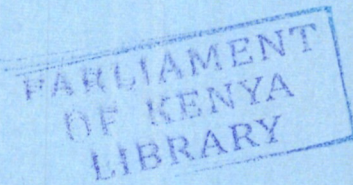


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

Paper laid by the
Leader of the Majority
Party (Hon Aden Duale)
on 08/11/2017
LB/MK



REPORT

OF



THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR ENDED
30 JUNE 2017**

Deloitte.

KENYA DEPOSIT INSURANCE CORPORATION

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

**FOR THE FINANCIAL YEAR ENDED
JUNE 30, 2017**

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

KENYA DEPOSIT INSURANCE CORPORATION

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

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KENYA DEPOSIT INSURANCE CORPORATION

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

KENYA DEPOSIT INSURANCE CORPORATION

DIRECTORS AND STATUTORY INFORMATION

DIRECTORS

Dr. Kamau Thugge	-Principal Secretary, National Treasury
Dr. Patrick Njoroge	-Governor, Central Bank of Kenya
Prof. Githu Muigai	-Attorney General
Mr. Martin S. O. Gumo	-Alternate to Principal Secretary, National Treasury
Mr. Alex Mbuvi	-Alternate to the Attorney General
Dr. Julius K. Kipng'etich	-Member
Mr. Habil Olaka	-Member - appointed 09 February 2017
Mr. James Teko Lopoyetum	-Member - appointed 09 February 2017
Prof. Karuti Kanyinga	-Member - appointed 09 February 2017
Ms. Dorothy Kiprono	-Member - appointed 09 February 2017
Mr. John Benson Maina	-Member - appointed 09 February 2017
Mrs. Nasim Devji	-Member – up to 31/12/2016
Mr. Jeremy I. Ngunze	-Member – up to 31/12/2016
Mr. Samuel N. Kimani	-Member – up to 31/12/2016
Mr. Mohamud A. Mohamud	-KDIC Acting Chief Executive Officer (Ex-officio)
Ms. Jane K. Ikunyua	-KDIC Acting Board Secretary

BOARD COMMITTEES

Name of the Committee	Members
Board Technical Committee	1. Dr. Julius Kipng'etich -Chairman 2. Dr. Patrick Njoroge - Member 3. Mr. John B. Maina - Member 4. Attorney General or his Representative-Member 5. Representative National Treasury-Member 6. Mr. Mohamud A. Mohmud-Member 7. 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 Kipng'etich 3. Representative National Treasury 4. Miss Dorothy Kiprono 5. Mr. Habil Olaka 6. Mrs. Edith M. Kagasi - Committee Secretary 7. Mr John Benson Maina - Member w.e.f 09 February 2017

SENIOR MANAGEMENT

Mr. Mohamud A. Mohamud	-Acting Chief Executive Officer
Mr. Stephen M. Thuo	-Head of Finance & Administration
Ms. Jane K. Ikunyua	-Assistant Director - Legal
Ms. Jane W. Kamita	-Acting Assistant Director - Resolutions
Mr. Walter Onyino	-Assistant Director - ICT

PRINCIPAL PLACE OF BUSINESS

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

KENYA DEPOSIT INSURANCE CORPORATION

DIRECTORS AND STATUTORY INFORMATION (Continued)

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

PRINCIPAL LEGAL ADVISERS

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

CORPORATE SECRETARY

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

KENYA DEPOSIT INSURANCE CORPORATION

DIRECTORS AND STATUTORY INFORMATION (Continued)

DIRECTORS' PROFILES



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 also from Johns Hopkins.



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 June 2015. 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, spanning 20 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.



JAMES TEKLOPOYETUM

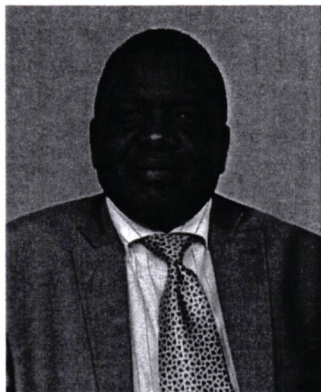
Mr. James Teko Lopoyetum possess extensive experience in management at national government level and central banking having worked as Principal Secretary, State Department of Water, Ministry of Environment, Water and Natural Resources and Director of Currency at the Central Bank of Kenya respectively.

Mr. James Teko Lopoyetum 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.

KENYA DEPOSIT INSURANCE CORPORATION

DIRECTORS AND STATUTORY INFORMATION (Continued)

DIRECTORS' PROFILES (Continued)



DR. JULIUS KIPNG'ETICH
CEO of Uchumi Supermarkets
Member of Board of Directors,
KDIC

Dr. Julius Kipng'etich holds a Master of Business Administration degree and a Bachelor of Commerce (Accounting option) degree from University of Nairobi. He is currently the CEO of Uchumi Supermarkets and the former Chief Operating Officer of Equity Bank. He joined Equity Bank after an eight year successful career as the Chief Executive Officer of Kenya Wildlife Service. As the Chief Operating Officer of Equity bank, which has the highest customer base in East and Central Africa (over 9.6 million), he oversaw the day to day execution of strategic initiatives and operations of the institution. His tenure at the KWS has seen him transform the government parastatal into a serious business outfit. Before Kenya Wildlife Services, he was the Managing Director of Investment Promotion Centre.

He is a member of the Kenya Tourist Board, and serves on various boards, the Patron of International Association of Students in Economic and Commercial Sciences (AIESEC) – University of Nairobi.

Dr Kipng'etich is the acclaimed winner of the Chief Executive Officer of the Year Award, COYA 2009.



HABIL OKUNDA OLAKA
Chief Executive Officer of the
Kenya Bankers Association
Member of Board of Directors,
KDIC

Mr. 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.

Mr. Olaka holds a First Class Honours BSc degree in Electrical Engineering from the University of Nairobi and an MBA in Finance from Manchester Business School in the UK. Mr. Olaka has concluded a Doctorate degree in Business Administration from USIU-A and set to graduate on 9th September 2017

Mr. 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.

KENYA DEPOSIT INSURANCE CORPORATION

DIRECTORS AND STATUTORY INFORMATION (Continued)

DIRECTORS' PROFILES (Continued)



HON. PROF GITHU MUIGAI
ATTORNEY GENERAL OF THE
REPUBLIC OF KENYA
Member of Board of Directors,
KDIC

Prof. Muigai holds LLB and Ph.D. degrees from the University of Nairobi and an LLM Degree from Columbia University School of Law, New York, Hon. Prof. Githu Muigai was sworn in as Attorney General of the Republic of Kenya on the 23rd August 2011. Article 156 (4) of the Constitution stipulates the roles of the Attorney General, critical amongst which is his role as Principal Legal Advisor to the Government of the Republic of Kenya.

Prof. Muigai has recognized expertise in the areas of justice sector reform generally and Constitutional reform specifically. From the year 2000 to 2005, he was a commissioner to the Constitutional Review Commission where he was specially charged with the legal drafting of the Draft Constitution of the Republic of Kenya. He was a legal adviser and draftsman to the Somali peace process and was involved in the drafting the Somali federal Transitional charter.

