Kenya Deposit Insurance Corporation

protecting your deposits

ANNUAL REPORT

2017 - 2018

Kenya Deposit Insurance Corporation

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE FINANCIAL YEAR ENDED JUNE 30, 2018

Prepared in accordance with the Accrual Basis of Accounting Method under the International Financial Reporting Standards (IFRS)

CONTENTS

KEY ENTITY INFORMATION

VISION

To be the 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 co ordination

OUR CORPORATE VALUES

Integrity

Professionalism

Teamwork

Transparency and accountability

Rule of Law

SENIOR MANAGEMENT

	Name	Desgination
1.	Mr. Mohamud A. Mohamud	Chief Executive Officer
2.	Mr. Stephen M. Thuo	Head of Finance & Admin. - Retired on 29 June 2018
3.	Ms. Jane K. Ikunyua	Assistant Director - Legal
4.	Ms. Jane W. Kamita	Acting Assistant Director - Resolutions
5.	Mr. Walter Onyino	Assistant Director – ICT
6.	Mrs. Edith M. Kagasi	Manager, Internal Audit - Retired on 28 February 2018

PRINCIPAL PLACE OF BUSINESS

UAP Old Mutual Tower,
Upperhill Road 17th Floor,
P.O. Box 45983-00100,
Nairobi.

AUDITORS

Deloitte & Touche
Deloitte Place
Waiyaki Way
P O Box 40092 - 00100
Nairobi

On behalf of:
The Auditor-General
Kenya National Audit Office
Anniversary Towers, University Way
P O Box 30084 – 00100,
Nairobi GPO

BANKERS

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

CORPORATE SECRETARY

Ms. Jane K Ikunyua
Ag. Board Secretary
Kenya Deposit Insurance Corporation
P O Box 45983
Nairobi

PRINCIPAL LEGAL ADVISERS

The Attorney General
State Law Office
Harambee Avenue
P O Box 40112 City Square 00200
Nairobi, Kenya

DIRECTORS	
Mr. James Teko Lopoyetum, HSC	Chairman - Appointed 05 June 2018
Dr. Kamau Thugge	Principal Secretary, National Treasury
Dr. Patrick Njoroge	Governor, Central Bank of Kenya
Hon. Paul Kihara Kariuki	Attorney General
Mr. Martin S. O. Gumo	Alternate to Principal Secretary, National Treasury
Mr. Alex Mbuvi	Alternate to the Attorney General
Mr. Habil Olaka	Member
Prof. Karuti Kanyinga	Member
Ms. Dorothy Kiprono	Member
Mr. John Benson Maina	Member
Dr. Julius Kipn'getich	Member up to 30 January 2018
Mr. Amos Ntimama	Member - Appointed 05 June 2018
Mr. Mohamud A. Mohamud	KDIC Chief Executive Officer (Ex-officio)
Ms. Jane K. Ikunyua	KDIC Acting Board Secretary

JAMES TEKO LOPOYETUM, HSC
Member of Board of Directors, KDIC

Mr. James Teko Lopoyetum, HSC possess extensive experience in management at national government level and central banking having worked as Principal Secretary, State Department of Water, Ministry of Environment, Water and Natural Resources and Director of Currency at the Central Bank of Kenya respectively. Mr. James Teko Lopoyetum, HSC holds a Master of Arts (Economics)Majoring in Development Economics and Banking, Bachelor of Arts(Economics) and Post Graduate Diploma in Public Administration from Jabalpur University, India.

DR. KAMAU THUGGE, CBS, Member of Board of Directors, KDIC

Dr. Kamau Thugge, CBS is currently the Principal Secretary at The National Treasury. He has previously worked in the Ministry of Finance as the Economic Secretary / Director of Fiscal and Monetary Affairs Department as well as Senior Economic Advisor to the Deputy Prime Minister and Minister for Finance.

Before joining the Ministry of Finance, he worked with the International Monetary Fund (IMF) as Economist/Senior Economist and Deputy Division Chief. Dr. Thugge holds a Bachelor of Arts (Economics) from Colorado College, USA; Masters in Economics from Johns Hopkins University, USA; and a Doctor of Philosophy (PhD) in Economics from Johns Hopkins University.

DR. PATRICK NJOROGE Governor, Central Bank of Kenya
Member of Board of Directors,KDIC

Dr. Patrick Njoroge was appointed Governor of the Central Bank in June2015. He holds a PhD in Economics from Yale University, USA, and a master's and bachelor's degrees in Economics from the University of Nairobi, Kenya. Prior to joining the Central Bank, Dr. Njoroge had a long career, spanning20 years, at the International Monetary Fund (IMF), in Washington, D.C.,USA. At the IMF, he was advisor to the IMF Deputy Managing Director from December 2012. He also served as Deputy Division Chief in the IMF's Finance Department and IMF Mission Chief for the Commonwealth of Dominica, as well as other capacities beginning in 1995.

Prior to joining the IMF, Dr. Njoroge worked in Kenya as an economist at the Ministry of Finance and as a planning officer at the Ministry of Planning. His professional and research interests are in Macroeconomics, Economic Policy, International Finance, Development Economics, Econometrics and Monetary Policy.

HON. PAUL KIHARA KARIUKI ATTORNEY GENERAL OF THE REPUBLIC OF KENYA Member of Board of Directors, KDIC

Judge Kariuki was admitted to the Bar in 1978 after completing his post-graduate diploma in law at the Kenya School of Law, Nairobi. He practiced law with several legal establishments including Ndungu Njoroge and Kwach Advocates, and Hamilton Harrison and Mathews Advocates in Nairobi. In 2003, he was appointed to serve as Principal and Chief Executive Officer at the Kenya School of Law. In the same year, he was appointed Judge of the High Court where he served in both the civil and commercial divisions of the Court for several years. Between 2009 and 2013, Judge Kariuki served as the first Director at the Judiciary Training Institute where he was instrumental in establishing all the operational systems for the technical arm of the judiciary incorporating professional development for all judges, magistrates and all cadres of the paralegal staff at the Judiciary. Judge Kariuki was appointed the President of the Court of Appeal in 2013; he was instrumental in the decentralization of the Court of Appeal to Malindi, Kisumu and Nyeri Counties. He also directed the development of the blueprint ten-point strategy for the transformation of the Court that culminated in the Court of Appeal Bill and the Strategic Plan for the Court of Appeal in Kenya. Judge Kihara was appointed Attorney General of the Republic of Kenya in March 2018.Judge Kariuki has served as Chancellor or Honorary Legal Advisor for The Anglican Church of Kenya, Member of the Kenya Anti-Corruption Authority Advisory Board and as chair of Thomas Barnado House and Rotary International. He is an esteemed member of Law Society of Kenya, Common wealth Lawyers Association and the International Bar Association. He has deep interests in gardening, classical music, theater and drama, playing squash and cricket.

DR. HABIL OKUNDA OLAKA
Member of Board of Directors, KDIC

Dr. Olaka is the Chief Executive Officer of the Kenya Bankers Association, an appointment he took up in 2010. Previously he was with the East African Development Bank (EADB), where he held various positions, including; Director of Operations, Resident Manager-Kenya, Manager-Risk and Control, Chief and Internal Auditor. He has also worked at Banque Indosuez (now Bank of Africa) as an Internal Auditor having started his career at Price Waterhouse Coopers, Nairobi.

Dr. Olaka holds a First Class Honours BSc degree in Electrical Engineering from the University of Nairobi, MBA in Finance from Manchester Business School in the UK and a Doctorate degree in Business Administration from USIU-A.

Dr. Olaka sits on a number of boards, among them, the Higher Education Loans Board, the Kenya School of Monetary Studies, Kenya Deposit Insurance Corporation, the Federation of Kenya Employers, the Centre for Corporate Governance, Boards of Trustees of the National Research Fund and the Butere ACK Diocese.

He is a member of the Institute of the Certified Public Accountant (CPA) Kenya and the Chartered Financial Analyst (CFA) Institute.

PROF. KARUTI KANYINGA
Member of Board of Directors, KDIC

Prof Karuti Kanyinga holds Ph.D., Social Sciences, International Development Studies (IDS) from Roskilde University, Denmark; Master of Arts (Government) from University of Nairobi and Bachelor of Arts from University of Nairobi.

Prof Karuti Kanyinga has extensive experience in international and national experience and exposure to practice of governance and development and applying academic research to practice and management of development; university teaching and research.

DOROTHY CHEPKOECH KIPRONO
Member of Board of Directors, KDIC

Miss. Dorothy Kiprono is Managing Partner at Kipkenda & Company Advocates where her current areas of practice are; conveyance, contract negotiation, sales and purchase of properties, securitization of bank documents, contract negotiation and drafting, insurance and compliance of statutory requirements of state corporations among others.

In her practice, Miss. Kiprono has worked as the Governance and Legal Consultant for the Communications Authority of Kenya (CA) in analyzing and identifying the framework of laws, regulations, policies and Governance structures since the year 2016. She is also the Legal Consultant for Kenya Electricity Transmission Company Limited (KETRACO) where she manages Contract negotiations with the contractors for construction of various Power stations and transmission lines within Kenya and across the borders from the year 2013.
Previously Miss. Kiprono has offered legal services to the Kenya Commercial Bank Limited (KCB) Bank of Africa Limited, Eco Bank Limited and worked as the Legal Officer at National Water Conservation and Pipeline Corporation (NWCPC) in charge of contracts, insurance and compliance of statutory requirements in the period 2002-2004.

Ms. Kiprono holds a Bachelor's degree in Commerce (Accounting Option), a Bachelor's Degree in Law both from the Rani Durgavati Vishwavidyalaya University (India) and a Post Graduate Diploma in Legal Practice from the Kenya School of Law. She has attended various courses in Mediation with the Chartered Institute of Arbitrators (Kenya Chapter), is a member of the Law Society of Kenya, and has served in its Conveyancing Committee.

She is a member of the Conveyancing Committee of the Law Society of Kenya.

JOHN BENSON MURAGE MAINA
Member of Board of Directors, KDIC

Mr. Maina holds a BA (Econ.) Honours and MA (Econ.) degrees from the University of Nairobi. He began his career as an Economist at then, Ministry of Finance, currently National Treasury. Subsequently, he joined Central Bank of Kenya, where he worked in Research, Bank Supervision and External Payments and Reserves Management Departments.

Mr. Maina has extensive experience in central banking, particularly, in areas of regulation and restructuring of problem banks. He coordinated the financial sector study, which formed the basis for banking sector reform, including liquidation of insolvent banking institutions during the first major banking crisis in the country, and was involved in strengthening the onsite supervision system and offsite reporting system to improve surveillance over the banking sector. He also supervised the execution of Central Bank of Kenya foreign exchange reserves, involving investment of surplus foreign exchange reserves off shore.

The onset of the aforementioned banking crisis prompted the establishment of Deposit Protection Fund (DPF) to revive the waning public confidence in the banking sector. The DPF has since been transformed to Kenya Deposit Insurance Corporation. Mr. Maina was one of the officers involved in setting up the DPF, after being attached to the Federal Deposit Insurance Corporation in USA for training in bank resolution.

Mr. Maina has extensive international training in areas such as bank regulation and restructuring, financial analysis, corporate governance, foreign exchange reserves management and financial programming and policies by IMF Institute. He also benefited from attachment to various Central Banks abroad.

AMOS SIPOI NTIMAMA , Member of Board of Directors, KDIC

Mr. Ntimama is a holder of a B. Sc. – Business Administration (cum laude), from American University, Washington DC, USA and M. Sc. – Accounting, from University of Illinois, Urbana – Champaign IL, USA.

Mr. Ntimama has extensive experience in the banking sector having been a manager at the Bank Supervision Department of the Central Bank of Kenya. He was involved in the resolution of the first major banking crisis in Kenya that saw the establishment of Consolidated Bank. The Deposit Protection Fund (DPF), which is now Kenya Deposit Insurance Corporation (KDIC), was established as a result of this. Mr. Ntimama was instrumental in the creation of an off-site surveillance system of banks and non-banking financial institutions.

Mr. Ntimama is a former Group General Manager of the Governors' Group of companies and a director at the Consulting Hub. He has served as a Director at the Lake Victoria South Water Services Board, Chairman at Private Security Regulation Authority and Chairman at the NGOs Co-ordination Board.

