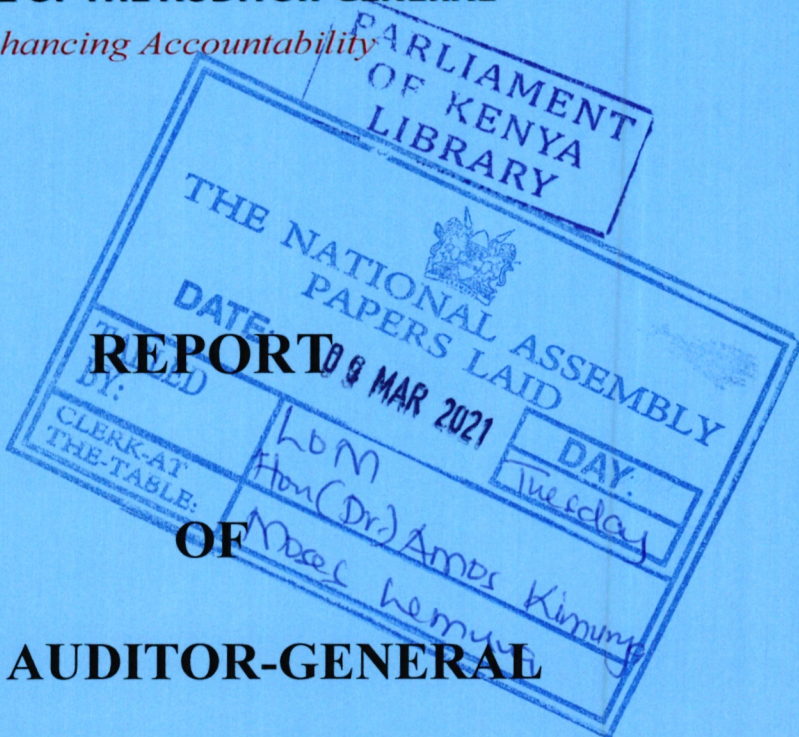


REPUBLIC OF KENYA



Enhancing Accountability



REPORT
OF
THE AUDITOR-GENERAL
ON
KENYA DEPOSIT INSURANCE CORPORATION

FOR THE YEAR ENDED
30 JUNE, 2019

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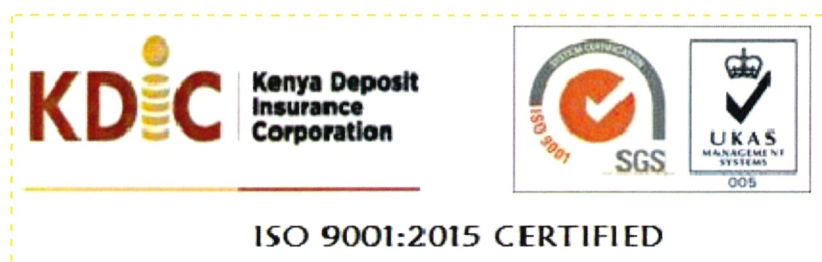
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KENYA DEPOSIT INSURANCE CORPORATION

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING
JUNE 30, 2019

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

IFRS.....International Financial Reporting Standards

KDIC.....Kenya Deposit Insurance Corporation

IADI.....International Association of Deposit Insurers

CBK.....Central Bank of Kenya

KETRACO.....Kenya Electricity Transmission Company

QMS.....Quality Management System

ERM.....Enterprise Risk Management

SP.....Strategic Plan

Table of Contents	Page
KEY CORPORATE INFORMATION.....	1
THE BOARD OF DIRECTORS	4
SENIOR MANAGEMENT TEAM.....	10
STATEMENT FROM THE CHAIRMAN	14
REPORT OF THE CHIEF EXECUTIVE OFFICER	17
CORPORATE GOVERNANCE STATEMENT	22
MANAGEMENT DISCUSSION AND ANALYSIS.....	25
CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING	37
REPORT OF THE DIRECTORS.....	40
STATEMENT OF DIRECTORS' RESPONSIBILITIES	41
STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019	42
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019.....	43
STATEMENT OF CHANGES IN FUND BALANCE FOR THE YEAR ENDED 30 JUNE 2019 ...	44
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019	45
STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2019	46
NOTES TO THE FINANCIAL STATEMENTS	48
APPENDIX 1: COMMERCIAL BANKS AND OTHER FINANCIAL INSTITUTIONS ASSESSED FOR THE YEAR ENDED 30 TH JUNE 2019	79

