ltd. 23-Sep-08	18-Aug-93	193.00	80.23	80.23
23	Allied Credit Ltd. 06-Nov-07	20-Aug-93	67.00	-	-
24	International Finance Ltd. 06-Nov-07	16-Apr-93	166.00	-	-
	TOTALS		**20,496.00**	**6,304.90**	**7,160.95**

PS: ** The figures given include dividends payments to both depositors and sundry creditors of the institutions, hence the reason why, in some instances, the cumulative total exceeds the unprotected deposit figures.

* Pan African Bank held Kshs. 665 million in Treasury Bills as at Liquidation and adjustments effected in this report.

Discussion Article:

TRANSFORMATION FROM DPFB TO KDIC

BACKGROUND

The Deposit Protection Fund Board (DPFB) was established in 1985 through an amendment to The Banking Act, Chapter 488 of the laws of Kenya. The DPFB, which is a body corporate, commenced its operations in 1989 with the mandate of maintaining public confidence in the banking sector thereby contributing to the stability of the financial system in the country. This objective continues to be pursued through protection of depositors against the loss of their savings in the event of insolvency of an institution which is a member of the Fund.

DPFB's current mandate is narrow being a 'pay-box plus' scheme, coming in to pay depositors up to the protected amount and liquidating failed institutions and distributing collected funds to depositors in form of dividends. The maximum amount of protected deposits that is paid out to each depositor in the event of a bank failure has remained at Kshs.100, 000 [US$ 1170) since the inception of the DPFB. All types of deposit accounts in the insured institutions are eligible for cover except inter-bank balances. As at 30th June 2013, deposit accounts fully covered were 19.91m, while the Effective Cover was 20.5%. To date, DPFB has taken over 24 collapsed institutions of which 7 have been wound up leaving 17 institutions still undergoing liquidation.

MEMBERSHIP

Membership to Fund is mandatory for all deposit taking institutions licensed by the Central Bank under the Banking Act, Building Societies Act and the Microfinance Act (Banking Act 38(1), KDIC Act 24(1).

The Membership to the Fund, as at 30th June, 2013, comprised the following:

i. Forty three (43) Commercial Banks
ii. One (1) Mortgage Finance Institution
iii. Nine (9) Deposit Taking Microfinance Institutions

SOURCES OF INCOME

The Fund has four major sources of income, namely:

a) Seed capital from the sponsor. This was a one-off government contribution through the National Treasury. In this regard, DPFB received Kshs. 600m as seed capital at the inception of the Fund.

b) Premium/contribution: DPFB levies premium on member institutions annually at 0.15% of the average total deposit liabilities during the preceding 12 months period with a minimum of Kshs.300, 000.00 [approximately US$ 3,530].

c) Investment income: This is from Investment of funds which is restricted to Government Securities. This ensures:
   i. Preservation of capital;
   ii. Safe custody;
   iii. Liquidity; and
   iv. Long term growth of the capital.

d) Long term borrowing: The Fund is allowed to borrow from the Central Bank in the event that the fund balance is insufficient for pay-out in case of a bank failure.

WAY FORWARD

The current DPFB mandate, reflecting a 'pay box plus' scheme, is considered narrow for an effective deposit insurance system, given the level of development of the Kenyan financial system. Therefore, DPFB reached a deliberate strategic decision to expand its mandate, up scaling it from a 'pay-box plus' to risk minimizer. The objective is to give powers to undertake bank resolution thereby actively participate in financial stability. This, culminated in the ushering in of a new legal framework, the Kenya Deposit Insurance Act.

The Kenya Deposit Insurance (KDI) Act was enacted and subsequently published in May 2012 in response to the need to expand the DPFB mandate as the resolution authority with the objective of participating in a more proactive manner in fostering financial stability. The objects of the KDI Act, therefore, seek to establish the Kenya Deposit Insurance Corporation (KDIC); enhance corporate governance of the corporation; and grant the Corporation with powers to undertake deposit insurance as well as receivership as the resolution authority. The new legal regime will be made operational once Regulations are approved and gazetted by the Cabinet Secretary in charge of the National Treasury. The drafting of the Regulations is work in progress.

As DPFB progresses efforts in transitioning to KDIC, plans for the immediate future are to further review the design of the deposit insurance with regard to the cover, contribution as well as the establishment of a target fund.

It is expected that the establishment of a target fund will serve to address periodic failures that are not systemic in nature. Pragmatic resolution approaches will inform achievable target levels.

The revised contribution approach will be based on a differential premium system. This will serve to provide incentives to adopt sound risk management practices among member institutions hence will promote financial stability. Deposit insurance contributions will, therefore, differentiate risk profiles of member institutions thereby introducing a more objective and risk-based approach to premium assessment and contribution.

The coverage level is set for review. Although the cover will remain limited, its level will be adequate and credible enough to instil confidence in the financial system. Hence the planned review will balance the current economic conditions and moral hazard in order to meet public policy objectives with a goal to maintain financial stability.

OTHER STAKEHOLDER REFORMS

DPFB commends reforms in the financial and legal sectors which have played a complimentary role in enhancing the Board's operations.

The reforms in the judiciary have played a significant role in the socio-economic and political development in the nation. The streamlining of the court processes and the current efforts to automate the court processes and digitize the court registry have all enhanced efficiency, particularly the timeliness of the resolution of matters through the judicial system. This efficiency has had a positive impact on finalization of the litigation matters relating to institutions in liquidation.

The Credit Information Sharing Mechanism introduced in the financial system in the recent past, has contributed greatly to the reduction of incidences of bad debts in the banking industry. This has in turn improved the quality of the asset portfolios of member institutions as well the credit processing thereby contributing to financial stability. Specifically, credit information sharing has encouraged some debtors to resolve their long outstanding indebtedness in institutions under liquidation by DPFB thereby boosting debt realization and recovery.

The introduction of the Kenya Electronic Payment and Settlement System (KEPSS) has been a collaboration effort between the Central Bank and the Banking Sector. Ancillary reforms around it such as the cheque truncation and capping of payments have contributed to the enhancement of real time settlement. One of the Core Principles for an Effective Deposit Insurance System is a "Prompt Pay-Out Process". Through KEPSS, DPFB has managed to make prompt dividend disbursements to depositors and other creditors of institutions in liquidation. DPFB will continue to leverage on the developments in the payment system to improve the efficiency of the depositor/creditor pay-out process.

Financial Statements

DEPOSIT PROTECTION FUND BOARD

DIRECTORS AND STATUTORY INFORMATION

DIRECTORS

Prof. Njuguna Ndung'u	Chairman
Joseph Kinyua	Permanent Secretary, Treasury
Martin Gumo	Alternate to Permanent Secretary, Treasury
Terence Davidson*	Member
James Macharia	Member (Resigned 21 May 13)
Nasim Devji*	Member
Richard Etemesi	Member (Term expired 14 June 2013)
Rose Detho	Director- DPFB (Ex-officio Member)
Jane K. Ikunyua	Board Secretary

* British

BOARD AUDIT COMMITTEE

Terence Davidson	Chairman
Richard Etemesi	Member (Term expired 14 June 2013)
Martin Gumo	Alternate to Permanent Secretary, Treasury
James Macharia	Member (Resigned 21 May 2013)
Nasim Devji	Member

SENIOR MANAGEMENT

Rose Detho	Director
Jane K. Ikunyua	Assistant Director – Legal
Mohamud A. Mohamud	Assistant Director – Liquidations
Walter Onyino	Assistant Director – ICT
Kimani Mwega	Assistant Director – Fin. & Admin.
Evaline Nafula	B. A. Comm. Secretary (Transferred 8 November 2012)
Edith Kagasi	B. A. Comm. Secretary (Posted 8 November 2012)

PRINCIPAL PLACE OF BUSINESS

CBK Pension House (formerly Marshall House)
Harambee Avenue
PO Box 45983 - 00100 Nairobi

AUDITORS

KPMG Kenya
8th Floor, ABC Towers
Waiyaki Way
P.O. Box 40612 – 00100 Nairobi

BANKERS

Central Bank of Kenya
Central Bank of Kenya Building
Haile Selassie Avenue
P.O. Box 60000 - 00200 Nairobi

DEPOSIT PROTECTION FUND BOARD

REPORT OF THE DIRECTORS

FOR THE YEAR ENDED 30 JUNE 2013

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 30 June 2013 which disclose the state of affairs of the Board.

1. Incorporation

The Board is incorporated under the Banking Act Cap 488 of the Laws of Kenya.

2. Principal activities

The Board is established and administered under the Banking Act with the principal object to provide a deposit insurance scheme for customers of member institutions and liquidate and wind up the operations of any institution in respect of which the Board is appointed as a liquidator in accordance with the Banking Act or any other written law.

The Kenya Deposit Insurance Act, 2012 (the "Act") signed into law by the President on May 9th 2012 establishes a Deposit Insurance Fund (the "Fund") to replace the Deposit Protection Fund currently governed by the Banking Act. The Act also establishes the Kenya Deposit Insurance Corporation ("KDIC") and has increased its mandate to include risk management and the promotion of a stable financial system. KDIC will be responsible for the administration of the deposit insurance scheme set up under the Act. The Act also bestows upon KDIC such powers as are necessary to attain the stated objectives. The commencement date for the Act will be gazetted once the subsidiary legislation is ready.

3. Results

The results for the year are set out on page 7.

4. Directors

The directors who served during the year are set out on page 1.

5. Auditors

The auditors, KPMG Kenya, continue in office in line with the Public Procurement and Disposal Act (2005).

6. Approval of financial statements

The financial statements were approved by the directors on

BY ORDER OF THE BOARD

JANE K. IKUNYUA
Board Secretary

Date:

DEPOSIT PROTECTION FUND BOARD

STATEMENT OF DIRECTORS' RESPONSIBILITIES

FOR THE YEAR ENDED 30 JUNE 2013

The Directors are responsible for the preparation and presentation of the financial statements of Deposit Protection Fund Board set out on pages 7 to 29 which comprise the statement of financial position at 30 June 2013, the statement of comprehensive income, statement of changes in Fund balance and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Banking Act and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Banking Act, the Directors are required 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 the operating results of the Board for that year. It also requires the Directors to ensure the Board keeps proper accounting records which disclose with reasonable accuracy the financial position 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 judgments 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 financial statements, as well as adequate systems of internal financial control.

The Directors have made an assessment of the Board's ability to continue as a going concern and have no reason to believe the Board will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved by the board of directors on
and were signed on its behalf by:

Chairman	Member

DEPOSIT PROTECTION FUND BOARD

STATEMENT OF CORPORATE GOVERNANCE

DPFB is a body corporate established by section 36 of the Banking Act, Cap 488 Laws of Kenya. The DPFB currently operates as a department of Central Bank of Kenya. DPFB is committed to maintaining the highest standards of integrity, professionalism and business ethics in all its operations.

BOARD OF DIRECTORS

Section 36 (4) provides that the Board of directors shall be composed of the Governor of Central Bank of Kenya, as the Chairman, Permanent Secretary to the Treasury and five other members, appointed by the Minister for Finance, representing the member institutions. The members representing the Institutions, during the period under review, are: Mr. Terence Davidson, Mrs. Nasim Devji, Mr. James Macharia (Resigned on 21/05/2013) and Mr. Richard Etemesi (Term expired on 14/06/2013)

BOARD MEETINGS

The Board meets every 3 months and has a formal schedule of Agenda items due for deliberations. The Directors are given appropriate and timely information to maintain full and effective control over strategic, financial and operational issues. The Board is not involved in the conduct of day-to-day business as this is a responsibility given to the Director, DPFB by the Banking Act. It, however, retains responsibility for determining the policy of the Fund.

AUDIT COMMITTEE

The members of the Audit Committee are Mr. Terence Davidson, Mr. James Macharia (Resigned on 21/05/2013), Mrs. Nasim Devji, Mr. Martin Gumo and Mr. Richard Etemesi (Term expired on 14/06/2013). They are all non-Executive Directors and have experience in Banking, Finance, Accounting, Administration and Management. The committee meets every three months, and as necessary, two weeks before the full Board meeting. The committee's responsibilities are to review the efficiency and effectiveness of Internal Controls, Financial Reporting, Internal Audit function, External audit work, and Risk Management policies and procedures. Towards this end, a self-evaluation tool, which measures the committee's performance, has been developed and implemented.

MANAGEMENT STRUCTURE

The DPFB Senior Management is made up of the Director, four Assistant Directors, each heading the Division of Finance & Administration, Legal, ICT and Liquidations. The DPFB Senior Management meets regularly to review overall performance of the Fund. Decision making is through several management committees, which meet regularly to deliberate and advise the Director on specific issues. All DPFB staff are employees of Central Bank of Kenya seconded to the Fund.

DIRECTORS EMOLUMENTS AND LOANS

The remuneration paid to the Directors for services rendered during the financial year 2012/2013 is disclosed in Note 7 of the financial statements. The Directors, who are all non-executive, are paid a monthly retainer fee and a sitting allowance for every meeting attended. There were no loans to Non-Executive Directors during the year.

DEPOSIT PROTECTION FUND BOARD

STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)

CODE OF ETHICS

The Fund is committed to the highest standards of integrity, behavior and ethics. A formal code of ethics for all employees of Central Bank of Kenya exists and is fully implemented. All employees of the Fund are expected to avoid activities and financial interests, which could give rise to conflict of interest with their responsibilities. Strict rules of conduct apply to the staff of CBK, including those in DPFB, under the staff rules and regulations.

INTERNAL CONTROLS

The management of the Fund has put in place a series of internal control mechanisms to ensure the reporting of complete and accurate accounting information. Procurement of goods and services is strictly done in accordance with the Public Procurement & Disposal Act, 2005. In all operational areas of the Fund, workflows have been structured in a manner that allows adequate segregation of duties.

AUTHORIZATIONS

All the expenditure of the Fund must be authorized in accordance with a comprehensive set of the Fund's policies and procedures. There is a budget, which is approved by the Board before commencement of the financial year. The Board receives regular management accounts comparing actual outcomes against budget as a means of monitoring actual financial performance of the Fund.

INTERNAL AUDIT AND RISK MANAGEMENT

The Internal Audit function is performed by Internal Audit Division, which is responsible for monitoring and providing advice on the internal control framework. All reports of the Internal Audit are available to the Audit Committee of the Board.

TRANSPARENCY

The Fund publishes an Annual Report which explains the performance of the Banking sector, membership status and other pertinent information. On an annual basis, the Financial Statements are published in the Kenya Gazette and placed in the website of the Fund. DPFB was also in the process of sharing its Strategic Plan with the Stakeholders.

REPORT OF THE INDEPENDENT AUDITORS

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

We have audited the financial statements of Deposit Protection Fund Board set out on pages 7 to 29 which comprise the statement of financial position at 30 June 2013, the statement of comprehensive income, statement of changes in fund balance and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

As stated on page 3, the directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

AUDITORS' 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 relevant 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 our 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, we consider 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 management, 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 opinion.