He is a Fellow of the Chartered Institute of Arbitrators (UK) and a member of the American Association of Trial Lawyers, Institute of Public Secretaries, Law Society of Kenya, East African Law Society, Council of Legal Education, International Commission of Jurists, International Bar and the Association and the Commonwealth Lawyers Association, He has also been a Judge of the African Court of Human & Peoples Rights between 2008 - 2010



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.

Miss Kiprono holds a bachelor degree in B.Com from Rani Durgavati Vishwavidyalaya University in India and a Post Graduate Diploma in Law from the Kenya School of Law.

During the year 2011 and 2012, she was a member of the Conveyancing Committee of the Law Society of Kenya.

KENYA DEPOSIT INSURANCE CORPORATION

DIRECTORS AND STATUTORY INFORMATION (Continued)

DIRECTORS' PROFILES (Continued)



**PROF. KARUTI
KANYINGA**
Associate Research
Professor, Institute for
Development Studies (IDS),
University of Nairobi, Kenya

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.



**JOHN BENSON MURAGE
MAINA**
Member of Board of
Directors, KDIC

Mr. Maina holds a BA(Econ.) Hons. 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. The execution of Central Bank of Kenya foreign exchange reserves, involving investment of surplus foreign exchange reserves off shore was also supervised by him.

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.

KENYA DEPOSIT INSURANCE CORPORATION

DIRECTORS AND STATUTORY INFORMATION (Continued)

SENIOR MANAGEMENT PROFILES



**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. Mrs. 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.

Mrs. 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).

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

KENYA DEPOSIT INSURANCE CORPORATION

DIRECTORS AND STATUTORY INFORMATION (Continued)

SENIOR MANAGEMENT PROFILES (Continued)



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 alumni 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.

KENYA DEPOSIT INSURANCE CORPORATION

STATEMENT FROM THE BOARD OF DIRECTORS

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, 2017.

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.

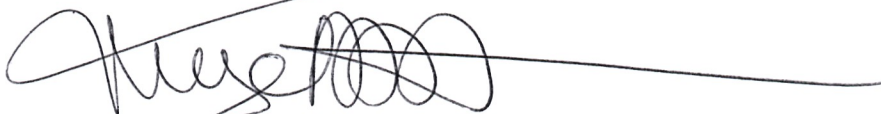
In its endeavor to provide a Deposit Insurance Scheme to depositors of member institutions, KDIC has ensured that the level and scope of coverage meets public policy objective by covering majority of retail depositors in full. Membership to the fund is mandatory for all deposit taking institutions licensed by the Central Bank of Kenya, while the coverage and limit of insured deposits has remained at a maximum of KShs. 100,000 per depositor. The Corporation however intends to increase the coverage to enhance confidence and financial stability.

The Kenyan economy remained strong in 2016, in the first quarter of 2017, however, GDP growth decelerated to 4.7 percent compared to 5.3 percent recorded in a similar quarter of 2016, as a result of the drought conditions witnessed in the country. Annual average inflation increased to 8.1 percent in June 2017 from 6.5 percent in June 2016, largely driven by increases in food prices following prolonged drought conditions experienced in the country since the first quarter of 2017.

During the period under review, the Corporation's Fund registered a record growth of 18% to close the year at KShs 77.16bn up from KShs 65.28bn recorded in the previous year ending 30 June 2016. This growth was attributed to a net surplus of KShs 11.88bn registered during the year. The favorable net surplus reported during the year is attributed to the growth of deposits in the banking sector from which the Corporation derives its assessment income and also prudent investment and management of the Corporation's Fund.

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, completion of the implementation of the ICT infrastructure, 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.



DR. JULIUS K. KIPNG'ETICH
ON BEHALF OF BOARD OF DIRECTORS
KENYA DEPOSIT INSURANCE CORPORATION

KENYA DEPOSIT INSURANCE CORPORATION

REPORT OF THE CHIEF EXECUTIVE OFFICER

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, 2017.

The Kenyan economy remained strong in 2016, growing by 5.8 percent compared to 5.7 percent in 2015. In the first quarter of 2017, however, GDP growth decelerated to 4.7 percent compared to 5.3 percent recorded in a similar quarter of 2016, largely constrained by drought conditions which spilled over from the fourth quarter of 2016 and adversely affected agricultural output and electricity generation during the quarter. Annual average inflation increased to 8.1 percent in June 2017 from 6.5 percent in June 2016, largely driven by increases in food prices following prolonged drought conditions experienced in the country since the first quarter of 2017.

During the period under review, the Corporation's Fund registered a record growth of 18% to close the year at KShs 77.16bn up from KShs 65.28bn recorded in the previous year ending 30 June 2016. Net surplus earned by the Corporation during the period under review increased by 14.53% from a level of KShs 10.37bn in 2016 to KShs 11.88bn in 2017. The growth in Corporation's net surplus was attributed to increased investment income that was impacted positively by the assessment income which increased by 12.24% from KShs 3.6bn in 2016 to KShs 4.04bn in 2017.

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 2017, the Corporation earned KShs 8.21bn in investment income compared to KShs 7.15bn earned in the previous year. Corporation's operating expenses increased by KShs 100.47m from KShs 314.54m in 2016 to KShs 415.01m in 2017. The increment mainly arose from staff costs for personnel employed on contract to fill in gaps in the areas of 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.

CBK/KDIC has enabled customers of Chase Bank Limited (IR) that was put under receivership on 7th April, 2016 to access their deposits up to a maximum of KShs 1 million. The bank continues to attract new deposits due to customers opening new accounts. 20,186 accounts have been opened to date with an amount of KShs 0.44 billion deposited into these accounts. On March 30, 2017, CBK together with KDIC commenced a process of sourcing for Potential investors to present an initial Expression of Interest ("EOI") to take an equity interest in Chase Bank (Kenya) Limited (In - Receivership). The negotiations are ongoing and the resultant transaction is expected to be completed before September 30, 2017.

KDIC continues work closely with stakeholders and various professional consultants to ensure protection of depositor confidence and stability of the sector. During the period under review, a total of KShs 17.8bn had been disbursed to the depositors of Imperial Bank Limited (IR), that was placed under receivership on 13th of October 2015, through Kenya Commercial Bank, NIC Bank and Diamond Trust Bank respectively. Total No. of Depositors as at receivership date was 49,939 with corresponding value of KShs 85,068,251,929; the pay-out programme offered full access to depositors with balances of up to KShs 2.7million.

In the year under review, total debt collection stood at KShs 5,858 million out of which KShs 295 million was new collections with concessions offered through the initiative of NIC Bank, whose collaboration with KDIC ended in April 2017.

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 KShs 100,000. As per Section 37(1) (a), of the Kenya Deposit Insurance Act, 2012 payment of insured deposit for these depositors will be concluded in September 2017. The Bank held deposits amounting KShs 1,355 million relating to 7,743 accounts. An amount of KShs 40 million has been collected for the nine months since liquidation. The Banks' total loans of KShs 4.2 billion has been 99% non-performing. Debt collection agents have been engaged to fast track debt recovery process. Collaterals are also being auctioned although in most cases court injunctions have been obtained to frustrate the process.

KENYA DEPOSIT INSURANCE CORPORATION

REPORT OF THE CHIEF EXECUTIVE OFFICER (Continued)

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 Resource 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.

