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OF

OFFICE OF THE AUDITOR-GENERAL

THE AUDITOR-GENERAL

ON

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

**FOR THE YEAR ENDED
30 JUNE 2016**

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100 NAIROBI

15 SEP 2016

RECEIVED

**KENYA DEPOSIT INSURANCE
CORPORATION**

**ANNUAL REPORT AND
FINANCIAL STATEMENTS**

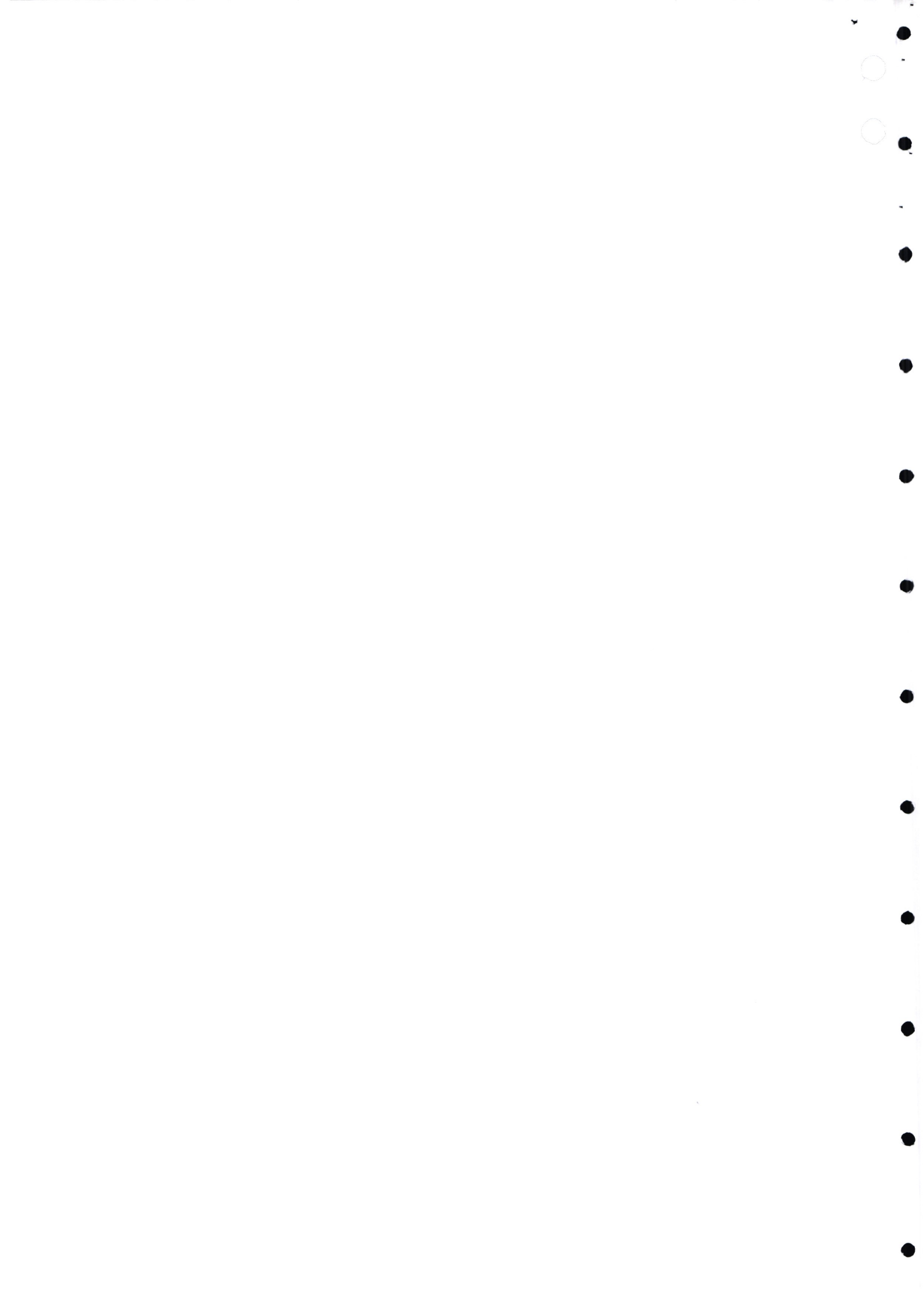
30 JUNE 2016



KENYA DEPOSIT INSURANCE CORPORATION

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016

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KENYA DEPOSIT INSURANCE CORPORATION