BACKGROUND INFORMATION

The Kenya Deposit Insurance Corporation (formerly Deposit Protection Fund Board) is a statutory institution established under the Kenya Deposit Insurance Act, 2012 whose mandate is to provide a deposit insurance scheme for customers of member institutions and to provide incentives for sound risk management and generally promote the stability of the financial system. The Corporation is a significant player in the financial sector as it provides a safety-net for the savings, banking and payments systems in the Republic of Kenya.

At Cabinet level, the Kenya Deposit Insurance Corporation (KDIC) is represented by the Cabinet Secretary for The National Treasury who is responsible for the general policy and strategic direction of the Corporation.

PRINCIPAL ACTIVITIES

The Principal role of KDCI is to;

- Provide a deposit insurance scheme for customers of member institutions
- Resolve problem banks in order to mitigate any failure
- Work in close collaboration with Central Bank of Kenya, in conducting bank surveillance and where warranted engage in problem bank resolution
- Hold, manage and apply funds levied as contributions from member institutions, and compensate insured depositors
- Wind up operations of insolvent institutions in respect to which the Board is appointed as the liquidator

VISION

To be a premier deposit insurance scheme.

MISSION

To promote public confidence in the financial system through deposit insurance, risk management and timely resolution.

STRATEGIC THEMES

- Risk Management
- Deposit Insurance
- Prompt Resolution
- Stakeholder Management
- Organizational Capacity

OUR VALUES

- Professionalism
- Integrity
- Customer Focus
- Fairness
- Innovativeness
- Teamwork

DIRECTORS

The directors who served during the period 2018/2019 were as follows:

- | | |
|----------------------------------|---|
| 1. Mr. James Teko Lopoyetum, HSC | - Chairman |
| 2. Dr.Kamau Thugge,CBS | - Principal Secretary The National Treasury |
| 3. Dr.Patrick Njoroje | - Governor, Central Bank of Kenya |
| 4. Hon. Paul Kariuki | - Attorney General |
| 5. Mr. Mohamud A. Mohamud | - Chief Executive (Ex-officio) |
| 6. Dr. Habil Olaka | - Director |
| 7. Miss.Dorothy Kiprono | - Director |
| 8. Prof. Karuti Kanyinga | - Director |
| 9. Mr. John M. Maina | - Director |
| 10. Mr. Amos Sipoi Ntimama | - Director |
| 11. Mr. Martin Gumo | - Alternate to PS, The National Treasury |
| 12. Alex Mbuvi | - Alternate to Attorney General |

CORPORATE SECRETARY

Mrs. Eunice Kitche-Odour
P.O. Box 45983,00100
Nairobi

CORPORATE INFORMATION

Headquarters:

Kenya Deposit Insurance Corporation
17th Floor, UAP Old Mutual Towers, Upper Hill
P.O. Box 45983 – 00100
Nairobi, Kenya

Contacts:

Telephone: +254 20 66770000, 0770 498014, 0775 750 417
Mobile: 0709 043000
E-mail: customercare@kdic.go.ke
Website: www.kdic.go.ke

Banker:

Central Bank of Kenya
Central Bank of Kenya Building
Haile Selassie Avenue
P.O. Box 60,000 – 00200
Nairobi, Kenya

Independent Auditors:

The Auditor General
Office of the Auditor General
Anniversary Towers, University Way
P.O. Box 30084 – 00100
Nairobi, Kenya

Principal Legal Advisers:

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

THE BOARD OF DIRECTORS

MR. JAMES TEKLO LOPOYETUM, HSC; CHAIRMAN



Mr. James Teklo Lopoyetum, HSC has acquired extensive experience in management at national government level and central banking, having worked as Principal Secretary in the State Department of Water, Ministry of Environment, Water and Natural Resources. In addition, Mr Lopoyetum worked as the Director of Currency at the Central Bank of Kenya.

