

REPUBLIC OF KENYA



**KENYA NATIONAL AUDIT OFFICE**

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**REPORT**

**OF**

*Paper laid  
By Hon. K.O. Mutho  
(Member Parliament)  
Wed. 18.11.2015 (pm)*

**THE AUDITOR-GENERAL**

**ON**

**THE FINANCIAL STATEMENTS OF  
KENYA DEPOSIT INSURANCE  
CORPORATION**

**FOR THE YEAR ENDED  
30 JUNE 2015**



**KENYA DEPOSIT INSURANCE CORPORATION**  
**(Formerly Deposit Protection Fund Board)**

**REPORT AND FINANCIAL STATEMENTS**

**AT**

**30 JUNE 2015**

**KENYA DEPOSIT INSURANCE CORPORATION**  
**(Formerly Deposit Protection Fund Board)**

**REPORT AND FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

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**KENYA DEPOSIT INSURANCE CORPORATION**  
**(Formerly Deposit Protection Fund Board)**

**DIRECTORS AND STATUTORY INFORMATION**

**DIRECTORS**

Chairman	Vacant
Dr. Patrick Njoroge	Governor, Central Bank of Kenya – w.e.f 19 June 2015
Prof. Njuguna Ndung'u	Governor, Central Bank of Kenya – up to 4 March 2015
Dr. Kamau Thugge	Principal Secretary, National Treasury
Mr. Martin S. O. Gumo	Alternate to Principal Secretary, National Treasury
Tom Odede	Alternate to the Attorney General
Mrs. Nasim Devji*	Member
Dr. Julius K. Kipng'etich	Member
Mr. Jeremy I. Ngunze	Member
Mr. Samuel N. Kimani	Member
Mr. Aggrey. J. K. Bett	KDIC Acting Chief Executive Officer (Ex-officio)
Ms. Jane K. Ikunyua	KDIC Acting Board Secretary

\* British

**BOARD AUDIT COMMITTEE**

Mrs. Nasim Devji	Chairperson
Dr. Julius K. Kipng'etich	Member
Mr. Jeremy I. Ngunze	Member
Mr. Samuel N. Kimani	Member
Mr. Martin S. O. Gumo	Alternate to Principal Secretary, Treasury
Mrs. Edith M. Kagasi	Board Audit Committee Secretary

**SENIOR MANAGEMENT**

Mr. Aggrey J. K. Bett	Acting Chief Executive Officer
Mr. Stephen M. Thuo	Assistant Director – Finance & Administration
Ms. Jane K. Ikunyua	Assistant Director – Legal
Mr. Mohamud A. Mohamud	Assistant Director – Liquidations
Dr. Walter O. Onyino	Assistant Director – ICT

**PRINCIPAL PLACE OF BUSINESS**

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

**AUDITORS**

KPMG Kenya  
8<sup>th</sup> Floor, ABC Towers  
Waiyaki Way  
PO Box 40612 - 00100  
Nairobi GPO

*On behalf of:* The Auditor-General  
Kenya National Audit Office  
Anniversary Towers  
University Way  
PO Box 30084 - 00100  
Nairobi GPO

**BANKERS**

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

**KENYA DEPOSIT INSURANCE CORPORATION**  
**(Formerly Deposit Protection Fund Board)**

**REPORT OF THE DIRECTORS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 30 June 2015, which disclose the state of affairs of the Corporation.

**1. Change of name**

The Corporation changed its name from Deposit Protection Fund Board to Kenya Deposit Insurance Corporation (the 'Corporation') on 1 July 2014.

**2. Incorporation**

The Kenya Deposit Insurance Corporation (formerly Deposit Protection Fund Board) is established under the Kenya Deposit Insurance Act, 2012 (KDI Act 2012).

**3. Principal activities**

The Corporation is established and administered under the KDI Act, 2012.

The Corporation commenced operations on 1 July 2014, with a transition period of one year, to 30 June 2015. 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.

**4. Results**

The results for the year are set out on page 8.

**5. Directors**

The directors who served during the year and up to the date of this report are set out on page 1.

**6. Auditors**


The Auditor-General is responsible for the statutory audit of the Corporation's books of account in accordance with Section 14 and 39(i) of the Public Audit Act. This Act empowers the Auditor-General to appoint other auditors to carry out the audit on his behalf.

KPMG Kenya, who were appointed by the Auditor-General, carried out the audit of the Corporation's financial statements for the year ended 30 June 2015.

**7. Approval of financial statements**

The financial statements were approved at a meeting of the directors held on 27 August 2015

**BY ORDER OF THE BOARD**

  
**Ms. JANE K. IKUNYUA**  
**AG. BOARD SECRETARY**

Date: 27 August 2015

**KENYA DEPOSIT INSURANCE CORPORATION**  
**(Formerly Deposit Protection Fund Board)**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES**  
**FOR THE YEAR ENDED 30 JUNE 2015**

The directors are responsible for the preparation and presentation of the financial statements of Kenya Deposit Insurance Corporation (formerly Deposit Protection Fund Board) set out on pages 8 to 35 which comprise the statement of financial position at 30 June 2015, the statement of profit or loss and other comprehensive income, statement of changes in fund balance and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Under the Kenya Deposit Insurance Corporation Act, the directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Corporation as at the end of the financial year and of the operating results of the Corporation for that year. It also requires the directors to ensure the Corporation keeps proper accounting records which disclose with reasonable accuracy the financial position of the Corporation.