DIRECTORS AND STATUTORY INFORMATION

DIRECTORS

Dr. Julius K. Kipng'etich	-Acting Chairman
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
Mrs. Nasim Devji	-Member
Mr. Jeremy I. Ngunze	-Member
Mr. Samuel N. Kimani	-Member
Mr. Mohamud A. Mohamud	-KDIC Acting Chief Executive Officer (Ex-officio)
Ms. Jane K. Ikunyua	-KDIC Acting Board Secretary

BOARD AUDIT COMMITTEE

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

SENIOR MANAGEMENT

Mr. 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 O. Onyino	-Assistant Director – ICT

PRINCIPAL PLACE OF BUSINESS

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

AUDITORS

Deloitte & Touche	<i>On behalf of:</i>	The Auditor-General
Deloitte Place		Kenya National Audit Office
Waiyaki Way		Anniversary Towers
PO Box 40092 - 00100		University Way
Nairobi		PO Box 30084 - 00100
		Nairobi GPO

BANKERS

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

KENYA DEPOSIT INSURANCE CORPORATION

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2016

The directors have pleasure in submitting their financial report together with the audited financial statements for the year ended 30 June 2016, 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 2014, with a transition period of two years, to 30 June 2016. 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 8.

DIRECTORS

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

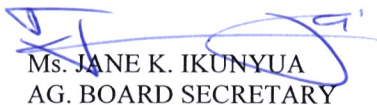
AUDITORS

The Auditor General is responsible for the statutory audit of the company's financial statements in accordance with Section 39(1) of the Public Audit Act, 2003. Section 39(1) of the Act empowers the Auditor General to appoint other auditors to carry out the audit on his behalf. Accordingly, Deloitte & Touche were appointed to carry out the audit for the year ended 30 June 2016.

APPROVAL OF FINANCIAL STATEMENTS

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

BY ORDER OF THE BOARD


Ms. JANE K. IKUNYUA
AG. BOARD SECRETARY

31st August, 2016

KENYA DEPOSIT INSURANCE CORPORATION

STATEMENT OF DIRECTORS' RESPONSIBILITIES

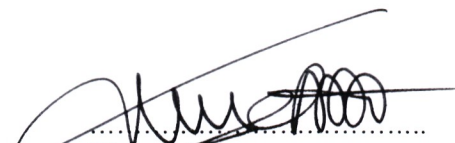
The directors are responsible for the preparation and presentation of the financial statements of Kenya Deposit Insurance Corporation set out on pages 5 to 30 which comprise the statement of financial position at 30th June 2016, the statement of profit or loss and other comprehensive income, statement of changes in fund balance and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

The directors' responsibilities include: determining that the basis of accounting described in Note 1 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Banking Act and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

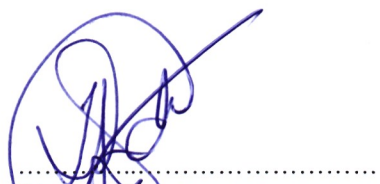
Under the KDI Act, the directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Corporation as at the end of the financial year and of the operating results of the Corporation for that year. It also requires the directors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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the KDI Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Corporation and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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



.....
Director



.....
Director

31 August 2016

REPUBLIC OF KENYA

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



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON KENYA DEPOSIT INSURANCE CORPORATION FOR THE YEAR ENDED 30 JUNE 2016

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Kenya Deposit Insurance Corporation set out on pages 5 to 30, which comprise the statement of financial position as at 30 June 2016, and the statement of profit or loss and other comprehensive income, statement of changes in fund balance and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by Deloitte & Touché, auditors appointed under Section 23 of the Public Audit Act, 2015 and in accordance with the provisions of Article 229 of the Constitution of Kenya. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Management's Responsibility for the Financial Statements

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

The directors are also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229 of the Constitution. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and

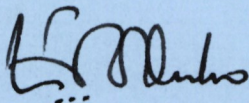
that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Kenya Deposit Insurance Corporation as at 30 June 2016, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and the Kenya Deposit Insurance Act, 2012.