OPINION

In our opinion, the financial statements give a true and fair view of the financial position of the Board at 30 June 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Date:

DEPOSIT PROTECTION FUND BOARD

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 KShs'000	2012 KShs'000
REVENUE			
Assessment income	5(a)	2,340,033	1,973,192
Investment income	5(b)	4,059,415	3,422,806
Other income	6	31,776	11,457
		6,431,224	5,407,455
EXPENSES			
Administration and establishment	7	250,368	208,199
Provision for doubtful debts	8(b)	1,370	2,844
		251,738	211,043
SURPLUS FOR THE YEAR		**6,179,486**	**5,196,412**

The notes set out on pages 45 to 65 form an integral part of these financial statements.

DEPOSIT PROTECTION FUND BOARD

STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2013

ASSETS	Note	2013 KShs'000	2012 KShs'000
Non-current assets			
Property and equipment	9	69,695	43,044
Prepaid operating lease rentals	10	3,416	3,515
Investment held for sale	11	100	100
Government securities	12	27,325,123	26,249,260
		27,398,334	26,295,919
Current assets			
Receivables and prepayments	8(a)	7,085	5,143
Government securities	12	12,046,218	7,013,085
Cash and bank balance		78,389	3,882
		12,131,692	7,022,110
TOTAL ASSETS		**39,530,026**	**33,318,029**
FUND BALANCE AND LIABILITIES			
Fund balance (Page 9)		39,464,067	33,284,581
Current liabilities			
Payables and accruals	13	6,996	6,334
Due to related party	14(a)	21,276	16,943
Deferred income	15	37,687	10,171
		65,959	33,448
TOTAL FUND BALANCE AND LIABILITIES		**39,530,026**	**33,318,029**

The financial statements on pages 41 to 65 were approved by the Board of Directors on and were signed on its behalf by:

Chairman

Member

The notes set out on pages 45 to 65 form an integral part of these financial statements.

DEPOSIT PROTECTION FUND BOARD

STATEMENT OF CHANGES IN FUND BALANCE

FOR THE YEAR ENDED 30 JUNE 2013

	Fund balance KShs'000
2013:	
Balance at 1 July 2012	33,284,581
Surplus for the year	6,179,486
Balance at 30 June 2013	**39,464,067**
2012:	
Balance at 1 July 2011	28,088,169
Surplus for the year	5,196,412
Balance at 30 June 2012	**33,284,581**

The notes set out on pages 45 to 65 form an integral part of these financial statements.

DEPOSIT PROTECTION FUND BOARD

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2013

	Note	2013 KShs'000	2012 KShs'000
Cash flows from operating activities			
Surplus for the year		6,179,486	5,196,412
Adjustment for:			
Depreciation of property and equipment		11,333	5,077
Amortisation of prepaid operating lease rentals		99	99
Write offs		9,466	-
Gain on disposal		(1,568)	-
Interest income		(4,059,415)	(3,422,806)
Operating surplus before working capital changes		**2,139,401**	**1,778,782**
Change in working capital			
Receivables and prepayments		(1,942)	1,945
Payables and accruals		662	1,397
Deferred income		27,516	(345)
Due to related party		4,333	(24,649)
Net cash flows generated from operating activities		**2,169,970**	**1,757,130**
Cash flows from investing activities			
Net movement in government securities		(5,974,511)	(5,821,933)
Purchase of property and equipment		(49,165)	(11,365)
Proceeds from disposals		2,120	-
Transfers		1,163	-
Interest received		4,059,415	3,422,806
Net cash flows from investment activities		**(1,960,978)**	**(2,410,492)**
Net decrease in cash and cash equivalents		208,992	(653,362)
Cash and cash equivalents at the beginning of the year		205,860	859,222
Cash and cash equivalents at the end of the year	**16**	**414,852**	**205,860**

DEPOSIT PROTECTION FUND BOARD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2013

1. REPORTING ENTITY

The Board is incorporated under the Banking Act Cap 488 of the Laws of Kenya and is domiciled in Kenya. The address of its registered office is as follows:

CBK Pension House (formerly Marshall House)
Harambee Avenue
PO Box 45983 - 00100
Nairobi

2. BASIS OF PREPARATION

(a) Basis of preparation

The financial statements have been prepared on the historical cost convention except for measurement at fair valuation of certain investments.

(b) Statement of compliance

The financial statements have been prepared in compliance with International Financial Reporting Standards (IFRSs) and interpretation of those standards.

(c) Functional and presentation currency

These financial statements are presented in Kenya Shillings (KShs), which is the Board's functional currency.

(d) Use of estimates and judgments

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of 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, actual results may ultimately differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the 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 revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation and critical judgement in applying accounting policies that have the most significant effect on the amount recognised in the financial statement is described in Note 4.

3. 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) 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 profit or loss for all interest bearing instruments on an accrual basis using the effective interest method based on the actual purchase price. Interest income includes coupon earned and unamortised discount and premium.

(b) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the exchange rate ruling at the reporting date. Resulting exchange differences are recognised in profit or loss for the year.

Non-monetary assets and liabilities denominated in foreign currency are recorded at the exchange rate ruling at the date of transaction.

(c) 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.

(d) 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Employee entitlements (continued)

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.

(f) Taxation

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

(g) Recognition and measurement of financial instruments

The Board classifies its financial assets into four categories described below. Management determines the appropriate classification of its financial instruments at the time of purchase and re-evaluates its portfolio on a regular basis to ensure that all financial assets are appropriately classified.

(i) Financial assets at fair value through profit or loss

Financial assets in this category held for trading are those that the Board principally holds for the purpose of short-term profit taking and/or those designated at fair value through profit or loss at inception. These are recognised on the date the Board commits to acquire the instruments.

Trading instruments are initially recognised at cost, including transaction costs. Subsequent to initial recognition, trading instruments are stated at fair value based on quoted bid prices. Where the fair value cannot be reliably measured, the assets are stated at cost less impairment losses. Changes in fair value are recognised in profit or loss.

(ii) Loans and receivables

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

They arise when the Board provides money directly to borrowers, other than those created with the intention of short-term profit taking. They are recognised at the date money is disbursed to the borrower or when they are transferred to the Board from a third party.

Subsequent to initial recognition, these are carried at amortised cost, which is the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Loan origination fees together with related direct costs are treated as part of the cost of the transaction.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Recognition and measurement of financial instruments (continued)

(ii) Loans and receivables (continued)

Amortised cost is calculated using the effective interest rate method. The amortisation and accretion of premiums and discounts is included in interest income.

(iii) Held-to-maturity

These are financial assets with fixed or determinable payments and fixed maturities that the Board's management has the positive intention and ability to hold to maturity. The sale of a significant amount of held-to-maturity assets would taint the entire category leading to reclassification as available-for-sale.

Subsequent to initial recognition, these are carried at amortised cost, which is the present value of the expected future cash flows, discounted at the instrument's original effective interest rate.

Amortised cost is calculated using the effective interest rate method. The amortisation and accretion of premiums and discounts is included in interest income.

(iv) Available-for-sale

Other financial assets held by the Board are classified as available-for-sale and are initially recognised at cost, including transaction costs. Subsequent to initial recognition, available-for-sale financial assets are stated at fair value based on quoted bid prices. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity in the fair value reserve, net of deferred tax. When these investments are derecognised, the cumulative gain or loss previously directly recognised in equity is recognised in profit or loss.

Derecognition

A financial asset is derecognised when the Board loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Board commits to sell the assets. The Board uses the specific identification method to determine the gain or loss on derecognition.

Held-to-maturity instruments and loans and receivables are derecognised on the day they are repaid in full or when they are transferred by the Board to a third party.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) 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.

(i) Cash and cash equivalents

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 from the date of issue.

(j) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

(ii) Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Board and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight line basis over the estimated useful lives of each part of an item of property and equipment as follows:

Long term leasehold land	Over the lease period
Buildings	2%
Computer equipment	33%
Office equipment, furniture and fittings	20%
Motor vehicles	25%

Depreciation methods, useful lives and residual values are reassessed and adjusted, if appropriate, at each reporting date.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are recognized in profit or loss in the year in which they arise.

(k) Impairment of assets

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if

3. **SIGNIFICANT ACCOUNTING POLICIES (Continued)**

(k) Impairment of assets

(i) Financial assets (continued)

objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets

The carrying amounts of the Board's non-financial assets, inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Provision

Provisions are recognised when the Board has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

(m) Related parties

In the normal course of business, the Board has entered into transactions with related parties. The related party transactions are at arm's length.

(n) Grants

Other grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Board will comply with the conditions.

(o) Comparatives

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

(p) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2013 and have not been applied in preparing these financial statements. These are summarised below, and are not expected to have a significant impact on the financial statements of the Board:

- IFRS 9 *'Financial Instruments'*. IFRS 9 will become mandatory for the Board's 2015 financial statements.
- IFRS 10 '*Consolidated Financial Statements*' (effective for annual periods beginning on or after 1 January 2013).
- IFRS 11 *'Joint Arrangements'* (effective for annual periods beginning on or after 1 January 2013).
- IFRS 12 '*Disclosure of Interests in Other Entities'* (effective for annual periods beginning on or after 1 January 2013).
- IFRS 13 *'Fair Value Measurement'* (effective for annual periods beginning on or after 1 January 2013).
- IAS 19 *'Employee Benefits (Amended)'* (effective for annual periods beginning on or after 1 January 2013).
- IAS 27 (2011) Separate Financial Statements (effective 1 January 2013).
- IAS 28 (2011) Investments in Associates and Joint Ventures (effective 1 January 2013).
- Amendments to IAS 1 *'Presentation of items of other comprehensive income'* (effective 1 July 2012).
- Amendment to IFRS 7 and IAS 32 on offsetting of financial assets and financial liabilities (2011), (effective for annual periods beginning on or after 1 January 2014)

The Board does not plan to adopt any of the above standards early and the extent of the impact has not been determined.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

(i) Property and equipment

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

(ii) Impairment of 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.

(iii) Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

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

In the process of applying the Board's accounting policies, management has made judgements in determining whether assets are impaired.

5. INCOME

(a) Assessment income	2013 KShs'000	2012 KShs'000
Total average deposits of institutions assessed as contributors	1,559,622,240	1,315,061,133
0.15% of total average deposits	2,339,433	1,972,592
Minimum contribution from 2 Deposit Taking Microfinance (DTM) (2012 – 2)	600	600
Total assessment income	**2,340,033**	**1,973,192**

(b) Investment income

(i) Interest earned on treasury bills received

	2013 KShs'000	2012 KShs'000
Discount on 91 day treasury bills	91,039	249,238
Discount on 182 day treasury bills	293,130	209,919
Discount on 364 day treasury bills	389,016	24,664
	773,185	483,821
Matured bonds	3,144,349	2,811,834
Discount on purchase	160,165	149,304
Amortisation of premium	(18,284)	(22,153)
	3,286,230	2,938,985
Total investment income	**4,059,415**	**3,422,806**

6. OTHER INCOME

	2013 KShs'000	2012 KShs'000
Recoveries from subrogated claims	-	1,071
Gain on sale/disposal of assets	1,568	-
Penalty charges on late contributions	285	2,680
Bad debts recovered	5	880
Recoveries from institutions in liquidation	1,963	-
Grant income	27,955	6,826
	31,776	**11,457**

7. ADMINISTRATION AND ESTABLISHMENT EXPENSES

	2013 KShs'000	2012 KShs'000
Staff costs	144,987	130,679
Depreciation	11,333	5,077
Lease amortization	99	99
Auditors remuneration	1,017	925
Directors' emoluments - fees	8,046	6,513
Legal and professional fees	11,158	380
Occupancy costs	13,198	12,355
Other	60,530	52,171
	250,368	**208,199**

8. RECEIVABLES AND PREPAYMENTS

(a) Receivables and prepayments

	2013 KShs'000	2012 KShs'000
Receivables and prepayments	109,430	109,269
Provision for bad debts (Note 8(b))	(102,345)	(104,126)
	7,085	**5,143**

(b) Provisions for impaired receivables

As at 30 June 2013, receivables amounting to KShs 102 million (2012 - KShs 104 million) were fully impaired and provided for Movements in the provisions for impairment of receivables were as follows:

	2013 KShs'000	2012 KShs'000
At 1 July	104,126	102,162
Additional provision	1,370	2,844
Write back-provision for bad debts	(3,151)	(880)
At 30 June (Note 18(a))	**102,345**	**104,126**

9. PROPERTY AND EQUIPMENT

2013:	Buildings KShs'000	Furniture & fittings KShs'000	Office and kitchen equipment KShs'000	Motor vehicle KShs'000	Computers KShs'000	Work-In-Progress KShs'000	ICT Equipment KShs'000	Total KShs'000
Cost								
At 1 July 2012	16,740	16,594	10,205	16,479	8,426	9,466	-	77,910
Additions	-	4,850	401	-	-	-	43,914	49,165
Less disposals	-	-	-	(4,820)	-	-	-	(4,820)
Less write offs	-	-	-	-	-	(9,466)	-	(9,466)
Less transfers/write offs	-	-	-	-	(1,163)	-	-	(1,163)
At 30 June 2013	16,740	21,444	10,606	11,659	7,263	-	43,914	111,626
Depreciation								
At 1 July 2012	3,684	8,860	7,035	9,583	5,704	-	-	34,866
Charge for the year	367	1,471	682	1,586	640	-	6,587	11,333
Less depreciation on disposals	-	-	-	(4,268)	-	-	-	(4,268)
At 30 June 2013	4,051	10,331	7,717	6,901	6,344	-	6,587	41,931
Net book value								
At 30 June 2013	**12,689**	**11,113**	**2,889**	**4,758**	**919**	**-**	**37,327**	**69,695**
2012:								
Cost								
At 1 July 2011	16,740	16,130	9,659	8,713	5,837	-	-	57,079
Additions	-	464	546	7,766	2,589	9,466	-	20,831
At 30 June 2012	16,740	16,594	10,205	16,479	8,426	9,466	-	77,910
Depreciation								
At 1 July 2011	3,317	7,755	6,243	7,284	5,190	-	-	29,789
Charge for the year	367	1,105	792	2,299	514	-	-	5,077
At 30 June 2012	3,684	8,860	7,035	9,583	5,704	-	-	34,866
Net book value								
At 30 June 2012	**13,056**	**7,734**	**3,170**	**6,896**	**2,722**	**9,466**	**-**	**43,044**

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 5,341,968 (2012 - KShs 4,392,930) 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 1,780,65 (2012 - KShs 1,464,309).