MOHAMUD AHMED MOHAMUD
Chief Executive Officer

Mr. Mohamud Ahmed is currently the Chief Executive Officer at the Kenya Deposit Insurance Corporation (KDIC), he is a seasoned financial professional with keen insights and experience in Deposit insurance. Having been part of the Corporation since 1999, Mr. Ahmed has been extensively involved in Deposit Insurance activities which led to his appointment as one of the International assessors on compliance with the best practices in deposit insurance. He has assessed many Jurisdictions including Nigeria, Tanzania, India, Trinidad and Tobago, Poland, Switzerland and Sweden. He is also an expert in Resolution of failed banks and has extensively facilitated international conferences on Deposit Insurance. Mr. Ahmed has gained a vast wealth of experience working in various capacities and departments within the Central Bank of Kenya and in particular, the Liquidation Division as Head of the division.

He was recently elected member of the ExCom of the International Association of Deposit Insurers and under his leadership, KDIC was voted the best deposit insurance corporation - 2016.

Mr. Ahmed holds a Bachelor Degree in Economics from the University of Nairobi and an MBA in Strategic Management from Moi University.

STEPHEN M. THUO
Assistant Director, Finance and Administration

Mr. Stephen Thuo is the Head of Finance and Administration at the Kenya Deposit Insurance Corporation. Mr. Thuo is tasked with overseeing the Finance function, which includes accounts and investments plus general administration.

He has a wealth of experience in Central banking, having worked in Financial Markets, Internal Audit, Deposit Protection Fund Board, Finance & Strategic Management & ICT, Project Manager of CBK integrated ICT system and was the immediate Assistant Director in both Finance & Strategic Management & ICT Department as well as CBK Special Projects.

Mr. Thuo holds an MBA in Finance and Banking from Moi University, MA in Project Planning & Management, and a Bachelor of Commerce (Accounting Option) both from University of Nairobi and is a CPA (K), CPS (K) and CIFA (K). He is a member of the Institute of Certified Public Accountants of Kenya-ICPA (K), the Institute of Certified Public Secretaries of Kenya- ICPS (K), and Institute of Certified Investment and Financial Analysts of Kenya (ICIFA).

JANE KATHURE IKUNYUA
Board Secretary

Jane Kathure Ikunyua is the Appointed Acting Board Secretary and Head of Legal at the Kenya Deposit Insurance Corporation since July 2014. Ms. Ikunyua has immense legal experience having being promoted to the position of Manager, Central Bank of Kenya in 2004 and charged with the responsibility of managing the Central Bank of Kenya Legal Department.

Ms. Ikunyua is a Member of the Law Society of Kenya (LSK) the East African Law Society and a member of the Institute of Certified Public Secretaries of Kenya-ICPS (K).

Ms. Ikunyua has been involved in the development of the Deposit Insurance Law in Kenya and was the chair of the Taskforce that drafted the Kenya Deposit Insurance Act, 2012 and the Kenya Deposit Insurance Regulations, 2015

She holds a Masters in Arts Degree in International Studies and a Bachelor of Laws (LLB) from the University of Nairobi.

Dr. WALTER ONYINO
Assistant Director- ICT

Dr. Walter Onyino is the Head of ICT and a member of the senior management board at the Kenya Deposit Insurance Corporation since 2011. Dr. Onyino was previously Assistant Director in the Central Bank of Kenya where he oversaw the day-to-day running of the IT infrastructure, Operations and ICT service delivery in the entire bank.

He is a Professional Member of the Computer Society of Kenya (CSK) and a full Member of the Kenya Institute of Management (KIM).

Dr. Onyino holds a Bachelor of Science degree in Computer science from Egerton University and a Ph.D. in Software Engineering from Lancaster University, UK. He also holds an IT Business Manager Certification (ITBMC) from Belmont University and has been published 7 times.

JANE KAMITA
Ag. Assistant Director, Resolutions

An alumnus of Waikato University, New Zealand, Miss. Kamita is the Ag. Assistant Director Resolutions at the Kenya Deposit Insurance Corporation. She has been in charge of the remaining 16 institutions in liquidation since November 2015. Miss Kamita has a wealth of experience in the management of foreign exchange reserves, domestic debt issuance and management on behalf of Central Government, Monetary policy implementation, oversight of financial institutions, bank failure resolution and liquidation of failed financial institutions.

Miss Kamita qualified as a MEFMI Fellow (Macroeconomic & Financial Management Institute of Eastern and Southern Africa) after graduating with Distinction in Macro Economic management following a two-year academic scholarship sponsored by the Central Bank of Kenya.

She holds a Master of Social Science and Bachelor of Science in Economics from Waikato University.

EDITH MIREHANE KAGASI
Manager, Internal Audit

Edith Kagasi is currently the Head of the internal audit division at the Kenya Deposit Insurance Corporation, she is also Secretary to KDIC's Board audit committee where she has served for 3 and a half years. Mrs. Kagasi has gained a vast wealth of experience working in various capacities and departments within the Central Bank of Kenya as the Head /Manager/Payroll accountant (9years) - Finance Department, in charge of preparation and processing of the CBK Payroll.

She is a CPA (K) and a member of the Institute of Certified Public Accountants of Kenya - ICPA (K). Mrs. Kagasi holds a Masters of Business administration (Strategic Management) and a Bachelor of Commerce (Accounting) from University of Nairobi.

The Directors, Management and Staff of the Kenya Deposit Insurance Corporation (KDIC) hereby submit the annual report and financial statements for the period ending June 30, 2018.

The Kenya Deposit Insurance Corporation (KDIC), is a statutory body established under the Kenya Deposit Insurance Act, 2012 (KDI Act, 2012) to among others administer a Deposit Insurance System (DIS).

The role of deposit insurance is to protect depositors, particularly small, vulnerable, less financially sophisticated, against losses they may face as a result of failure of banks and other deposit taking institutions, thus creating public confidence in a financial system. Deposit insurance serves to protect banks against the risk of 'runs' and thus contributes to financial stability. Deposit insurance is typically provided primarily for the benefit of depositors who do not have the means or the capacity to assess, readily and comprehensively, the risks faced by the institutions with which they place their savings.

In its endeavor to provide a Deposit Insurance Scheme to depositors of member institutions, KDIC 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 Kes 100,000 per depositor. The Corporation however intends to increase the coverage to enhance confidence and financial stability.

During the period under review, the Corporation's Fund registered a record growth of 17.13% to close the year at Kes. 90.37bn up from Kes. 77.16bn recorded in the previous year ending 30 June 2017. This growth was attributed to a net surplus of Kes. 13.21bn registered during the year. The favorable net surplus reported during the year is attributed to receipt of higher earnings from investments in Treasury Bills and Bonds due to favorable and higher rates compared to the same period last year. Further, investable funds from premium received led to the growth of the total funds available for investments.

Going forward, the Corporation will remain focused on strategies that will enable it to achieve its core mandate. The Corporation's priority areas will include provision of incentives for sound Risk Management framework, effective communication and public awareness activities, strengthening the insurance fund target value, enhancing the scope of coverage, pursuing an appropriate insurance premium structure, enhancement of cooperation with the other safety net players and alignment of the Corporation's operations to international best practice. To this end, KDIC will continue to closely work with the International Association of Deposit Insurers (IADI) by participating in their activities. KDIC will also continue to improve on the competency of its human resource through effective training, coaching and mentoring.

I wish to therefore, express my sincere gratitude to my fellow members of the Board of Directors who have worked tirelessly to ensure smooth transition of the Corporation. I would also like to recognize the great effort of the Ag. Chief Executive Officer, the Management team and staff whose efforts contributed to the growth of the Corporation's Fund in the year under review. I also wish to thank the National Treasury, Central Bank of Kenya, and other stakeholders for their continued support in ensuring we attain our objective of fostering financial stability.

JAMES TEKO LOPOYETUM
CHAIRMAN
BOARD OF DIRECTORS
KENYA DEPOSIT INSURANCE CORPORATION
30th October **2018**

I am pleased to present the third Kenya Deposit Insurance Corporation (KDIC) Annual Report and the Financial Statements for the financial year ended June 30, 2018.

The Kenyan economy improved during the period under review. The rate of growth of GDP at market prices increased from 4.8% in quarter 1 of 2017 to 5.7% in quarter 1 of 2018, a change of 18.75%. During the same period, the 12 months inflation improved from 9.21% in June 2017 to 4.28% in June 2018. The observed change was attributed to growth in agriculture, manufacturing and wholesale & Retail trade.

During the period under review, the Corporation's Fund registered a record growth of 17.13% to close the year at Kes. 90.374bn up from Kes 77.159bn recorded in the previous year ending 30 June 2017. Net surplus earned by the Corporation during the period under review increased by 11.27% from a level of Kes. 11.876bn in 2017 to Kes.13.215bn in 2018. Investment income from government securities also contributed significantly into boosting net surplus of the Corporation during the year under review.

During the year ending 30 June 2018, the Corporation earned Kes. 9.304bn in investment income compared to Kes. 8.206bn earned in the previous year. The Corporation's operating expenses increased by Kes. 54.234m from Kes. 415.011m in 2017 to Kes. 469.245m in 2018. The increment mainly arose from staff costs for personnel employed on contract to fill in gaps in the areas of administration, procurement, communication and finance. Further, the Corporation undertook several awareness programmes on persons with disabilities, gender mainstreaming and drugs and substances abuse.

The KDIC as the Official Receiver of institutions under receivership continued to provide an oversight role on Imperial Bank and Chase Bank respectively. The KDIC, the National Treasury and the Central Bank has worked tirelessly to restore market confidence and stability of the industry. KDIC continues work closely with other stakeholders and various professional consultants to ensure protection of depositor confidence and stability of the sector

As the Receiver of Chase Bank (IR), KDIC signed a binding offer with SBM Bank (Kenya) in a transfer and exclusion transaction to resolve Chase Bank. In the binding offer, 75% of deposits under moratorium were transferred to SBM Bank. This was matched with equal assets from Chase Bank. In the transaction SBM Bank also took a majority of the Chase branches, staff and operating assets including the ICT system. Customers would access their deposits from SBM Bank in a structured manner. This transaction not only being the first of its kind unlocked Kes. 54 billion into the financial sector and grew the confidence in the banking system in a big way.

Similarly, with respect to Imperial Bank Limited (In Receivership), a process of sourcing for potential investors to present an Expression of Interest was commenced. Negotiations with the potential investor are currently ongoing. It is expected that the resultant transaction will be concluded in the new financial year 2018/19. To date, depositors have been able to access a total of Kes. 2.5 million per depositor and an additional 10% of the remaining balance. This constitutes 90% of the total number of depositors. KDIC remains committed to fulfilling its mandate of safeguarding the interests of the depositors.
The CBK\KDIC continues to undertake its mandate of managing the assets, liabilities, businesses and affairs of these institutions while evaluating the best resolution option that is less costly to these institutions, CBK and KDIC with the ultimate benefit to the depositors and other stakeholders.

The Corporation continued the payment of protected deposit for the depositors of Dubai Bank Limited (Under Liquidation). All customers who made valid claims have been paid insured deposit of a maximum of Kes. 100,000. As per Section 37(1) (a), of the Kenya Deposit Insurance Act, 2012 payment of insured deposit for these depositors concluded in September 2017. The total protected deposits paid by all institutions in liquidation amounted to Kes. 1,170.80 as at 30th June 2018, compared to Kes. 1,162.0m during the same period last year, an increase of Kes. 8.8m.

As at 30 June 2018, cumulative recovery of debts and realization of other assets by all the institutions in liquidation totaled Kes. 10,121.50m. This amount represents an increase of Kes. 193.7m against the total cumulative asset realization of Kes. 9,927.80m achieved during the same period last year. General performance on debt recovery continues to decrease due to deterioration of asset quality. However, efforts of debt recovery have been enhanced by engaging various debt recovery firms as well as embracing alternative dispute resolution mechanisms to recover debts for the institutions in liquidation.

Mohamud Ahmed Mohamud
Chief Executive Officer

As part of capacity building initiatives, KDIC continues to train its staff and has undertaken initiatives to ensure participation in the international forum of deposit insurance.

The Corporation has also invested into Local and Wide Area Networks and enhanced automation of its operations. In line with this, we have procured a modern Enterprise Resourse Planning (ERP) solution, that integrates our functions and is in the last phase of implementation. The Corporation has put in place appropriate framework, policies and procedures to drive the new expanded mandate as a risk minimizer. KDIC is working closely with the industry to enhance risk management framework with a view to resolving and mitigating bank failures.