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

Nairobi

27 September 2016

KENYA DEPOSIT INSURANCE CORPORATION

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

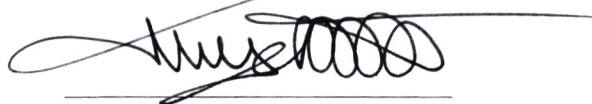
	Note	2016 KShs'000	2015 KShs'000
REVENUE			
Assessment income	4	3,602,049	3,033,387
Investment income	5	7,148,479	5,466,351
Other income	6	54,031	111,044
		<hr/>	<hr/>
		10,804,559	8,610,782
		<hr/>	<hr/>
EXPENSES			
Deposit payoffs	7	120,707	-
Administration and establishment	8	314,539	280,424
		<hr/>	<hr/>
SURPLUS FOR THE YEAR		10,369,313	8,330,358
Other comprehensive income		-	-
		<hr/>	<hr/>
TOTAL COMPREHENSIVE INCOME		10,369,313	8,330,358
		<hr/> <hr/>	<hr/> <hr/>

KENYA DEPOSIT INSURANCE CORPORATION

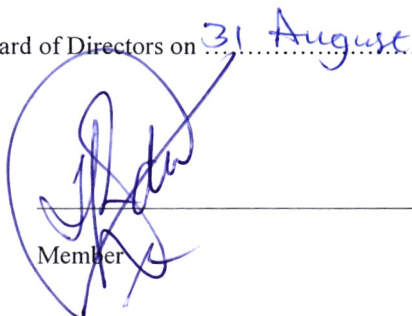
STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

	Note	2016 KShs'000	2015 KShs'000
ASSETS			
Non-current assets			
Property and equipment	9	74,651	53,311
Intangible assets	10	89,392	17,215
Prepaid operating lease rentals	11	3,119	3,218
Investment	12	-	100
Government securities	13	26,393,349	28,640,558
		<hr/>	<hr/>
		26,560,511	28,714,402
		<hr/>	<hr/>
Current assets			
Receivables and prepayments	14	24,750	10,838
Inventories	15	2,530	-
Government securities	13	38,717,503	26,120,916
Cash and bank balances	16	143,592	115,375
		<hr/>	<hr/>
		38,888,375	26,247,129
		<hr/>	<hr/>
TOTAL ASSETS		65,448,886	54,961,531
		<hr/> <hr/>	<hr/> <hr/>
FUND BALANCE AND LIABILITIES			
Fund balance		65,283,430	54,914,117
		<hr/>	<hr/>
Current liabilities			
Payables and accruals	17	143,908	20,858
Due to related party	18	2,390	2,609
Deferred income	19	19,158	23,947
		<hr/>	<hr/>
		165,456	47,414
		<hr/>	<hr/>
TOTAL FUND BALANCE AND LIABILITIES		65,448,886	54,961,531
		<hr/> <hr/>	<hr/> <hr/>

The financial statements on pages 5 to 30 were approved by the Board of Directors on 31 August 2016 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 2016

	Fund balance KShs'000
30 June 2015:	
At 1 July 2014	46,583,759
Surplus for the year	8,330,358
	<hr/>
At 30 June 2015	54,914,117
	=====
30 June 2016:	
At 1 July 2015	54,914,117
Surplus for the year	10,369,313
	<hr/>
At 30 June 2016	65,283,430
	=====