Mr. Lopoyetum holds a Master of Arts degree (Economics) majoring in Development Economics and Banking, Bachelor of Arts (Economics) and Post Graduate Diploma in Public Administration from Jabalpur University, India.

DR. KAMAU THUGGE, CBS; PRINCIPAL SECRETARY, NATIONAL TREASURY



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 prior to the promulgation of the Constitution 2010.

Before joining the Ministry of Finance, Dr. Thugge worked with the International Monetary Fund (IMF) as Economist/Senior Economist and Deputy Division Chief.

He holds a Bachelor of Arts (Economics) from Colorado College, USA; Masters in Economics from Johns Hopkins University, USA; and a Doctor of Philosophy (PhD) in Economics from Johns Hopkins University.

DR. PATRICK NJOROGE-GOVERNOR; CENTRAL BANK OF KENYA



Dr. Patrick Njoroge was appointed the Central Bank Governor in June 2015. Dr. Njoroge holds a PhD in Economics from Yale University, USA, as well as masters and bachelor's degrees in Economics, both from the University of Nairobi.

Prior to joining the Central Bank, Dr. Njoroge worked for 20 years with the International Monetary Fund (IMF), in Washington, D.C., USA. He served in various capacities among them; the advisor to the IMF Deputy Managing Director, Deputy Division Chief in the IMF's Finance Department and IMF Mission Chief for the Commonwealth of Dominica.

In addition, Dr. Njoroge worked as an economist at the Ministry of Finance and as a planning officer at the Ministry of Planning here in Kenya. Professionally, Dr. Njoroge has a keen interest in Macroeconomics, Economic Policy, International Finance, Development Economics, Econometrics and Monetary Policy.

DR. HABIL OKUNDA OLAKA; DIRECTOR



Dr. Habil Olaka is the Chief Executive Officer of the Kenya Bankers Association, following his appointment in 2010. He previously worked with the East African Development Bank (EADB), serving in different capacities among them; Director of Operations, Resident Manager-Kenya, Manager-Risk and Control, Chief and Internal Auditor. In addition, Dr. Olaka also worked with Banque Indosuez (now Bank of Africa) where he served as the Internal Auditor having started his career at Price Waterhouse Coopers, Nairobi.

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

Besides the Kenya Deposit Insurance Corporation, Dr. Olaka sits on a number of other boards, among them; the Higher Education Loans Board, the Kenya School of Monetary Studies, 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 Accountants (CPA) Kenya and the Chartered Financial Analyst (CFA) Institute.

MISS. DOROTHY CHEPKOECH KIPRONO; DIRECTOR



Miss. Dorothy Kiprono is the Managing Partner at Kipkenda & Company Advocates. Her current areas of practice are; conveyancing, 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 worked as the Governance and legal consultant for the Communications Authority of Kenya (CA), where she analysed and identified the framework of laws, regulations, policies and Governance structures since the year 2016.

As the Legal Consultant for Kenya Electricity Transmission Company Limited (KETRACO), Ms Kiprono manages Contract negotiations with the contractors for construction of various Power stations and transmission lines within Kenya and across the borders.

Previously Ms. Kiprono 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)

She holds a Bachelor's degree in Commerce (Accounting Option), a Bachelor's Degree in Law (LLB) both from the Rani Durgavati Vishwavidyalaya University (India) and a Post Graduate Diploma in Legal Practice from the Kenya School of Law.

She has attended various courses in mediation with the Chartered Institute of Arbitrators (Kenya Chapter), is a member of the Law Society of Kenya, where she also served in its Conveyancing Committee.