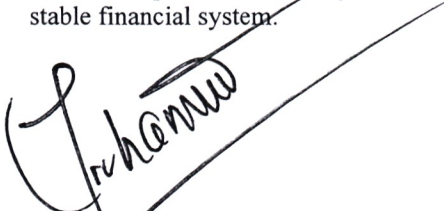
In accordance with the Corporation's strategic vision of being the best Deposit Insurance Corporation in the world, the Corporation has set itself to continue collaborating closely with the International Association for Deposit Insurers (IADI) and other organizations with a view to benchmarking with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

KDIC is in the process of establishing a Target Fund Base. This is an optimum level that the fund should be at to be adequate to absorb insurance losses that might be incurred under "normal" circumstances. The Corporation intends to review the level of coverage upwards in order to address and improve the safety net role to cover more depositors. This change will impact positively in the Kenyan banking sector by improving the level of savings through raised savers confidence.

KDIC intends to implement a Differential Risk Premium Model that will align all premium levies to the risk profile of each institution. The system is expected to introduce more equity in the banking sector and thereby enhance sound banking practices by encouraging better risk management systems, while at the same time discouraging risky business practices in the industry.

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 Acting 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**

KENYA DEPOSIT INSURANCE CORPORATION

CORPORATE GOVERNANCE STATEMENT

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, 2016 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 gender, 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.

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.

The Board Technical Committee

The Board Technical Committee was formed in the last financial year. One of the members of the committee is required to have expertise in banking, finance and investment. In addition, one of the Committee members should be independent.

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 and subsequent liquidation of Dubai Bank Limited (IL) and Imperial Bank Limited and Chase Bank Limited. The Committee sat only twice in the last financial year largely because of the amendments to the law through the Finance Act, 2016 that removed members of the banking industry from the Board. The Committee was however reconstituted on 14 June 2017, following the appointment of independent members to the Board. The Committee met twice in the year under review.

KENYA DEPOSIT INSURANCE CORPORATION

CORPORATE GOVERNANCE STATEMENT (Continued)

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.

The Committee was reconstituted on 14 June 2017, following the appointment of independent members to the Board.

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 had two meetings during the year under review due to amendments to the law introduced by the Finance Act, 2016. The Committee was also reconstituted in June 2017 following the appointment of independent members to the Board in February 2017.

(a) Succession Plan

The Corporation is new having been operationalized in July 2016. There were transition provisions for the Board provided in the KDI Act, 2012. These were however overtaken by provisions in the Finance Act, 2012 that removed members of the banking sector from the Corporation's Board. Following the amendments, four (4) new independent members were appointed in February 2017 to replace the members from the banking industry.

(b) Existence of a Board Charter

The Corporation has a Board Charter approved and adopted on 29.03.2016. 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 and The State Corporations Act 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 participated 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.

Members of the Board were inducted on Mwongozo, The Code of Governance for State Corporations. After the induction the members signed to commit to comply and adhere to and enforce the Code. Members were also trained on deposit insurance and corporate governance to give them necessary skills and competencies to perform their oversight role. The cost of the induction course and any trainings were catered for by the Corporation.

KENYA DEPOSIT INSURANCE CORPORATION

CORPORATE GOVERNANCE STATEMENT (Continued)

(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, 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 on note 17 of the financial statements.

(g) Board Remuneration

The remuneration of all directors is subject to the guidelines issued by the National Treasury on terms and conditions of service for State Corporations 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.

KENYA DEPOSIT INSURANCE CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS

DEPOSIT INSURANCE COVERAGE

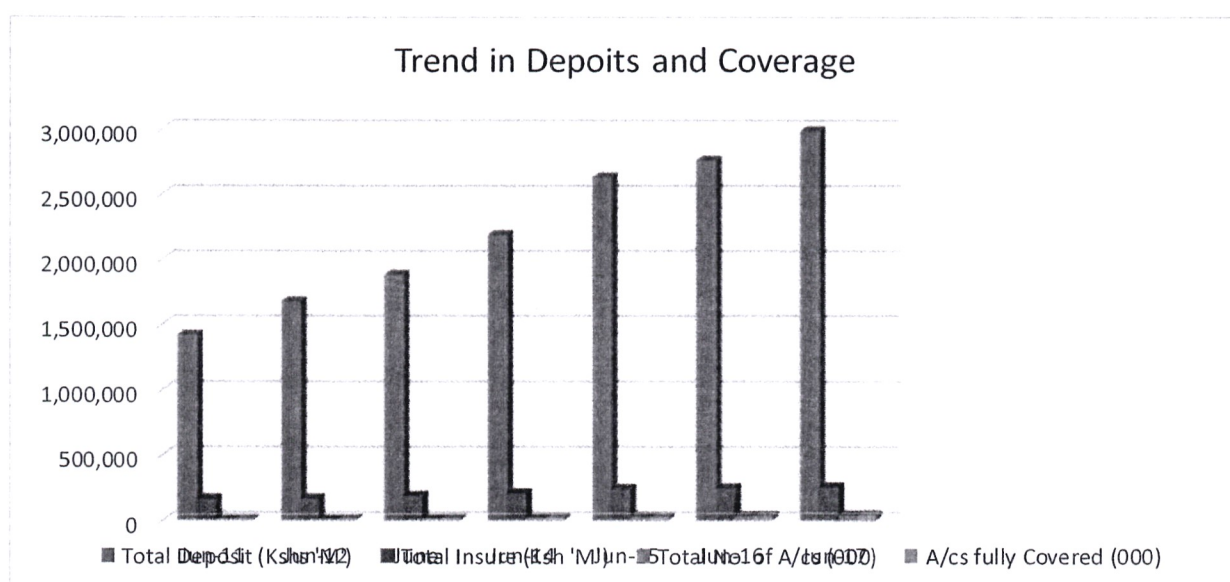
In its endeavour to provide a Deposit Insurance Scheme to depositors of member institutions, KDIC has ensured that the level and scope of coverage meets public policy objective by covering majority of retail depositors in full.

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 KShs. 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 minimum benchmark. This is attributed to national initiatives that have promoted financial inclusion which has seen previously unbanked retail depositors enter the formal financial system. For the period ended 30 June 2017, total accounts covered were at 97%. As shown in the Table and Chart below, the total amount insured increased by KShs. 8.55 billion from KShs. 252.50 billion in June, 2016, to KShs. 261.05 billion in June, 2017. The total number of deposit accounts increased by 5.84 million during the year under review, from KShs. 40.77 million in June, 2016, to 46.62 million in June, 2017.

Table 1: Trend in Deposits and Coverage

	June 2011	June 2012	June 2013	June 2014	June 2015	June 2016	June 2017
Total Deposits (Kshs 'M')	1,420,457	1,678,590	1,884,784	2,188,065	2,630,908	2,762,386	2,984,909
Total Insured (Ksh 'M')	168,120	170,931	192,887	213,708	246,772	252,502	261,053
Total No of A/cs (000)	14,213	16,471	20,908	27,423	33,936	40,776	46,623
A/cs Fully Covered (000)	13,365	15,588	19,911	26,327	32,689	39,443	45,140



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 KShs. 100,000 since the inception of the deposit insurance scheme in 1985, this is poised for review.