KENYA DEPOSIT INSURANCE CORPORATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 KShs'000	2015 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the year		10,369,313	8,330,358
Adjustment for:			
Depreciation of property and equipment	9	11,451	10,011
Amortisation of prepaid operating lease rentals	11	99	99
Gain on disposal of equipment		-	(679)
Loss on transfer of investment	12	100	
Interest income		(7,148,479)	(5,466,351)
		<u>3,232,484</u>	<u>2,873,438</u>
Operating surplus before working capital changes		<u>3,232,484</u>	<u>2,873,438</u>
Changes in working capital;			
Receivables and prepayments		(13,912)	(1,275)
Inventory		(2,530)	-
Payables and accruals		123,050	9,892
Deferred income		(4,789)	(5,929)
Due to related party		(219)	(16,302)
		<u>3,334,084</u>	<u>2,859,824</u>
Net cash flows generated from operating activities		<u>3,334,084</u>	<u>2,859,824</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of government securities		(38,476,972)	(27,315,569)
Disposal of government securities		28,444,515	19,111,971
Purchase of intangible assets	10	(72,177)	(17,215)
Purchase of property and equipment	9	(32,791)	(3,752)
Proceeds from disposal of equipment		-	1,030
Interest received		7,148,479	5,466,351
		<u>(2,986,573)</u>	<u>(2,757,184)</u>
Net cash flows from investment activities		<u>(2,986,573)</u>	<u>(2,757,184)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS		347,511	102,640
CASH AND CASH EQUIVALENTS AT 1 JULY		<u>148,601</u>	<u>45,961</u>
CASH AND CASH EQUIVALENTS AT 30 JUNE	16	<u>496,112</u>	<u>148,601</u>

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

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) *New standards and amendments to published standards effective for the year ended 30 June 2016*

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

IAS 19 Defined Benefit Plans: Employee Contributions

The amendments to IAS 19 clarify the accounting treatment for contributions from employees or third parties to a defined benefit plan.

According to the amendments, discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan. When the formal terms of the plan specify contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- If the contributions are not linked to services (e.g. contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they affect the remeasurement of the net defined benefit liability (asset).
- If contributions are linked to services, they reduce service costs. If the amount of contribution is dependent on the number of years of service, the entity should reduce service cost by attributing it to the contributions to periods of service using the attribution method required by IAS 19 paragraph 70 (for the gross benefits). If the amount of contribution is independent of the number of years of service, the entity is permitted to either reduce service cost in the period in which the related service is rendered, or reduce service cost by attributing the contributions to the employees' periods of service in accordance with IAS 19 paragraph 70. The amendment requires retrospective application.

The directors of the Corporation do not anticipate that the application of the standard will have a significant impact on the Corporation's financial statements since the Corporation doesn't have a defined benefit plan.

(ii) *New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2016*

<i>New and Amendments to standards</i>	<i>Effective for annual periods beginning on or after</i>
IFRS 9	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2017
IFRS 14 Regulatory deferral accounts	1 January 2016
IFRS 16 Leases	1 January 2019
Amendments to IFRS 11	1 January 2016
Amendments to IAS 16 and IAS 38	1 January 2016
Amendments to IAS 16 and IAS 41	1 January 2016

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

1 ACCOUNTING POLICIES (Continued)

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

(iii) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2016*

IFRS 9 Financial Instruments

In July 2014, the IASB finalised the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), 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 2014) 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.
- 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.

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

1 ACCOUNTING POLICIES (Continued)

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

(iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2016

IFRS 9 Financial Instruments

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.

Transitional provisions

IFRS 9 (as revised in 2014) 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 14 Regulatory Deferral Accounts

IFRS 14 provides guidance on accounting for regulatory deferral account balances by first-time adopters of IFRS. To apply this standard, the entity has to be rate-regulated i.e. the establishment of prices that can be charged to its customers for goods and services is subject to oversight and/or approval by an authorised body. The standard is effective for financial reporting years beginning on or after 1 January 2016 with early adoption is permitted.