10. PREPAID OPERATING LEASE RENTALS

	2013 KShs'000	2012 KShs'000
Cost		
At 30 June	4,522	4,522
Amortisation		
At 1 July	1,007	908
Amortisation for the year	99	99
At 30 June	1,106	1,007
Net carrying value at 30 June	**3,416**	**3,515**

11. INVESTMENT HELD FOR SALE

Investment in Consolidated Bank of Kenya Limited		
10,000,000 ordinary shares of KShs 20 each	200,000	200,000
Provision for diminution in value	(199,900)	(199,900)
	100	**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.

12. GOVERNMENT SECURITIES

	2013 KShs'000	2012 KShs'000
Treasury bills maturing within 91 days of placement (Note 16)	336,463	201,978
Treasury bills maturing after 91 days from date of placement	7,583,316	3,276,626
Treasury bonds maturing within 1 year	4,126,439	3,534,481
Treasury bonds maturing after 1 year	27,325,123	26,249,260
	39,371,341	**33,262,345**
Comprising:		
Maturing within 1 year of the Statement of Financial Position date	12,046,218	7,013,085
Maturing after 1 year of the Statement of Financial Position date	27,325,123	26,249,260
	39,371,341	**33,262,345**

The weighted average effective interest rate on held to maturity investments as at 30 June 2013 was 11.04% (2012 – 11.06%).

13. PAYABLES AND ACCRUALS

	2013 KShs'000	2012 KShs'000
Sundry payables and accruals	**6,996**	**6,334**

14. RELATED PARTY TRANSACTIONS

The Central Bank of Kenya and the Board 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:

	2013 KShs'000	2012 KShs'000
(a) Due to Central Bank of Kenya	**21,276**	**16,943**
(b) Directors' emoluments and senior management remuneration		
Fees to directors	8,046	6,514
Remuneration to senior management	57,087	55,608
(c) Cash and balances held with Central Bank of Kenya	**78,389**	**3,882**

(d) The Central Bank pays some operating expenses on behalf of the Board. These are fully reimbursed.

(e) 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 135.9 million (2012 - KShs 125.4 million).

(f) The Central Bank is also the sponsor of the CBK 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. 9.1 million (2012 - KShs 5.6 million).

(g) 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 13.2 million. (2012 - KShs 12.7 million).

15. DEFERRED INCOME

	2013 KShs'000	2012 KShs'000
Unamortized grant income	**37,687**	**10,171**

16. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the statement of cash flows comprise of the following statement of financial position amounts:

	2013 KShs'000	2012 KShs'000
Treasury bills maturing within 91 days from the date of placement (Note 12)	336,463	201,978
Cash and bank balance	78,389	3,882
	414,852	**205,860**

17. COMMITMENTS

Authorised but not contracted for	**29,180**	**207,438**

Capital commitments authorised relates mainly to Guard house, office equipment, ICT infrastructure, library access and network connections.

Operating lease commitments:	2013 KShs'000	2012 KShs'000
Falling due within one year	15,780	11,172
Falling due between one and five years	15,780	11,172
	31,560	**22,344**

18. 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;

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.

Deposit Insurance and Risk Management Section

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

Internal Audit and Risk Management Unit

The operations of the Board are subject to internal audit by the Internal Audit Unit of the Deposit Protection Fund Board. The Internal Audit Unit employs full scope 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; receivables and prepayments; payables and accruals; provisions for protected deposit claims; and amounts due to related parties.

(a) Credit risk

Credit risk is the risk of financial loss to the Board if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Board's receivables from customers.

Trade and other receivables

The Board's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Board establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2013 KShs'000	2012 KShs'000
Trade receivable	109,430	109,269
Impairment losses recognised in the year (Note 9(b)	(102,345)	(104,126)
	7,085	**5,143**

The aging of trade receivables at the reporting date was:

Not past due	5,342	11,088
Past due 0 – 30 days	446	2,536
Past due 31 – 90 days	442	698
Past due above 90 days	103,141	104,413
	109,371	**118,735**

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

	2013 KShs'000	2012 KShs'000
Balance at 1 July	104,126	102,162
Made in the year	1,370	2,844
Write backs	(3,151)	(880)
Balance at 30 June	**102,345**	**104,126**

(b) Market Risk

(i) 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.

18. RISK MANAGEMENT (Continued)

(b) Market Risk – continued

(i) Interest rate risk management (continued)

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

2013:	Effective Interest rate	Upto 1 year KShs'000	1 – 5 years KShs'000	6 – 10 years KShs'000	Over 10 years KShs'000	Non interest bearing KShs'000	Total KShs'000
Receivables and prepayments	-	-	-	-	-	7,085	7,085
Cash and bank balance	-	-	-	-	-	78,389	78,389
Investments held to maturity	11.04%	12,046,218	7,877,825	13,756,000	5,691,298	-	39,371,341
Payables and accruals	-	-	-	-	-	(6,996)	(6,996)
Due to related party	-	-	-	-	-	(21,276)	(21,276)
Interest sensitivity gap At 30 June 2013		**12,046,219**	**7,877,825**	**13,756,000**	**5,691,298**	**(57,202)**	**39,428,543**
2012:							
Receivables and prepayments	-	-	-	-	-	5,143	5,143
Cash and bank balance	-	-	-	-	-	3,882	3,882
Investments held to maturity	11.06%	7,013,085	7,025,255	9,532,262	9,691,743	-	33,262,345
Payables and accruals	-	-	-	-	-	(6,334)	(6,334)
Due to related party	-	-	-	-	-	(16,943)	(16,943)
Interest sensitivity gap At 30 June 2012		**7,013,085**	**7,025,255**	**9,532,262**	**9,691,743**	**(14,252)**	**33,248,093**

18. RISK MANAGEMENT (Continued)

(b) Market Risk – continued

(i) Interest rate risk management (continued)

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.

	2013 KShs'000	2012 KShs'000
Effect on surplus for the year of a +5% change in interest rates	1,968,567	1,663,117
Effect on surplus for the year of a -5% change in interest rates	(1,968,567)	(1,663,117)

(ii) 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.

(c) 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 receivables. Simultaneously it carries current liabilities in form of provisions for protected deposits, sundry payables 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. 28,282,000 (2012 - KShs 23,277,000) and are all short term.

18. RISK MANAGEMENT (Continued)

(d) Fair value

The fair value of financial assets and liabilities is the same as the carrying amounts as shown in the statement of financial position:

2013:	Other financial liability KShs '000	Loans and receivables KShs '000	Available for sale KShs '000	Held to maturity KShs '000	Total carrying value KShs '000	Fair Value KShs '000
Financial assets						
Government securities	-	-	-	39,371,341	39,371,341	39,371,341
Investment held for sale	-	-	-	-	100	100
Cash and bank balances	-	-	-	-	78,389	78,389
				39,371,341	**39,449,830**	**39,449,830**
Financial liabilities						
Amounts due to group companies	21,276	-	-	-	21,276	21,276
Trade and other payables	7,101	-	-	-	6,996	6,996
	28,377	**-**	**-**	**-**	**28,272**	**28,272**
2012:						
Financial assets						
Government securities	-	-	-	33,262,345	33,262,345	33,262,345
Investment held for sale	-	-	100	-	100	100
Cash and bank balances	-	-	3,882	-	3,882	3,882
	-	**-**	**3,982**	**33,262,345**	**33,266,327**	**33,266,327**
Financial liabilities						
Amounts due to group companies	16,943	-	-	-	16,943	16,943
Trade and other payables	6,334	-	-	-	6,334	6,334
	23,277	**-**	**-**	**-**	**23,277**	**23,277**

18. RISK MANAGEMENT (Continued)

(e) 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 Fund and makes adjustments to it, as per the requirements of the Banking Act. The total accumulated Fund as at 30 June 2013 was KShs 39,464 million (2012 - KShs 33,285 million).

19. CONTIGENT LIABILITIES

Litigation

Mr. Ajay Shah (former Managing Director of Trust Bank Limited) 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 hearing. No provision has been made in the financial statements because, in the opinion of the directors, the claim is unlikely to succeed and DPFB is sued as the Liquidator of Trust Bank Ltd (IL). Therefore incase judgment is entered against DPFB the costs shall be paid by Trust Bank Ltd (IL).

20. AMOUNTS HELD ON BEHALF OF THIRD PARTIES

As at the year end, the Board in its role as a liquidator, held an amount of KShs 415 million in an escrow account on behalf of third parties, pending the completion of the transactions in accordance with contractual agreements.

APPENDICES

DEPOSIT PROTECTION FUND BOARD

COMMERCIAL BANKS AND OTHER FINANCIAL INSTITUTIONS ASSESSED CONTRIBUTORS FOR THE YEAR ENDED 30 JUNE 2013

COMMERCIAL BANKS

1. African Banking Corporation Limited
2. Bank of Africa Kenya Limited
3. Bank of Baroda Kenya Limited
4. Bank of India
5. Barclays Bank of Kenya Limited
6. CFC Stanbic Bank Limited
7. Charterhouse Bank Limited (under statutory management)
8. Chase Bank Limited
9. 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 Ltd.
41. Tra nsnational Bank Limited
42 UBA Kenya Bank Limited
43. Victoria Commercial Bank Limited

OTHER FINANCIAL INSTITUTIONS

1. Housing Finance Company of Kenya Ltd.

MICRO FINANCE INSTITUTIONS

1. Faulu Kenya
2. Kenya Women Finance Trust
3. SMEP DTM
4. REMU DTM
5. Uwezo DTM
6. Rafiki DTM
7. Sumac DTM
8. Century DTM
9. U & I DTM

BANKING INSTITUTIONS DIRECTORS AND APPPROVED AUDITORS

Name of Institution	Directots' Names	Status	Branch Network	Approved Auditors
African Banking Corporation P.O. Box 46452-00100, Nairobi Tel.: +254-20- 4263000, 2223922 www.abcthebank.com	Ashraf Savani Shamaz Savani Richard Omwela Joseph Kamande Muiruri Anil Ishani	Non-Executive -Chairman Executive -Md Non-Executive Non-Executive Non-Executive	**11**	Deloitte & Touche
Bank of Africa Kenya Ltd P. O. Box 69562-00400 Nairobi Tel.: +254-20- 3275000, 2211175 www.boakenya.com	Dennis Awori Bartholomew K. Ahadzi Alexandre Randrianasolo Vincent De Bouwer Davinder S. Sikand Alt. Shakir M. Merali Jean-Geo Pastouret Benardus A.M. Zwinkels Mohamed Bennani Abdalkabir Bennani	Non-Executive - Chairman Executive - Md Non-Executive Non-Executive Non-Executive Non-Executive Executive Non-Executive Non-Executive Non-Executive	**28**	Pricewater House Coopers
Bank of Baroda P.O. Box 30033 – 00100 Nairobi Tel.: +254-20-2248402/12, 2248402/12 www.bankofbarodakenya.com	Rajiv Kumar Bakshi Mrs.vindhya Ramesh Kupple Dev Lamba J.K. Muiruri Sunil K. Srivastava Vikram C. Kanji	Non-Executive -Chairman Executive - Md Non-Executive Non-Executive Executive Non-Executive	**11**	PKF Kenya
Bank of India P. O. Box 30246 - 00100 Nairobi Tel. +254-20-2221414 /5 /6 www.bankofindia.com	M.B. Dhodia Manubhai Chandaria Mary W. Ngatia A.N. Ngugi D. Devadoss	Executive - Ceo Advisory Committee Advisory Committee Advisory Committee Executive	**5**	PKF Kenya
Barclays Bank of Kenya P.O. Box 30120 – 00100, Nairobi Tel: +254-20- 3267000, 313365/9 Email: barclays.kenya@barclays.com	Francis Okomo-Okello Jeremy Edward Awori Rose N. Ogega Jane W. Karuku Brown M. Ondego Ashok K.M. Shah John Waweru Njuguna Yusuf Omari Nick Mbuvi Judy Nyaga	Non-Executive - Chairman Executive - Md Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Executive Executive Co. Secretary	**108**	Pricewater House Coopers
CFC Stanbic (K) Ltd. P.O. Box 72833 - 00200 Nairobi Tel:+254-20-638000/11/17/18/20/21 Email: cfcstanbic@stanbic.com	Fred N'cruba Ojiambo Gregroy R. Brackenridge Kitili Mbathi Jane P. Babsa-Nzibo Rose W. Kimotho Gayling R. May Edward A.W. Njoroge Charles Kahara Muchene Ruth Theddesia Ngobi	Non-Executive -Chairman Executive - Md Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	**25**	Pricewater House Coopers
Charterhouse Bank			**10**	
Chase Bank P. O. Box 66015-00800 Nairobi Tel- +254-20- 2774000, 2244035 Email: info@chasebank.co.ke	Osman A. Murgian Dancan Kabui Refiq Shariff Duncan Kabui Gichu Daniel Mbuvi Mavindu Michael Alan Turner Anthony Fredrick Gross	Non-Executive - Chairman Executive - Md Non-Executive Executive Non-Executive Non-Executive Non-Executive	**34**	Deloitte & Touche