In accordance with the Corporation's strategic vision of being the best Deposit Insurance Corporation in the world, the Corporation has set itself to continue collaborating closely with the International Association for Deposit Insurers (IADI) and other organizations with a view to benchmarking with the international standards.

During the year, KDIC engaged the consultancy services of a medium-term advisor with the support of the World Bank under Financial Sector Support Project (FSSP). The consultancy came to a close in May 2018 with some of the key products being the development of a KDIC Bank Resolution Hand Book, Off-site Surveillance Framework, Guidelines and several reports and recommendations. Among the reports developed include Report on Optimal Target and Coverage and Report on Differential Premium which the Corporation intends to implement within the next year. This is aimed at improving market discipline by aligning premium levies to the risk profiles of institutions. A stakeholders' workshop was held in May 2018 to sensitize the stakeholders

We are also very grateful to the role played by the National Treasury in ensuring smooth operation of the Corporation. We cannot under rate the role played by Central Bank of Kenya as a regulator and safety net participant for availing staff and facilities to the Corporation.
In closing, I would like to extend my sincere gratitude and appreciation to the Chairman, members of the Board, management and the entire staff of the Corporation for their guidance, continued support and persistent effort to improve KDIC. May God Almighty guide us to serve our beloved country as we continue to ensure a stable financial system.

Mohamud Ahmed Mohamud
Chief Executive Officer
Kenya Deposit Insurance Corporation

30th October 2018

Corporate Governance defines the process and structure used to direct and manage the business of the Corporation with the aim of ensuring and enhancing efficiency and accountability in the use and deployment of scarce public resources to increase shareholders long-term value while taking into account the interests of other stakeholders.

The Corporation adheres to, complies with Mwongozo, the Code of Governance for State Corporations, and adheres to all relevant local legislation including the provisions of the Constitution of Kenya 2010, The KDI Act, 2012 and the State Corporations Act. The Board of Directors has put in place policies, processes, systems and procedures to guide the operations of the Corporation, which are frequently reviewed and updated to embrace the changes in the operating environment and to ensure best practice. In this respect, the Board confirms that the Corporation complies with all relevant legislations and government guidelines and directives.

Governance Structure

According to the Corporation's charter and the requirements set forth by "Mwongozo", the corporation has adopted the following governance structure:

(a) Board of Directors
(b) Board Committees:
(c) Management

Board of Directors

The Board comprises of nine members including the Chief Executive Officer. There are five independent members. The members are from different professional backgrounds and there is therefore diversity of competencies and skills required for the effective leadership of the Corporation.

The Board fulfils its fiduciary responsibility to the stakeholders by maintaining control over the strategic, financial, operational and compliance issues of the Corporation. Whilst the Board provides oversight and remains responsible for establishing and maintaining overall internal controls over financial, operational and compliance issues, it has delegated authority to the Chief Executive Officer to conduct the day- to-day business of the Corporation. The Board meets at least once at every quarter, and has a formal schedule of matters reserved for it. The directors are given sufficient, timely and appropriate information to perform their fiduciary duties. During the year under review, the Board held fourteen (14) meetings.

Board Committees

The Board has created three committee's namely; The Board Audit Committee, The Board Technical Committee and the Board Finance, Administration and Human Resource Committee. The Board Charter grants the Board the liberty to establish such ad-hoc committees as required to deal with any ad-hoc matters requiring focused attention such as the recruitment of the Chief Executive Officer. The various committees are guided in their deliberations by the approved Charters and Terms of Reference that were prepared through a participatory and inclusive process by all stakeholders. Deliberations and recommendations of the Committee are presented to the full Board for consideration.

Name of the Committee	Members
Board Technical Committee	1. Dr. Patrick Njoroge- Member 2. Mr. John B. Maina- Member 3. Attorney General or his Representative - Member 4. Representative National Treasury - Member 5. Mr. Mohamud A. Mohamud - Member 6. Ms. Jane Ikunyua - Committee Secretary
Finance, Administration & Human Resources Committee	1. Prof. Karuti Kanyinga - Chairman 2. Miss Dorothy Kiprono 3. Representative National Treasury 4. Mr. Mohamud A. Mohamud 5. Mr. Habil Olaka 6. Ms. Jane Ikunyua - Committee Secretary
Board Audit Committee	1. Mr. John B. Maina 2. Dr. Julius Kipnge'tich (retired on 30.01.2018) 3. Representative National Treasury 4. Miss Dorothy Kiprono 5. Mr. Habil Olaka 6. Mrs. Edith M. Kagasi -Committee Secretary (retired on 07.03.2018) 7. Mr. Joseph K. Tomno - Committee Secretary (wef. 08.03.2018)

The Board Technical Committee

The Board Technical Committee was formed in 2015/2016 financial year. Three of the members of the committee have expertise in banking, finance and investment and one is independent in accordance with Mwongozo guidelines.

The Committee is tasked with handling Technical matters relating to the Corporation, and in particular matters relating to receivership and liquidation of problem institutions licensed by the Central Bank of Kenya.

The Committee provided variable guidance in the handling of the receiverships of Imperial Bank Limited and Chase Bank Limited and subsequent part sale and transfer of the latter to SBM Bank (K) Ltd. The Committee held five (5) meetings in the year under review.

The Board Audit Committee

The Board Audit Committee is comprised of five (5) non - executive directors. The Committee is mandated to raise the standards of corporate governance by reviewing the quality and effectiveness of the internal control systems, the internal and external audit functions and the quality of financial reporting. The Committee advises the Board on best practice, monitor's management compliance with relevant legislation, regulations, guidelines as well as the Corporation's approved policies, procedures and policies. Following the appointment of independent members to the Board, the Committee was reconstituted in June 2017 and held three (3) meetings during the year under review.

Board Finance, Administration and Human Resource Committee

The role of the Board Finance Administration and Human Resource Committee is to consider and handle matters related to finance, administration, and human resource in the Corporation. The Committee considered various matters in the year and provided guidance on matters related to the financial performance of the Corporation, budgets, procurement plans and human resource.

The Committee was reconstituted in June 2017 following the appointment of independent members to the Board and held five (5) meetings during the year under review.

(a) Succession Plan

The Corporation now has in place a new Board constituted in accordance with provisions in the Finance Act, 2016 that removed members of the banking sector and incorporated four (4) new independent members who were appointed in February 2017. One (1) member retired on 30 January 2018 and was replaced on 6 June 2018.

(b) Existence of a Board Charter

The Corporation's Board Charter was approved and adopted in March 2016. The Board Charter defines the role responsibilities and functions of the Board in the governance of the Corporation. The Charter also spells out the role of the Chief Executive Officer and the Board Secretary.

(c) Process of appointment and removal of Directors

The Corporation is guided by the Constitution of Kenya 2010, The Kenya Deposit Insurance Act, 2012, The State Corporations Act (Cap 446) and Mwongozo in regard to the process of appointment, reappointment and removal of directors from the Board.

(d) Induction and Training of Board Members

Upon appointment Board members participate in an induction program that covers the Corporation strategy, general financial and legal mandate, financial reporting by the Corporation, specific aspects unique to the Corporation and its business activities, and the responsibilities of a Board members. During the year under review there was no Board induction on Mwongozo (Code of Governance for State Corporations) since it had been carried out in 2016/2017 financial year. However, the Corporation continued to train members on deposit insurance and corporate governance to give them necessary skills and competencies to perform their oversight role and catered for attendant costs.

(e) Conflict of Interest of Board members

In regard to conflict of interest, the Board is guided and adheres to the Board Charter, Mwongozo, The Code of Governance for State Corporations and relevant legislations.

Accordingly, it's a requirement that a Board member shall immediately report to the Chairperson of the

Board any conflict of interest or potential conflict of interest and shall provide all relevant information including information concerning his or her spouse, registered partner or other life companion, foster child and relatives by blood or marriage up to the second degree in a matter where conflicted. The Board member concerned shall not take part in the assessment by the Board of whether a conflict of interest exists.

Board members and management have been enlightened on the various provisions and at every meeting there is a requirement for members to declare any conflict of interest on agenda matters presented for deliberation.

(f) Related Party Transactions

There have been no related party transactions, pecuniary transactions or relationships between the Corporation and its Directors or management, except those relating to personnel emoluments seconded from the Central Bank of Kenya and disclosed.

(g) Board Remuneration

The remuneration of all directors is subject to the terms and conditions of service provided under the guidelines by the State Corporations Advisory Committee issued in 2004 and the Salaries and Remuneration Commission (SRC). Apart from their remuneration, Board members are reimbursed for all reasonable costs incurred in connection with their attendance of meetings.

BANKING SECTOR DEVELOPMENTS IN THE YEAR ENDED 30TH JUNE 2018

The banking sector registered improved performance in the year that ended 30th June 2018 though with some signs of increased banking risk.

The Net Assets increased by Kes 315 billion or 8 per cent to Kes 4.27 trillion as at June 30, 2018 from Kes. 3.95 trillion in June 30, 2017.Bank Loans and advances grew by Kes. 113 billion or 4.9 per cent to Kes. 2.44 trillion in June 30, 2018 compared to Kes. 2.33 trillion as at June 30, 2017.

The Banking Deposit base expanded by Kes. 306 billion or 10 per cent to Kes 3.29 trillion in June 30, 2018 from Kes 2.98 trillion reported in June 30, 2017. This was supported both by the normal economic growth which registered an increased rate of 5.7% in Quarter 1 of 2018 as compared to 4.8% in Quarter 1 of 2017 in addition technological innovations and the Agency Banking model implemented during the period also enhanced improvement in the deposit base. This is evidenced by the rising number of bank agents by 6, 444 or 11% from 57,901 in June 2017 to 64,345 in June 2018, increased transactions conducted through bank agents by 18 million or 29% from 63 million in June 2017 to 81 million in June 2018. The value of such transactions rose by Kes. 103 billion or 20% from Kes. 517 billion in June 2017 to Kes. 620 billion in June 2018 which formed 19% of the total deposits in the economy.

Profitability in the banking sector equally improved against the odds imposed by the interest rates capping challenges and the effects of the delayed elections. Average Profit before tax increased by 9.7 per cent to Kes 76 billion in June 2018 from Kes 69 billion in June 2017. This was as a result of improved investor confidence in the economy supported by increased technological changes as banks continued to learn to adapt to the new environment of interest rates capping regime.

This improved performance in the banking sector was however accompanied by some signs of increased Banking risk indicators. The ratio of total capital to Risk Weighted Assets as well as the ratio of Core Capital to Risk Weighted Assets though still above the minimum requirements of 14.5% and 10% set by the Basel Committee, deteriorated by 8.2 % and 1.8 % respectively to 18 % and 16.5 % in June 2018 from 19.6 % and 16.8 % in June 2017.

Similar deterioration was observed in the Asset Quality as the ratio of Non-Performing Loans to Total Assets in the commercial banks increased by 29% from 7.9% in June 2017 to 10.2 % in June 2018. This was way above the maximum requirements of 5 % recommended by the Basel Committee. While part of the deterioration may be due to the effects of the delayed elections in Kenya, this remains to be a reason for both KDIC and the Central Bank Banking Supervision to be alert. If the trend is not reversed, the deterioration in the asset quality may present more problems in the banking sector in the near future.

The banking sector continued to be liquid at the rate of 48% in June 2018 as compared to 44% in June 2017. This excess liquidity with banks is largely due to the effects of the interest rates capping regulation which has slowed lending in the commercial banks coupled with the prevailing high interest rates on the government securities. As a result, most banks would prefer to invest surplus liquidity in the government securities rather than to lend to investors. Such a trend is not good for the Kenyan economy because it conflicts with the intermediation role of the banking sector. If continued, this trend may slow down economic growth and development in Kenya.