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

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

1 ACCOUNTING POLICIES (Continued)

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

(iii) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2016
(Continued)*

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 2015, 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:

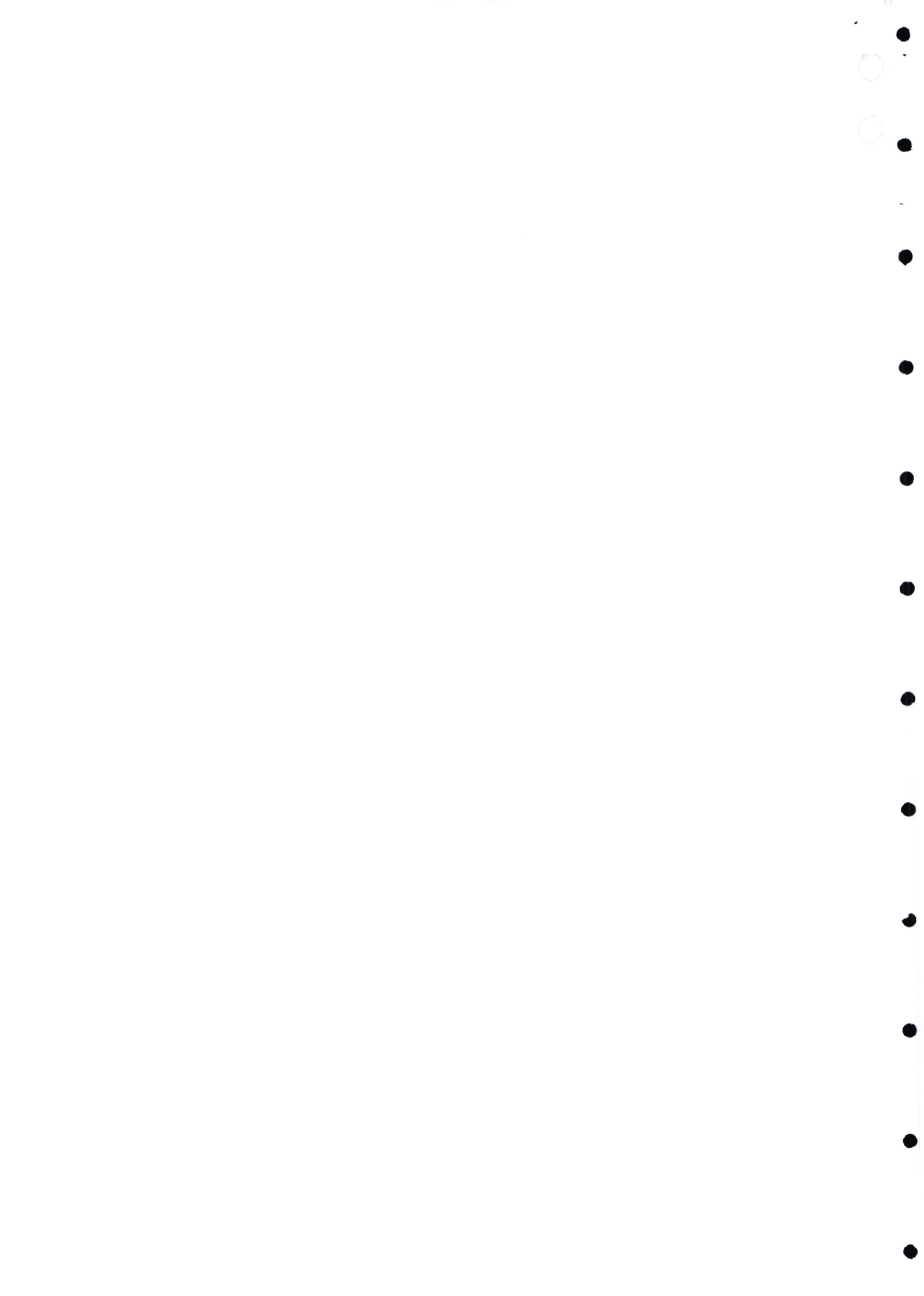
- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies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

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.

Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- a) when the intangible asset is expressed as a measure of revenue; or
- b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.



KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016

1 ACCOUNTING POLICIES (Continued)

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

(iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 30 June 2016 (Continued)

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

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Corporation uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively.

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

Annual Improvements 2010-2012 Cycle

The Annual Improvements to IFRSs 2011-2014 Cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a Corporation of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

- (a) the property meets the definition of investment property in terms of IAS 40; and
- (b) the transaction meets the definition of a business combination under IFRS 3

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.