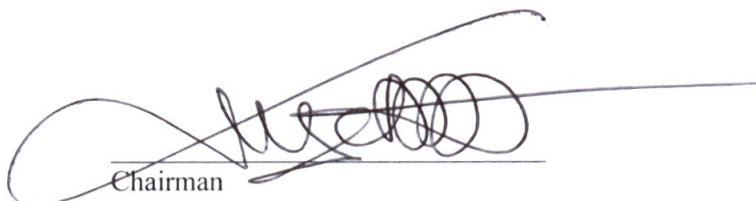
The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenya Deposit Insurance Corporation Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Corporation and of its operating results.

The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

**Approval of the financial statements**

The financial statements, as indicated above, were approved by the board of directors on **27 August 2015** and were signed on its behalf by:

  
Chairman

  
Member

**KENYA DEPOSIT INSURANCE CORPORATION**  
**(Formerly Deposit Protection Fund Board)**

**STATEMENT OF CORPORATE GOVERNANCE**

The Kenya Deposit Insurance Corporation (KDIC) is a body corporate established under the Kenya Deposit Insurance Act, 2012. The Corporation is committed to maintaining the highest standards of integrity, professionalism and business ethics in all its operations.

**Board of directors**

The Kenya Deposit Insurance Corporation Act Section 7(1 & 2) provides that the Board of Directors shall be composed of five members not being public officers, appointed by the Cabinet Secretary of the National Treasury, three of whom shall be from the Institutions, one of whom shall be appointed as a non-executive Chairperson by the President on the recommendation of the Minister, provided that the Chairperson appointed shall not be from the member institutions of the Corporation, the Governor of Central Bank of Kenya, Principal Secretary to the National Treasury, the Attorney-General representing the member institutions and the Chief Executive Officer who shall be an ex-officio member. The members representing the institutions during the period under review are: Mrs. Nasim Devji, Dr. Julius Kipng'etich, Mr. Jeremy Ngunze and Mr. Samuel Kimani.

**Board meetings**

The Board meets every quarter and has a formal schedule of agenda items due for deliberations. The directors are given appropriate and timely information to maintain full and effective control over strategic, financial and operational issues. The Board is not involved in the conduct of day-to-day business as this is a responsibility given to the Ag. Chief Executive Officer (Ag. CEO) of KDIC. It however retains responsibility for determining the policies of the Corporation.

**Audit committee**

The members of the Audit Committee are Mrs. Nasim Devji, Mr. Martin Gumo, Dr. Julius Kipng'etich, Mr. Jeremy Ngunze and Mr. Samuel Kimani. They are all non-Executive Directors and have experience in Banking, Finance, Accounting, Administration and Management. The committee meets every quarter, and as necessary, two weeks before the full Board meeting. The committee's responsibilities are to review the efficiency and effectiveness of Internal Controls, Financial Reporting, Internal Audit function, External audit work, and Risk Management policies and procedures. Towards this end, a self-evaluation tool which measures the committee's performance has been developed and implemented.

**Management structure**

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

**Directors' emoluments and loans**

The remuneration paid to the directors for services rendered during the financial year 2014/2015 is disclosed in Note 8 of the financial statements. The directors, who are all non-executive, are paid a monthly retainer fee and a sitting allowance for every meeting attended. There were no loans to Non-Executive Directors during the year.

**KENYA DEPOSIT INSURANCE CORPORATION**  
**(Formerly Deposit Protection Fund Board)**

**STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)**

**Code of ethics**

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

**Internal controls**

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

**Authorizations**

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

**Internal audit and risk management**

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

**Transparency**

The Corporation publishes an Annual Report which explains the performance of the Banking sector, membership status and other pertinent information. On an annual basis, the Financial Statements are published in the Kenya Gazette and placed in the website of the Corporation. KDIC shared its 2015/2018 Strategic Plan with the stakeholders and will carry out a mid-term review of the implementation status at the end of 2015/2016 financial year.



## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON KENYA DEPOSIT INSURANCE CORPORATION FOR THE YEAR ENDED 30 JUNE 2015

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#### REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Kenya Deposit Insurance Corporation set out on pages 8 to 35, which comprise the statement of financial position as at 30 June 2015, and the statement of profit or loss and other comprehensive income, statement of changes in fund balance and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by KPMG Kenya, auditors appointed under Section 39 of the Public Audit Act, 2003 and in accordance with the provisions of Article 229 of the Constitution of Kenya. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

#### **Management's Responsibility for the Financial Statements**

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

The Directors are also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

#### **Auditor-General's Responsibility**

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15 of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

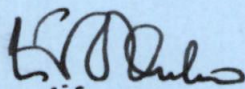
An audit involves performing procedures to obtain evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk

assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

In my opinion, the financial statements present fairly, in all material respects, the financial position of Kenya Deposit Insurance Corporation as at 30 June 2015, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and the Kenya Deposit Insurance Act, 2012.



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

**Nairobi**

**28 September 2015**

**KENYA DEPOSIT INSURANCE CORPORATION**  
(Formerly Deposit Protection Fund Board)

**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**  
**FOR THE YEAR ENDED 30 JUNE 2015**

	Note	2015 KShs'000	2014 KShs'000
<b>REVENUE</b>			
Assessment income	6(a)	3,033,387	2,675,853
Investment income	6(b)	5,466,351	4,675,863
Other income	7	<u>111,044</u>	<u>19,172</u>
		<u>8,610,782</u>	<u>7,370,888</u>
<b>EXPENSES</b>			
Administration and establishment	8	<u>280,424</u>	<u>251,196</u>
<b>SURPLUS FOR THE YEAR</b>		<b>8,330,358</b>	<b>7,119,692</b>
Other comprehensive income		<u>-</u>	<u>-</u>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b><u>8,330,358</u></b>	<b><u>7,119,692</u></b>

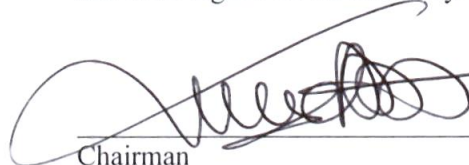
The notes set out on pages 12 to 35 form an integral part of these financial statements.