KENYA DEPOSIT INSURANCE CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

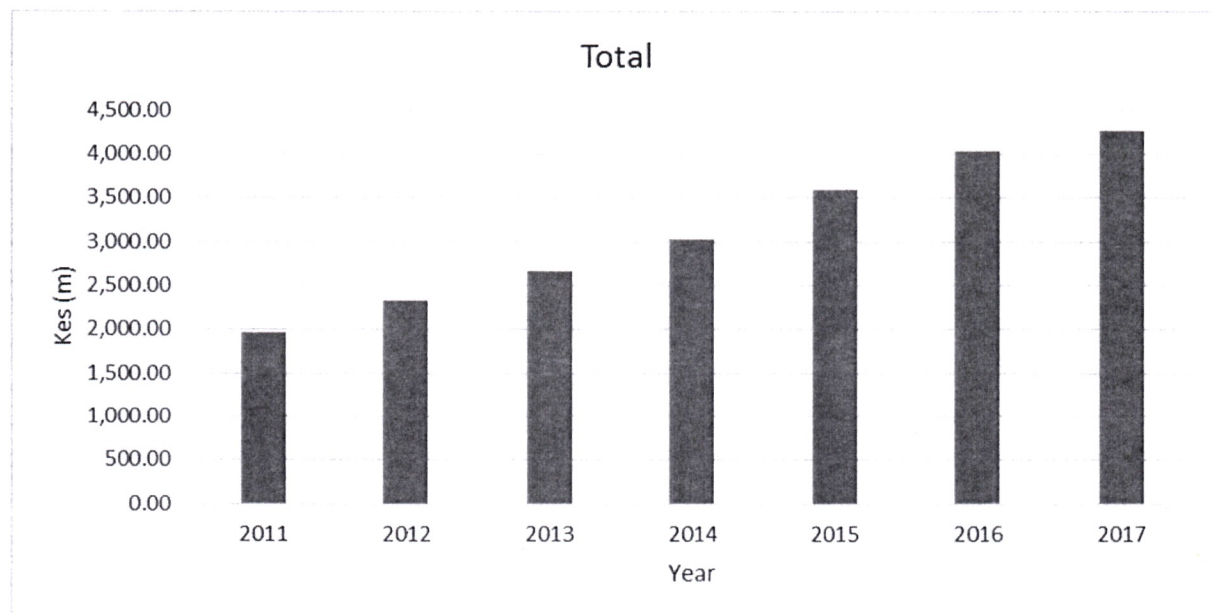
MEMBER INSTITUTIONS CONTRIBUTIONS

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 KShs. 300,000.00, whichever is higher. For the year ended 30 June 2017, KDIC collected a total of KShS. 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 (KSHS '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

Chart 2 Trend in Premium Contribution (Kshs 'M')



In efforts to streamline risk management in member institutions, KDIC is conducting a study with a view to introduce 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 Microfinance Act (Banking Act 38(1), KDIC Act 24(1).

The Membership to the Fund, as at 30 June 2017, comprised the following:

- i.) Forty four (44) Commercial Banks
- ii.) One (1) Mortgage Finance Institution
- iii.) Twelve (13) Deposit-Taking Microfinance Institutions.

KENYA DEPOSIT INSURANCE CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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 KShs. 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 KShs.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 Kshs.1,170.80 million as at June 30, 2017. This figure increased by Kshs. 8.8 million following payment of protected depositors of Dubai Bank Limited in the year under review. 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 Table below. Institutions which have already been wound up by the Board are listed in the shaded area at the bottom of the table.

KENYA DEPOSIT INSURANCE CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Table 3: Payment of Protected Deposits as at June 2017 (Kshs million)

	Name of Institution	Liquidation Date	Total deposits as at liquidation	Total protected deposits	Protected deposits paid as at 30 June 2016	Protected deposits paid as at 30 June 2017	% of Protected deposits paid as at 30 June 2017
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

KENYA DEPOSIT INSURANCE CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Debt Recovery

As at June 30, 2017, the cumulative recovery of debts and realisation of other assets by all the institutions so far placed in liquidation by the Kenya Deposit Insurance Corporation totalled Kshs. 9,927.80 million. This amount represents an increase of Kshs. 1,088.23 m against the total cumulative asset realisation of Kshs. 8,839.57 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 poor quality of the remaining assets. However, efforts of debt recovery have been enhanced by engaging various debt recovery firms to recover debts for the institutions in liquidation.

The table below illustrates the cumulative 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 30 June 2017 (KShs million)

	Name of Institution	Liquidation Date	Total Loans as at Liquidation	Total Recoveries as at 30 June 2016	Total Recoveries as at 30 June 2017	% of Original Debt 30 June 2017
1	Postbank Credit Ltd.	20-May-93	3,605.00	2,153.59	2,509.24	69.60
2	Trade Bank Ltd.	18-Aug-93	3,955.00	800.67	824.12	20.84
3	Middle Africa Finance Ltd.	20-Aug-93	656.00	76.53	81.91	12.49
4	Pan-African Bank Ltd.	18-Aug-94	1,433.00	1048.44	1,051.84	73.40
5	Pan-African Credit & Finance Ltd.	18-Aug-94	445.00	259.15	281.51	63.26
6	Thabiti Finance Co. Ltd.	19-Dec-94	1,217.00	118.00	123.52	10.15
7	Meridien BIAO Bank Ltd.	15-Apr-96	224.00	97.98	100.83	45.01
8	Kenya Finance Bank Ltd.	29-Oct-96	2,329.00	490.44	496.83	21.33
9	Ari Bank Corporation Ltd.	05-Dec-97	453.00	30.32	30.95	6.83
10	Prudential Bank Ltd.	05-May-00	633.00	86.80	87.15	13.77
11	Reliance Bank Ltd.	12-Sep-00	1,591.00	155.97	157.45	9.90
12	Fortune Finance Co. Ltd.	14-Sep-00	345.00	84.92	85.61	24.81
13	Trust Bank Ltd.	15-Aug-01	13,808.00	2293.57	2,808.56	20.34
14	Euro Bank Ltd.	21-Feb-03	3,861.00	180.19	209.33	5.42
15	Prudential Building Society	18-Jan-05	3,283.00	211.56	238.73	7.27
16	Daima Bank Ltd.	13-Jun-05	802.00	202.47	204.06	25.44
17	Dubai Bank Ltd.	24-Aug-15	4,403.00	67.32	154.51	3.51
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

KENYA DEPOSIT INSURANCE CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

	Name of Institution	Liquidation Date	Total Loans as at Liquidation	Total Recoveries as at 30 June 2016	Total Recoveries as at 30 June 2017	% of Original Debt 30 June 2017
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	8,839.57	9,927.80	21.81

Payment of Dividends

During the year under review, Trust Bank Limited (I.L.) declared its 6th Dividend amounting to KShs. 600 million to Depositors and Creditors in December 2016.

As at 30 June, 2017, the cumulative dividends declared by all the institutions in liquidation amounted to Kshs.9,627.38 million compared to Kshs.9,027.38 million declared the previous year resulting in an increase of Kshs. 600 million in dividend declaration. So far, Trust Bank Limited (I.L.) has made the highest dividend declaration amounting to Kshs. 2,657.00 million followed by Post Bank Credit Limited (I.L.), at Kshs. 1,702.00 million and Pan-African Bank Limited (I.L.) at Kshs. 1,194.00 million. With the enhanced debt recovery methods, further dividend payments are expected.