(iv) Early adoption of standards

The Corporation did not early-adopt any new or amended standards in 2016.

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)

h. Financial assets and liabilities

(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)

i. 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.

j. 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. The investment was disposed of in the year and hence not included in the balances as at 30 June 2016.

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%

k. Property and equipment (continued)

(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:

	2016 KShs'000	2015 KShs'000
Receivable	24,750	10,838
Impairment losses recognised in the year (Note 8(b))	-	-
Government securitites	65,110,852	54,761,474
	<hr/>	<hr/>
	65,135,602	54,772,312
	=====	=====

The aging of receivables at the reporting date was:

Not past due	10,416	6,061
Past due 0 – 30 days	2,055	3,299
Past due 31 – 90 days	3,207	357
Past due above 90 days	9,072	1,121
	<hr/>	<hr/>
	24,750	10,838
	=====	=====

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

	2016 KShs'000	2015 KShs'000
Balance at 1 July	-	102,345
Made in the year	-	-
Write backs	-	(102,345)
	<hr/>	<hr/>
Balance at 30 June	-	-
	=====	=====

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:

2016:	Effective interest rate	Upto 1 year KShs'000	1 – 5 years KShs'000	6 – 10 years KShs'000	Over 10 years KShs'000	Total KShs'000
Investments held to maturity	10.98%	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
2015:						
Investments held to maturity	10.79%	26,120,916	6,424,662	15,204,124	7,011,772	54,761,474
Interest sensitivity gap At 30 June 2015		26,120,916	6,424,662	15,204,124	7,011,772	54,761,474

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.

	2016 KShs'000	2015 KShs'000
Effect on surplus for the year of a +5% change in interest rates	3,255,543	2,738,074
Effect on surplus for the year of a -5% change in interest rates	(3,255,543)	(2,738,074)
	=====	=====

(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 146,298,000 (2015 – KShs 29,877,000) 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:

	2016:	2015:
Financial assets		
Government securities		
Investment held for sale	-	-
Cash and bank balances	143,592	115,375
Receivables	24,750	10,838
	168,342	126,213
Financial liabilities		
Amounts due to related parties	-	-
Payables and accruals	2,390	2,609
	143,908	115,375
	146,298	115,375
		10,838
		126,213
		54,761,474
		100
		54,887,787
		54,887,787
		2,609
		20,858
		23,467
		23,467

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 makes adjustments to it, as per the requirements of the Banking Act. The total accumulated Fund as at 30 June 2016 was KShs 65,283 million (2015 – KShs 54,914 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

	2016 KShs'000	2015 KShs'000
Total average deposits of institutions assessed as contributors	2,399,766,066	2,020,657,850
0.15% of total average deposits	3,599,649	3,030,987
Minimum contribution from 8 Deposit Taking Microfinance (DTM) (2015 – 8)	2,400	2,400
Total assessment income	3,602,049	3,033,387

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

5	INVESTMENT INCOME	2016 KShs'000	2015 KShs'000
	<i>(i) Interest earned on treasury bills</i>		
	Discount on 91 day treasury bills	85,683	18,481
	Discount on 182 day treasury bills	62,838	5,647
	Discount on 364 day treasury bills	3,114,098	1,734,468
		<u>3,262,619</u>	<u>1,758,596</u>
	<i>(ii) Interest earned on treasury bonds</i>		
	Matured bonds	3,780,526	3,604,140
	Discount on purchase	133,011	128,262
	Amortisation of premium	(27,677)	(24,647)
		<u>3,885,860</u>	<u>3,707,755</u>
	Total investment income	<u><u>7,148,479</u></u>	<u><u>5,466,351</u></u>
6	OTHER INCOME		
	Recoveries from subrogated claims	38,908	776
	Gain on disposal of assets	-	738
	Penalty charges on late contributions	983	786
	Miscellaneous income	397	412
	Recoveries from institutions in liquidation	-	102,345
	Grant income	13,743	5,987
		<u>54,031</u>	<u>111,044</u>
7	DEPOSIT PAYOFFS		
	Deposit payoffs	<u>120,707</u>	<u>-</u>
	<p>Deposit 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 2016 as the receiver of Dubai Bank Kenya Limited and subsequently the liquidator.</p>		
8	ADMINISTRATION AND ESTABLISHMENT EXPENSES	2016 KShs'000	2015 KShs'000
	Staff costs	170,747	180,557
	Depreciation	11,451	10,011
	Lease amortization	99	99
	Grant amortisation	4,780	4,743
	Loss on transfer of investment	100	-
	Auditors remuneration	1,669	1,481
	Directors' emoluments - fees	12,966	7,699
	Occupancy costs	18,482	16,413
	Other expenses	94,245	59,421
		<u>314,539</u>	<u>280,424</u>