Appendix I

Name of Institution	Directots' Names	Status	Branch Network	Approved Auditors
Citibank N.A. P.O. Box 30711 - 00100 Nairobi Tel-: +254-20- 2754000. 2711221 Email: Kenya.citiservice@citi.com	Daniel Joseph Connelly Nathan Njoroge Nicholas Kamere Ituku Rose Agutu Esther Ngaine Ignatius Chicha David Abwoga Wycliff Osso Maranne Mwaura Linda Muturi Murat Ozulku	General Manager Mgt Committee Mgt Committee Mgt Committee Mgt Committee Mgt Committee Mgt Committee Mgt Committee Mgt Committee Mgt Committee Mgt Committee	**4**	KPMG Kenya
Commercial Bank of Africa P.O. Box 30437 – 00100, Nairobi Tel-: +254-20-2884000, 2734555, www.cbagroup.com	Desterio Oyatsi Andadi Jeremy Ikundi Ngunze Isaac Odundo Awuondo John Stuart Armitage Muhoho Kenyatta Nelson J.M. Mainnah Mukesh Kanji Rupshi Shah Nicholas Alexander Nesbitt Sicily Kanini Kariuki Abdirahin Haither Abdi	Non-Executive -Chairman Executive - Ceo Executive Non-Executive Non-Executive Non-Executive Ind. Non-Executive Ind. Non-Executive Ind. Non-Executive Ind. Non-Executive	**27**	Pricewater House Coopers
Consolidated Bank P. O. Box 51133 - 00200, Nairobi Tel-: +254-20- 340208/340836,340551, www.consolidated-bank.com	Ms. Eunice W. Kagane Japheth Kisilu Dr. Aloys B. Ayako Mrs. Shellomith L. Bobotti Dr. Cleopa K. Mailu Mohamed Shidiye Dr. George Mugo Methuselah Langat Rono PS - Treasury Managing Trustee - NSSF	Non-Executive -Chairman Executive - Ag. Ceo Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	**18**	Deloitte & Touche
Co-operative Bank of Kenya P.O. Box 48231 - 00100 Nairobi Tel-: +254-20-3276000, www.co-opbank.co.ke	Stanley C. Muchiri Gideon Maina Muriuki Julius Riungu Fredrick F. Odhiambo Macloud Mikiti Malonza Richard Lukas Kimanthi Major(Rtd) G.J. Wakasyaka Wilfred M. Ongoro Julius K. Sitienei John Murugu Donald Kibera Rose Kaburo Simani	Non-Executive -Chairman Executive - Md,Ceo Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	**125**	Ernst & Young
Credit Bank P. O. Box 61064-00200 Nairobi Tel-: +254-20-2222300/ 2220789/ www.creditbank.co.ke	Hon. Simeon Nyachae Sunil Sahdev Mrs. Grace Nyachae R.V. Karia Moses Mwendwa Jay Karia Ketan D. Marjaria Robinson Njagi	Non-Executive -Chairman Executive - Ceo Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	**8**	Pricewater House Coopers
Development Bank P.O. Box 30483 - 00100, Nairobi Tel-: +254-20-340401 /2 /3, 340416 www.devbank.com	Prof. H.K. Mengech Victor Kidiwa P.S. Treasury I.C.D.C. Prof. J.H. Kimura Zephania Mbugua	Non-Executive -Chairman Executive - GM Non-Executive Non-Executive Non-Executive Non-Executive	**3**	KPMG Kenya
Diamond Trust Bank P. O. Box 61711 – 00200, Nairobi Tel-: +254-20-2849000, 2210988/9 www.dtbafrica.com	A.A. Samji Mrs. Nasim Mohamed Devji N.M. Devji N.N. Juma A.E. Merali S.K. Nayyar M. Mwachofi M. Jamal J. Shamji F. Hamir	Non-Executive - Chairman Executive - Md Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	**46**	Pricewater House Coopers

Name of Institution	Directots' Names	Status	Branch Network	Approved Auditors
Dubai Bank P.O. Box 11129 – 00400, Nairobi Tel: +254-20-311109 /14 /23 /24 /32 www.dubaibank.co.ke	H.A. Abdul Hafedh Zubeidi Binay Kumar Dutta Prof. A.H.S. Esbusaidy Ali Bashir Sheikh Prof. Wilson H. Nandwa	Non-Executive -Chairman Executive - Md. Non-Executive Non-Executive Non-Executive	**5**	Deloitte & Touche
Ecobank Kenya Ltd. P.O. Box 45626- 00100 Nairobi Tel: +254-20-2883000, 2249633 /4 www.ecobank.com	Peter Tirus Kanyago Ehouman Kassi Dhruv Lalitchandra Pandit Simon Maucho Mrs. Surindere P. Kapila Charles Orony Ogalo Rajesh Lalitchandra Pandit Nyangiry Bwonditi Evelyne Tall Mohammed Nyaoga	Non-Executive - Chairman Executive - Ceo Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Executive Group Executive Non-Executive	**25**	Pricewater House Coopers
Equatorial Commercial Bank P.O. Box 52467-00200 Nairobi Tel: +254-20-2710455, 4981000 www.equatorialbank.co.ke	Daniel K. Ameyo Sammy S. Itemere Martin John Ernest Thomas Mutugu Akif Hamid Butt Abdulali Kurji Robert Shibutse	Non-Executive - Chairman Executive - Md. Non-Executive Non-Executive Non-Executive Non-Executive Executive	**12**	KPMG Kenya
Equity Bank P.O. Box 75104-00200, Nairobi Tel: +254-20- 2262000 www.equitybank.co.ke	Peter Kahara Munga James Njuguna Mwangi Benson I. Wairegi Fredrick Mwangi Muchoki Ernest Nzovu Babatunde T. Soyoye Temitope A. Lawani Prof: Shem Migot Adholla Helen W. Gichohi Alykhan Nathoo Dennis Aluanga David Ansell	Non-Executive -Chairman Executive - Ceo Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	**148**	Ernst & Young
Family Bank P.O. Box 74145-00200 Nairobi Tel: +254-020- 318173, 318940/2/7 www.familybank.co.ke	Titus Kiondo Muya Peter Munyiri Maina Wilfred David Kiboro Dr. Kabiru Kinyanjui Prof. David Kimutai Some Skander Khalil Queslati Ruth Waweru David Kimani George Gabriel Okoth Odo Brian Kiondo Muyah Njunge Kamau Mark Keriri Muya	Non-Executive - Chairman Executive - Ceo Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Executive Executive	**68**	Deloitte & Touche
Fidelity Commercial Bank P.O. Box 34886-00100 Nairobi Tel: +254-20-2242348, 2244187 www.fidelitybank.co.ke	James Birnie Rana Sengupta Sultan Khimji Kabiridin K. Khimji Tom Owour Esther Michemi Amirali Shaleh Karim Khimji	Non-Executive -Chairman Executive - Md. Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	**11**	PKF Kenya
Fina Bank P.O. Box 20613 – 00200, Nairobi Tel: +254-20-3284000, 2246943 www.finabank.com	Dhanji Hansraj Chandaria Rajesh Kapoor Rameshkumar M. Patel Nalikumar Narshi Shah Hanish Dhanji Chandaria Steve Omenge Mainda Rajesh Kapoor Macharia Njeru	Non-Executive - Chairman Executive Ag. Ceo Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	**15**	Pricewater House Coopers

Name of Institution	Directots' Names	Status	Branch Network	Approved Auditors
First Community Bank Ltd P.O. Box 26219-00100., Nairobi Tel: +254-20-2843000 - 3 www.firstcommunitybak.co.ke	Mohamed H.E. Varvani Abdullatiff E.K. Esmailijee Nathif Jamaa Adamn Mohamed Mbaye Jamaa Mohamed Issa Mussa Juma Asaad Abdulhamid Aboo	Non-Executive - Chairman Executive - Ceo Executive Non-Executive Non-Executive Non-Executive Non-Executive	**18**	Pricewater House Coopers
Giro Commercial Bank P.O. Box 134000-00800, Nairobi Tel: +254-20-4229000 Website: none	Chandan J. Gidoomal Tulaendrapuram K. Krishnan Prem Jethanand Gidoomal Carey Miriithi Ngini Bhanubhai Khalidas Patel Mukesh Suantilal Shah	Non-Executive - Chairman Executive - Md. Non-Executive Non-Executive Executive Non-Executive	**8**	Deloitte & Touche
Guardian Bank P.O. Box 67681 – 00200, Nairobi Tel: +254-020-2226771, 2226774 www.guardian-bank.com	Maginlal M. Chandaria Vasant K. Shetty Mahesh Chandaria Harban Rajesh Sahi Shantilal R. Shah Hetul Chandaria Diamond Jamal	Non-Executive - Chairman Executive - Ceo Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	**9**	KPMG Kenya
Gulf African Bank Ltd P.O. Box 43683 – 00100, Nairobi Tel: +254-20-2740000, 2718608/9 www.gulfafricanbank.com	Jamal Ali Al-Hazeem Asad Aziz Ahmed Ahmed Mohamed A. Alabri Ahmed Said Bajaber Mustafa Beg Sandhesh Arvind Pandhare Thantahur V.P. Alaga Raja	Non-Executive - Chairman Executive - Ceo Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	**16**	KPMG Kenya
Habib Bank AG Zurich P.O. Box 30584 - 00100 Nairobi Tel: +254-20-341172/76/77, 340835 Website: none	Mohammed Ali Hussain Zarir Somjee Nazim Ali Mohammed Mohammeed Arif Iqbal H.somani Simon K. Murigi	Country Manager Local MGT CMTEE Local MGT CMTEE Local MGT CMTEE Local MGT CMTEE Local MGT CMTEE	**5**	KPMG Kenya
Habib Bank Limted P.O. Box 43157 – 00100, Nairobi Tel: +254-20-2226433, 2222786 www.hbl.com	Imram Bukhari Muhammad Haseeb Ali Wajid Ali Shah Patrick Maina Mwangi Grishon Kyalo Mativo Raveda Shah Rukiya Abduljabber	Country Manager Local MGT CMTEE Local MGT CMTEE Local MGT CMTEE Local MGT CMTEE Local MGT CMTEE Local MGT CMTEE	**4**	Ernst & Young
Housing Finance Co. of Kenya P.O. Box 30088 -00100 Nairobi Tel: +254-20- 3262000, 317474 www.housing.co.ke	Steve Omenge Mainda Frank Marangu Ireri David Raymond Anseli Benson Wairegi Peter Kahara Munga Shem Migot-Adholla	Non-Executive - Chairman Executive - MD. Non-Executive Non-Executive Non-Executive Non-Executive	**15**	KPMG Kenya
Imperial Bank P.O. Box 44905 – 00100, Nairobi Tel: +254-20-2874000, 343416/12/17 www.imperialbank.co.ke	Alnashir Popat Abdulmalek Janmohamed Anwar Hajee Vishnu Dhutia Jinit Shah Mukesh Kumar Patel Hanif Mohamed A. Somji	Non-Executive - Chairman Executive - Ceo Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	**24**	PKF Kenya
I & M Bank P.O. Box 30238 – 00100, Nairobi Tel: +254-20, 2711994-8, 3221200/2 www.imbank.com	S.B.R. Shah Arun S. Mathur Sarit S. Shah Michael J. Karanja Sachit S. Shah Eric Munene Kimani Paul C. Mugo Kibati M. Soundararajani Ms. Christna Gabener Guedi Mohamed Ainache	Non-Executive - Chairman Executive - Ceo Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	**22**	KPMG Kenya

Name of Institution	Directots' Names	Status	Branch Network	Approved Auditors
Jamii Bora Bank Limited P.O. Box 22741 – 00400, Nairobi Tel: +254-20-2224238/9, 2214976 www.jamiiborabank.co.ke	James Mwangi Gacheru Samuel Njuguna Kimani Ms. Ingrid Munro Lars-Alof-Hellgren Stefan Kaiser Timothy Mwaniki Kabiru Mrs. Pamella Oburu Ager Dr. Betty Muthoni Gikonyo Cyprian Wekesa Alban Mwendar Richard Kiplangat	Non-Executive Executive - Ceo Non-Executive Non-Executive Non-Executive Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	**13**	Deloitte & Touche
Kenya Commercial Bank P.O. Box 48400 – 00100, Nairobi Tel: +254-20-3270000, 2851000 www.kcbbankgroup.com	Eng. Musa Jeremiah Ndeto Joshua Nyamweya Oigara Joseph Kanja Kinyua Eng. Musa Ndeto Joseph Isaac Adongo Catherine A. Kola (Mrs) Prof. Peter Kiko Kimuyu Ngeny Biwott Charity M. Muya-Ngaruiya Adil Arshad Khawanja Gen. Rtd Joseph R. Kibwana Joshua Nyamweya Oigara	Non-Executive - Chairman Executive - Ceo Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Executive	**171**	KPMG Kenya
K-Rep Bank Limited P.O. Box 25363 – 00603, Nairobi Tel: +254-20-3906000,0711-058000-7 www.k-repbank.com	Kenny Nwosu Albert Ruturi Mwenda Thiribi Mildred Awour Patricia Kiwanuka Rafael Jabba Willem Enklaar David Masika Christine Sabwa	Non-Executive - Chairman Executive - MD. Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	**36**	Ernst & Young
Middle East Bank Kenya Ltd P.O. Box 47387 - 0100 Nairobi Tel: +254-20-2723120/24, 2722879 www.mebkenya.com	Akber Abdulla K. Esmail Dhirendra Rana Anil Devchand Raja Nancy Naitore Kaminchia Sakwa J. Bunyasi	Non-Executive - Chairman Executive - MD. Non-Executive Non-Executive Non-Executive	**4**	Pricewater House Coopers
National Bank of Kenya P.O. Box 72866 - 00200 Nairobi Tel: +254-20-2828000 www.nationalbank.co.ke	M.A. Hasasan Munir Sheikh Ahmed P.S. Treasury Francis Lumasayi Atwoli Nssf-Managing Trustee Eng. E.K. Mwongera S.M. Kitonga (Ms) B.W.W. Mwaniki (Ms) Isaih M. Mworia A.N. Ismail	Non-Executive - Chairman Executive - MD. Corporate Non-Executive Corporate Non-Executive Non-Executive Non-Executive Executive Executive	**64**	Ernst & Young
NIC Bank P.O. Box 44599 - 00100 Nairobi Tel: +254-20-2888000, 2888600 www.nic-bank.com	J.P.M. Ndegwa John Gachora A.J. Dodd F.M. Mbiru F.N. Mwanzia A.S.M. Ndegwa I. Ochola-Wilson Michael Somen George Adams Maina Paras Vinod Shah	Non-Executive - Chairman Executive - MD. Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	**23**	Deloitte & Touche
Oriental Commercial Bank P.O. BOX 14357-00800, Nairobi Tel: +254-20-3743278/87,3743289/98 www.orientalbank.co.ke	Shanti V. Shah R.B. Singh Prabhulal J. Shah Nalnikumar M. Shah Jitendrakumar C. Patel Ramesh Thakkar Rupen K. Haria	Non-Executive - Chairman Executive - Ceo Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	**7**	RSM AShivir

Name of Institution	Directots' Names	Status	Branch Network	Approved Auditors
Paramount Universal Bank P. O. Box 14001 -00800 Nairobi Tel: +254-20-4449266/7/8, 446106 /7 www.paramountbank.co.ke	Anwarali Merali Padany Ayaz A. Merali Noorez Padamshi Bahadur Alibhai Mercy W. Kamau M. Mujtaba	Non-Executive - Ag. Chairman Executive - Ceo Non-Executive Non-Executive Non-Executive Executive	**5**	Deloitte & Touche
Prime Bank Limited P.O. Box 43825 – 00100, Nairobi Tel: +254-20-4203000 www.primeban.com	Rasiklal C. Kantaria Bharat Jani Virendra N. Ponda James N. Mungai Shantilal K. Shah David Hutchison T.M. Davidson Amar Kantaria	Non-Executive - Chairman Executive - Ceo Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Executive	**16**	Ernst & Young
Standard Chartered Bank P.O. Box 30003 - 00100 Nairobi Tel: +254-20-3293000, 3293900 www.standardchartered.com	Wilfred Kiboro Richard Etemesi Kaushik Shah Mrs. Anne Mutahi Michael C. Hart Les Baillie Patrick Obath Kariuki Ngari Chemtai Murgor (Ms) Robin Charles Bairstow	Non-Executive - Chairman Executive - Ceo Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Executive Executive Executive	**40**	KPMG Kenya
Trans-National Bank P.O. Box 75840-004000 Nairobi Tel: +254-20-2224234/5/6, 2252188/90 www.tnbl.co.ke	Michael Cherwon Sammy Kipng'eno Langat Peter Kemei Andre De Simone John Kiplangata Kendiuwo Hilary Kiplomo Toroney Hellena Cheserem	Non-Executive - Chairman Executive - Ceo Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	**18**	Deloitte & Touche
UBA Kenya Bank P.O. Box 34154 - 00100 Nairobi Tel: +254-020- 3612000 /1 / 2 www.ubagroup.com	Ngugi Kiuna Adetunji Adeniyi Kennedy Ugo Uzoka James Olubayi	Non-Executive - Chairman Executive - MD. Non-Executive Non-Executive	**4**	Pricewater House Coopers
Victoria Commercial Bank P.O. Box 41114 - 00100 Nairobi Tel: +254-20-2719499, 2719815 www.victoriabank.co.ke	Kanji D.Pattni Yogesh Kanji Pattni Silvano O. Kola Rajan P. Jani Yadav Rajan Jani Ketaki Sheth	Non-Executive - Chairman Executive - MD. Non-Executive Non-Executive Non-Executive Non-Executive	**3**	Pricewater House Coopers