**KENYA DEPOSIT INSURANCE CORPORATION**  
(Formerly Deposit Protection Fund Board)

**STATEMENT OF FINANCIAL POSITION**  
**AS AT 30 JUNE 2015**

ASSETS	Note	2015 KShs'000	2014 KShs'000
<b>Non-current assets</b>			
Property and equipment	10	70,526	59,921
Prepaid operating lease rentals	11	3,218	3,317
Investment	12	100	100
Government securities	13	<u>28,640,558</u>	<u>26,803,199</u>
		<u>28,714,402</u>	<u>26,866,537</u>
<b>Current assets</b>			
Receivables and prepayments	9(a)	10,838	9,563
Government securities	13	26,120,916	19,766,387
Cash and bank balance	17	<u>115,375</u>	<u>1,025</u>
		<u>26,247,129</u>	<u>19,776,975</u>
<b>TOTAL ASSETS</b>		<b><u>54,961,531</u></b>	<b><u>46,643,512</u></b>
<b>FUND BALANCE AND LIABILITIES</b>			
Fund balance (Page 10)		<u>54,914,117</u>	<u>46,583,759</u>
<b>Current liabilities</b>			
Payables and accruals	14	20,858	10,966
Due to related party	15(a)	2,609	18,911
Deferred income	16	<u>23,947</u>	<u>29,876</u>
		<u>47,414</u>	<u>59,753</u>
<b>TOTAL FUND BALANCE AND LIABILITIES</b>		<b><u>54,961,531</u></b>	<b><u>46,643,512</u></b>

The financial statements on pages 8 to 35 were approved by the Board of Directors on **27 August 2015** and were signed on its behalf by:

  
Chairman

  
Member

The notes set out on pages 12 to 35 form an integral part of these financial statements.

**KENYA DEPOSIT INSURANCE CORPORATION**  
(Formerly Deposit Protection Fund Board)

**STATEMENT OF CHANGES IN FUND BALANCE**  
**FOR THE YEAR ENDED 30 JUNE 2015**

	<b>Fund balance KShs'000</b>
<b>2015:</b>	
Balance at 1 July 2014	46,583,759
Surplus for the year	<u>8,330,358</u>
<b>Balance at 30 June 2015</b>	<b><u>54,914,117</u></b>
<b>2014:</b>	
Balance at 1 July 2013	39,464,067
Surplus for the year	<u>7,119,692</u>
<b>Balance at 30 June 2014</b>	<b><u>46,583,759</u></b>

The notes set out on pages 12 to 35 form an integral part of these financial statements.

**KENYA DEPOSIT INSURANCE CORPORATION**  
(Formerly Deposit Protection Fund Board)

**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

	Note	2015 KShs'000	2014 KShs'000
<b>Cash flows from operating activities</b>			
Surplus for the year		8,330,358	7,119,692
Adjustment for:			
Depreciation of property and equipment		10,011	11,775
Amortisation of prepaid operating lease rentals		99	99
Gain on disposal		( 679)	-
Interest income		(5,466,351)	(4,675,863)
<b>Operating surplus before working capital changes</b>		<b><u>2,873,438</u></b>	<b><u>2,455,703</u></b>
<b>Change in working capital</b>			
Receivables and prepayments		( 1,275)	( 2,478)
Payables and accruals		9,892	3,970
Deferred income		( 5,929)	( 7,811)
Due to related party		( 16,302)	( 2,365)
<b>Net cash flows generated from operating activities</b>		<b><u>2,859,824</u></b>	<b><u>2,447,019</u></b>
<b>Cash flows from investing activities</b>			
Net movement in government securities		(8,203,598)	(7,489,772)
Purchase of property and equipment		( 20,967)	( 2,001)
Proceeds from disposals		1,030	-
Interest received		5,466,351	4,675,863
<b>Net cash flows from investment activities</b>		<b><u>(2,757,184)</u></b>	<b><u>(2,815,910)</u></b>
Net increase/(decrease) in cash and cash equivalents		102,640	( 368,891)
Cash and cash equivalents at the beginning of the year		<u>45,961</u>	<u>414,852</u>
<b>Cash and cash equivalents at the end of the year</b>	17	<b><u>148,601</u></b>	<b><u>45,961</u></b>

The notes set out on pages 12 to 35 form an integral part of these financial statements.

**KENYA DEPOSIT INSURANCE CORPORATION**  
**(Formerly Deposit Protection Fund Board)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2015**

**1. REPORTING ENTITY**

The Corporation is established under the Kenya Deposit Insurance Act 2012 and is domiciled in Kenya. The address of its registered office is as follows:

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

**2. BASIS OF PREPARATION**

**(a) Basis of accounting**

The financial statements have been prepared on the historical cost convention.

**(b) Statement of compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

**(c) Functional and presentation currency**

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

**(d) Use of estimates and judgments**

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and assumptions are based on the directors' best knowledge of current events, actions, historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of the assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to the accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation and critical judgement in applying accounting policies that have the most significant effect on the amount recognised in the financial statement is described in Note 5.