The Table below shows the cumulative dividend payments made as at 30 June, 2017 by individual institutions in liquidation.

Table 5: Dividends declared as at 30 June 2017 (KShs. Million)

	Name of Institution	Liquidation date	Total unprotected deposits as at liquidation	Dividends declared as at 30 June 2016	Dividends declared as at 30 June 2017
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	182.61
13	Trust Bank Ltd.	15-Aug-01	48.00	2,057.00	2,657.00
14	Euro Bank Ltd.	21-Feb-03	2,021.00	93.35	93.35

KENYA DEPOSIT INSURANCE CORPORATION

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Table 5: Dividends declared as at 30 June 2017 (KShs. Million)

	Name of Institution	Liquidation date	Total unprotected deposits as at liquidation	Dividends declared as at 30 June 2016	Dividends declared as at 30 June 2017
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	-	-
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	80.23
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	9,627.38

KENYA DEPOSIT INSURANCE CORPORATION

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

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 Responsibility.

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 Child of Mercy Children's Orphanage, Cerebral Palsy Society of Kenya, St. Gerald's Children's Centre, Pillars of Hope Children's Home, Estel Children's Home, Hope and Courage International and the Kenya Red Cross. The Corporation supported the Adopt a family Program which was being run by the Kenya Red Cross.

KDIC also participated in a tree planting exercise at Kongoni Primary School, Nairobi in support of environmental sustainability as part of its strategic initiatives. KDIC also participated in the World Environmental Day where trees were planted at Uhuru Park, Nairobi.

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

KENYA DEPOSIT INSURANCE CORPORATION

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2017

The directors have pleasure in submitting their financial report together with the audited financial statements for the year ended 30 June 2017, which disclose the state of financial affairs of the Corporation.

INCORPORATION

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

PRINCIPAL ACTIVITY

The Corporation is established and administered under the KDI Act, 2012. The Corporation commenced operations on 1 July 2015, with a transition period of two years, to 30 June 2017. 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.

RESULTS

The results for the year are set out on page 29.

DIRECTORS

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


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, 2015. Section 23 of the Public Audit Act 2015 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 2017.

APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved at a meeting of the directors held on 7 September 2017.

BY ORDER OF THE BOARD


Ms. JANE K. IKUNYUA
AG. BOARD SECRETARY

07/9/2017

KENYA DEPOSIT INSURANCE CORPORATION

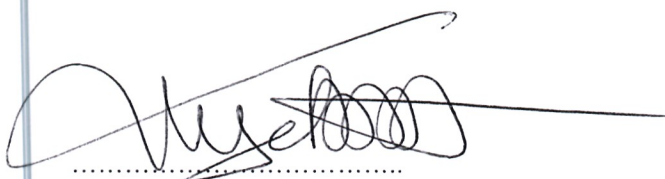
STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and the KDI Act require the Directors to prepare financial statements in respect of that 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 Corporation.

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 year (period) ended on June 30, 2017. 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 Corporation'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 KDI Act. The Directors are of the opinion that the Corporation's financial statements give a true and fair view of the state of Corporation's transactions during the financial year ended June 30, 2017, and of the Corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of the Corporation's financial statements as well as the adequacy of the systems of internal financial control.

Approved by the board of directors on 07/9/2017 2017 and signed on its behalf by:



.....
Director



.....
Director

REPUBLIC OF KENYA

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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, 2017

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Kenya Deposit Insurance Corporation set out on pages 29 to 53, which comprise the consolidated statement of financial position as at 30 June, 2017, and 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 Deloitte and Touche, 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.

Opinion

In my opinion, the financial statements present fairly, in all material respects the financial position of Kenya Deposit Insurance Corporation as 30 June 2017, and of 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 (ISSAI). My responsibilities under those standards are further described in the auditors responsibilities for the audit of Financial Statements section of my report. I am independent of the Corporation in accordance with ISSAI 30 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with other ethical requirements on audit 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.

Director'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 controls 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 provision of Section 47 of the Public Audit Act, 2015

Report of the Auditor-General on the Financial Statements of Kenya Deposit Insurance Corporation for the year ended 30 June 2017

Auditor-Generals 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 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAI). 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 misstatements.

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

- Identify and assess the risk 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 material misstatements resulting from fraud is higher than one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal control.
- Obtain an understanding of the 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 Corporations internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Directors.
- Conclude on the appropriateness of the Directors' use of 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 doubts 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 auditors report to the related disclosures in the consolidated 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 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 entity or business activities within the Corporation to

express an opinion on the financial statements. I am responsible for the direction, supervision and performance of the Corporation's audit. I remain responsible for the audit opinion.

- I communicate with directors among other matters, the planned scope and timing of the audit and significant audit findings, including any significant audit deficiencies in internal control that I identify during the audit.
- I am also required to provide the directors with a statement that I have complied with the relevant ethical requirements regarding independence and to communicate with them all relations and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Companies Act, I report to you based on my audit that:

- I have obtained all the information and explanations, which to the best of my knowledge and belief were necessary for the purpose of my audit
- In my opinion, proper books of account have been kept by the Corporation, so far as appears from the examination of the books; and
- The Corporation's statement of financial position and statement of comprehensive income are in agreement with the books of accounts.



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

Nairobi

24 October 2017

KENYA DEPOSIT INSURANCE CORPORATION

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 KShs'000	2016 KShs'000
REVENUE			
Assessment income	4	4,042,929	3,602,049
Investment income	5	8,205,641	7,148,479
Other income	6	42,815	54,031
		<hr/>	<hr/>
		12,291,385	10,804,559
		<hr/>	<hr/>
EXPENSES			
Deposit payoffs	7	-	120,707
Administration and establishment expenses	8	415,011	314,539
		<hr/>	<hr/>
SURPLUS FOR THE YEAR BEFORE TAXATION		11,876,374	10,369,313
Taxation	1(f)	-	-
		<hr/>	<hr/>
SURPLUS FOR THE YEAR AFTER TAXATION		11,876,374	10,369,313
Other comprehensive income		-	-
		<hr/>	<hr/>
TOTAL COMPREHENSIVE INCOME		<u>11,876,374</u>	<u>10,369,313</u>

KENYA DEPOSIT INSURANCE CORPORATION

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017

	Note	2017 KShs'000	2016 KShs'000
ASSETS			
Non-current assets			
Property and equipment	9	67,149	74,651
Intangible assets	10	114,980	89,392
Prepaid operating lease rentals	11	3,021	3,119
Government securities	12	25,620,782	26,393,349
		<hr/>	<hr/>
		25,805,932	26,560,511
		<hr/>	<hr/>
Current assets			
Receivables and prepayments	13	44,728	24,750
Inventories	14	4,220	2,530
Government securities	12	50,983,940	38,717,503
Cash and bank balances	15	479,236	143,592
		<hr/>	<hr/>
		51,512,124	38,888,375
		<hr/>	<hr/>
TOTAL ASSETS		<u><u>77,318,056</u></u>	<u><u>65,448,886</u></u>
FUND BALANCE AND LIABILITIES			
Fund balance		77,159,804	65,283,430
		<hr/>	<hr/>
Current liabilities			
Payables and accruals	16	117,345	143,908
Due to related party	17	25,581	2,390
Deferred income	18	15,326	19,158
		<hr/>	<hr/>
		158,252	165,456
		<hr/>	<hr/>
TOTAL FUND BALANCE AND LIABILITIES		<u><u>77,318,056</u></u>	<u><u>65,448,886</u></u>