DEPOSIT INSURANCE COVERAGE

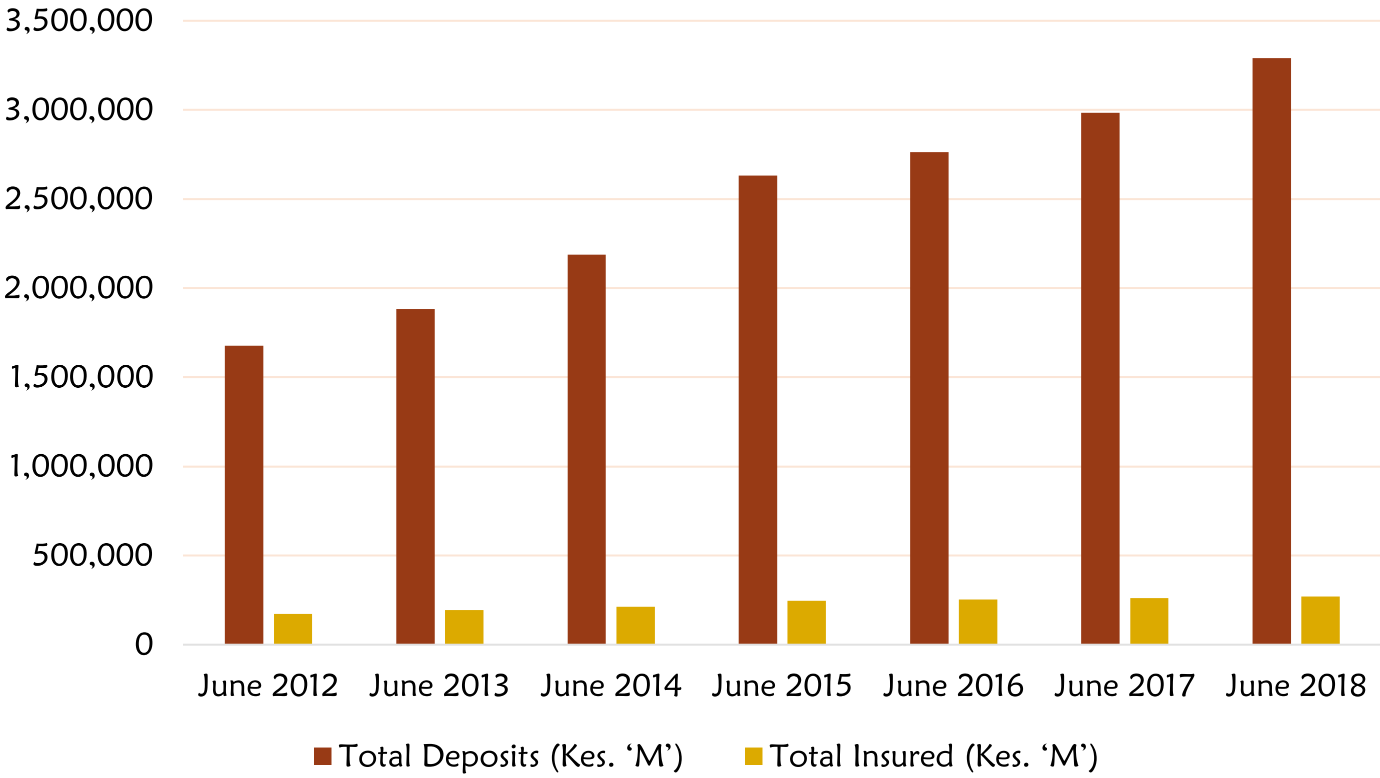
In its endeavor to provide a Deposit Insurance Scheme to depositors of member institutions, KDIC has ensured that the level and scope of coverage meets public policy objective by covering majority of retail depositors in full.

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 Kes 100,000 (US $ 1,010) per depositor.

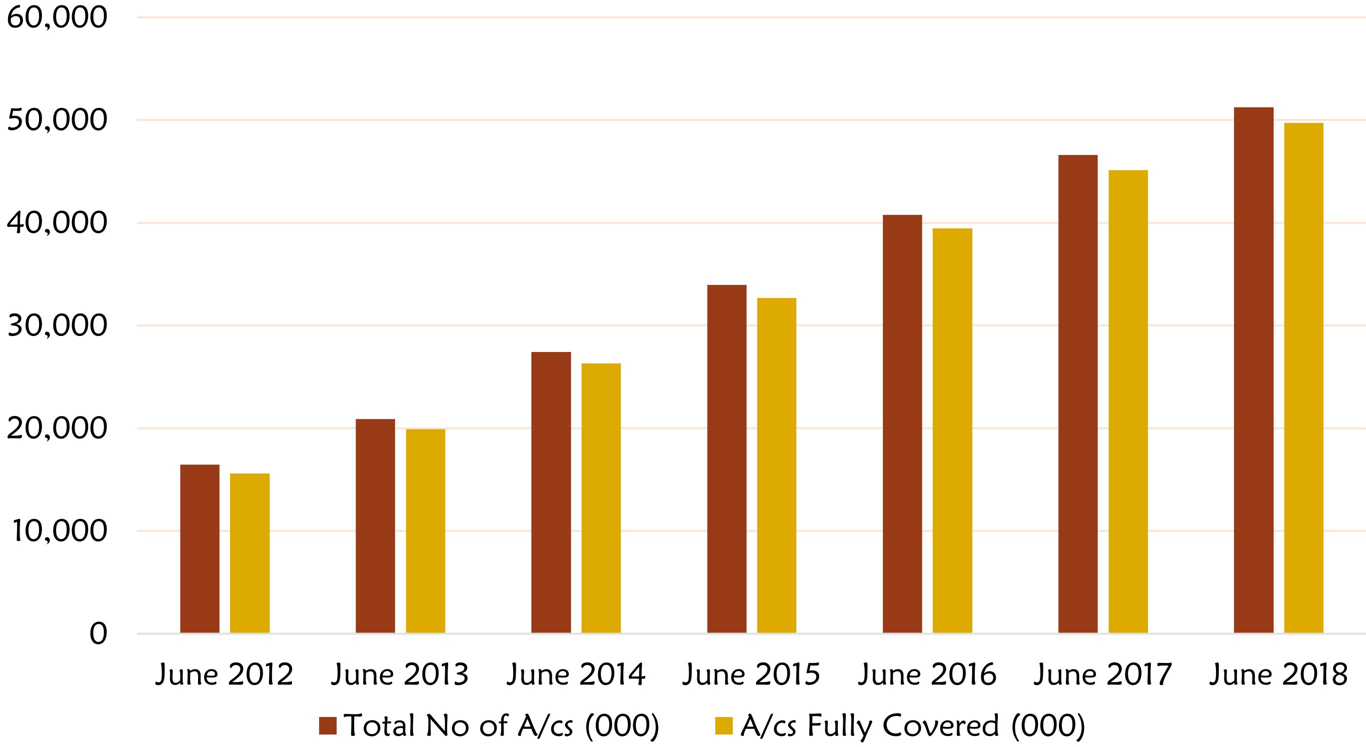
At the current level and scope of coverage, total depositors' accounts covered have been maintained at over 80% over the years, in line with IADI's recommended level. This is attributed to national initiatives that have promoted financial inclusion which has seen previously unbanked retail depositors enter the formal financial system. For the period ended 30 June 2018, total accounts covered were at 96.99%. As shown in the Table and Chart below, the total amount insured increased by Kes 10.43 billion from Kes 261.05 billion in June, 2017, to Kes 271.50 billion in June, 2018. The total number of deposit accounts increased by 5.84 million during the year under review, from Kes 46.62 million in June, 2017, to 51.26 million in June, 2018.

Table 1: Trend in Deposits and Coverage

	June 2012	June 2013	June 2014	June 2015	June 2016	June 2017	June 2018
Total Deposits (Kes. 'M')	1,678,590	1,884,784	2,188,065	2,630,908	2,762,386	2,984,909	3,290,898
Total Insured (Kes. 'M')	170,931	192,887	213,708	246,772	252,502	261,053	271,485
Total No of A/cs (000)	16,471	20,908	27,423	33,936	40,776	46,623	51,262
A/cs Fully Covered (000)	15,588	19,911	26,327	32,689	39,443	45,140	49,721



Total Deposits Insurance Coverage



Accounts Insurance Coverage

It is to be noted that the scope of deposit protection covers deposits received by deposit-taking financial institutions licensed by the Central Bank including balances in foreign currency accounts except inter-bank balances. Whereas the maximum amount covered per depositor has remained at Kes 100,000 since the inception of the deposit insurance scheme in 1985, this is poised for review.

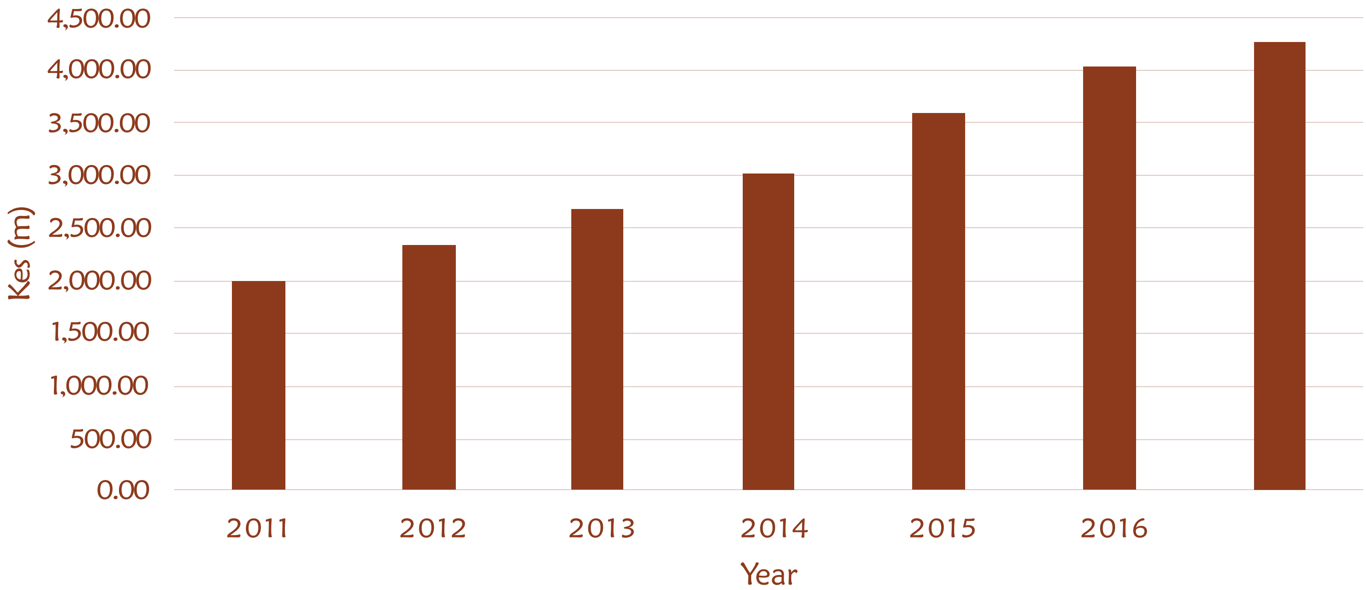
MEMBER INSTITUTIONS CONTRIBUTIONS

KDIC operates an ex-ante deposit insurance scheme where funding is through annual premium contribution by all member institutions. Hence, major sources of funding are member contribution 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 Kes 300,000.00, whichever is higher. For the year ended 30 June 2017, KDIC collected a total of KES 4.276 billion. Table 2 and chart 2 below shows the premium contribution by member institutions from 2011 to date.

Table 2: Trend in Premium Contribution (KES. 'M')

	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Banks	1,934.6	2,294.3	2,615.7	2,952.7	3,546.2	3,922.95	4,157.68
Non-Bank FIs	25.4	28.3	35.4	40.64	50.37	59.91	58.35
DTMs	12.9	16.5	24.8	39.2	55.49	60.77	60.09
Total	**1,972.9**	**2,339.1**	**2,675.9**	**3,032.5**	**3,601.7**	**4,042.6**	**4,276.13**

Total



In efforts to streamline risk management in member institutions, KDIC is conducting a study with a view to introducing Differential Premium. This methodology of member Contribution will take into account institutional risk profile.

MEMBERSHIP

Membership to the Fund is Mandatory for all deposit taking institutions licensed under the Banking Act, Building Societies Act and the Micro finance Act (Banking Act 38(1), KDIC Act 24(1).

The Membership to the Fund, as at 30 June 2018, comprised the following:

i) Forty four (41) Commercial Banks
ii) One (1) Mortgage Finance Institution
iii) Twelve (13) Deposit-Taking Micro finance Institutions.

SOURCES OF INCOME:

The Fund has four major sources of income, namely:

a) Section 76(1), of the KDI Act 2012, the assets of the Deposit Protection Fund Board established under section 36 of the Banking Act.

b) Premium contributions: KDIC 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 Kes 300,000.00 [approximately US$ 3,530];

c) Investment income: This is mainly 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 of Kenya, in the event that the Fund balance is insufficient for pay-out, in case of a bank failure, or the Consolidated Fund in case of a systemic crises.