DEPOSIT TAKING MICROFINANCE DIRECTORS AND APPROVED AUDITORS

Bank	Branch Network	Directots' Names and Status		Approved Auditors
Faulu Kenya Deposit Taking Microfinance Limited P. O. Box 60240 – 00200, Nairobi. Tel. 3877290-3/7 www.faulukenya.com	**31**	Kenneth Wathome Mwatu John Mwara Kibochi George Adams Maina Beverly Nafula Nuthu Keith Parker Wright Mwikali Nzioka Muthiani Joseph Gichuki Hardwork Njodzi Pemhiwa	Chairman Executive Non Executive Non Executive Non Executive Non Executive Non Executive Non Executive	Deloitte & Touche
Uwezo DTM Limited P.O. Box 1654 – 00100, NAIROBI. Tel. 2212917/9 www.uwezodtm.com	**2**	Fredrick Wamwaki Angelica Wangari Kamuyu Christopher Mwaura Gathee David Kimani Muiruri David Waititu Michael Ndirangu Gichohi Michael Mbugua Wanyoike Patrick Kimemia Ndirangu Alan Ngugi Gachukia	Chairman Non Executive Non Executive Non Executive Non Executive Non Executive Non Executive Non Executive Non Executive	Kinyori and Associates
Remu DTM Limited P.O. Box 20833 – 00100, NAIROBI. Tel. 2214483, 2215387/8 www.remultd.co.ke	**3**	Mr. Wilfred M'iti Murungi Mr. Stanley M'amuiri Ngaine Mr. Henry Muciimi Mbaka Mr. Justus Mutabari Mutiga Ms. Felicity Nkirote Biriri Mr. Titus Mutea Ntuchiu Ms. Eileen Kagendo Mbaka Mr. John Benard Nthuku Mr. Jacob Kabutu Mwirigi Daniel M. Mugao	Chairman Non Executive Non Executive Non Executive Non Executive Non Executive Non Executive Non Executive Non Executive Non Executive	Mazars, Certified Public Accountants (K)
Century Deposit Taking Microfinance Limited P.O. Box 38319 - 00623, NAIROBI. Tel. 2664282,6768326 www.century.co.ke	**2**	Abel E. Muriithi Christian Lau Larsen Tom Onyango Edith Gathoni Gachanga Kaiganaine Emily Wairimu Kanina Eunice Wanjiru Kagane	Chairman Non Executive Non Executive Non Executive Non Executive Non Executive	P.G Wahome and Company
Kenya Women Finance Trust Deposit Taking Microfinance Limited P.O Box 4179 – 00506, NAIROBI Tel. Telephone No.: +254 20 2470272-5 / +254 20 2715334-5 www.kwft.org	**27**	Jane Jeptanui Rotich Mary Wacuka Ngatia Charity Muya-Ngaruiya Lydia Nyambura Musyimi Dr. Jennifer Nkuene Riria Agnes Nangira Odhiambo Grace Kabibi Ngala Mwangi Githaiga Anthony Chege Kariuki Kitabu Zipporah Kinanga Mogaka Julie Topirian Njeru	Non- Executive Director Non- Executive Director Non- Executive Director Chairman Non- Executive Director Non - Executive Non- Executive Director Executive Executive Executive Non- Executive Director Non- Executive Director	Deloitte & Touche
SMEP Deposit Taking Microfinance Limited P. O. Box 64063-00620, NAIROBI. Te. +254 20 2673327-8 /20 2055761 /20 3572799 www.smep.co.ke	**7**	Mr. Gabriel Comba Njeru Kivuti Rev Cannon Peter Karanja Mwangi Mr. Allan Njoroge Ngugi Mr. Sam Awour Mrs. Violet Tsisiga Awori Mr. Tom Matianyi Mokaya	Chairman Non- Executive Director Non- Executive Director Non- Executive Director Non- Executive Director Non- Executive Director	Deloitte & Touche

Bank	Branch Network	Directots' Names and Status		Approved Auditors
Rafiki Deposit Taking Microfinance (K) Limited P.O. Box 12755-00400 Tel: +254 020-216 6401 www.rafiki.co.ke	**13**	Zafrullah Khan Daniel Mavindu Ken Obimbo Duncan Kabui Gichu Pauline Ndirangu	Chairman Executive Director Non – Executive Non Executive Non - Executive	Deloitte & Touche
SUMAC DTM Limited P.O. Box 11687– 00100, NAIROBI Tel: +254 20 221 2587, 20 221 0440 www.sumacdtm.co.ke	**3**	Duncan Mbugua Mwaniki John Kibatha Njoroge Mbugua Muiruri Stephen Muregi Chege Dr. Rufas Maina Kanyogo Charles Kariuki Njai Peter Muhoro Kimani	Executive Director Chairman Non- Executive Director Non- Executive Director Non- Executive Director Non- Executive Director Non- Executive Director	Yet to be approved
U & I Deposit Taking Microfinance Limited P.O Box 15825 – 00100, Nairobi Tel. +254-20 2367288 www.uni-microfinance.co.ke	**2**	Dr. Antony Henia Maina Mr. Boniface Kihiu Kamau Mr. Stephen Alois Ngang'a Mr. James Gicheha Mwangi Dr. Timothy Kamau Njoora Mr. Benson Muturi Kamande Mr. Denis Ndungu Gichangi	Chairman Non- Executive Director Non- Executive Director Non- Executive Director Non- Executive Director Non- Executive Director Non- Executive Director	Yet to be approved

AIDE-MÉMOIRE ON THE RESULTS OF THE WORKSHOP ON THE APPLICATION OF THE COMPLIANCE ASSESSMENT METHODOLOGY FOR THE IADI/BCBS CORE PRINCIPLES FOR EFFECTIVE DEPOSIT INSURANCE SYSTEMS

INTRODUCTION

1. **During November 5 -9, 2012, a workshop was held in Nairobi, Kenya applying the Compliance Assessment Methodology for the Core Principles for Effective Deposit Insurance Systems to Kenya's Deposit Protection Fund Board (DPFB).** The training workshop was led by an international team of facilitators. The workshop did not conduct a comprehensive or rigorous assessment of compliance but, rather, was used as an example for training purposes on applying the Core Principles Assessment Methodology using the DPFB as a case study. Senior staff from deposit insurers from 10 countries participated in the workshop. The workshop facilitators would like to thank DPFB for their warm hospitality and cooperation.

BACKGROUND ON DPFB

2. **DPFB was established in 1985 following a banking crisis in Kenya. It was established through an amendment to the Laws of Kenya Banking Act ("the Act") (Chapter 488, Section 36) and currently is a body corporate administratively operating as a department within the Central Bank of Kenya (CBK).** Its statutory mandates as set forth in Section 36 A of the Act are to: provide a deposit insurance scheme for depositors of member institutions; and to liquidate and wind up the operations of any failed institution. There is a separate deposit insurance scheme for Savings and Credit Cooperative Societies (SACCOs), the Deposit Guarantee Fund (DGF), which protects members' deposits up to Ksh, 100,000 per account, the same level of coverage provided by DPFB for its member institutions. There are 216 deposit taking SACCOs, known as Front Office Savings Activities or FOSAs. The Workshop did not look at the operation or structure of the DGF.

3. **In May 2012, Kenya's Parliament enacted a new legislation titled "The Kenya Deposit Insurance Act of 2012" (the Act) that replaces the provisions of the Banking Act that govern the operations of its deposit insurance program.** The new Act expands the current mandate of DPFB, transforming it from a pay-box system (with the additional mandate of liquidation as directed by the CBK) to a loss minimizer and provides for an independent status, out of the CBK. The new Act will be operationalized in the next few months.

[1] The members of the facilitators team included: Vijay Deshpande (Federal Deposit Insurance Corporation – USA), David Walker (Canada Deposit Insurance Corporation), Claire McGuire (World Bank), Lucas Metzger (Deposit Protection of Swiss Banks and Securities Dealers), J. Ade Afolabi (Nigeria Deposit Insurance Corporation), Jose Villarett, Jr. (Philippines Deposit Insurance Corporation) and Vilma RosaLeon-York (US Department of Treasury- Office of Technical Assistance). The views expressed here strictly reflect those of the facilitators and do not reflect the official opinions of their organizations.

4. **Accordingly, the Workshop participants conducted the compliance assessment of the current DPFB organization, structure, mandate and operational features, noting any significant changes that are expected as a result of the new legislation.** Annex I provides a brief comparative analysis of the current and new Act.

5. **DPFB is a government legislated and administered agency, within the CBK, governed by a Board of Directors.** The members include: Governor of CBK as the Chairman; Permanent Secretary to the Treasury; and five members appointed by the Minister of Finance in consultation with the CBK to represent the interests of member institutions.

6. **DPFB's management is headed by a Director who is responsible for the day-to-day operations.** DPFB has a staff of 51 and the employees are seconded from the CBK. They are all subject to the CBK Employee Code of Conduct. DPFB management sets its own operational budget, internal policies and procedures as approved by the Board of Directors.

7. **DPFB is an explicit and limited deposit protection scheme that covers deposits up to Ksh 100,000 (approximately US $ 1,200).** This covers about 95 per cent of the depositors and about 19 per cent of the deposits in institutions licensed by the CBK.

8. **DPFB has a limited mandate serving as a "pay box plus."** In conducting its operations, it has the following major authorities (i) determination and collection of annual deposit insurance premiums; (ii) the accumulation and management of an ex-ante deposit insurance fund; (iii) paying protected depositors; (iv) liquidating insolvent institutions and managing such institutions' assets. DPFB does not conduct its own independent on-site assessment of the financial soundness of the member banks, but relies on the information provided by the CBK.

9. **There is close collaboration among Kenya's financial safety net participants including the Ministry of Finance, The Central Bank of Kenya, the Capital Markets Authority, Insurance Regulatory Authority, the Retirement Benefits Authority and the SACCO Societies Authority.** According to DPFB, there are MOUs between the Central Bank and other safety net participants. DPFB has also entered into a Service Level Agreement (SLA) with the Bank Supervision and Research Departments of the CBK, defining the terms and conditions of rendering mutual services including information sharing.

10. **Membership in DPFB includes all financial institutions licensed by the Central Bank accepting deposits.** Membership is automatic and it is part of the licensing process. Commercial banks and micro finance institutions (MFIs) have a compulsory membership in DPFB's deposit insurance system. As of June 30, 2012, the DPFB members included 43 commercial banks, one mortgage financing company and six deposit taking micro-finance institutions (MFIs).

11. **DPFB covers all deposits in its member institutions (including current account deposits, savings accounts deposits, call deposits, fixed/term deposits, and foreign currency deposits). Inter-bank placements are not covered.** The coverage is the same for banking institutions and deposit taking MFIs. There is no co-insurance.

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[2] Kenya's per capita income is Kshs.68,800 or about US$ 808.

12. **DPFB is funded by annual premiums collected from member institutions and investment income.** DPFB assesses premiums on an ex-ante basis. It has implemented a flat rate premium system. The current premium rate is 0.15 per cent of the total insured deposits. There is no official target level for the deposit insurance fund. The current level of deposit insurance fund is Kshs 32.34 billion which represents about 18.9 per cent of insured deposits and about 1.9 per cent of total deposits in institutions licensed by CBK. At this level the fund would be capable of reimbursing cumulatively all insured depositors up to the 38th largest bank. The fund would also be capable of reimbursing insured depositors in any single bank failure up to the second largest bank.

13. **DPFB is responsible for public awareness about the deposit insurance system with a focus on the existence, benefits and characteristics of deposit insurance. Some of the channels used include:** TV, radio, promotional brochures and pamphlets, the DPFB website, promotional gifts, and participation in domestic and international trade fairs. DPFB has not conducted any evaluation of the effectiveness of such programs.

14. **Since 2005, DPFB has not dealt with a single bank failure or resolution.** The DPFB target for starting payments to depositors of failed institutions is currently 30 days from the date that DPFB is appointed liquidator by the CBK. However, DPFB is working towards reducing this timeframe to 14 days, using advanced IT payment systems currently under development.

ASSESSMENT OF THE ECONOMY AND BANKING SYSTEM

A. Macroeconomic Environment

15. **The Kenyan economy grew 4.3% in 2011 after registering real growth in GDP of 5.6% in 2010.** Kenya has a population of approximately 40 million people, with an estimated increase in population of approximately one million people a year. The key drivers of economic growth include services, tourism and agricultural recovery. High food, fuel and energy prices pushed inflation to 19.7% in November 2011 before easing in 2012. The economy remains vulnerable to external shocks with a growing gap between imports and exports, with imports surging in 2011 based on higher oil and food prices. Poverty and vulnerability to climate change remain critical development challenges in Kenya. Kenya's growth outlook is consistent with the average for Sub-Sahara Africa but is below that of its neighbors Tanzania, Uganda and Rwanda. Growth for 2012 is projected to be 5% although inflation is still a risk to the country's growth outlook.

16. **The Government was proactive in responding to the economic challenges.** Three main factors contributed to the stabilization of Kenya's economy in 2012. First, the Government took action to increase interest rates during the third quarter of 2011, with important signals to

[3] This analysis is based on these sources: the 2011 IMF Article IV Consultation; Second Review Under the Three-year Arrangement Under the Extended Credit Facility and Requests for Modification of Performance Criteria and Augmentation of Access – Staff Report (IMF Article IV); the World Bank Kenya Overview (2012);the Report on The Observance of Standards and Codes on Accounting and Auditing (World Bank 2010);the Deposit Protection Fund Board 2011 Annual Report, the Deposit Protection Fund Board Report and Financial Statements at 30 June 2012; Kenya's Financial Sector Stability Report, 2011 and the Deposit Protection Fund Board Interim Strategic Plan 2012-2015.

the market that helped stabilize the exchange rate. Inflation has also declined sharply from its 2011 high. Finally, Kenya's service sector has continued to expand with good results in tourism. Kenya's per-capita income is now at levels that place it firmly on the path to middle income status. However, any additional external shock, especially a sharp rise in oil prices, would trigger severe economic stress. There is also increased risk from the acceleration of credit growth, particularly in the areas of personal, real estate and trade loans.