The financial statements on pages 29 to 53 were approved and authorized for issue by the Board of Directors on 07/07/2017 2017 and were signed on its behalf by:


Chairman


Member

KENYA DEPOSIT INSURANCE CORPORATION

STATEMENT OF CHANGES IN FUND BALANCE
FOR THE YEAR ENDED 30 JUNE 2017

	Fund balance KShs'000
30 June 2016:	
At 1 July 2015	54,914,117
Surplus for the year	10,369,313
	<hr/>
At 30 June 2016	<u>65,283,430</u>
30 June 2017:	
At 1 July 2016	65,283,430
Surplus for the year	11,876,374
	<hr/>
At 30 June 2017	<u>77,159,804</u>

KENYA DEPOSIT INSURANCE CORPORATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2017

	Note	2017 KShs'000	2016 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the year		11,876,374	10,369,313
Adjustment for:			
Depreciation of property and equipment	9	13,894	11,451
Software amortisation	10	676	-
Amortisation of prepaid operating lease rentals	11	98	99
Loss on transfer of investment	8	-	100
Interest income		(8,205,641)	(7,148,479)
Changes in working capital:			
Receivables and prepayments		(19,978)	(13,912)
Inventory		(1,690)	(2,530)
Payables and accruals		(26,563)	123,050
Deferred income		(3,832)	(4,789)
Due to related party		23,191	(219)
		<u>3,656,529</u>	<u>3,334,084</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of government securities		(57,435,543)	(38,476,972)
Disposal of government securities		46,086,025	28,444,515
Purchase of intangible assets	10	(26,264)	(72,177)
Purchase of property and equipment	9	(6,392)	(32,791)
Interest received		8,205,641	7,148,479
		<u>3,176,533</u>	<u>(2,986,573)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS			
		479,996	347,511
CASH AND CASH EQUIVALENTS AT 1 JULY			
		<u>496,112</u>	<u>148,601</u>
CASH AND CASH EQUIVALENTS AT 30 JUNE			
	15	<u>976,108</u>	<u>496,112</u>

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2017

1 ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared on the historical cost basis of accounting.

Statement of compliance

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

Application of new and revised International Financial Reporting Standards (IFRSs)

(i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2017

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 2017

<i>New and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
IFRS 16 Leases	1 January 2019
IFRS 17 Insurance contracts	1 January 2021

IFRS 9 Financial Instruments

In July 2015, the IASB finalised the reform of financial instruments accounting and issued IFRS 9 (as revised in 2015), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 (as revised in 2015) will supersede IAS 39 Financial Instruments: Recognition and Measurement upon its effective date.

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

With respect to the classification and measurement, the number of categories of financial assets under IFRS 9 has been reduced; all recognised financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortised cost or fair value under IFRS 9. Specifically:

- a debt instrument that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortised cost (net of any write down for impairment), unless the asset is designated at fair value through profit or loss (FVTPL) under the fair value option.

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

(ii) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017(Continued)*

IFRS 9 Financial Instruments (Continued)

- a debt instrument that (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and (ii) has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, must be measured at FVTOCI, unless the asset is designated at FVTPL under the fair value option.
- all other debt instruments must be measured at FVTPL.
- all equity investments are to be measured in the statement of financial position at fair value, with gains and losses recognised in profit or loss except that if an equity investment is not held for trading, an irrevocable election can be made at initial recognition to measure the investment at FVTOCI, with dividend income recognised in profit or loss.

IFRS 9 also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability. Under IFRS 9, such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk 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 FVTPL is presented in profit or loss.

Phase 2: Impairment methodology

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

Phase 3: Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as 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 no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(ii) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017(Continued)*

IFRS 9 Financial Instruments (Continued)

Transitional provisions

IFRS 9 (as revised in 2015) is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. If an entity elects to apply IFRS 9 early, it must apply all of the requirements in IFRS 9 at the same time, except for those relating to:

1. The presentation of fair value gains and losses attributable to changes in the credit risk of financial liabilities designated as at FVTPL, the requirements for which an entity may early apply without applying the other requirements in IFRS 9; and
2. Hedge accounting, for which an entity may choose to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

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 bank'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.

IFRS 16 Leases

IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

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. The directors of the Corporation have not analysed the impact of the adoption of IFRS 16 on its financial statements.

IFRS 15 Revenue from Contracts with Customers

In May 2016, IFRS 15 was issued which 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

KENYA DEPOSIT INSURANCE CORPORATION
NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(ii) *Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2017(Continued)*

IFRS 15 Revenue from Contracts with Customers (Continued)

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 prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

IFRS 17 Insurance Contracts

IFRS 17 Insurance Contracts establishes the principles for the recognition, measurement, presentation and disclosure of Insurance contracts within the scope of the Standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.

The directors of the Corporation do not anticipate that the application of these amendments will have a significant impact on the Corporation's financial statements.

(iii) *Early adoption of standards*

The Corporation did not early-adopt any new or amended standards in 2017.

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 unamortised discount and premium.

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

1 ACCOUNTING POLICIES (Continued)

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 and loans and receivables are measured at amortised cost.

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

g. Financial assets and liabilities (Continued)

(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.

(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.

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

g. Financial assets and liabilities (continued)

(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.

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

1 ACCOUNTING POLICIES (Continued)

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%
Intangible assets (Software)	25%

(iii) *Depreciation*

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.

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

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.

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. RISK MANAGEMENT (Continued)

Internal Audit and Risk Management Unit (continued)

(a) Credit risk (continued)

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

	2017 KShs'000	2016 KShs'000
Receivables and prepayments	44,728	24,750
Government securities	76,604,722	65,110,852
	<hr/>	<hr/>
	76,649,450	65,135,602
	<hr/> <hr/>	<hr/> <hr/>

The aging of receivables at the reporting date was:

Not past due	18,469	10,416
Past due 0 – 30 days	18,192	2,055
Past due 31 – 90 days	6,147	3,207
Past due above 90 days	1,920	9,072
	<hr/>	<hr/>
	44,728	24,750
	<hr/> <hr/>	<hr/> <hr/>

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. 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:

2017:	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	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
2016:						
Investments held to maturity	10.98%	38,717,503	15,794,324	4,278,249	6,320,776	65,110,852
Interest sensitivity gap At 30 June 2016		38,717,503	15,794,324	4,278,249	6,320,776	65,110,852

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. 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.

	2017 KShs'000	2016 KShs'000
Effect on surplus for the year of a +5% change in interest rates	3,830,236	3,255,543
Effect on surplus for the year of a -5% change in interest rates	<u>(3,830,236)</u>	<u>(3,255,543)</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 142,926,000 (2016 – KShs 146,298,000) and are all short term.