The maximum amount of protected deposits that is paid out to each depositor, in the event of a bank failure, has remained at Kes 100, 000 [US$ 1,010) since the inception of the Fund, but a study was commissioned by the Office of the Technical assistance of the US Treasury, to establish Adequate Cover, Optimal Target Fund and Risk- Based Contribution. The coverage level is set for review upwards in the next financial year.

As at 30 June, 2017, deposit accounts fully covered were 45,140 million while the effective cover was 25.9% to date, KDIC has taken over 24 collapsed institutions. (7) of these institutions have been wound up leaving seventeen (17) institutions undergoing liquidation.

RELATIONSHIP WITH IADI AND AFRICA REGIONAL COMMITTEE (ARC)

KDIC 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). KDIC continued to participate in IADI programs during the year under review, and will continue to cooperate with IADI and its members with the objective of sharing experience and continuously improving and aligning its deposit insurance system to best practice.

PAYMENT OF PROTECTED DEPOSITS

The total protected deposits paid by all the institutions so far placed in liquidation by the Kenya Deposit Insurance Corporation (KDIC) amounted to Kes 1,170.80 million as at June 30, 2018. The cumulative payment for insured deposits since the Board commenced liquidation of banks and financial institutions averaged 72% of total insured deposits.

Details of payment of Protected Deposits by each institution are as shown in the table 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 2018 (Kes million)

	Name of Institution	Liquidation Date	Total Deposits as at Liquidation	Total Protected Deposits	Protected Deposits paid as at 30th June 2017	Protected Deposits paid as at 30th June 2018	% of Protected Deposits paid as at 30th June 2018
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	Kenya Finance Bank Ltd.	29-Oct-96	1,782.00	381.00	323.00	323.00	84.78
9	Ari Bank Corporation Ltd.	05-Dec-97	287.00	11.00	6.00	6.00	54.55
10	Prudential Bank Ltd.	05-May-00	600.00	16.00	12.00	12.00	75.00
11	Reliance Bank Ltd.	12-Sep-00	969.00	88.00	50.00	50.00	56.82
12	Fortune Finance Co. Ltd.	14-Sep-00	320.00	33.00	23.00	23.00	69.70
13	Trust Bank Ltd.	15-Aug-01	159.00	111.00	20.00	20.00	18.02
14	Euro Bank Ltd.	21-Feb-03	2,040.00	19.00	8.00	8.00	42.11
15	Prudential Building Society	18-Jan-05	2,025.00	8.00	3.00	3.00	37.50
16	Daima Bank Ltd.	13-Jun-05	669.00	93.00	76.00	76.00	81.72
17	Dubai Bank Ltd.	24-Aug-15	1,355.00	123.00	48.00	56.80	46.18
18	Inter-Africa Credit Finance Ltd.	31-Jan-93 * 07-Sep-12	138.00	4.00	2.00	2.00	50.00
19	Central Finance Ltd.	19-May-93 * 07-Sep-12	106.00	15.00	12.00	12.00	80.00
20	Nairobi Finance Ltd.	20-Aug-93 *16-Aug-10	188.00	5.00	4.00	4.00	80.00
21	Diners Finance Co. Ltd.	20-Aug-93 *07-Nov-08	667.00	142.00	95.00	95.00	66.90
22	Trade Finance Ltd.	18-Aug-93 *23-Sep-08	203.00	10.00	6.00	6.00	60.00
23	Allied Credit Ltd.	20-Aug-93 *06-Nov-07	81.00	14.00	8.00	8.00	57.14
24	International Finance Ltd.	16-Apr-93 *06-Nov-07	168.00	2.00	1.00	1.00	50.00
25	Heritage Bank Ltd.	13-Sep-96 *22-Nov-14	370.00	10.00	7.00	7.00	70.00
	TOTALS		23,354.00	1,626.00	1,162.00	1,170.80	72.00

*Date of Release of Liquidator

Debt Recovery

As at June 30, 2018, the cummulative recovery of debts and realisation of other assets by all the institutions so far placed in liquidation by the Kenya Deposit Insurance Corporation totalled Kes. 10,121.50 million. This amount represents an increase of Kes. 193.7m against the total cumulative asset realisation of Kes. 9,927.80 million achieved in the previous financial year. The total recovery includes interest earned on Treasury Bills and other recoveries. General performance on debt recovery continues to decrease due to deterioration of asset quality. However, efforts of debt recovery have been enhanced by engaging various debt recovery firms as well as embracing alternative dispute resolution mechanisms to recover debts for the institutions in liquidation.

The table below illustrates the cummulative loan recovery and performance by institutions in liquidation. Thirteen (13) institutions out of 25 managed to recover margins above 20% of the outstanding debt portfolio from the date of liquidation.

Table 4: Debt recovery as at 30th June 2018 (Kes. million)

	Name of Institution	Liquidation Date	Total Loans as at Liquidation	Total Recoveries as at 30 June 2017	Total Recoveries as at 30 June 2018	% of Original Debt 30 June 2018
1	Postbank Credit Ltd.	20-May-93	3,605.00	2,509.24	2,522.33	69.97
2	Trade Bank Ltd.	18-Aug-93	3,955.00	824.12	861.65	21.79
3	Middle Africa Finance Ltd.	20-Aug-93	656.00	81.91	83.21	12.68
4	Pan-African Bank Ltd.	18-Aug-94	1,433.00	1,051.84	1,081.91	75.50
5	Pan-African Credit & Finance Ltd.	18-Aug-94	445.00	281.51	288.05	64.73
6	Thabiti Finance Co. Ltd.	19-Dec-94	1,217.00	123.52	127.68	10.49
7	Meridien BIAO Bank Ltd.	15-Apr-96	224.00	100.83	103.10	46.02
8	Kenya Finance Bank Ltd.	29-Oct-96	2,329.00	496.83	514.33	22.08
9	Ari Bank Corporation Ltd.	05-Dec-97	453.00	30.95	31.60	6.98
10	Prudential Bank Ltd.	05-May-00	633.00	87.15	89.30	14.11
11	Reliance Bank Ltd.	12-Sep-00	1,591.00	157.45	159.58	10.03
12	Fortune Finance Co. Ltd.	14-Sep-00	345.00	85.61	85.93	24.91
13	Trust Bank Ltd.	15-Aug-01	13,808.00	2,808.56	2,853.99	20.67
14	Euro Bank Ltd.	21-Feb-03	3,861.00	209.33	214.16	5.55
15	Prudential Building Society	18-Jan-05	3,283.00	238.73	240.27	7.32
16	Daima Bank Ltd.	13-Jun-05	802.00	204.06	204.88	25.55
17	Dubai Bank Ltd.	24-Aug-15	4,403.00	154.51	177.87	4.04
18	Inter-Africa Credit Finance Ltd.	31-Jan-93 * 07-Sep-12	155.00	35.90	35.90	23.16
19	Central Finance Ltd.	19-May-93 * 07-Sep-12	111.00	110.38	110.38	99.44
20	Nairobi Finance Ltd.	20-Aug-93 *16-Aug-10	997.00	63.96	63.96	6.42
21	Diners Finance Co. Ltd.	20-Aug-93 *07-Nov-08	358.00	116 .23	116.23	32.47
22	Trade Finance Ltd.	18-Aug-93 *23-Sep-08	105.00	94.66	94.66	90.15
23	Allied Credit Ltd.	20-Aug-93 *06-Nov-07	111.00	4.40	4.40	3.96
24	International Finance Ltd.	16-Apr-93 *06-Nov-07	176.00	5.20	5.20	2.95
25	Heritage Bank Ltd.	13-Sep-96 *22-Nov-14	458.00	50.92	50.92	11.12
	TOTALS		45,514.00	9,927.80	10,121.50	28.48

Payment of Dividends

During the year under review, Dubai Bank Kenya Limited (IL) declared its 1st Dividend amounting to Kes. 90 million in July 2017, Trust Bank Limited (I.L.) declared its 7th Dividend amounting to Kes. 280 million in February 2018 and Fortune Finance Co. Ltd (I.L) also declared its 5th and final dividend amounting to Kes.6.2 million in April 2018 to Depositors and Creditors.

As at 30th June, 2018, the cummulative dividends declared by all the institutions in liquidation amounted to Kes.10,003.58 million compared to Kes.9,627.38 million declared the previous year resulting in an increase of Kes. 376.2 million in dividend declaration. So far, Trust Bank Limited (I.L.) has made the highest dividend declaration amounting to Kes. 2,937.00 million followed by Post Bank Credit Limited (I.L.), at Kes. 1,702.00 million and Pan-African Bank Limited (I.L.) at Kes. 1,194.00 million. With the enhanced debt recovery methods, further dividend payments are expected.

Table .5. below shows the cummulative dividend payments made as at 30th June, 2018 by individual institutions in liquidation.

Table 5: Dividends declared as at 30th June 2018 (Kes. Million)

	Name of Institution	Liquidation Date	Total Unprotected Deposits as at Liquidation	Dividends declared as at 30th June 2017	Dividends declared as at 30th June 2018
1	Postbank Credit Ltd.	20-May-93	3,804.00	1,702.00	1,702.00
2	Trade Bank Ltd.	18-Aug-93	4,486.50	963.28	963.28
3	Middle Africa Finance Ltd.	20-Aug-93	225.00	20.30	20.30
4	Pan-African Bank Ltd.	18-Aug-94	507.50	1,194.00	1,194.00
5	Pan-African Credit & Finance Ltd.	18-Aug-94	131.00	274.00	274.00
6	Thabiti Finance Co. Ltd.	19-Dec-94	796.00	99.97	99.97
7	Meridien BIAO Bank Ltd.	15-Apr-96	736.00	378.74	378.74
8	Kenya Finance Bank Ltd.	29-Oct-96	1,401.00	544.00	544.00
9	Ari Credit Corporation Ltd.	05-Dec-97	276.00	41.66	41.66
10	Prudential Bank Ltd.	05-May-00	584.00	227.20	227.20
11	Reliance Bank Ltd.	12-Sep-00	881.00	221.70	221.70
12	Fortune Finance Co. Ltd.	14-Sep-00	287.00	182.61	188.81
13	Trust Bank Ltd.	15-Aug-01	48.00	2,657.00	2937.00
14	Euro Bank Ltd.	21-Feb-03	2,021.00	93.35	93.35
15	Prudential Building Society	18-Jan-05	2,017.00	222.70	222.70
16	Daima Bank Ltd.	13-Jun-05	576.00	267.78	267.78
17	Dubai Bank Ltd.	24-Aug-15	1,232.00	-	90.00
18	Inter-Africa Credit Finance Ltd.	31-Jan-93 * 07-Sep-12	134.00	24.21	24.21
19	Central Finance Ltd.	19-May-93 * 07-Sep-12	91.00	104.10	104.10
20	Nairobi Finance Ltd.	20-Aug-93 *16-Aug-10	183.00	48.26	48.26
21	Diners Finance Co. Ltd.	20-Aug-93 *07-Nov-08	525.00	244.84	244.84
22	Trade Finance Ltd.	18-Aug-93 *23-Sep-08	193.00	80.23	8023
23	Allied Credit Ltd.	20-Aug-93 *06-Nov-07	67.00	-	-
24	International Finance Ltd.	16-Apr-93 *06-Nov-07	166.00	-	-
25	Heritage Bank Ltd.	13-Sep-96 *22-Nov-14	360	35.45	35.45
	TOTALS		21,728.00	9,027.38	10,003.58

The mission of Kenya Deposit Insurance Corporation (KDIC) is to promote stability in the Financial Sector by providing a deposit insurance scheme for depositors of member institutions. In fulfilling this important mandate, KDIC 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 created in furtherance of the Corporate Social Responsibilty.

In the year under review, KDIC Philanthropic Fund extended financial support to needy projects all over the country to educational, orphanages and health institutions. Some of the beneficiaries include Redhill Education Centre, Korogocho, Vihiga County Cultures and Childhood Development CBO, Kakamega, Nadapal Resources Network CBO, Loima Turkana, Namitu Nkera Children's Home, Kajiado County, Tunyai Children's Centre, Meru, St. Monica Children Home, Lukenya, Centre for Advocacy Relief and Development, Turkana, Celebrated Life Children Centre, Makueni, Brook Centre for the Deaf and Autistic Children, Zimmerman, Nairobi, Achiever's Community Centre, Maragoli, Kivuria Children Home for the Handicapped, Embu, and the Nyeri Hospice.