17. **The financial system remains sound.** Most banks remain profitable and capital adequacy ratios are high, although they declined late in 2011 even though non-performing loans (NPLs) continued to lessen based on improved loan recovery practices of banks. However, personal loans show higher-than-average NPL ratios. The Capital Markets Authority has continued improving capital market governance and development with the adoption of a risk based supervision model and the enforcement of higher minimum capital requirements for brokers and investment banks.

18. **Cross border linkages could present risks to the financial system.** Foreign and regional banks hold 40 percent of the banking sector's assets. Several Kenyan banks have expanded into neighboring East African Community countries as well as South Sudan, Malawi and Mauritius. There may be contagion risk from parent countries for foreign owned banks and problems in affiliates of Kenyan owned banks may affect the parent institutions through reputational risk and the need for recapitalization by the parent bank.

B. Sound Governance of Agencies Comprising the Financial Safety Net

19. **The Central Bank of Kenya Act provides CBK with a broad range of powers to avert or reduce risk to financial stability.** The Bank is operationally independent and works closely with the Minister of Finance in furthering the economic policies of the Government. However, the ongoing modernization of the financial system and the growth in the regional activities of financial institutions call for enhanced consolidated and cross-border supervision.

20. **There is no Financial Stability Committee to look at systemic risks to the economy.** However, there is a process for information sharing among the various financial regulators through the development of an interagency financial stability report.

C. Strong Prudential Regulation and Supervision

21. **CBK supervises 43 commercial banks, one mortgage finance and six deposit taking financial institutions comprising 56% of GDP.** The system is not very concentrated, with the three largest banks holding about 37% of commercial bank assets and deposits. Kenya's financial sector is the third largest in Sub Saharan Africa. There are three banks with majority government ownership that are members of DPFB and subject to explicit limited coverage provisions. These banks have improved their performance considerably since 2003 but continue to have weaker performance than the rest of the banking sector. The government is gradually reducing its share of ownership.

22. **There are four major regulatory authorities for each one of the four significant financial sectors.** There are regulators for banks, securities, pensions and insurance as well as a supervisory authority (SASRA) for the SACCOs. The financial performance of the SACCOs lags behind that of the commercial banks. SACCOs serve the personal loan market with high credit risk, with many having low liquidity and solvency margins.

23. **There is a Credit Reference Bureau regulation which became operational in 2009.** CBK oversees the credit bureaus which collate credit information from banking institutions. Currently the bureaus only collect negative credit information but there are plans to begin to expand operations to include the collection of positive data credit in the near future.

D. Well-Developed Legal Framework

24. **One of the most important weaknesses in Kenya's lending infrastructure is the process of taking and realizing collateral.** The process of realizing on collateral has been described as lengthy, costly and unpredictable. One of the contributing factors is a slow and inefficient judiciary. This is specifically recognized as a performance challenge in DPFB's Interim Strategic Plan. The Plan also acknowledged as an external threat to its operations the slow judicial process and reforms, unfavorable court decisions and a lengthy and costly winding up process.

25. **A legal framework exists for handling a bank failure that includes a method for failure resolution, although it may not be in a timely manner.** As noted in greater detail later in this report, there is room for improvement in the bank resolution regime even considering the changes that have been made to the powers of the deposit insurer in the new legislation.

26. **Banking laws and regulations are updated as necessary to ensure that they remain effective and relevant to a changing industry.** Both CBK and DPFB have had recent, extensive changes to their governing statutes.

27. **Information exchange between the deposit insurance system participants and the supervisor is legally protected for all measures necessary in order to protect the deposits and to enable safety-net participants to intervene in case a bank is at risk.** All communications are subject to bank secrecy protections.

28. **Appropriate participants in the financial safety net are entitled to protect depositors through a number of options including transferring deposits from a troubled bank to a healthy bank.** However, there is room for improvement in the framework for bank resolution as noted in this report.

29. **Relevant authorities can take legal action against the management of a failing bank.**

[4] According to DPFB officials, recent reforms witnessed in the Judiciary have seen an expeditious determination of cases in court and will go a long way in accelerating the winding-up process.

E. Sound Accounting and Disclosure Regime

30. **Accounting and disclosure regimes support the ability of the supervisor and deposit insurer to adequately evaluate the health of individual banks and the banking system as a whole.** International Financial Reporting Standards (IFRS) are the applicable financial reporting requirements in Kenya. Audited financial statements of listed companies, banks and similar financial institutions must be published. However, there is no similar requirement for non-listed companies. Only CBK approved auditors can audit the financial statements of banks. CBK has set up its own process to determine whether the financial reporting of banks is adequate. The accounting and audit profession is self-regulated by the Institute of Certified Public Accountants of Kenya. There is no statutory requirement for auditors to have professional liability insurance.

31. **Accounting and disclosure regimes support the accurate and timely identification of information on depositor accounts for the purposes of prompt reimbursements. There are challenges in accessing banks' deposit information but DPFB is in the process of developing a computerized system that should better prepare it for making prompt depositor payouts in the future.**

32. **The deposit insurer has the right to carry out or provide for an audit or inspection of a member bank in a timely manner if evidence shows that deposits may be at risk.** Under Section 38 of the Banking Act the Board may ask the Central Bank to have an inspection to ascertain information about protected deposits. Under Section 39 of the Kenya Deposit Insurance Act of 2012 the Board may make its own inspection at any time it deems such inspection necessary.

Preliminary Findings

33. **As a general comment, it is the preliminary finding of the Workshop team that the Deposit Protection Fund Board is Compliant or Largely Compliant with 15 applicable Core Principles and Materially Non-Compliant with two Core Principles. Core Principle 10, "Transitioning from a Blanket Guarantee" was not applicable.**

In particular, the Team would like to note favorably the many accomplishments of DPFB in recent years, including:

- Transformation of the deposit insurance scheme from a pay-box to a risk minimizer through the enactment of new legislation, the Kenya Deposit Insurance Act 2012.
- Realizing its goal to grow the deposit insurance fund at an annual rate of 16.4 percent.
- Developing an Interim Strategic Plan for 2012-2015, which has been shared with key stakeholders.
- Participating in the national agenda for financial inclusion by presenting an element of reassurance to total depositors, resulting in the growth of bank accounts to 16 million at end of 2011. Six micro-finance deposit-taking institutions became members of the Fund.
- Successfully concluding dissolution of seven member institutions in liquidation, and declaring dividends on ten other liquidations since 2009.

34. **However, the Team found a number of areas where some deficiencies exist in the deposit insurance system and financial safety net arrangements and accordingly, is proposing a corrective action plan to address these areas (see Tables 1 and 2). The major findings (not in the order of priority) are:**

- There are no formal mechanisms for assured back-up funding;
- There is no real evidence on whether the public awareness program is able to reach out to the different target audiences of the Fund and no regular evaluations are conducted on its effectiveness;
- Prompt reimbursement to depositors is not supported by the current or future legal framework;
- DPFB has no direct access to deposit account records, and does not conduct periodic reviews of the accuracy of deposit/depositor data to ensure integrity of bank financial data in preparation to future reimbursement processes.

35. **The new legislation, KDIA 2012, takes the deposit insurance scheme from a pay-box mandate to a loss minimizer.** The new scheme takes lessons learned and enhances the expertise acquired through over 20 years of operations of the DPFB, improves corporate governance, and expands the Board's mandate to facilitate effective participation in the common objectives of the Kenyan financial safety net for financial stability. The new legislation:

- Establishes the KDIC as an autonomous institution;
- Expands the powers of the KDIC in accordance with the new public policy objectives and mandate;
- Enables coordination of actions and functions between the CBK and the KDIC for timely interventions and effective resolutions; and
- Empowers the KDIC to reimburse depositors faster with early access to depositor information.

Table 1

SUMMARY OF COMPLIANCE WITH THE BCBS-IADI CORE PRINCIPLES

[Key: C = Compliant; LC = Largely Compliant; MNC= Materially Noncompliant; NC =Noncompliant; NA = Not Applicable]

1. Public Policy Objectives (PPOs)	LC	PPOs are stated in the DPFB mission statement and published in the annual report. There is no regular comprehensive review process for the PPOs.
2. Mitigating Moral Hazard	C	Appropriate design features are present in the Kenyan DIS to mitigate moral hazard.
3. Mandate	C	Mandate is specified in the current framework and clearly stated and expanded to include receiverships in the KDIA 2012.
4. Powers	LC	DPFB has no powers to: • Issue regulations and establish enforcement measures for DPFB signage and coverage information. • Engage in information sharing and coordination agreements with deposit insurers in other jurisdictions.
5. Governance	LC	The existing legislation and implementing regulations do not prescribe for non-public sector members: • Well specified requirements for who can and cannot be members • Mitigation mechanisms for avoiding conflicts of interest for active bankers.
6. Relationship with Other Safety Net Participants	LC	The Financial Stability Report is a good mechanism for interagency communications; however, there are no formal mechanisms to coordinate functions and roles in past, present, and future events, such as a Financial Stability Coordinating Committee.
7. Cross-border Issues	LC	The DPFB has no powers to enter into cross border agreements. Neither current legislation nor KDIA 2012 formally addresses this issue.
8. Compulsory Membership	C	Every deposit taking institution licensed by the CBK is a member of the Fund upon license authorization. SACCOS are members of a separate deposit insurance fund, DGF. There are postal savings banks which are not part of any DIS.
9. Coverage	LC	DPFB provides explicit and limited coverage and no changes are made under KDIA 2012, except for the inclusion under deposit protection coverage for trust accounts. Greater clarity is necessary in the definition of insured and excluded deposits. Maximum coverage amount is not reviewed periodically. Deposit-like balances on mobile payment systems are not covered adequately by DPFB.
10. Transitioning from Blanket Guarantee	NA	There has not been a blanket guarantee in place.

11. Funding	MNC	Although the DPFB's fund appears adequate, this cannot be verified as there is no methodology in place for determining a target fund ratio. The MOF has the power to fix the size of the Fund but it has not done so to date. For emergency back-up funding, DPFB can borrow from CBK if needed up to Ksh. 500 million; for higher amounts approval of the MOF is needed. There is no operational agreement in place for additional assured back-up funding.
12. Public Awareness	LC	Public awareness activities are extensive, but no communication strategy is in place. No evaluations on the effectiveness of past activities have been performed.
13. Legal Protection	C	The DPFB and individuals working on behalf of the DPFB are protected against lawsuits for their decisions and actions taken in "good faith" while discharging their mandates. DPFB employees are subject to the CBK Code of Ethics.
14. Dealing with Parties at Fault	C	In addition to the provisions contained in the Banking Act and KDIA 2012, parties at fault are dealt with in the context of the Companies Act and the Penal Code depending on the facts of each case.
15. Early Detection and Timely Intervention and Resolution	LC	DPFB has a mandate of a pay-box and charged with the liquidation of failed member institutions. CBK is responsible for the functions of early detection and timely intervention. DPFB appears to be integrated into the intervention and resolution framework. According to the 2009 BCP assessment and follow-up, CBK's framework is generally effective; however, improvements need to be made in its approach to crisis management and distressed bank resolution and stress testing.
16. Effective Resolution Processes	MNC	CBK can place a problem institution under statutory management for up to 12 months that forces a moratorium on all liabilities of the problem institution. This situation was not corrected in KDIA 2012. There are no requirements for least cost alternatives in the determination of resolution mechanisms. The current legal framework does not provide for: the possibility to transfer insured deposits to a stronger institution (although this situation is rectified in KDIA 2012) and, the establishment of a temporary "bridge-bank" entity.
17. Reimbursing Depositors	LC	The current legal framework does not support prompt reimbursement of depositors because of the ability to declare a moratorium. The DPFB has no power to provide depositors with advance, interim, or emergency partial payments. The current legislation requires that depositors be reimbursed as soon as practicable after liquidation, which may be delayed for more than a year due to the hold on liabilities. IT system for prompt reimbursement is in development stage.
18. Recoveries	C	The Board is subrogated in the place of depositors and the Fund is reimbursed to the extent it provided resources to honor the depositor protection coverage. DPFB is provided with insured depositor preference.

Table 2

RECOMMENDED CORRECTIVE ACTIONS

1. Public Policy Objectives (PPOs)	LC	Revise Strategic Plan to include the commitment to regularly review the extent to which the DIA is meeting its PPOs.
2. Mitigating Moral Hazard	C	None
3. Mandate	C	None
4. Powers	LC	Provide powers to: • Issue regulations, establish enforcement measures for DPFB signage and coverage information, • Engage in information sharing, and establish coordination agreements with deposit insurers in other jurisdictions.
5. Governance	LC	Prescribe for non-public sector members: • Clearly specified basic requirements and permanent prohibitions for qualification for post. • Mitigation mechanisms for avoiding conflicts of interest for active bankers. In addition, develop a Board charter to enhance governance. Consider including a consumer representative on the Board.
6. Relationship with Other Safety Net Participants	LC	Develop formal mechanisms to coordinate functions and roles in past, present, and future events, such as a Financial Stability Coordinating Committee.
7. Cross-border Issues	LC	Make clear in the law that KDIC has the authority to enter into cross border agreements. Consider a formal coordination mechanism for cooperation with the Secretariat of the East African Community.
8. Compulsory Membership	C	Consider making postal savings banks members of a DIA.
9. Coverage	LC	Define with greater clarity the terms insured and excluded deposits. Periodically review maximum coverage amount. Consider coverage for individual deposit-like balances on mobile money providers. Study the limit and scope of the current deposit protection system.
10. Transitioning from Blanket Guarantee	NA	None
11. Funding	MNC	Establish a methodology for determining a target fund ratio. (In determining a target fund ratio, it is advisable to use a methodology that allows for flexibility to change data and assumptions for answering other deposit insurance policy questions, such as: additional/contingency funding requirements, and approximate time frame for fund restoration after disbursements.) Develop an operational agreement for assured contingency funding.

12. Public Awareness	LC	Develop a comprehensive communications strategy. Regularly evaluate effectiveness of public awareness activities. Consider enhancing partnerships with banks in promoting public awareness.
13. Legal Protection	C	Clarify coverage for former employees.
14. Dealing with Parties at Fault	C	None.
15. Early Detection and Timely Intervention and Resolution	LC	Establish a formal crisis management process that addresses the roles and functions of the safety net players in a financial crisis. Consider making use of periodic simulation exercises to test and strengthen the established roles.
16. Effective Resolution Processes	MNC	Reform legal framework to eliminate moratorium on payment of insured deposits. Establish process for the possibility to transfer insured deposits to a stronger institution. Clarify functions of the different agencies in the resolution process.
17. Reimbursing Depositors	LC	Enable DPFB to provide depositors with advance, interim, or emergency partial payments. Consider simulation exercises on reimbursement process.
18. Recoveries	C	None.