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. 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:

2017:	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						
Government securities	-	-	76,604,722	-	76,604,722	76,604,722
Investment held for sale	-	-	-	-	-	-
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
2016:						
Financial assets						
Government securities	-	-	65,110,852	-	65,110,852	65,110,852
Investment held for sale	-	-	-	-	-	-
Cash and bank balances	-	143,592	-	-	143,592	143,592
Receivables	-	24,750	-	-	24,750	24,750
	-	168,342	65,110,852	-	65,279,194	65,279,194
Financial liabilities						
Amounts due to related parties	2,390	-	-	-	2,390	2,390
Payables and accruals	143,908	-	-	-	143,908	143,908
	146,298	-	-	-	146,298	146,298

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. 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 maKShs adjustments to it, as per the requirements of the Banking Act. The total accumulated Fund as at 30 June 2017 was KShs 77,160 million (2016 – KShs 65,283 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

	2017 KShs'000	2016 KShs'000
Total average deposits of institutions assessed as contributors	2,615,300,133	2,399,766,066
0.15% of total average deposits	3,922,950	3,599,649
Minimum contribution from 13 Deposit Taking Microfinance (DTM) (2016 – 12)	119,979	2,400
Total assessment income	4,042,929	3,602,049

KENYA DEPOSIT INSURANCE CORPORATION
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

5	INVESTMENT INCOME	2017 KShs'000	2016 KShs'000
	<i>(i) Interest earned on treasury bills</i>		
	Discount on 91 day treasury bills	124,068	85,683
	Discount on 182 day treasury bills	353,948	62,838
	Discount on 364 day treasury bills	3,607,085	3,114,098
		4,085,101	3,262,619
	<i>(ii) Interest earned on treasury bonds</i>		
	Matured bonds	4,035,326	3,780,526
	Discount on purchase	114,361	133,011
	Amortisation of premium	(29,147)	(27,677)
		4,120,540	3,885,860
	Total investment income	8,205,641	7,148,479
6	OTHER INCOME		
	Recoveries from subrogated claims	11,218	38,908
	Penalty charges on late contributions	20,819	983
	Miscellaneous income	4,002	397
	Grant income	6,776	13,743
		42,815	54,031
		42,815	54,031
7	DEPOSIT PAYOFFS		
	Deposit payoffs	-	120,707
		-	120,707
	<p>There were no deposit payoffs during the year. The prior year payoffs relate to the payment of insured deposits to the depositors of Dubai Bank Limited. 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 2017 as the receiver of Dubai Bank Kenya Limited and subsequently the liquidator.</p>		
8	ADMINISTRATION AND ESTABLISHMENT EXPENSES	2017 KShs'000	2016 KShs'000
	Staff costs	187,164	170,747
	Depreciation (Note 9)	13,894	11,451
	Software amortisation (Note 10)	676	-
	Lease amortization (Note 11)	98	99
	Philanthropic donations	4,533	4,780
	Loss on transfer of investment	-	100
	Auditors remuneration	1,702	1,669
	Directors' emoluments - fees	15,194	12,966
	Occupancy costs	20,615	18,482
	Other expenses	171,135	94,245
		415,011	314,539
		415,011	314,539

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 ADMINISTRATION AND ESTABLISHMENT EXPENSES (Continued)

	2017 KShs'000	2016 KShs'000
The breakdown of other expenses as shown below:		
Advertising, printing and stationery	22,219	21,554
Staff training expenses	70,469	40,415
Consultancy fees/Workplace Committees	26,247	-
ICT Infrastructure costs	35,624	3,720
Other operating expenses	16,576	28,556
	<u>171,135</u>	<u>94,245</u>

9 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 2015	17,065	23,108	11,439	7,766	10,135	43,914	113,427
Additions	2,159	844	8,476	6,921	3,562	10,829	32,791
At 30 June 2016	<u>19,224</u>	<u>23,952</u>	<u>19,915</u>	<u>14,687</u>	<u>13,697</u>	<u>54,743</u>	<u>146,218</u>
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	<u>19,224</u>	<u>26,108</u>	<u>22,221</u>	<u>14,687</u>	<u>13,697</u>	<u>56,673</u>	<u>152,610</u>
DEPRECIATION							
At 1 July 2015	4,792	13,006	8,941	5,308	8,045	20,024	60,116
Charge for the year	421	1,276	1,100	2,345	1,170	5,139	11,451
At 30 June 2016	<u>5,213</u>	<u>14,282</u>	<u>10,041</u>	<u>7,653</u>	<u>9,215</u>	<u>25,163</u>	<u>71,567</u>
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	<u>5,634</u>	<u>15,549</u>	<u>12,433</u>	<u>9,411</u>	<u>11,092</u>	<u>31,342</u>	<u>85,461</u>
NET BOOK VALUE							
At 30 June 2016	<u>14,011</u>	<u>9,670</u>	<u>9,874</u>	<u>7,034</u>	<u>4,482</u>	<u>29,580</u>	<u>74,651</u>
At 30 June 2017	<u>13,590</u>	<u>10,559</u>	<u>9,788</u>	<u>5,276</u>	<u>2,605</u>	<u>25,331</u>	<u>67,149</u>

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 KShs'000	2016 KShs'000
10 INTANGIBLE ASSET		
A. WORK IN PROGRESS		
Cost		
At 1 July	89,392	17,215
Additions	22,209	72,177
Transfer to Software	(111,601)	-
	<hr/>	<hr/>
Carrying value at 30 June	<u>-</u>	<u>89,392</u>

Work in progress relates to the costs towards the development of an integrated information technology (IT) system. During the year, all the modules in system went live and subsequently capitalized as per IAS 38 requirements.

B. SOFTWARES

	2017 KShs'000	2016 KShs'000
Cost		
At 1 July	-	-
Additions *	4,055	-
Transfer from Work in Progress	111,601	-
	<hr/>	<hr/>
At 30 June	115,656	-
	<hr/>	<hr/>
Amortisation		
At 1 July	-	-
Amortisation charge	676	-
	<hr/>	<hr/>
At 30 June	676	-
	<hr/>	<hr/>
Carrying value at 30 June	<u>114,980</u>	<u>-</u>

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

	2017 KShs'000	2016 KShs'000
11 PREPAID OPERATING LEASE RENTALS		
Cost		
At 1 July and 30 June	4,522	4,522
	<hr/>	<hr/>
Amortisation		
At 1 July	1,403	1,304
Amortisation for the year	98	99
	<hr/>	<hr/>
At 30 June	1,501	1,403
	<hr/>	<hr/>
Carrying value at 30 June	<u>3,021</u>	<u>3,119</u>

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 KShs'000	2016 KShs'000
12 GOVERNMENT SECURITIES		
Treasury bills maturing within 91 days of placement (Note 15)	496,872	352,520
Treasury bills maturing after 91 days from date of placement	45,020,584	31,194,472
Treasury bonds maturing within 1 year	5,466,484	7,170,511
Treasury bonds maturing after 1 year	25,620,762	26,393,349
	<u>76,604,722</u>	<u>65,110,852</u>
Comprising:		
Maturing within 1 year	50,983,940	38,717,503
Maturing after 1 year	25,620,762	26,393,349
	<u>76,604,722</u>	<u>65,110,852</u>

The weighted average effective interest rate on held to maturity investments as at 30 June 2017 was 11.34 % (2016 – 12.1%).

13 RECEIVABLES AND PREPAYMENTS

	2017 KShs'000	2016 KShs'000
Receivables and prepayments	<u>44,728</u>	<u>24,750</u>

14 INVENTORIES

Inventories	<u>4,220</u>	<u>2,530</u>
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Inventories comprises of stationery and other consumables.