### 3. SIGNIFICANT ACCOUNTING POLICIES

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

#### (a) Revenue recognition

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

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

#### (b) Translation of foreign currencies

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

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

#### (c) Provisions for payments to depositors

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

#### (d) Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Payments made under operating leases are recognized as an expense in the 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 estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognized as an expense accrual.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (e) Employee entitlements (continued)

The 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 and loans and receivables are measured at amortised cost.

##### (ii) Classification

The Corporation classifies its financial assets in the held-to-maturity and loans 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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (g) Financial assets and liabilities (continued)

##### *(ii) Classification (continued)*

###### *Loans and receivables*

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

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

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

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

###### *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.

##### *(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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (g) Financial assets and liabilities (continued)

##### (iv) Derecognition (continued)

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 group 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 group that generates cash flows that largely are independent from other assets and groups. 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 (group of units) on a pro-rata basis.

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

#### (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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (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%
Computer equipment	33.33%
ICT Equipment	20%
Office equipment, furniture and fittings	20%
Motor vehicles	25%

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

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

#### (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.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (n) New standards, amendments and interpretations

##### (i) *Standards, amendments and interpretations to existing standards effective in 2015 and relevant to the Corporation*

<u>New standard or amendments</u>	<u>Effective for annual periods beginning on or after</u>
• Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities (2011)	1 January 2014
• Investment Entities- Amendments to IFRS 10, IFRS 12, and IAS 27 (2012)	1 January 2014
• Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets (2013)	1 January 2014
• Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)	1 January 2014
• IFRIC 21 Levies (2013)	1 January 2014
• Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)	1 July 2014

Impact of relevant new and amended standards and interpretations to published standards on the financial statements for the year ended 30 June 2015 are as follows:

- **Amendments to IAS 32: Offsetting Financial Assets and Financial Liabilities** (*effective for annual periods beginning on or after 1 January 2014*)

The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement.

The Corporation's policy is to offset financial assets and financial liabilities when there is a legally enforceable right to offset the recognised amount and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The clarification contained in these amendments reinforces the Corporation's policy and would not alter the manner in which offsetting arrangements are accounted for.

- **Amendments to IFRS 10, IFRS 12 and IAS 27: Investment entities** (*effective for annual periods beginning on or after 1 January 2014*)

The amendments clarify that a qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss; the only exception would be subsidiaries that are considered an extension of the investment entity's investment activities. The consolidation exemption is mandatory and not optional.

The application of these amendments have had no material impact on the disclosures or on the amounts recognised in the Corporation's financial statements.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (n) New standards, amendments and interpretations (continued)

##### (i) *Standards, amendments and interpretations to existing standards effective in 2015 and relevant to the Corporation - continued*

- **Amendments to IAS 36: Recoverable Amount Disclosures for Non-Financial Assets** (effective for annual periods beginning on or after 1 January 2014)

The amendments reverse the unintended requirement in IFRS 13 Fair Value Measurement to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed.

The application of this amendment has had no material impact on the disclosures or on the amounts recognised in the Corporation's financial statements.

- **Amendments to IAS 39: Novation of Derivatives and Continuation of Hedge Accounting** (effective for annual periods beginning on or after 1 January 2014)

The amendments permit the continuation of hedge accounting in a situation where a counterparty to a derivative designated as a hedging instrument is replaced by a new central counterparty (known as 'novation of derivatives'), as a consequence of laws or regulations, if specific conditions are met.

The application of this amendment has had no material impact on the disclosures or on the amounts recognised in the Corporation's financial statements.

- **IFRIC 21: Levies** (effective for annual periods beginning on or after 1 January 2014)

IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognises a liability for a levy when – and only when – the triggering event specified in the legislation occurs.

The application of this interpretation has had no material impact on the disclosures or on the amounts recognised in the Corporation's financial statements.

- **Defined benefit plans – Employee contributions (Amendments to IAS 19)**

The amendments introduce relief that will reduce the complexity and burden of accounting for certain contributions from employees or third parties. Such contributions are eligible for practical expedient if they are:

- set out in the formal terms of the plan;
- linked to service; and
- independent of the number of years of service.

When contributions are eligible for the practical expedient, a Company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The amendments apply retrospectively for annual periods beginning on or after 1 July 2014 with early adoption permitted.

The application of this amendment will have no material impact on the disclosures or on the amounts recognised in the Corporation's financial statements.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (n) New standards, amendments and interpretations (continued)

##### (ii) *New standards, amendments to standards and interpretations not yet effective*

<b>New standard or amendments</b>	<b>Effective for annual periods beginning on or after</b>
• Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	1 January 2016
• Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	1 January 2016
• Amendments to IAS 41 - Bearer Plants (Amendments to IAS 16 and IAS 41)	1 January 2016
• Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciations and Amortisation	1 January 2016
• Equity Method in Separate Financial Statements (Amendments to IAS 27)	1 January 2016
• IFRS 14 Regulatory Deferral Accounts	1 January 2016
• Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	1 January 2016
• Disclosure Initiative (Amendments to IAS 1)	1 January 2016
• IFRS 15 Revenue from Contracts with Customers	1 January 2018
• IFRS 9 Financial Instruments (2014)	1 January 2018

All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the Corporation).

- ***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)***

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 *Business Combinations*. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (n) New standards, amendments and interpretations (continued)

##### (ii) *New standards, amendments to standards and interpretations not yet effective – continued*

- ***Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) - continued***

The amendments will be effective from annual periods commencing on or after 1 January 2016.

The application of these amendments will have no material impact on the disclosures or on the amounts recognised in the Corporation's financial statements.

- ***Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)***

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business.

Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be re-measured.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

The application of this amendment will have no material impact on the disclosures or on the amounts recognised in the Corporation's financial statements.

- ***Amendments to IAS 41- Bearer Plants (Amendments to IAS 16 and IAS 41)***

The amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture require a bearer plant (which is a living plant used solely to grow produce over several periods) to be accounted for as property, plant and equipment in accordance with IAS 16 Property, Plant and Equipment instead of IAS 41 Agriculture. The produce growing on bearer plants will remain within the scope of IAS 41.

The new requirements are effective from 1 January 2016, with earlier adoption permitted.

The application of these amendments will have no material impact on the disclosures or on the amounts recognised in the Corporation's financial statements.

- ***Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)***

The amendments to IAS 16 *Property, Plant and Equipment* explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

The amendments to IAS 38 *Intangible Assets* introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (n) New standards, amendments and interpretations (continued)

##### (ii) *New standards, amendments to standards and interpretations not yet effective – continued*

- ***Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) - continued***

The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

The application of these amendments will have no material impact on the disclosures or on the amounts recognised in the Corporation's financial statements.

- ***Equity Method in Separate Financial Statements (Amendments to IAS 27)***

The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures but also for subsidiaries.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016 with early adoption permitted.

The application of this amendment will have no material impact on the disclosures or on the amounts recognised in the Corporation's financial statements.

- ***IFRS 14 Regulatory Deferral Accounts***

IFRS 14 provides guidance on accounting for regulatory deferral account balances by first-time adopters of IFRS. To apply this standard, the entity has to be rate-regulated i.e. the establishment of prices that can be charged to its customers for goods and services is subject to oversight and/or approval by an authorised body.

The standard is effective for financial reporting years beginning on or after 1 January 2016 with early adoption is permitted.

The application of this standard will have no material impact on the disclosures or on the amounts recognised in the Corporation's financial statements.

- ***Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)***

The amendment to IFRS 10 *Consolidated Financial Statements* clarifies which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit and loss. The amendment also modifies the condition in the general consolidation exemption that requires an entity's parent or ultimate parent to prepare consolidated financial statements.

The amendment clarifies that this condition is also met where the ultimate parent or any intermediary parent of a parent entity measures subsidiaries at fair value through profit or loss in accordance with IFRS 10 and not only where the ultimate parent or intermediate parent consolidates its subsidiaries.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (n) New standards, amendments and interpretations (continued)

##### (ii) *New standards, amendments to standards and interpretations not yet effective – continued*

- ***Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28) - continued***

The amendment to IFRS 12 *Disclosure of Interests in Other Entities* requires an entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 to make disclosures required by IFRS 12 relating to investment entities.

The amendment to IAS 28 *Investments in Associates and Joint Ventures* modifies the conditions where an entity need not apply the equity method to its investments in associates or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements. The amendments introduce relief when applying the equity method which permits a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016, with early application permitted.

The application of these amendments will have no material impact on the disclosures or on the amounts recognised in the Corporation's financial statements.

- ***Disclosure Initiative (Amendments to IAS 1)***

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements.

The amendments apply for annual periods beginning on or after 1 January 2016 and early application is permitted.

Management is currently assessing the impact of the adoption of these amendments to the Corporation's financial statements.

- ***IFRS 15 Revenue from Contracts with Customers***

This standard replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfer of Assets from Customers* and SIC-31 *Revenue – Barter of Transactions Involving Advertising Services*.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being:

Identify the contract(s) with a customer; Identify the performance obligations in the contract; Determine the transaction price; Allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (n) New standards, amendments and interpretations (continued)

##### (ii) *New standards, amendments to standards and interpretations not yet effective – continued*

- ***IFRS 15 Revenue from Contracts with Customers - continued***

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption is permitted.

Management is currently assessing the impact of the new standard to the Corporation's financial statements.

- ***IFRS 9: Financial Instruments (2014)***

On 24 July 2014 the IASB issued the final IFRS 9 *Financial Instruments* Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*.

This standard introduces changes in the measurement bases of the financial assets to amortized cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted.

Management is currently assessing the impact of the new standard to the Corporation's financial statements.

### 4. 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 (formerly Deposit Protection Fund Board). The Internal Audit Unit employs full scope audit approach in planning and carrying out its audit engagements. The business processes are assessed with regard to business continuity procedures, physical safety, system safety, conformity to legal requirements and regulations, sufficiency of human resources and information safety. In addition, the financial risks and reputation risks are also determined.

#### 4. RISK MANAGEMENT (Continued)

##### Internal Audit and Risk Management Unit (continued)

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

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 groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

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

	<b>2015</b> <b>KShs'000</b>	<b>2014</b> <b>KShs'000</b>
Receivable	10,838	111,908
Impairment losses recognised in the year (Note 8(b))	—	(102,345)
	<b><u>10,838</u></b>	<b><u>9,563</u></b>

The aging of receivables at the reporting date was:

	<b>2015</b>	<b>2014</b>
Not past due	6,061	9,556
Past due 0 – 30 days	3,299	2
Past due 31 – 90 days	357	-
Past due above 90 days	<u>1,121</u>	<u>102,350</u>
	<b><u>10,838</u></b>	<b><u>111,908</u></b>

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

	<b>2015</b> <b>KShs'000</b>	<b>2014</b> <b>KShs'000</b>
Balance at 1 July	102,345	102,345
Made in the year	-	-
Write backs	<u>(102,345)</u>	—
<b>Balance at 30 June</b>	<b><u>—</u></b>	<b><u>102,345</u></b>

4. RISK MANAGEMENT (Continued)

(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:

2015:	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	10.79%	<u>26,120,916</u>	<u>6,424,662</u>	<u>15,204,124</u>	<u>7,011,772</u>	<u>54,761,474</u>
<b>Interest sensitivity gap At 30 June 2015</b>		<b><u>26,120,916</u></b>	<b><u>6,424,662</u></b>	<b><u>15,204,124</u></b>	<b><u>7,011,772</u></b>	<b><u>54,761,474</u></b>
2014:						
Investments held to maturity	10.88%	<u>19,766,387</u>	<u>10,785,237</u>	<u>11,317,539</u>	<u>4,700,423</u>	<u>46,569,586</u>
<b>Interest sensitivity gap At 30 June 2014</b>		<b><u>19,766,387</u></b>	<b><u>10,785,237</u></b>	<b><u>11,317,539</u></b>	<b><u>4,700,423</u></b>	<b><u>46,569,586</u></b>

#### 4. RISK MANAGEMENT (Continued)

##### (b) Market Risk – continued

###### (i) Interest rate risk management - continued

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

	2015 KShs'000	2014 KShs'000
Effect on surplus for the year of a +5% change in interest rates	2,738,074	2,328,479
Effect on surplus for the year of a -5% change in interest rates	<u>(2,738,074)</u>	<u>(2,328,479)</u>

###### (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 entity 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 23,467,376 (2014 - KShs 29,877,000) and are all short term.

#### 4. RISK MANAGEMENT (Continued)

##### (d) Fair value

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

2015:	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
<b>Financial assets</b>						
Government securities	-	-	54,761,474	-	54,761,474	54,761,474
Investment held for sale	-	-	-	100	100	100
Cash and bank balances	-	115,375	-	-	115,375	115,375
Receivables	-	10,838	-	-	10,838	10,838
	-	126,213	54,761,474	100	54,887,787	54,887,787
<b>Financial liabilities</b>						
Amounts due to group companies	2,609	-	-	-	2,609	2,609
Payables and accruals	20,858	-	-	-	20,858	20,858
	<b>23,467</b>	-	-	-	<b>23,467</b>	<b>23,467</b>
<b>2014:</b>						
<b>Financial assets</b>						
Government securities	-	-	46,569,586	-	46,569,586	46,569,586
Investment held for sale	-	-	-	100	100	100
Cash and bank balances	-	1,025	-	-	1,025	1,025
Receivables	-	9,563	-	-	9,563	9,563
	-	10,588	46,569,586	100	46,580,274	46,580,274
<b>Financial liabilities</b>						
Amounts due to group companies	18,911	-	-	-	18,911	18,911
Payables and accruals	10,966	-	-	-	10,966	10,966
	<b>29,877</b>	-	-	-	<b>29,877</b>	<b>29,877</b>

#### 4. RISK MANAGEMENT (Continued)

##### (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 maximize the value for the insured depositors in member institutions. The Corporation manages its Fund and makes adjustments to it, as per the requirements of the Banking Act. The total accumulated Fund as at 30 June 2015 was KShs 54,914 million (2014 - KShs 46,584 million).

#### 5. 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.

#### 6. INCOME

	2015 KShs'000	2014 KShs'000
(a) Assessment income		
Total average deposits of institutions assessed as contributors	<u>2,020,657,850</u>	<u>1,782,902,148</u>
0.15% of total average deposits	3,030,987	2,674,353
Minimum contribution from 8 Deposit Taking Microfinance (DTM) (2014 – 5)	<u>2,400</u>	<u>1,500</u>
<b>Total assessment income</b>	<u><u>3,033,387</u></u>	<u><u>2,675,853</u></u>

6. INCOME	2015 KShs'000	2014 KShs'000
(b) Investment income		
(i) Interest earned on treasury bills received		
Discount on 91 day treasury bills	18,481	34,330
Discount on 182 day treasury bills	5,647	33,963
Discount on 364 day treasury bills	<u>1,734,468</u>	<u>1,207,278</u>
	<u>1,758,596</u>	<u>1,275,571</u>
(ii) Interest earned on treasury bonds received		
Matured bonds	3,604,140	3,274,391
Discount on purchase	128,262	140,445
Amortisation of premium	<u>( 24,647)</u>	<u>( 14,544)</u>
	<u>3,707,755</u>	<u>3,400,292</u>
<b>Total investment income</b>	<b><u>5,466,351</u></b>	<b><u>4,675,863</u></b>
 7. OTHER INCOME		
Recoveries from subrogated claims	776	522
Gain on sale/disposal of assets	738	-
Penalty charges on late contributions	786	6,215
Miscellaneous Income	412	-
Recoveries from institutions in liquidation	102,345	198
Grant income	<u>5,987</u>	<u>12,237</u>
	<b><u>111,044</u></b>	<b><u>19,172</u></b>
 8. ADMINISTRATION AND ESTABLISHMENT EXPENSES		
Staff costs	180,557	157,710
Depreciation	10,011	11,775
Lease amortization	99	99
Auditors remuneration	1,481	1,100
Directors' emoluments - fees	7,699	5,301
Legal and professional fees	305	10
Occupancy costs	16,413	15,947
Other	<u>63,859</u>	<u>59,254</u>
	<b><u>280,424</u></b>	<b><u>251,196</u></b>

**9. RECEIVABLES AND PREPAYMENTS**

	<b>2015</b>	<b>2014</b>
<b>(a) Receivables and prepayments</b>	<b>KShs'000</b>	<b>KShs'000</b>
Receivables and prepayments	10,838	111,908
Provision for impairment losses (Note 9(b))	<u>-</u>	<u>(102,345)</u>
	<b><u>10,838</u></b>	<b><u>9,563</u></b>

**(b) Provisions for impaired receivables**

As at 30 June 2015, there was no provision for receivables (2014 - KShs 102 million).