ANNEX I

Comparative Chart of Differences Between the Existing DPFB Governing Statute and the New Legislation

	CORE PRINCIPLE	CURRENT PROVISIONS BANKING ACT	KENYA DEPOSIT INSURANCE ACT, 2012 ("KDIA 2012")	COMMENTS
1	**PUBLIC POLICY OBJECTIVES** *The first step in adopting a deposit insurance system or reforming an existing system is to specify appropriate public policy objectives that it is expected to achieve. These objectives should be formally specified and well integrated into the design of the deposit insurance system. The principal objectives for deposit insurance systems are to contribute to the stability of the financial system and protect depositors.*	**Section 36A** (1) The principal object of the Board shall be to provide a deposit insurance scheme for customers of member institutions and liquidate and wind up the operations of any institution in respect of which the Board is appointed as a liquidator. **The Board is:** (a) required to provide a deposit scheme for customers of any institution; or (b) appointed as a liquidator in respect of any insolvent institution, **Board shall:** (a) hold, manage and apply in accordance with the provisions of this part, the Deposit Protection Fund (hereinafter referred to as the "Fund"); (b) levy contributions for the Fund from institutions in accordance with law.	**Section 5.** (1) The object and purpose for which the Corporation is established is to provide a deposit insurance scheme for customers of member institutions and to receive, liquidate and wind up any institution in respect of which the Corporation is appointed r eceiver or liquidator. **The Corporation shall:** (a) levy contributions for the Fund from institutions; (b) hold, manage and apply the Fund and administer the deposit insurance scheme; (c) provide incentives for sound risk management and generally promote the stability of the financial system.	• The Public Policy Objectives are expanded in the KDIA 2012 to include the function of receivership, which is currently not vested in DPFB.

	CORE PRINCIPLE	CURRENT PROVISIONS BANKING ACT	KENYA DEPOSIT INSURANCE ACT, 2012 (“KDIA 2012”)	COMMENTS
2.	**MITIGATING MORAL HAZARD** Moral hazard should be **mitigated** by ensuring that the deposit insurance system contains appropriate design features and through other elements of the financial system safety-net.	**Section 39** (1) The amount being the aggregate credit balance of any accounts maintained by the customer to an institution, less any liability of the customer to the institution, shall be a protected deposit. **Banking Act (Deposit Protection) Regulations, 2003 Reg. 9.** (1) Any reference to a protected deposit is a reference to the total liability of the institution to the depositor limited to a maximum of one hundred thousand shillings:	**Section 28** (1) The Corporation shall insure each deposit placed with an institution, provided that the maximum amount payable to a customer in respect of the aggregate credit balance of any deposit accounts maintained by the customer with the institution shall not exceed one hundred thousand shillings. (2) Where a depositor owns more than one deposit account with an institution, the aggregate of those deposits shall be insured in respect of the consolidated amount to the prevailing maximum amount.	• No change in coverage levels under the Banking Act and KDIA 2012.
3.	**MANDATE** *It is critical that the mandate selected for a deposit insurer is clearly and formally specified and that there is consistency between the stated public policy objectives and the powers and responsibilities given to the deposit insurer.*	**Section 36A** (1) The principal object of the Board shall be to provide a deposit insurance scheme for customers of member institutions and liquidate and wind up the operations of any institution in f which the Board is appointed as a liquidator.	**Section 5** (1) The purpose for which the Corporation is established is to provide a deposit insurance scheme for customers of member institutions and to receive, liquidate and wind up any institution in respect of which the Corporation is appointed receiver or liquidator.	• The KDIA 2012 provisions reflect the expanded mandate of problem bank resolution through receivership.

	CORE PRINCIPLE	CURRENT PROVISIONS BANKING ACT	KENYA DEPOSIT INSURANCE ACT, 2012 (“KDIA 2012”)	COMMENTS
		(1A) The Board is:- (a) required to provide a deposit scheme for customers of any institution; or(b) appointed as a liquidator in respect of any insolvent institution, **Board shall:-** (a) hold, manage and apply the Deposit Protection Fund, and (b) levy contributions for the Fund.	**(2) The Corporation shall:-** (a) levy contributions for the Fund from institutions (b) hold, manage and apply the Fund and administer the deposit insurance scheme set up under this Act; and (c) provide incentives for sound risk management and generally promote the stability of the financial system.	
4.	*A deposit insurer should have all powers necessary to fulfill its mandate and these should be formally specified. All deposit insurers require the power to finance reimbursements, enter into contracts, set internal operating budgets and procedures, and access timely and accurate information to ensure that they can meet their obligations to depositors promptly.*	**GENERAL POWERS** **Section 36** (2) The Board in its corporate name or in the name of an institution under liquidation be capable of:- (a) suing and being sued (b) taking, purchasing or otherwise acquiring, moveable or immovable property; (c) borrowing money; (d) doing all such other acts necessary for the proper performance of its which may lawfully be done by a body corporate or a liquidator. (3) The Board shall:- (a) hold, manage and the Deposit Protection Fund and (b) levy contributions for the Fund.	**GENERAL POWERS** **Section 6.** Similar to previous legislation with additional powers to request information from any monetary, financial regulatory or tax authority, fraud investigations agency within or outside Kenya or a credit reference bureau licensed by the Central Bank. **POWERS AS A RECEIVER** **Section 50.** (1) The Corporation shall not be required to— notify or obtain the approval of shareholders or creditors of the institution or make a take-over offer or be required to acquire the shares of the other shareholders of the institution.	• KDIA 2012 gives additional powers that relate to KDIC’s role as a receiver.

	CORE PRINCIPLE	CURRENT PROVISIONS BANKING ACT	KENYA DEPOSIT INSURANCE ACT, 2012 (“KDIA 2012”)	COMMENTS
			(2) The Corporation shall have power to declare a moratorium on the payment by the institution to its depositors and other creditors . (4) Where the Corporation has assumed control of an institution the Corporation shall have the power— (a) to enter into any premises of an institution and take possession and control of the assets and require any person in the premises to account for and deliver up to the Corporation possession and control of the assets; (b) to sell or otherwise dispose of the assets and business undertaking of the institution (c) to arrange for the assumption of all or any part of the liabilities of an institution by a person; (d to carry on the business of an institution (e) to sue for, defend, compromise and settle, in the name of an institution, any claim made by or against it; (f) all acts and execute all receipts and other documents and for that purpose, when necessary, use its common seal;	

	CORE PRINCIPLE	CURRENT PROVISIONS BANKING ACT	KENYA DEPOSIT INSURANCE ACT, 2012 (“KDIA 2012”)	COMMENTS
			(g) to recover out of the assets of an institution all the costs, charges and expenses, including the remuneration, properly incurred by the Corporation and carry out any liquidation comprising a transactions that involve the sale or other disposal by the institution of all or part of its assets or the assumption of all or part of its liabilities.	
5.	**GOVERNANCE** *The deposit insurer should be operationally independent, transparent, accountable and insulated from undue political and industry influence*	**Section 3** **The Board shall consist of:** (a) the Governor of the Central Bank who shall be the chairman; (b) the Permanent Secretary to the Treasury; and (c) five members appointed by the Minister in consultation with the Central Bank to represent the interest of institutions. (6) The Central Bank shall make available to the Board such facilities and the services of such officers as are necessary for the proper and efficient exercise of the functions of the Board.	**Section 7** **The Board of Directors shall consist of:** (a) a non-executive chairperson appointed by the President on the recommendation of the Minister from amongst the appointed members; (b) the Permanent Secretary in the Ministry for the time being responsible for matters relating to finance or his representative; (c) the Governor of the Central Bank of Kenya or his representative; (d) five members, not being public officers, appointed by the Minister by virtue of their knowledge and possession of a minimum of ten years’ experience; and	• KDIA 2012 provisions depart from the current position on the composition of the Board and its leadership. The Governor shall no longer chair the Board. • Staff of DPFB are drawn from CBK, but KDIC will employ its own staff.

	CORE PRINCIPLE	CURRENT PROVISIONS BANKING ACT	KENYA DEPOSIT INSURANCE ACT, 2012 ("KDIA 2012")	COMMENTS
			(*e*) the Chief Executive officer who shall be an ex-officio member. The Board shall appoint its own secretary. **Section 11** The Board may appoint such officers and other staff as are necessary for the proper discharge of its functions.	
6.	**RELATIONSHIPS WITH OTHER SAFETY-NET PARTICIPANTS** *A framework should be in place for the close coordination and information sharing, on a routine basis as well as in relation to particular banks, among the deposit insurer and other financial system safety-net participants. Such information should be accurate and timely (subject to confidentiality when required). Information-sharing and coordination arrangements should be formalised.*	**Section 31** (1) The Central Bank or the Minister may publish in any information furnished to it under this Act so long as it does not disclose the financial affairs of any person without consent. (2) No person shall disclose or publish any information which comes into his possession as a result of the performance of his duties. (3) The Central Bank may disclose any information to any monetary or financial regulatoryauthority, fiscal or tax agency or fraud investigations agency within or outside Kenya, where such information is reasonably required, provided that there is a reciprocal arrangement.	**Section 38** The Corporation may, request the Central Bank to carry out an inspection of an institution and to avail to the Corporation information obtained from such inspection. **Section 40** (1) The Corporation may, require any person to furnish all such returns or information. (2) The Corporation shall not disclose or use any return or information acquired except for the purpose of achieving the objectives of the Corporation. (3) The Corporation shall have access to reports of examination and any other documents relating to an institution prepared by the Central Bank.	• KDIA 2012 contains expanded information sharing mechanisms.

	CORE PRINCIPLE	CURRENT PROVISIONS BANKING ACT	KENYA DEPOSIT INSURANCE ACT, 2012 ("KDIA 2012")	COMMENTS
		(b) the Deposit Protection Fund Board and licensed institutions shall, exchange information on non-performing loans as specified by the Central Bank in guidelines under section 33(4); (c) the Central Bank and licensed institutions may exchange other information as is reasonably required for the proper discharge of their functions. **Section 39** (4) The Board may require the Central Bank to have an inspection carried out to ascertain the type, number and value of the protected deposits of any institution and the information obtained pursuant to the inspection shall be made available by the Central Bank to the Board.	(4) The Central Bank shall promptly advise the Corporation of any material changes in the deposit liabilities or any condition of an institution that may cause significant risk to the Corporation. (5) The Corporation may require any institution to file additional reports. (6) The Central Bank shall provide to the Corporation:- (a) a rating or an assessment of the safety and soundness of the institution, including its financial condition; or any information that the Central Bank considers relevant to any matter referred to in paragraph (a). (7) All information made available to or obtained by the Corporation in the course of any examination or exchange of information or otherwise shall be treated as confidential and used solely for the purposes of the Corporation's obligations as deposit insurer, receiver or liquidator.	

	CORE PRINCIPLE	CURRENT PROVISIONS BANKING ACT	KENYA DEPOSIT INSURANCE ACT, 2012 ("KDIA 2012")	COMMENTS
			(8) The Corporation shall, submit to the Central Bank all information obtained or produced by the Corporation, regarding the business and affairs of the institution or that relates to the safety and soundness or the operations, of the institution.	
7.	**CROSS-BORDER ISSUES**			• These issues are not covered by the two laws under consideration.
8.	**COMPULSORY MEMBERSHIP** *Membership in the deposit insurance system should be compulsory for all financial institutions accepting deposits from those deemed most in need of protection (e.g., retail and small business depositors) to avoid adverse selection.*	**Section 38** (1) Every institution which is licensed to carry on business in Kenya shall be a contributor to the Fund and shall pay into the Fund such annual amount, and at such times, as the Board may determine.	**Section 24**	• No changes have been made by the KDIA 2012.
9.	**COVERAGE** *Policymakers should define clearly in law, prudential regulations or by-laws what is an insurable deposit. The level of coverage should be limited but credible and be capable of being quickly determined. It should cover adequately the*	**Section 39** **Banking Act (Deposit Protection) Regulations, 2003 Reg. 9.** (1) Subject to the Act, and in relation to a contributory institution, any reference to a protected deposit is a reference to the total liability of the institution to the depositor	**Section 28** (1) The Corporation shall insure each deposit placed with an institution, provided that the maximum amount payable to a customer in respect of the aggregate credit balance of any deposit accounts maintained by the customer with the institution	• No change in coverage amount under the Banking Act and KDIA 2012. • However, KDIA 2012 extends coverage to Trust Accounts that fulfill the criteria outlined in the

	CORE PRINCIPLE	CURRENT PROVISIONS BANKING ACT	KENYA DEPOSIT INSURANCE ACT, 2012 ("KDIA 2012")	COMMENTS
	large majority of depositors to meet the public policy objectives of the system and be internally consistent with other deposit insurance system design features.	limited to a maximum of one hundred thousand shillings.	shall not exceed one hundred thousand shillings. (2) Where a depositor owns more than one deposit account with an institution, the aggregate of those deposits shall be insured in respect of the consolidated amount to the prevailing maximum amount. **Section 29** (1) Where an institution is under a lawful obligation to repay monies to a depositor who is acting as a trustee for another or as joint owner with another, and the trusteeship or joint ownership is disclosed on the records of the institution:- (a) the deposit of the depositor as trustee or as a joint owner, shall be deemed to be a deposit separate from any deposit of that depositor acting on his own behalf or acting in another trust or joint capacity with the institution; (b) the deposit held in trust by the trustee for each beneficiary, shall be deemed to be a separate deposit where the trustee is acting for two or more beneficiaries; and	Act and subsidiary legislation. The beneficiaries of such accounts are individually entitled to insurance coverage of Kshs.100, 000.00 each

	CORE PRINCIPLE	CURRENT PROVISIONS BANKING ACT	KENYA DEPOSIT INSURANCE ACT, 2012 ("KDIA 2012")	COMMENTS
			(c) the deposit held in trust by a trustee for a beneficiary in an institution shall be deemed to be a deposit separate from a deposit of that beneficiary with the institution on his own behalf and shall also be deemed to be separate from any deposit held in trust by another trustee for the beneficiary in the institution.	
10.	**TRANSITIONING FROM A BLANKET GUARANTEE TO A LIMITED COVERAGE DEPOSIT**			• Non-applicable. Kenya has not had a blanket guarantee coverage so the issue of transition does not arise
11.	**FUNDING** *A deposit insurance system should have available all funding mechanisms necessary to ensure the prompt reimbursement of depositors' claims including a means of obtaining supplementary back-up funding for liquidity purposes when required. Primary responsibility for paying the cost of deposit insurance should be borne by banks since they and their clients directly benefit from having an effective deposit insurance system.*	**Section 37** (1) The Minister may fix the size of the Fund sufficient to protect the interests of depositors to be made up by contributions under the provisions of any law and may authorize the Board to borrow from the Central Bank or any other person such amount as it may require for the purposes of discharging its functions under this Part.	**Section 20** (1) There is hereby established a fund to be known as the Deposit Insurance Fund, vested in the Corporation and shall be administered by the Board. (3) The Fund shall consist of:- (a) monies, which at the commencement of this Act, exist in the Deposit Protection Fund established under the Banking Act; (b) monies contributed to the Fund by institutions under section 27 and any interest or penalties levied in respect of such contributions;	