JUSTICE PAUL KIHARA KARIUKI; ATTORNEY GENERAL OF THE REPUBLIC OF KENYA



Justice Paul Kihara Kariuki is currently the Attorney General of the Republic of Kenya and the immediate former President of the Court of Appeal. He began his law career after being admitted to the bar in 1978, soon after completing his post-graduate diploma in law at the Kenya School of Law, Nairobi. Consequently, Justice Kariuki has practiced law with several legal establishments including Ndungu Njoroge and Kwach Advocates, and Hamilton Harrison and Mathews Advocates in Nairobi.

In 2003, he was appointed to serve as Principal and Chief Executive Officer of the Kenya School of Law. Later the same year, he was appointed Judge of the High Court where he served in both the civil and commercial divisions of the Court for several years.

Between 2009 and 2013, Justice Kariuki served as the first director at the Judicial Training Institute, where he was instrumental in establishing all the operational systems for the technical arm of the judiciary incorporating professional development for all judges, magistrates and all cadres of the paralegal staff at the Judiciary.

Upon his appointment to the Court of Appeal in 2013, Justice Kariuki immensely contributed to the decentralization of the Court of Appeal to Malindi, Kisumu and Nyeri counties. He also directed the development of the blueprint ten-point strategy for the transformation of the court, culminating in the Court of Appeal Bill and the Strategic Plan for the Court of Appeal in Kenya. Justice Kariuki has served as Chancellor or Honorary Legal Advisor for The Anglican Church of Kenya, Member of the Kenya Anti-Corruption Authority Advisory Board and as chair of Thomas Barnado House and Rotary International. He is an esteemed member of Law Society of Kenya, Commonwealth Lawyers Association and the International Bar Association.

He has deep interests in gardening, classical music, theater and drama, playing squash and cricket.

PROF. KARUTI KANYINGA; DIRECTOR



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

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

MR. BENSON M. MURAGE; DIRECTOR



Mr. John Benson Maina holds a Bachelor of arts (Econ.) Honours and MA (Econ.) degrees, both from the University of Nairobi. He began his career as an economist at then, Ministry of Finance, currently National Treasury. He later 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 banks undergoing financial challenges. He coordinated the financial sector study, which formed the basis for reforms in the banking sector, including liquidation of insolvent banking institutions during the first major banking crisis in the country. He was involved in strengthening the onsite supervision system and offsite reporting system to improve surveillance over the banking sector. In addition, Mr. Maina supervised the execution of Central Bank of Kenya foreign exchange reserves, involving investment of surplus foreign exchange reserves offshore.

The onset of the aforementioned banking crisis prompted the establishment of Deposit Protection Fund Board (DPFB)- now Kenya Deposit Insurance Corporation-to revive the waning public confidence in the banking sector. 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. AMOS SIPOI NTIMAMA; DIRECTOR



Mr. Amos Sipoi Ntimama is the substantive chairman of the National Co-ordination Board for NGOs as well as a director at the Consulting Hub. He holds a Bachelor of Science - Business Administration (cum laude) from American University, Washington DC, USA and Masters of Science (MSC)- Account from University of Illinois, Urbana-Champaign il, USA.

Mr. Ntimama has extensively been involved in the financial sector and was the manager in charge of bank supervision at the Central Bank of Kenya. He is a past group General Manager of the Governors Group of companies, Director at Lake Victoria South Water Services Board and Chairman at Private Security Regulatory Authority.

MR. MOHAMUD AHMED MOHAMUD; CHIEF EXECUTIVE OFFICER



Mr. Mohamud Ahmed Mohamud is the substantive Chief Executive Officer of the Kenya Deposit Insurance Corporation (KDIC). He is an astute, forthright and accomplished financial professional with keen insights and experience in deposit insurance.

Having been part of the Corporation since 1999, Mr. Mohamud has proactively been involved in deposit insurance activities, leading 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.

As such, he has gained a 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 Executive Committee of the International Association of Deposit Insurers. Under his leadership, KDIC was voted the best deposit insurance corporation - 2016.