15 CASH AND CASH EQUIVALENTS

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

	2016 KShs'000	2017 KShs'000
Treasury bills maturing within 91 days from the date of placement (Note 13)	496,872	352,520
Cash and bank balance	479,236	143,592
	<u>976,108</u>	<u>496,112</u>

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2017 KShs'000	2016 KShs'000
16	PAYABLES AND ACCRUALS	
	63,843	70,580
	53,502	73,328
	<u>117,345</u>	<u>143,908</u>
17	DUE TO RELATED PARTY	
	25,581	2,390

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 and the Corporation are related parties, performing connected duties of bank supervision and deposit protection respectively.

	2017 KShs'000	2016 KShs'000
18	DEFERRED INCOME	
	Unamortised grant income	
	19,158	23,947
	(3,832)	(4,789)
	<u>15,326</u>	<u>19,158</u>
	At 30 June	

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 are currently in use by the Corporation in the ICT project commissioned in 2015/2016. The amounts are therefore amortised at the rate of 20% per annum on a reducing balance over a useful life of 5 years.

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 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:

	2017 KShs'000	2016 KShs'000
(a) Directors' emoluments and senior management remuneration		
Fees to directors	15,194	12,966
Remuneration to senior management	51,965	60,284
	<u> </u>	<u> </u>
(b) Cash and balances held with Central Bank of Kenya	479,236	143,592
	<u> </u>	<u> </u>
(c) 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 159,076 million (2016 - KShs 170,747million).		
(d) 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 12.41 million (2016 - KShs 13.16 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 on its behalf. In the year, rent and maintenance costs charged amounted to KShs 20.62 million. (2016 – KShs 18.42 million).		

	2017 KShs'000	2016 KShs'000
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20 COMMITMENTS

(a) Capital commitments

Authorised but not contracted for	186,627	71,923
	<u> </u>	<u> </u>

Capital commitments authorised relates mainly to office furniture and equipment, integration of new ICT system to Mpesa for protected deposit payoff, business intelligence an early warning systems and development of e-learning content and Digital resource center.

	2017 KShs'000	2016 KShs'000
(b) Operating lease commitments		
Falling due within one year	35,765	28,324
Falling due between one and five years	-	-
	<u> </u>	<u> </u>
	35,765	28,324
	<u> </u>	<u> </u>

During the financial year ended 30 June 2017, KShs 20,615 million (2016 – KShs 18.48 million) was recognized as rental expense.

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 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 matter is still in court. In this matter, KDIC was sued as the Liquidator of Trust Bank Ltd (IL). Therefore, in case judgment is entered against KDIC, Trust Bank Ltd (IL) shall meet the suit costs.

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

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

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.

KENYA DEPOSIT INSURANCE CORPORATION

COMMERCIAL BANKS AND OTHER FINANCIAL INSTITUTIONS
ASSESSED CONTRIBUTORS FOR THE YEAR ENDED 30 JUNE 2017

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.
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. Housing Finance Company
18. Ecobank Kenya Limited
19. Equity Bank Limited
20. Family Bank Limited
21. Guaranty Trust Bank
22. First Community Bank Limited
23. Giro Commercial Bank Limited
24. Guardian Bank Limited
25. Gulf African Bank Limited
26. Habib Bank A.G. Zurich
27. Habib Bank Limited
28. Imperial Bank Limited (under receivership)
29. I&M Bank Limited
30. Jamii Bora Bank Limited
31. Kenya Commercial Bank Limited
32. M Oriental Bank Limited
33. Middle East Bank Kenya Limited
34. National Bank of Kenya Limited
35. NIC Bank Limited
36. Paramount Universal Bank Limited
37. Prime Bank Limited
38. SBM Kenya Bank Ltd.
39. Sidian Bank Limited
40. Spire Bank Limited
41. Stanbic Bank Limited
42. Standard Chartered Bank of Kenya Limited
43. Transnational Bank Limited
44. UBA Kenya Bank Limited
45. Victoria Commercial Bank Limited

KENYA DEPOSIT INSURANCE CORPORATION

COMMERCIAL BANKS AND OTHER FINANCIAL INSTITUTIONS ASSESSED
CONTRIBUTORS FOR THE YEAR ENDED 30 JUNE 2017 (Continued)

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

APPENDIX 2

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2017

NOTES	Revenue	2016/2017 BUDGET	ADJST	FINAL BUDGET	ACTUAL INCOME/ EXPENDITURE	PERFORMANCE DIFFERENCE IN KSHS.	IN %
	Assessed Contributions	3,933,078,000	-	3,933,078,000	4,042,929,622	(109,851,622)	(3)
1	Interest on Treasury Bills	2,823,435,000	-	2,823,435,000	4,085,101,071	(1,261,666,071)	(45)
	Interest on Treasury Bonds	4,344,737,000	-	4,344,737,000	4,120,539,310	224,197,690	5
2	Other Income	-	-	-	42,815,159	(42,815,159)	(100)
	Total Revenues	11,101,250,000	-	11,101,250,000	12,291,385,162	(1,190,135,162)	
	Expenditure						
3	Directors' Fees, Training and Other Expenses	27,777,000	-	27,777,000	15,194,219	12,582,781	45
4	Personnel Emoluments/ Staff Costs	296,976,000	-	296,976,000	186,664,000	110,312,000	37
5	Auditors' Remuneration	1,960,000	-	1,960,000	1,701,604	258,396	13
6	Office Rent and Parking fees	28,324,000	-	28,324,000	20,615,218	7,708,782	27
7	Depreciation, software and lease amortisation	17,587,000	-	17,587,000	14,667,701	2,919,299	17
8	Office supplies, goods and services	242,876,000	-	242,876,000	176,168,766	66,707,234	27
	Total expenditures	615,500,000	-	615,500,000	415,011,508	200,488,492	
	Net Surplus	10,485,750,000	-	10,485,750,000	11,876,373,654	(1,390,623,654)	

APPENDIX 2 (Continued)

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE
PERIOD ENDED 30 JUNE 2017

BUDGET VARIANCE EXPLANATORY NOTES

1. Returns on investments in Government Securities were higher than the budget due to increased discount rates on Treasury Bills and higher interest rates on Treasury Bonds.
2. Other income represents protected deposit reimbursements received from institutions in liquidation and whose protected claims had already been paid to their customers. No institution was placed in liquidation during the year under review. Additionally, nine members were levied penalties for remitting the assessed premium after the due date.
3. The Board was not fully constituted as there were existing vacancies up to February 2017. 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 DPF Board Directors.
4. 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 as it was awaiting the approval of the KDIC structure by the Cabinet Secretary, National Treasury.
5. The amount payable to the office of the Auditor General after review of the 2016/2017 financial statements.
6. The Budget was underspent because the procurement of parking space for additional members of staff 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 in preparation for construction.
7. The budget for Depreciation included a provision for New Motor vehicle of whose procurement process was in progress as at the end of the financial year.
8. Printing of the Promotional Materials, Print Media and outdoor Advertising, Radio and TV adverts, were yet to be undertaken as they were awaiting the Corporations Official Launch. The Corporation did not participate in any trade fairs during the period under review. Some of the system maintenance costs for phase 2 of the IT project were not incurred because going live was delayed to March 2017.