KDIC shall continue to support needy projects with the vision of making a difference to society.

KDIC assisted in building a boys' dormitory at Tunyai Children's' Centre, Meru County.

Sleeping mats, blankets and utensils donated by KDIC being distributed to newly settled villagers at Loima, Turkana County after their village was burnt down.

KDIC donated beds, mattresses, mackintosh, a television set, among other items to the Brook Centre for Deaf and Autistic Children, Zimmerman, Nairobi County.

The Directors submit their report together with the audited financial statements for the year ended June 30, 2018, which show the state of the Corporation's affairs.

INCORPORATION

Kenya Deposit Insurance Corporation (KDIC) is a statutory body established under the KDI Act No. 10 of 2012 (Cap 487C) of the Laws of Kenya.

PRINCIPAL ACTIVITY

The Corporation is established and administered under the Kenya Deposit Insurance Act, 2012. The Corporation commenced operations on 1 July 2016, with a transition period of two years, to 30 June 2018. The objectives of the Corporation is to provide deposit insurance scheme for depositors of member institutions, monitor the soundness of institutions through analysis, and undertake problem bank resolution through receivership, liquidation and winding up of collapsed bank institutions in accordance with the KDI Act, 2012.

RESULTS

	2018 Shs'000	2017 Shs'000
Surplus for the year before taxation	13,214,959	11,876,374
Taxation charge	-	-
Surplus for the year transferred to fund balance	13,214,959	11,876,374

DIRECTORS

The Directors who served during the year and up to the date of this report are set out on page 3.

DIRECTORS' STATEMENT AS TO THE INFORMATION GIVEN TO THE AUDITORS

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Corporation's auditors are unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Corporation's auditors are aware of that information.

AUDITORS

The Auditor General is responsible for the statutory audit of the Corporation's financial statements in accordance with Section 23 of the Public Audit Act, 2016. Section 23 of the Public Audit Act 2016 empowers the Auditor General to appoint other auditors to carry out the audit on his behalf. Accordingly, Deloitte & Touche have shown their willingness to continue in office and carry out the audit for the year ended 30 June 2019.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved at a meeting of the Directors held on 18 September 2018.

BY ORDER OF THE BOARD

Ms. JANE K. IKUNYUA
AG. BOARD SECRETARY
30th October 2018

Section 81 of the Public Finance Management Act, 2012 and the Kenya Deposit Insurance Act, 2012 require the Directors to prepare financial statements in respect of the Corporation, which give a true and fair view of the state of affairs of the Corporation at the end of the financial year and the operating results of the Corporation for that year. The Directors are also required to ensure that the Corporation keeps proper accounting records, which disclose with reasonable accuracy the financial position of the Corporation. The Directors are also responsible for safeguarding the assets of the entity.

The Directors are responsible for the preparation and presentation of the entity's financial statements, which give a true and fair view of the state of affairs of the entity for and as at the end of the financial period ended on June 30, 2018. This responsibility includes:

i) maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period;
ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the entity;
iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud;
iv) safeguarding the assets of the entity;
v) selecting and applying appropriate accounting policies; and
vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the entity's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and Kenya Deposit Insurance Act, 2012. The Directors are of the opinion that the entity's financial statements give a true and fair view of the state of entity's transactions during the financial year ended June 30, 2018, and of the entity's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the entity, which have been relied upon in the preparation of the entity's financial statements as well as the adequacy of the systems of internal financial control.

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

Approval of the financial statements

The Corporation's financial statements were approved by the Board on 30th October 2018 and signed on its behalf by:

Director

Director

REPUBLIC OF KENYA

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

P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA DEPOSIT INSURANCE CORPORATION FOR THE YEAR ENDED 30 JUNE 2018

REPORT ON THE FINANCIAL STATEMENTS

Opinion

The accompanying financial statements of Kenya Deposit Insurance Corporation set out on pages 30 to 54, which comprise the statement of financial position as at 30 June 2018, and the statement of profit or loss and other comprehensive income, statement of changes in fund balance, statement of cash flows and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by Deloitte & Touché, auditors appointed under Section 23 of the Public Audit Act, 2015 and in accordance with the provisions of Article 229 of the Constitution. The auditors have duly reported to me the results of their audit and on the basis of their report; I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

In my opinion, the financial statements present fairly, in all material respects the financial position of Kenya Deposit Insurance Corporation as at 30 June, 2018, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Kenya Deposit Insurance Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of Kenya Deposit Insurance Corporation in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

Key audit matters are those matters that in, my professional judgement, are of most significance in the audit of the financial statements. There were no key audit matters to report in the year under review.

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

As required by Article 229(6) of the Constitution, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that public resources have not been applied lawfully and in an effective way.

Basis Conclusion

The audit was conducted in accordance with ISSAI 4000. The standard requires that I comply with ethical requirements and plan and perform the audit to obtain assurance about whether the activities, financial transactions and information reflected in the financial statements are in compliance, in all material respects, with the authorities that govern them. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

REPORT ON INTERNAL CONTROL EFFECTIVENESS, GOVERNANCE AND RISK MANAGEMENT SYSTEMS

Conclusion

As required by Section 7 (1) (a) of the Public Audit Act, 2015, based on the audit procedures performed, except for the matter described in the Basis for conclusion on internal control effectiveness, risk management and governance section of my report, I confirm that nothing else has come to my attention to cause me to believe that internal controls, risk management and governance were not effective.

Basis for Conclusion

National Treasury (parent ministry) appointed 1 July 2014 as the date Kenya Deposit Insurance Act would come to full operations but up to 30 June 2018, the Corporation was still transitioning since the staff on the ground were still on secondment from Central Bank of Kenya. Delayed recruitment of staff may expose the Corporation to litigation.

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and Those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the management either intends to liquidate the Corporation or to cease operations, or have no realistic alternative but to do so.

Management is also responsible for the submission of the financial statements to the Auditor-General in accordance with the provision of Section 47 of the Public Audit Act, 2015.

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

Auditor-General's Responsibilities for the Audit

The audit objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISSAIs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISSAIs, I exercise professional judgement and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

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

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

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Corporation to cease to continue as a going concern.

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the board or business activities to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

I also provide management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

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

Nairobi

07 March 2019

Report of the Auditor-General on the Financial Statements of Kenya Deposit Insurance Corporation for the year ended 30 June 2018

	Note	2018 KShs'000	2017 KShs'000
REVENUE			
Assessment income	4	4,343,271	4,042,929
Investment income	5	9,303,591	8,205,641
Other income	6	37,342	42,815
		13,684,204	12,291,385
EXPENSES			
Administration and establishment expenses	7	469,245	415,011
SURPLUS FOR THE YEAR BEFORE TAXATION		13,214,959	11,876,374
Taxation	1(f)	-	-
SURPLUS FOR THE YEAR AFTER TAXATION		13,214,959	11,876,374
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		13,214,959	11,876,374

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

	Note	2018 KShs'000	2017 KShs'000
ASSETS			
Non-current assets			
Property and equipment	8	73,366	67,149
Intangible assets	9	86,066	114,980
Prepaid operating lease rentals	10	2,923	3,021
Government securities	11	28,061,781	25,620,782
		28,224,136	**25,805,932**
Current assets			
Government securities	11	62,228,319	50,983,940
Receivables and prepayments	12	69,826	44,728
Inventories	13	6,529	4,220
Cash and bank balances	14	17,220	479,236
		62,321,894	51,512,124
TOTAL ASSETS		**90,546,030**	**77,318,056**
FUND BALANCE AND LIABILITIES			
Fund balance		90,374,763	77,159,804
Current liabilities			
Payables and accruals	15	102,258	117,345
Due to related party	16	7,743	25,581
Deferred income	17	61,266	15,326
		171,267	158,252
TOTAL FUND BALANCE AND LIABILITIES		**90,546,030**	**77,318,056**

The financial statements on pages 30 to 54 were approved and authorized for issue by the Board of Directors on 30th October 2018 and were signed on its behalf by:

Chairman

Member

STATEMENT OF CHANGES IN FUND BALANCE FOR THE YEAR ENDED 30 JUNE 2018

	Fund balance KShs'000
30 June 2017:	
At 1 July 2016	65,283,430
Surplus for the year	11,876,374
At 30 June 2017	77,159,804
30 June 2018:	
At 1 July 2017	77,1 59,804
Surplus for the year	13,214,959
At 30 June 2018	90,374,763

	Note	2018 KShs'000	2017 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the year		13,214,959	11,876,374
Adjustment for:			
Depreciation of property and equipment	8	13,813	13,894
Amortisation of software	9	28,914	676
Amortisation of prepaid operating lease rentals	10	98	98
Interest income		(9,303,591)	(8,205,641)
Changes in working capital;			
Receivables and prepayments		(25,098)	(19,978)
Inventory		(2,309)	(1,690)
Payables and accruals		(15,087)	(26,563)
Deferred income		45,940	(3,832)
Due to related party		(17,838)	23,191
Net cash generated from operating activities		3,939,801	3,656,529
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of government securities		(75,741,298)	(57,435,543)
Disposal of government securities		62,226,206	46,086,025
Purchase of intangible assets	9	-	(26,264)
Purchase of property and equipment	8	(20,030)	(6,392)
Interest received		9,303,591	8,205,641
Net cash (used in)/generated from investment activities		(4,231,531)	3,176,533
Net (decrease)/increase in cash and cash equivalents		(291,730)	479,996
CASH AND CASH EQUIVALENTS AT 1 JULY		976,108	496,112
CASH AND CASH EQUIVALENTS AT 30 JUNE	14	684,378	976,108

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared on a historical cost basis except for the marketable securities and financial instruments at fair value and impaired assets at their estimated recoverable. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the Corporation's accounting policies.

Statement of compliance

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act, 2012 and the Kenyan Deposit Insurance Act, 2012. The accounting policies adopted have been consistently applied to all the years presented.

Adoption of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC)

(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2018

Several new and revised standards and interpretations became effective during the year. The directors have evaluated the impact of the new standards and interpretations and none of them had a significant impact on the Corporation's financial statements.

(ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2018.

New and Amendments to standards	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments	1 January 2018, with earlier application permitted
IFRS 15 Revenue from contracts with customers	1 January 2018, with earlier application permitted
IFRS 16 Leases	1 January 2019, with earlier application permitted

(iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 30 June 2018 and future annual periods

IFRS 9 Financial Instruments

First issued in November 2009, IFRS 9 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include:

a) impairment requirements for financial assets and
b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)

(iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 30 June 2018 and future annual periods (continued)

IFRS 9 Financial Instruments (continued)

Key requirements of IFRS 9:
All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods.

In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies) in other comprehensive income, with only dividend income generally recognised in profit or loss.

Phase 1: Classification and measurement of financial assets and financial liabilities

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of such changes in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

Phase 2: Impairment methodology

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Phase 3: Hedge accounting

The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Directors of the Corporation anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Corporation's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)

(iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 30 June 2018 and future annual periods (continued)

IFRS 15 Revenue from Contracts with Customers

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

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more guidance that is prescriptive has been added in IFRS 15 to deal with specific scenarios. Furthermore, IFRS 15 requires extensive disclosures

In April 2017, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

Furthermore, IFRS 15 requires extensive disclosures. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases (off balance sheet) and finance leases (on balance sheet) are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees (i.e. all on balance sheet) except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion, which will be presented as financing and operating cash flows respectively.

In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease as either an operating lease or a finance lease.

The Directors of the corporation anticipate IFRS 16 will be adopted in the Corporation's financial statements for the annual period beginning 1 January 2019. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed.

Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)

(iii) Early adoption of standards

The Corporation did not early-adopt any new or amended standards in 2018.

Basis of preparation

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 earning instruments on an accrual basis using the effective interest method based on the actual purchase price. Interest income includes coupon earned and unamortized 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 profit or loss 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 Corporation'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 Corporation and the Central Bank, the main sponsor. The retirement benefit asset is wholly recognized in the financial statements of the Central Bank while the Corporation 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 Corporation also contributes to a statutory defined contribution Pension Scheme, the National Social Security Fund (NSSF). The Corporation's contributions are charged to the profit or loss in the year to which they relate. The Corporation has no further obligation once the contributions have been paid.

f) Taxation

The Corporation's income is not subject to corporation 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) Financial assets and liabilities

(i) Recognition

The Corporation recognizes all financial assets and liabilities on the trade date at which the Corporation becomes a party to the contractual provision of the instrument. A financial asset or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

Subsequently, held-to-maturity investments, loans, and receivables are measured at amortised cost.