	<b>2015</b>	<b>2014</b>
	<b>KShs'000</b>	<b>KShs'000</b>
At 1 July	102,345	102,345
Additional provision	-	-
Recoveries	<u>(102,345)</u>	<u>-</u>
<b>At 30 June (Note 9(a))</b>	<b><u>-</u></b>	<b><u>102,345</u></b>

10. PROPERTY AND EQUIPMENT

2015:	Buildings KShs'000	Furniture & fittings KShs'000	Office and kitchen equipment KShs'000	Motor vehicle KShs'000	Computers KShs'000	Work-in- progress KShs'000	ICT Equipment KShs'000	Total KShs'000
<b>Cost:</b>								
At 1 July 2014	16,740	21,769	11,151	11,659	8,394	-	43,914	113,627
Additions	325	1,339	288	-	1,800	17,215	-	20,967
Disposals	-	-	-	( 3,893)	( 59)	-	-	( 3,952)
At 30 June 2015	17,065	23,108	11,439	7,766	10,135	17,215	43,914	130,642
<b>Depreciation</b>								
At 1 July 2014	4,418	11,720	8,339	8,090	7,087	-	14,052	53,706
Charge for the year	374	1,286	602	819	958	-	5,972	10,011
On disposal	-	-	-	( 3,601)	-	-	-	( 3,601)
At 30 June 2015	4,792	13,006	8,941	5,308	8,045	-	20,024	60,116
<b>Carrying amount</b>								
<b>At 30 June 2015</b>	<b>12,273</b>	<b>10,102</b>	<b>2,498</b>	<b>2,458</b>	<b>2,090</b>	<b>17,215</b>	<b>23,890</b>	<b>70,526</b>
<b>2014:</b>								
<b>Cost</b>								
At 1 July 2013	16,740	21,444	10,606	11,659	7,263	-	43,914	111,626
Additions	-	325	545	-	1,131	-	-	2,001
At 30 June 2014	16,740	21,769	11,151	11,659	8,394	-	43,914	113,627
<b>Depreciation</b>								
At 1 July 2013	4,051	10,331	7,717	6,901	6,344	-	6,587	41,931
Charge for the year	367	1,389	622	1,189	743	-	7,465	11,775
At 30 June 2014	4,418	11,720	8,339	8,090	7,087	-	14,052	53,706
<b>Carrying amount</b>								
<b>At 30 June 2014</b>	<b>12,322</b>	<b>10,049</b>	<b>2,812</b>	<b>3,569</b>	<b>1,307</b>	<b>-</b>	<b>29,862</b>	<b>59,921</b>

No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated assets with a cost of KShs 5,935,970 (2014 - KShs 5,836,970) and are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates it would have amounted to a charge to profit or loss of KShs 1,978,637 (2014 - KShs 1,945,637).

	<b>2015</b>	<b>2014</b>
	<b>KShs'000</b>	<b>KShs'000</b>
<b>11. PREPAID OPERATING LEASE RENTALS</b>		
<b>Cost</b>		
At 1 July and 30 June	<u>4,522</u>	<u>4,522</u>
<b>Amortization</b>		
At 1 July	1,205	1,106
Amortization for the year	<u>99</u>	<u>99</u>
At 30 June	<u>1,304</u>	<u>1,205</u>
<b>Carrying value at 30 June</b>	<b><u>3,218</u></b>	<b><u>3,317</u></b>
<b>12. INVESTMENT</b>		
Investment in Consolidated Bank of Kenya Limited		
10,000,000 ordinary shares of KShs 20 each	200,000	200,000
Provision for diminution in value	<u>(199,900)</u>	<u>(199,900)</u>
	<b><u>100</u></b>	<b><u>100</u></b>

The Corporation owns 10,000,000 ordinary shares of the Consolidated Bank of Kenya Limited that were acquired using a grant from the National Treasury for KDIC/DPFB to resolve a banking crisis at the time. The shares are held in Trust on behalf of the National Treasury. At the time of acquisition of the investment, the Banking Act allowed the Corporation to acquire, hold or dispose shares of an institution that might otherwise result in a loss to the Corporation. The Banking Act was later amended and now prevents the Corporation from holding investments other than in government securities. The Government, through the National Treasury plans to privatize Consolidated Bank and has therefore directed the Privatization Commission to explore and advise on how the shares are to be sold. A Consortium has been appointed to guide on the intended Privatization. Due to the above, the requirement for consolidation on IAS 27 does not apply. The KDIC Board of Directors passed a resolution to transfer all the shares held in the Bank to the National Treasury pending their sale to third parties. The transfer is yet to be effected.

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

It is to be noted that Section 6 of the KDI Act, 2012, allows the Deposit Insurer to acquire, hold shares, and make loans and advances for purposes of reducing or averting a risk to an institution or the financial system or a threatened loss to the Corporation.