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 2014	16,740	21,769	11,151	11,659	8,394	43,914	113,627
Additions	325	1,339	288	-	1,800	-	3,752
Disposals	-	-	-	(3,893)	(59)	-	(3,952)
At 30 June 2015	17,065	23,108	11,439	7,766	10,135	43,914	113,427
At 1 July 2016	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	19,224	23,952	19,915	14,687	13,697	54,743	146,218
DEPRECIATION							
At 1 July 2014	4,418	11,720	8,339	8,090	7,087	14,052	53,706
Charge for the year	374	1,286	602	819	958	5,972	10,011
Disposals	-	-	-	(3,601)	-	-	(3,601)
At 30 June 2015	4,792	13,006	8,941	5,308	8,045	20,024	60,116
At January 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	5,213	14,282	10,041	7,653	9,215	25,163	71,567
NET BOOK VALUE							
At 30 June 2015	<u>12,273</u>	<u>10,102</u>	<u>2,498</u>	<u>2,458</u>	<u>2,090</u>	<u>23,890</u>	<u>53,311</u>
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>

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 KShs'000	2015 KShs'000
10	INTANGIBLE ASSET – WORK IN PROGRESS	
	Cost	
	At 1 July	-
	Additions	17,215
	-----	-----
	At 30 June	17,215
	Amortisation	
	At 1 July and 30 June	-
	-----	-----
	Carrying value at 30 June	17,215
	=====	=====
	Work in progress relates to the costs towards the development of an intergrated information technology (IT) system.	
11	PREPAID OPERATING LEASE RENTALS	
	2016 KShs'000	2015 KShs'000
	Cost	
	At 1 July and 30 June	4,522
	-----	-----
	Amortisation	
	At 1 July	1,304
	Amortisation for the year	99
	-----	-----
	At 30 June	1,403
	-----	-----
	Carrying value at 30 June	3,218
	=====	=====
12	INVESTMENT	
	Investment in Consolidated Bank of Kenya Limited	
	10,000,000 ordinary shares of KShs 20 each	
	200,000	200,000
	Provision for diminution in value	(199,900)
	Transfer of shares to the National Treasury	(100)
	-----	-----
	-	100
	=====	=====

The Corporation owned 10,000,000 ordinary shares of the Consolidated Bank of Kenya Limited that were acquired using a grant from the National Treasury for KDIC/DPFB to resolve a banking crisis at that time. The shares were held in Trust on behalf of the National Treasury. At the time of acquisition of the investment, the Banking Act allowed the Corporation to acquire, hold or dispose shares of an institution that might otherwise result in a loss to the Corporation. The Banking Act was later amended and now prevents the Corporation from holding investments other than in government securities.

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 INVESTMENT (Continued)

The Government, through the National Treasury had planned to privatise Consolidated Bank and had therefore directed the Privatisation Commission to explore and advise on how the shares are to be sold. The investment had therefore been classified as held for sale. Due to this, the requirement for consolidation on IAS 27 did not apply. The KDIC Board of Directors passed a resolution to transfer all the shares held in the Bank to the National Treasury pending their sale to third parties. The transfer was effected in December 2015.