(ii)Classification

The Corporation classifies its financial assets in the held-to-maturity and receivables category. The Corporation classifies its financial liabilities as measured at amortised cost. Management determines the classification of its investments at initial recognition.

Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Corporation's management has the positive intention and ability to hold to maturity. Were the Corporation to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale. These include investment in government securities.

Other financial liabilities

Other financial liabilities are measured at amortised cost. These include other payables and amounts due to related companies.

(iii) Identification and measurement of impairment of financial assets

At each reporting date the Corporation assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the carrying amount.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account. Interest on the impaired asset continues to be recognized through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

g) Financial assets and liabilities (Continued)

(iv) Derecognition

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Corporation is recognized as a separate asset or liability.

The Corporation derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Corporation enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized from the statement of financial position.

(v) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a Corporation of similar transactions such as in the Corporation's trading activity.

(vi)Fair value of financial assets and liabilities

Fair value of financial assets and financial liabilities is the price that would be received to sell an asset or paid to transfer a liability respectively in an orderly transaction between market participants at the measurement date.

h) Impairment for non-financial assets

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

An impairment loss is recognized 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 Corporation that generates cash flows that largely are independent from other assets and Corporations. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (Corporation 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.

i) Investment held for sale

Investment held for sale relates to investment in a subsidiary which is accounted for under IFRS 5

'Non-current assets held for sale and discontinued operations'. The investment is stated at the lower of its carrying amount and the fair value less costs to sell.

j) Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise cash on hand, bank balances and government securities maturing within 91 days from the date of issue.

k) 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 Corporation 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 2.00% Computer equipment 33.33% ICT equipment 20.00% Office equipment, furniture and fittings 20.00% Motor vehicles 25.00% Intangible assets (Software) 25.00%
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.

l)Related parties

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

m) Grants

Other grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Corporation will comply with the conditions. The grants are amortised at the rate of 20% per annum on a reducing balance over a useful life of 5 years.

n)Inventory

Inventory comprises of stationery and other consumables. Inventories are stated at cost.

2 RISK MANAGEMENT

Structure and reporting

The Board of Directors are 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 Corporation 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 Corporation.

Deposit Insurance and Risk Management Section

The Corporation 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 Corporation are subject to internal audit by the Internal Audit Unit of the Kenya Deposit Insurance Corporation. 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 Corporation 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 Corporation maintains a conservative policy regarding interest rate and liquidity risks. The Corporation does not engage in speculation in the markets. In addition, the Corporation does not speculate or trade in derivative financial instruments.

The Corporation's principal financial instruments comprise investments held to maturity; cash and cash equivalents; receivables; payables and accruals and amounts due to related parties.

(a) Credit risk (continued)

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's receivables, government securities and cash and bank balances. The Corporation's exposure to credit risk is influenced mainly by the individual characteristics of each customer and investment.

The Corporation establishes an allowance for impairment that represents its estimate of incurred losses in respect of receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for Corporations 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:

	2018 KShs'000	2017 KShs'000
Bank and cash balances	17,219	479,235
Receivables	15,570	26,048
Government securities	90,290,100	76,604,722
	90,322,889	77,110,005

The aging of receivables at the reporting date was:

Not past due	-	-
Past due 0 – 30 days	14,859	25,642
Past due 31 – 90 days	-	-
Past due above 90 days	711	406
	15,570	26,048

(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 Corporation are invested in Treasury bills and Treasury bonds.

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

2018:	Effective interest rate	Upto 1 year KShs'000	1 – 5 years KShs'000	6 – 10 years KShs'000	Over 10 years KShs'000	Total KShs'000
Investments held to maturity		62,228,319	13,577,800	13,017,329	1,466,651	90,290,100
Interest sensitivity gap						
At 30 June 2018	10.82%	62,228,319	13,577,800	13,017,329	1,466,651	90,290,100
2017:						
Investments held to maturity	11.34%	50,983,940	13,179,628	10,974,429	1,466,725	76,604,722
Interest sensitivity gap						
At 30 June 2017		50,983,940	13,179,628	10,974,429	1,466,725	76,604,722

(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 Corporation's surplus. The sensitivity computations assume that financial assets maintain a constant rate of return from one year to the next.

	2018 KShs'000	2017 KShs'000
Effect on surplus for the year of a +5% change in interest rates	465,180	410,282
Effect on surplus for the year of a -5% change in interest rates	(465,180)	(410,282)

(ii) Currency risk

The Corporation 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 Corporation will encounter difficulty in meeting obligations from its financial liabilities. The Corporation'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 Corporation's reputation. In the course of its operations, the Corporation 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 Corporation matches its current assets to the current liabilities falling due to mitigate the risk of low liquidity.

The Corporation's financial liabilities amount to KShs 109.92 million (2017 - KShs 142.93 million) and are all short term.

(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:

2018:	Other financial liability KShs '000	Loans and receivables KShs '000	Held to maturity KShs '000	Fair value KShs '000	Total carrying value KShs '000	Fair value KShs '000
Financial assets		-	90,290,100	-	90,290,100	90,290,100
Government securities	-	-	-	-	-	-
Cash and bank balances	-	17,220	-	-	17,220	17,220
Receivables	-	69,826	-	-	69,826	69,826
	-	87,046	90,290,100	-	90,377,146	90,377,146
Financial liabilities						
Amounts due to related parties	7,743	-	-	-	7,743	7,743
Payables and accruals	102,258	-	-	-	102,258	102,258
	110,001	-	-	-	110,001	110,001
2017:						
Financial assets						
Government securities	-	-	76,604,722	-	76,604,722	76,604,722
Cash and bank balances	-	479,236	-	-	479,236	479,236
Receivables	-	44,728	-	-	44,728	44,728
	-	523,964	76,604,722	-	77,128,686	77,128,686
Financial liabilities						
Amounts due to related parties	25,581	-	-	-	25,581	25,581
Payables and accruals	117,345	-	-	-	117,345	117,345
	142,926	-	-	-	142,926	142,926

(e) Capital management

The primary objectives of the Corporation's capital management are to ensure that the Corporation maintains healthy capital ratios in order to support its business and to protect depositors against the loss of their insured deposits. The Corporation manages its Fund Balance and adjusts it as per the requirements of the Banking Act. The total accumulated Fund Balance as at 30 June 2018 was KShs 90.37 million (2017 – KShs 77.16 million).

3 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 and equipment.

(ii) Impairment of receivables

The Corporation 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.

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

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

4 ASSESSMENT INCOME

	2018 KShs'000	2017 KShs'000
Total average deposits of institutions assessed as contributors	2,893,913,995	2,615,300,133
	========	=======
0.15% of total average deposits		
- Contributions from Commercial Banks	4,340,871	3,922,950
- Minimum Contribution from Deposit Taking Microfinance	2,400	119,979
Total assessment income	4,343,271	4,042,929
	=======	======

5 INVESTMENT INCOME

	2018 KShs'000	2017 KShs'000
(i) Interest earned on treasury bills		
Discount on 91 day treasury bills	108,115	124,068
Discount on 182 day treasury bills	315,586	353,948
Discount on 364 day treasury bills	4,820,087	3,607,085
	5,243,788	4,085,101
(ii) Interest earned on treasury bonds		
Matured bonds	4,005,562	4,035,326
Discount on purchase	86,317	114,361
Amortisation of premium	(32,076)	(29,147)
	4,059,803	4,120,540
Total investment income	9,303,591	8,205,641
	=======	======

6 OTHER INCOME

Recoveries from subrogated claims	10,566	11,218
Penalty charges on late contributions	8,444	20,819
Miscellaneous income	107	4,002
Grant income	18,225	6,776
	37,342	42,815
	=======	=======

	2018 KShs'000	2017 KShs'000

7 ADMINISTRATION AND ESTABLISHMENT EXPENSES

Staff costs	225,624	187,164
Depreciation (note 8)	13,813	13,894
Software amortisation (note 9)	28,914	676
Lease amortization (note 10)	98	98
Philanthropic donations	4,772	4,533
Auditors remuneration	1,930	1,702
Directors' emoluments - fees	15,082	15,194
Occupancy costs	19,007	20,615
Other expenses	160,005	171,135
	469,245	415,011

The breakdown of other expenses as shown below:

Advertising, printing and stationery	30,560	22,219
Staff training expenses	39,513	70,469
Consultancy fees/workplace committees	27,705	26,247
ICT Infrastructure costs	42,517	35,624
Other operating expenses	19,710	16,576
	160,005	171,135

8 PROPERTY AND EQUIPMENT

	Building Sh'000	Furniture & fittings Sh'000	Office & kitchen equipment Sh'000	Motor vehicles Sh'000	Computers Sh'000	ICT equipment Sh'000	Total Sh'000
COST							
At 1 July 2016	19,224	23,952	19,915	14,687	13,697	54,743	146,218
Additions	-	2,156	2,306	-	-	1,930	6,392
At 30 June 2017	19,224	26,108	22,221	14,687	13,697	56,673	152,610
At 1 July 2017	19,224	26,108	22,221	14,687	13,697	56,673	152,610
Additions	-	45	370	10,481	4,342	4,792	20,030
At 30 June 2018	19,224	26,153	22,591	25,168	18,039	61,465	172,640
DEPRECIATION							
At 1 July 2016	5,213	14,282	10,041	7,653	9,215	25,163	71,567
Charge for the year	421	1,267	2,392	1,758	1,877	6,179	13,894
At 30 June 2017	5,634	15,549	12,433	9,411	11,092	31,342	85,461
At 1 July 2017	5,634	15,549	12,433	9,411	11,092	31,342	85,461
Charge for the year	421	1,321	1,973	2,136	2,190	5,772	13,813
At 30 June 2018	6,055	16,870	14,406	11,547	13,282	37,114	99,274
NET BOOK VALUE							
At 30 June 2017	13,590	10,559	9,788	5,276	2,605	25,331	67,149
At 30 June 2018	13,169	9,283	8,185	13,621	4,757	24,351	73,366

	2018 KShs'000	2017 KShs'000

9 INTANGIBLE ASSETS

Computer software

	2018 KShs'000	2017 KShs'000
Cost		
At 1 July	115,657	-
Additions *	-	4,055
Transfer from Work in Progress	-	111,601
At 30 June	115,657	115,656
Amortisation		
At 1 July	676	-
Amortisation charge	28,914	676
At 30 June	29,590	676
Carrying value at 30 June	86,066	114,980

Software additions relate to licenses paid for the Microsoft Dynamics ERP system capitalized during the prior year.

10 PREPAID OPERATING LEASE RENTALS

	2018 KShs'000	2017 KShs'000
Cost		
At 1 July and 30 June	4,522	4,522
Amortisation		
At 1 July	1,501	1,403
Amortisation for the year	98	98
At 30 June	1,599	1,501
Carrying value at 30 June	2,923	3,021

11 GOVERNMENT SECURITIES

	2018 KShs'000	2017 KShs'000
Treasury bills maturing within 91 days of placement (note 14)	667,158	496,872
Treasury bills maturing after 91 days from date of placement	58,341,350	45,020,584
Treasury bonds maturing within 1 year	3,219,811	5,466,484
Treasury bonds maturing after 1 year	28,061,781	25,620,762
	90,290,100	76,604,722
Comprising:		
Maturing within 1 year	62,228,319	50,983,940
Maturing after 1 year	28,061,781	25,620,762
	90,290,100	76,604,722

The weighted average effective interest rate on held to maturity investments as at 30 June 2018 was 10.82 % (2017 – 11.34%).

12 RECEIVABLES AND PREPAYMENTS

	2018 KShs'000	2017 KShs'000
Receivables	15,570	26,048
Prepayments	5,251	7,968
Grant	49,005	10,712
	69,826	44,728

13 INVENTORIES

Inventories	6,529	4,220

Inventories comprises of stationery and other consumables.