	<b>2015</b>	<b>2014</b>
	<b>KShs'000</b>	<b>KShs'000</b>
<b>13. GOVERNMENT SECURITIES</b>		
Treasury bills maturing within 91 days of placement (Note 17)	33,226	44,936
Treasury bills maturing after 91 days from date of placement	20,584,469	14,179,524
Treasury bonds maturing within 1 year	5,503,221	5,541,927
Treasury bonds maturing after 1 year	<u>28,640,558</u>	<u>26,803,199</u>
	<b><u>54,761,474</u></b>	<b><u>46,569,586</u></b>
Comprising:		
Maturing within 1 year of the Statement of Financial Position date	26,120,916	19,766,387
Maturing after 1 year of the Statement of Financial Position date	<u>28,640,558</u>	<u>26,803,199</u>
	<b><u>54,761,474</u></b>	<b><u>46,569,586</u></b>

<b>14. PAYABLES AND ACCRUALS</b>	<b>2015</b> <b>KShs'000</b>	<b>2014</b> <b>KShs'000</b>
Sundry payables and accruals	<u>20,858</u>	<u>10,966</u>

**15. RELATED PARTY TRANSACTIONS**

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

	<b>2015</b> <b>KShs'000</b>	<b>2014</b> <b>KShs'000</b>
<b>(a) Due to Central Bank of Kenya</b>	<u>2,609</u>	<u>18,911</u>
<b>(b) Directors' emoluments and senior management remuneration</b>		
Fees to directors	7,699	5,301
Remuneration to senior management	<u>55,718</u>	<u>54,947</u>
<b>(c) Cash and balances held with Central Bank of Kenya</b>	<u>115,375</u>	<u>1,025</u>

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

(e) The staff of the Corporation are contractually employees of the Central Bank but seconded to the Corporation. Salaries of these staff are met by the Central Bank and fully reimbursed by the Corporation. In the year, salaries paid to staff by the Central Bank amounted to KShs 168.5 million (2014 - KShs 146.04 million).

(f) The Central Bank 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. In the year, the Corporation's contribution to the Fund amounted to KShs 12.06 million (2014 - KShs 10.98 million).

(g) The Central Bank provides the Corporation with office space and charges it rent. The Corporation also reimburses maintenance costs incurred by the Central Bank on its behalf. In the year, rent and maintenance costs charged amounted to KShs 16.41 million. (2014 - KShs 15.95 million).

<b>16. DEFERRED INCOME</b>	<b>2015</b> <b>KShs'000</b>	<b>2014</b> <b>KShs'000</b>
Unamortized grant income	<u>23,947</u>	<u>29,876</u>

Amount relates to deferred grant income received under the Financial and Legal Sector Technical Assistance Project (FLSTAP) in relation to the ICT project. FLSTAP had purchased ICT servers for KDIC. The ICT servers shall be used in the ICT project commissioned in 2013/2014. The amounts are therefore amortised at the rate of 20% per annum on a reducing balance over a useful life of 5 years.

## 17. CASH AND CASH EQUIVALENTS

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

	<b>2015</b>	<b>2014</b>
	<b>KShs'000</b>	<b>KShs'000</b>
Treasury bills maturing within 91 days from the date of placement (Note 13)	33,226	44,936
Cash and bank balance	<u>115,375</u>	<u>1,025</u>
	<b><u>148,601</u></b>	<b><u>45,961</u></b>

## 18. COMMITMENTS

### (a) Capital commitments

Authorised but not contracted for	<b><u>202,460</u></b>	<b><u>184,010</u></b>
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Capital commitments authorised relates mainly to Office furniture, office equipment, ICT project infrastructure costs, motor vehicle, godown capital costs including the CCTV network connections.

	<b>2015</b>	<b>2014</b>
	<b>KShs'000</b>	<b>KShs'000</b>
(b) Operating lease commitments		
Falling due within one year	18,728	16,515
Falling due between one and five years	<u>19,007</u>	<u>16,515</u>
	<b><u>37,735</u></b>	<b><u>33,030</u></b>

During the financial year ended 30 June 2015, KShs 16.4 million (2014 – KShs 15.9 million) was recognized as rental expense.

## 19. CONTINGENT LIABILITIES

### Litigation

Mr. Ajay Shah (former Managing Director of Trust Bank Limited) filed a case in 2002 claiming general damages and special damages amounting to KShs 144 million against Trust Bank Limited (In Liquidation) and the Corporation on allegations of defamation and publication of malicious false statements. The suit is pending hearing. No provision has been made in the financial statements because, in the opinion of the directors, the claim is unlikely to succeed and KDIC is sued as the Liquidator of Trust Bank Ltd (IL). Therefore, in case judgment is entered against KDIC, the costs shall be paid by Trust Bank Ltd (IL).

## 20. SUBSEQUENT EVENTS

Pursuant to the provisions of Sections 43(1), 43(2) and 53(1) of the Kenya Deposit Insurance Act, 2012, Kenya Deposit Insurance Corporation was appointed by Central Bank of Kenya on 14 August 2015 as the receiver of Dubai Bank Kenya Limited and subsequently the liquidator. The Corporation is currently making arrangements to pay all insured deposits amounting to KShs 123 million in the financial year 2015/2016. In accordance with the law, a subrogated claim will be made by KDIC to recover this amount.

**KENYA DEPOSIT INSURANCE CORPORATION**  
**(Formerly Deposit Protection Fund Board)**

APPENDIX

**COMMERCIAL BANKS AND OTHER FINANCIAL INSTITUTIONS**  
**ASSESSED CONTRIBUTORS FOR THE YEAR ENDED 30 JUNE 2015**

**COMMERCIAL BANKS**

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

**KENYA DEPOSIT INSURANCE CORPORATION**  
**(Formerly Deposit Protection Fund Board)**

**APPENDIX**

**COMMERCIAL BANKS AND OTHER FINANCIAL INSTITUTIONS**  
**ASSESSED CONTRIBUTORS FOR THE YEAR ENDED 30 JUNE 2015**  
**(CONTINUED)**

**MICRO FINANCE INSTITUTIONS**

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