CORE PRINCIPLE	CURRENT PROVISIONS BANKING ACT	KENYA DEPOSIT INSURANCE ACT, 2012 (“KDIA 2012”)	COMMENTS
	(2) The Fund shall consist of:- (a) moneys in the Deposit Protection Fund established by section 17 of the Banking (Amendment) Act, 1985; (b) moneys contributed to the Fund by institutions under section 38 or under the provisions of any other written law; (c) income credited to the Fund under subsection (3); (d) moneys borrowed for the purposes of the Fund under subsection (1); and (e) money received as subventions, grants or donations to the Fund. (3) The moneys constituting the Fund shall be placed in an account with the Central Bank to be invested by the Board. (4) There shall be chargeable to the Fund the administration expenses of the Board, repayment of money borrowed by the Fund and payments made in respect of protected deposits. **Section 38** (1) Every institution which is licensed to carry on business in Kenya shall be a contributor to the Fund and shall pay into the Fund such annual amount, and at such times, as the Board may determine.	(c) monies borrowed from the Central Bank of Kenya; (d) monies that may accrue to the Fund; (e) monies transferred from the funds of the Corporation (f) income that may accrue to then Fund from the investments made; (g) monies received as subventions, grants or donations to the Fund; and (h) all other monies or assets which may in any manner become lawfully payable to, received by or vested in the Corporation. (4) Parliament may, appropriate such funds as may be required by the Corporation. (5) If at any time the amount available in the Fund is insufficient to meet the requirements of the Fund, the Corporation shall transfer from its funds such amount as may be sufficient to meet the requirements of the Fund.	

	CORE PRINCIPLE	CURRENT PROVISIONS BANKING ACT	KENYA DEPOSIT INSURANCE ACT, 2012 (“KDIA 2012”)	COMMENTS
12.	**PUBLIC AWARENESS**	**Section 36C**	**Section 13**	• N/A – No legal provisions deal with issue.
13.	**LEGAL PROTECTION** *The deposit insurer and individuals working for the deposit insurer should be protected against lawsuits for their decisions and actions taken in “good faith” while discharging their mandates. individuals must be required to follow appropriate conflict-of-interest rules and codes to ensure they remain accountable. Legal protection should be defined in legislation and administrative procedures, and under appropriate circumstances, cover legal costs for those indemnified.*	(1) Subject to subsection (2), no matter or thing done by a member of the Board or by any officer, employee or agent of the Board shall, if done e for executing the functions, powers or duties of the Board render the member, officer, employee or agent or any person acting on their directions personally liable to any action, claim or demand whatsoever. Subsection (1) shall not relieve the Board of the liability to pay compensation or damages to any person for any injury to him, his property or any of his interests caused by the exercise of any power conferred by this Act.		• No changes have been made by the KDIA 2012.
14.	**DEALING WITH PARTIES AT FAULT IN A BANK FAILURE** *A deposit insurer, or other relevant authority, should be provided with the power to seek legal redress against those parties at fault in a bank failure.*	**Section 11 – Restrictions on advances, credits and guarantees** (3) Where an institution contravenes any of the provisions of this section- (a) all officers of the institution shall be liable jointly and severally to indemnify the institution against any loss arising	**Section 65 – General Penalty** Any person who commits an offence under this Act for which no penalty is provided, shall, on conviction:- (a) in the case of a natural person, be liable to a fine not exceeding five hundred thousand shillings or to imprisonment not exceeding a term of three years or to both; or	• In addition to the provisions contained in the Banking Act and KDIA 2012 outlined herein, parties at fault are dealt with in the context of the Companies Act and the Penal Code

	CORE PRINCIPLE	CURRENT PROVISIONS BANKING ACT	KENYA DEPOSIT INSURANCE ACT, 2012 ("KDIA 2012")	COMMENTS
		in respect of the advance, loan or credit facility: In the case of an advance, loan or credit, an officer shall not be liable if he shows that, through no act or omission, he was unaware that the contravention was taking place or he took all reasonable steps to prevent it taking place; (b) the Central Bank may, in the case of an advance, loan or credit facility to a director of the institution, direct the removal of such director from the board of directors of the institution and may direct the suspension of any other officer or employee of the institution who sanctioned the advance, loan or credit facility. (4) If any director removed, or officer or other employee of an institution suspended is aggrieved by such decision, he may apply to the High Court for determination of the matter, (5) A director of an institution who defaults in the repayment of any advance or loan made to him by the institution for three consecutive months shall forthwith be disqualified from holding office as such.	(b) in any other case, be liable to a fine not exceeding one million shillings.	depending on the facts of each case.

	CORE PRINCIPLE	CURRENT PROVISIONS BANKING ACT	KENYA DEPOSIT INSURANCE ACT, 2012 (“KDIA 2012”)	COMMENTS
		(6) An institution which (a) fails to comply with any direction of the Central Bank or(b) permits a director who is disqualified to continue holding office as such, shall be guilty of an offence. (7) Where an offence continues, the institution shall, be liable to penalty for each day the offence continues. **Section 49** Where any institution or other person contravenes any of the provisions of this Act (a) if it is a body corporate, it shall be guilty of an offence and liable to a fine not exceeding one hundred thousand shillings; and (b) every officer of that institution or person shall be guilty of an offence and liable to a fine not exceeding fifty thousand shillings or to imprisonment for a term not exceeding two years or both. **Section 50** (1) Any officer of an institution who(a) fails to take all reasonable steps to secure the compliance of the institution; or (b) fails to take all reasonable steps to secure		

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		the accuracy of any statement to banks or financial institutions; or (c) fails to supply any information required shall be guilty offence and liable to imprisonment or a fine. (2) It shall be a defence for an officer to show that he reasonably thought that another competent person had been charged with the responsibility or duty in respect of which the default arose.		
15	**EARLY DETECTION AND TIMELY INTERVENTION AND RESOLUTION** *The deposit insurer should be part of a framework within the financial system safety-net that provides for the early detection and timely intervention and resolution of troubled banks. The determination and recognition of when a bank is or is expected to be in serious financial difficulty should be made early and on the basis of well defined criteria by safety-net participants with the operational independence and power to act.*	N/A – DPFB is not involved in early resolution. This is the preserve of CBK.	**Section 41** (1) The Corporation may recommend to the Central Bank, with reasons in writing based on information obtained from an examination of an institution, that the Central Bank takes enforcement action against an institution. (2) If the Central Bank does not take enforcement action within a period of thirty days from the date of receipt of the recommendation made by the Corporation under subsection (1), the Corporation shall serve notice on the institution and the Central Bank of its intention to terminate membership of the institution.	The KDIA 2012 reflects the expanded mandate for the DIS to become involved in early resolution.

	CORE PRINCIPLE	CURRENT PROVISIONS BANKING ACT	KENYA DEPOSIT INSURANCE ACT, 2012 (“KDIA 2012”)	COMMENTS
			(3) The Corporation shall within thirty days of issuing the notice under subsection (2), terminate the membership of that institution. Prompt corrective action. **Section 42** The Corporation shall in consultation with the Central Bank, take prompt corrective action in accordance with this Act or any other law to resolve any problems in an institution which places the interest of its depositors or the banking sector at risk. **Section 43** (1) The Central Bank shall, whenever the circumstances require, appoint the Corporation to be the sole and exclusive receiver of any institution	
16	**EFFECTIVE RESOLUTION PROCESSES** *Effective failure-resolution processes should: facilitate the ability of the deposit insurer to meet its obligations including reimbursement of depositors promptly , accurately and on an equitable basis; minimise resolution costs and disruption of markets; maximise recoveries*	**Section 34** The Central Bank may enter into an agreement with the board of directors of an institution requiring the institution to rectify its deficiencies within three months: Provided that in the case of reckless or fraudulent conduct, the Central Bank shall have discretion to enter an agreement based on its judgment as	**Section 41** (1) The Corporation may recommend to the Central Bank, that the Central Bank takes enforcement action against an institution. (2) If the Central Bank does not take enforcement action within a period of thirty days, the Corporation shall serve notice	• DPFB’s role is limited to liquidation. However, KDIC’s role will include receivership as one of the resolution mechanisms.

	CORE PRINCIPLE	CURRENT PROVISIONS BANKING ACT	KENYA DEPOSIT INSURANCE ACT, 2012 ("KDIA 2012")	COMMENTS
	on assets; and, reinforce discipline through legal actions in cases of negligence or wrongdoings. In addition, the deposit insurer or other relevant financial system safety-net participant should have the authority to establish a flexible mechanism to help preserve critical banking functions by facilitating the acquisition by an appropriate body of the assets and the assumption of the liabilities of a failed bank (e.g., providing depositors with continuous access to their funds and maintaining clearing and settlement activities).	to the efficacy of such an approach. (b) appoint a competent person familiar with the business of the institution to assume the management, control and conduct of the affairs of an institution and to exercise all powers to the exclusion of its board of directors. (c) remove any officer or employee of an institution who has caused or contributed to any deterioration in the financial stability of the institution, or has been guilty of conduct detrimental to the interests of depositors or other creditors of the institution; (d) appoint a competent person to its board of directors to hold office as a director, who shall not be capable of being removed from office without the approval of the Central Bank; (e) by notice, revoke or cancel any existing power of attorney, mandate, appointment or other authority by the institution in favour of any officer or employee.	on the institution and the Central Bank of its intention to terminate membership of the institution. (3) The Corporation shall within thirty days of issuing the notice under subsection (2), terminate the membership of that institution. Prompt corrective action. **Section 42** The Corporation shall take prompt corrective action in accordance with this Act to resolve any problems in an institution which places the interest of its depositors or the banking sector at risk. **Section 43** (1) The Central Bank shall appoint the Corporation to be the sole and exclusive receiver of any institution. **Section 54** (1) The Central Bank shall appoint the Corporation as the liquidator of an institution where:- (a) a recommendation to liquidate has been made under this Act; or (c) the institution is deemed to be unable to pay its debts; or	

	CORE PRINCIPLE	CURRENT PROVISIONS BANKING ACT	KENYA DEPOSIT INSURANCE ACT, 2012 ("KDIA 2012")	COMMENTS
		(f) restrict the institution from engaging in new foreign exchange business; new off-balance sheet transactions; and prohibit the institution from engaging any new agents or direct the institution to terminate any agency arrangement. **Section 35** (1) If an institution becomes insolvent, the Central Bank may appoint the Board to be a liquidator of the institution; and the appointment shall have the same effect as the appointment of a liquidator by the court.	(ii) a winding-up order is made or (iii) the institution is unable to pay sums due and payable to its depositors or creditors; or (iv) the Central Bank determines that the value of the institution's assets is less than the amount of its liabilities; or (v) the institution has engaged in activities that are contrary to the provisions of any applicable law. (2) The appointment of the Corporation as the liquidator of an institution shall have the same effect as an appointment of a liquidator by the Court.	
17	**REIMBURSING DEPOSITORS** *The deposit insurance system should give depositors prompt access to their insured funds. Therefore, the deposit insurer should be notified or informed sufficiently in advance of the conditions where reimbursement may be required and provided with access to depositor information in advance. Depositors should have a legal right to reimbursement up to the coverage limit and should know when and under what conditions*	**Section 39** (1) The amount being the aggregate credit balance of any accounts maintained by the customer to an institution, less any liability of the customer to the institution, shall be a protected deposit to the extent determined by the Minister from time to time by order published in the Gazette. **Banking Act (Deposit Protection) Regulations, 2003 Reg. 9** (1) Subject to the Act, and in relation to a contributory institution, any	**Section 28** (1) The Corporation shall insure each deposit provided the maximum amount payable to a customer in respect of the aggregate balance of customer deposit accounts with the institution shall not exceed one hundred thousand shillings. (2) Where a depositor owns more than one deposit account with an institution, the aggregate deposits shall be insured in respect of the consolidated amount to the	• KDIA 2012 extends coverage to trust accounts, subject to the depositors complying with the requirements outlined in the Act and in subsidiary regulations to be enacted. • The level of coverage for all deposit accounts remains at Kenya Shillings One

	CORE PRINCIPLE	CURRENT PROVISIONS BANKING ACT	KENYA DEPOSIT INSURANCE ACT, 2012 ("KDIA 2012")	COMMENTS
	the deposit insurer will start the payment process, the time frame over which payments will take place, whether any advance or interim payments will be made as well as the applicable coverage limits.	reference to a protected deposit is a reference to the total liability of the institution to the depositor limited to a maximum of one hundred thousand shillings.	prevailing maximum amount fixed under subsection (1). **Section 29** (1) Where an institution is under an obligation to repay monies to a depositor who is acting as a trustee or as joint owner with another, and the trusteeship or joint ownership is disclosed on the records of the institution:- (a) the deposit of the trustee or as a joint owner, shall be deemed to be a deposit separate from any deposit of that depositor acting on his own behalf or acting in another trust or joint capacity with the institution; (b) deposits in trust by the trustee for each beneficiary, shall be deemed to be a separate deposit where the trustee is acting for two or more beneficiaries; and (c) deposits held in trust by a trustee for a beneficiary in an institution shall be deemed to be separate from a deposit of that beneficiary with the institution on his own behalf and be deemed separate from any deposit held in trust by another trustee for the beneficiary in the institution.	Hundred Thousand (Kshs.100,000.00) in the new law. • However, there is extended coverage for qualifying trust accounts. Each of the named beneficiaries in the accounts are entitled to Kshs.100,000.00 as an insurance pay out by KDIC.

	CORE PRINCIPLE	CURRENT PROVISIONS BANKING ACT	KENYA DEPOSIT INSURANCE ACT, 2012 ("KDIA 2012")	COMMENTS
18	**RECOVERIES** *The deposit insurer should share in the proceeds of recoveries from the estate of the failed bank. The management of the assets of the failed bank and the recovery process (by the deposit insurer or other party carrying out this role) should be guided by commercial considerations and their economic merits.*	**Section 39(5)** Upon payment of a protected deposit, the Board shall be entitled to receive from the institution or its liquidator, as the case may be, an amount equal to the insolvency payment paid by the Fund on account of its subrogation to the claims of any customer or deposited.	**Section 35**	• No changes in the law.

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