	2016 KShs'000	2015 KShs'000
13 GOVERNMENT SECURITIES		
Treasury bills maturing within 91 days of placement (Note 17)	352,520	33,226
Treasury bills maturing after 91 days from date of placement	31,194,472	20,584,469
Treasury bonds maturing within 1 year	7,170,511	5,503,221
Treasury bonds maturing after 1 year	26,393,349	28,640,558
	<u>65,110,852</u>	<u>54,761,474</u>
Comprising:		
Maturing within 1 year	38,717,503	26,120,916
Maturing after 1 year	26,393,349	28,640,558
	<u>65,110,852</u>	<u>54,761,474</u>

The weighted average effective interest rate on held to maturity investments as at 30 June 2016 was 12.1% (2015 – 10.79%).

14 RECEIVABLES AND PREPAYMENTS

	2016 KShs'000	2015 KShs'000
(a) Receivables and prepayments		
Receivables and prepayments	24,750	10,838
Provision for impairment losses (Note 9(b))	-	-
	<u>24,750</u>	<u>10,838</u>
(b) Provisions for impaired receivables		
As at 30 June 2016, there was no provision for receivables (2015 - nil).		
	2016 KShs'000	2015 KShs'000
At 1 July	-	102,345
Additional provision	-	-
Recoveries	-	(102,345)
	<u>-</u>	<u>-</u>
At 30 June (Note 9(a))	<u>-</u>	<u>-</u>

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2016 KShs'000	2015 KShs'000
15 INVENTORIES		
Inventories	2,530	-

Inventories comprises of stationery and other consumables.

16 CASH AND CASH EQUIVALENTS

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

	2016 KShs'000	2015 KShs'000
Treasury bills maturing within 91 days from the date of placement (Note 13)	352,520	33,226
Cash and bank balance	143,592	115,375
	<u>496,112</u>	<u>148,601</u>

17 PAYABLES AND ACCRUALS

Provision for deposit payoffs	70,580	-
Sundry payables and accruals	73,328	20,858
	<u>143,908</u>	<u>20,858</u>

18 DUE TO RELATED PARTY

Due to Central Bank of Kenya	2,390	2,609
------------------------------	-------	-------

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.

19 DEFERRED INCOME

	2016 KShs'000	2015 KShs'000
Unamortised grant income	19,158	23,947

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 2013/2015. 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)

22 CONTINGENT LIABILITIES

Litigation

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

In the recent past, Mr. Ajay Shah won an appeal on malfeasance matter and is demanding an award of Kes. 220m in damages and costs. An appeal has been filed in the Supreme Court and in the opinion of the Directors, if the judgment is passed in favor of Mr. Ajay Shah, Trust Bank ltd (IL), will meet the requisite costs.

22 CURRENCY

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

KENYA DEPOSIT INSURANCE CORPORATION

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 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:

	2016 KShs'000	2015 KShs'000
(a) Directors' emoluments and senior management remuneration		
Fees to directors	12,966	7,699
Remuneration to senior management	60,284	55,718
	<u> </u>	<u> </u>
(b) Cash and balances held with Central Bank of Kenya	<u>143,592</u>	<u>115,375</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 170,747 million (2015 - KShs 168.5 million).		
(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 13.16 million (2015 - KShs 12.06 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 18.42 million. (2015 - KShs 16.41 million).		

	2016 KShs'000	2015 KShs'000
21 COMMITMENTS		

(a) Capital commitments

Authorised but not contracted for	<u>71,923</u>	<u>202,460</u>
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Capital commitments authorised relates mainly to Office furniture, office equipment, ICT project infrastructure costs, motor vehicle, godown capital costs including the CCTV network connections.

	2016 KShs'000	2015 KShs'000
(b) Operating lease commitments		
Falling due within one year	28,324	18,728
Falling due between one and five years	-	19,007
	<u> </u>	<u> </u>
	<u>28,324</u>	<u>37,735</u>

During the financial year ended 30 June 2016, KShs 18.48 million (2015 - KShs 16.4 million) was recognized as rental expense.

KENYA DEPOSIT INSURANCE CORPORATION

COMMERCIAL BANKS AND OTHER FINANCIAL INSTITUTIONS
ASSESSED CONTRIBUTORS FOR THE YEAR ENDED 30 JUNE 2016

COMMERCIAL BANKS

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