14 CASH AND CASH EQUIVALENTS

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

	2018 KShs'000	2017 KShs'000
Treasury bills maturing within 91 days from the date of placement (note 11)	667,158	496,872
Cash and bank balance	17,220	479,236
	684,378	976,108

	2018 KShs'000	2017 KShs'000

15 PAYABLES AND ACCRUALS

	2018 KShs'000	2017 KShs'000
Provision for deposit payoffs	59,978	63,843
Sundry payables and accruals	42,281	53,502
	102,259	117,345

16 DUE TO RELATED PARTY

	2018 KShs'000	2017 KShs'000
Central Bank of Kenya	7,638	25,581
Kenya School of Monetary Studies	105	-
	7,743	25,581

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. The Central Bank of Kenya, Kenya School of Monetary Studies and the Corporation are related parties, 100% owned by the Government of Kenya and performing duties of bank supervision and deposit protection

17 DEFERRED INCOME

	2018 KShs'000	2017 KShs'000
Unamortised grant income		
At 1 July 2017	15,326	19,158
Additional grant	49,005	-
Amortisation charge	(3,065)	(3,832)
At 30 June	61,266	15,326

Amount relates to deferred grant income received under the Financial and Legal Sector Technical Assistance Project (FLSTAP) and all the financial sector support project (FSSP) in relation to the ICT project. FLSTAP had purchased ICT Servers for KDIC. The ICT servers are currently in use by the Corporation in the ICT project commissioned in 2015/2016. The FSSP have contracted a vendor to supply, install and commission the ICT servers hardware, firewalls and management software in Kisumu. The amounts are therefore amortised at the rate of 20% per annum on a reducing balance over the ICT Server's useful life of 5 years.

18 RELATED PARTY TRANSACTIONS

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

		2018 KShs'000	2017 KShs'000
(a)	Directors' emoluments and senior management remuneration		
	Fees to Directors	15,082	15,194
	Remuneration to senior management	69,921	51,965
		=========	======
(b)	Cash and balances held with Central Bank of Kenya	17,220	479,236
		=========	======

(c) The staff of the Corporation are contractually employees of the Central Bank of Kenya but seconded to the Corporation. Salaries of these staff are paid by the Central Bank of Kenya and fully reimbursed by the Corporation. In the year, salaries paid to staff by the Central Bank of Kenya amounted to KShs 138.6 million (2017 - KShs 159.1 million).

(d) The Central Bank of Kenya is also the sponsor of the CBK Staff Pension Fund to which the Corporation contributes on behalf of employees seconded to it from the Central Bank of Kenya. In the year, the Corporation's contribution to the Fund amounted to KShs 11.68 million (2017 - KShs 12.41 million).

(e) The CBK Staff Pension Fund provides the Corporation with office space and charges it rent. The Corporation also reimburses maintenance costs incurred by the Central Bank of Kenya on its behalf. In the year, rent and maintenance costs charged amounted to KShs 19.01 million (2017 – KShs 20.62 million).

	2018 K Shs'000	2017 KShs'000
19 COMMITMENTS		
(a)Capital commitments		
Authorised but not contracted for	1,683,080	186,627
	=========	=======

The Corporation expects to move into a new office complex and the Capital commitments authorised relates mainly to office furniture, fittings, equipment, Data Centre installations, cabling and Telephone wirings. Further, the Corporation will procure a parcel of land to build an office complex and three motor vehicles.

	2018 KShs'000	2017 KShs'000
(b) Operating lease commitments		
Falling due within one year	94,032	35,765
Falling due between one and five years	-	-
	94,032	35,765

During the financial year ended 30 June 2018, KShs 19.01 million (2017 – KShs 20.62 million) was recognized as rental expense.

20 CONTIGENT LIABILITIES

The Corporation is subject to litigation arising from the normal course of business. The Directors evaluate the status of these exposures on a regular basis based on advice received from the Corporation's legal advisors to assess the probability of the Corporation incurring related liabilities. However, provisions are only made in the financial statements where, based on the Directors' evaluation, a present obligation has been established.

In all matters where KDIC has been sued or has sued as the Liquidator of an institution in liquidation, the subject institution has always settled the cost of the suit.

22 CURRENCY

The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Corporation.

23 INCORPORATION

The Corporation is domiciled and incorporated in Kenya under the Kenya Deposit Insurance Act, 2012 in the Laws of Kenya and is wholly owned by the Government of Kenya. The Corporation's operations are controlled and regulated under the Kenyan State Corporations Act.

COMMERCIAL BANKS AND OTHER FINANCIAL INSTITUTIONS ASSESSED CONTRIBUTORS FOR THE YEAR ENDED 30 JUNE 2018

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
7. Charterhouse Bank Limited (under statutory management)
8. Chase Bank (Kenya) Limited (under receivership)
9. Citibank N.A. Kenya
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 Islamic Bank
17. HF Group
18. Ecobank (Kenya) Limited
19. Equity Bank Limited
20. Family Bank Limited
21. First Community Bank Limited
22. Guaranty Trust Bank
23. Guardian Bank Limited
24. Gulf African Bank Limited
25. Habib Bank A.G. Zurich
26. Imperial Bank Limited (under receivership)
27. I&M Bank Limited
28. Jamii Bora Bank Limited
29. Kenya Commercial Bank Limited
30. M-Oriental Bank Limited
31. Middle East Bank (Kenya) Limited
32. National Bank of (Kenya) Limited
33. NIC Bank Limited
34. Paramount Universal Bank Limited
35. Prime Bank Limited
36. SBM Kenya Bank Ltd.
37. Sidian Bank Limited
38. Spire Bank Limited
39. Stanbic Bank Limited
40. Standard Chartered Bank of (Kenya) Limited
41. Transnational Bank Limited
42. UBA (Kenya) Bank Limited
43. Victoria Commercial Bank Limited

MICRO FINANCE INSTITUTIONS

1. Caritas Microfinance Bank Limited
2. Century Microfinance Bank Limited
3. Choice Microfinance Bank Limited
4. Daraja Microfinance Bank Limited
5. Faulu Microfinance Bank Limited
6. Kenya Women Microfinance Bank Limited
7. Maisha Microfinance Bank Ltd
8. Rafiki Microfinance Bank Limited
9. REMU Microfinance Bank Limited
10. SMEP Microfinance Bank Limited
11. Sumac Microfinance Bank Limited
12. U & I Microfinance Bank Limited
13. Uwezo Microfinance Bank Limited

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2018

NOTES		2017/2018 BUDGET	ADJST	FINAL BUDGET	ACTUAL INCOME/ EXPENDITURE	PERFORMANCE DIFFERENCE I N KSHS.	IN %
	Revenue						
1	Assessed Contributions	4,851,156,000	-	4,851,156,000	4,343,270,991	507,885,009	10.47
2	Interest on Treasury Bills	4,594,054,000	-	4,594,054,000	5,243,787,968	(649,733,968)	(14.14)
	Interest on Treasury Bonds	4,467,637,000	-	4,467,637,000	4,059,803,185	407,833,815	9.12
3	Other Income	-	-	-	37,341,223	(37,341,222)	(100)
Total Revenues		13,912,847,000	-	13,912,847,000	13,684,203,367	228,643,634	
	Expenditure						
4	Directors' Fees, Training and Other Expenses	36,600,000	-	36,600,000	15,082,419	21,517,581	58.79
5	Personnel Emoluments/ Staff Costs	450,602,000	-	450,602,000	225,624,177	224,977,823	49.92
6	Auditors' Remuneration	1,960,000	-	1,960,000	1,930,085	29,915	1.52
7	Office Rent and Parking fees	35,766,000	-	35,766,000	19,007,131	16,758,869	46.86
8	Depreciation, software and lease amortisation	16,073,000	-	16,073,000	42,825,630	(26,752,630)	(166.44)
9	Office supplies, goods and services	299,446,000	-	299,446,000	164,776,928_	134,669,072	44.97
Total expenditures		840,447,000	-	840,447,000	469,246,370	371,200,630	
Net Surplus		13,072,400,000	-	13,072,400,000	13,214,956,997	(142,556,996)	

BUDGET VARIANCE EXPLANATORY NOTES

1. Deposits in the banking sector declined due to transfer of dormant account balances from the member institutions to the Unclaimed Financial Assets Authority (UFAA).

2. Returns on investments in Government Securities were higher than the budget due to higher earnings from investments in Treasury Bills to favourable rates compared to the same period last year. Further, investable funds from premium received led to the growth of the total funds available for investments.

   Maturing Treasury Bonds were channelled to the Treasury Bills in line with Investment guidelines to ensure that there are regular investment maturities every week.

3. The Corporation received grants amounting to Kes. 18,224,532 from the Financial Sector Support Project (FSSP) in lieu of consultancy services to review the deposit coverage level, setting of Target Fund and formulation of a Risk Based Premium Assessment Model. FSSP also procured equipment for a Disaster Recovery site in Kisumu and installations are ongoing. The equipment has been recognized as work in progress in the financials and will be transferred to fixed assets once the site is fully commissioned. Other miscellaneous incomes received amounted to Kes. 19,116,691, relating to penalties levied to the financial institutions that paid premium contributions after the due date plus recoveries from subrogated debts.

4. The Board was not fully constituted as there was a vacancy for the Chairman, which was filled in June 2018. Further, as per the State Corporations guidelines, no retainer allowances are payable to the Board members, whereas the budget anticipated retention of allowances previously paid to the DPFB Directors.

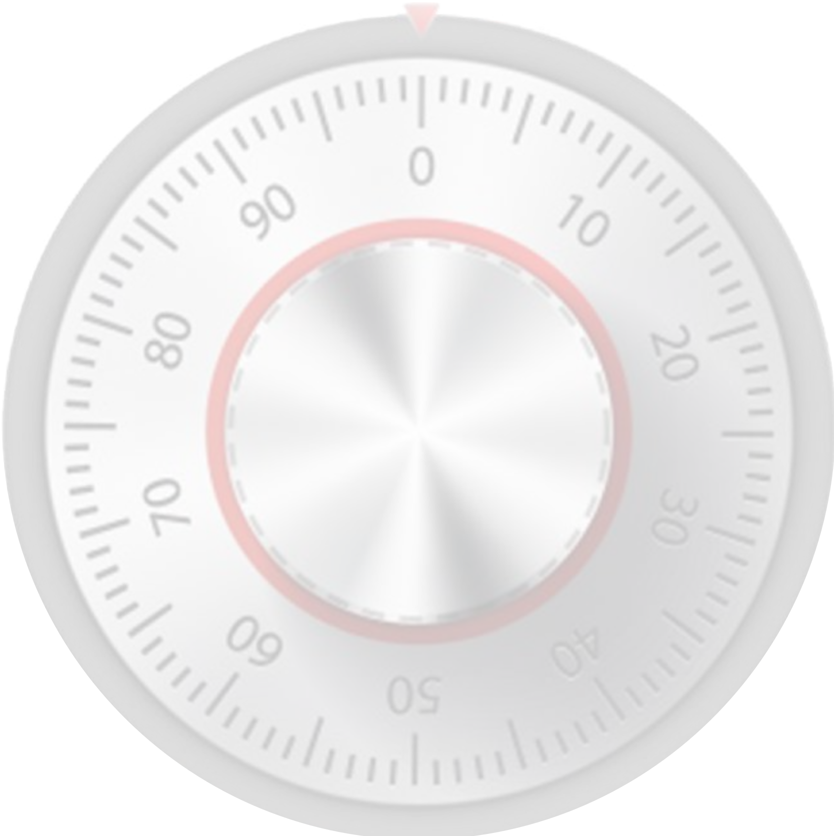
5. The Corporation had a budget provision for additional staff complement in Resolutions, Deposit

   Insurance, Human Resource, Finance and Risk Management, among others, in line with KDIC's 2015-2018 Strategic Plan, to meet its new mandate. Population of staff had not been concluded by 30th June 2018.

6. The Budget was underspent because the procurement of parking space for additional members of staff was not undertaken because staff recruitment was yet to be concluded. Further, the Corporation did not pay parking fees during the period under review as the landlord had taken possession of the space previously occupied for construction.

7. The costs relating to the concluded ICT project were amortised hence increasing the Depreciation/Amortisation costs.

8. Printing of the Promotional Materials, Print Media and outdoor Advertising, Radio and TV adverts, were not undertaken due to the prolonged electioneering period during the first half of the year. The Corporation did not participate in any trade fairs during the period under review, as earlier envisaged.



Kenya Deposit Insurance Corporation
UAP Old Mutual Tower, Upperhill Road 17th Floor,
P.O. Box 45983-00100, Nairobi, Kenya .
Tel: +254 20 66 77 000, +254 709 043 000
Email: customercare@kdic.go.ke
www.kdic.go.ke