Mr. Mohamud holds a Bachelor's degree in Economics from the University of Nairobi and an MBA in Strategic Management from Moi university

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

MR. ROBERT INGASIRA MBARANI-GENERAL MANAGER; CORPORATE SERVICES



Mr. Robert Mbarani heads the Directorate of Corporate Services. He has vast experience in Finance, Accounting, Human Resource and project management, courtesy of a career spanning over 20 years, having worked with various organizations in the Public Sector.

As head of the Corporate Services function, Mr. Mbarani offers strategic leadership to the Finance, Human resource, Communications and Information technology divisions.

He holds an MBA in Finance from Moi University and a Bachelor of Arts (Mathematics and Economics) from the University of Nairobi.

Mr. Mbarani also holds a higher Diploma in Human Resource Management. He is a member of the Institute of Human Resource Management (IHRM) as well as Institute of Certified Accountants of Kenya (ICPAK).

Mr. Mbarani has attended various management courses on Corporate Governance, Risk Management and Strategic Management.

MR. PAUL MANGA; GENERAL MANAGER, RISK & EXAMINATION



Mr. Paul Manga is the General Manager in charge of the Directorate of Risk and Examination. He has 15 years of experience in the banking sector having worked with both local and international institutions. As a finance and risk professional, Mr. Manga has worked in the departments of Finance & Accounts, Treasury Operations and Market Risk functions for 7 years at the Standard Chartered Bank, making a significant contribution to the institution's overall growth. In addition, Mr. Manga was a Senior Market Risk Analyst and Regional Business Manager (EA) at the Kenya Commercial Bank – Group Treasury for a period of 8 years

He holds a first degree of BSc in Agriculture

Engineering; MBA (Finance Option); Post Graduate Diploma in Business Management; Certified Investment and Finance Analyst- CIFA (K); ACI Dealing and ACI Operation for Treasury. He is a member of the Institute of Certified Investment and Finance Analyst (ICIFA)

MR. DAVID IRUNGU; GENERAL MANAGER, RESOLUTIONS



Mr. David Irungu is the General Manager in charge of the Directorate of Resolutions. He oversees the remaining 16 institutions currently in liquidation since November 2015. Mr Irungu has a wealth of experience in strategy formulation and implementation, fundraising for debt and equity, business growth and development, sales and relationship management, Compliance and risk management, budgeting, financial planning and performance monitoring. He is the former Chief Executive Officer at REMU Micro Finance Bank Ltd. (A Micro finance bank licensed and regulated by the Central Bank of Kenya). He also served as the Senior Business Growth & Development Manager-Supreme Banking at the Equity Bank (K) Limited – Operations Division. Mr. Irungu holds Masters of Science degree in Finance and Investments from Kenya Methodist University (KEMU), a Bachelor of Commerce (Finance option) from the University of Nairobi and is a Certified Public Accountant CPA (K) and PRINCE II practitioner.

MRS. EUNICE KITCHE; BOARD SECRETARY & HEAD OF LEGAL



Eunice Kitche-Oduor (Mrs) is a legal practitioner currently working with KDIC as the Corporation's Secretary and head of legal. She has practiced law for over 16 years, thus gaining hands-on experience and exposure in legal practice, leadership and management.

She has actively practiced litigation and conveyancing for four years. Before joining KDIC, Mrs. Oduor worked as company secretary and head of legal department in various state corporations for 12 years. She has served under different sectors within government, boards and CEOs and in the process, accumulated a unique appreciation of government thinking and direction in the boards of State Corporations.

Eunice holds a Bachelor of laws degree (LLB), from the University of Nairobi, a diploma in law from the Kenya School of Law and a Masters of Business Administration in Strategic Management from Maseno University. She is also an advocate of the High Court of Kenya and a certified Public Secretary CPS (K)

STATEMENT FROM THE CHAIRMAN

The Directors of the Kenya Deposit Insurance Corporation are honored to submit this annual report and financial statements for the period ending 30th June 2019.



Mr. James Lopoyetum, HSC; Chairman

Established under the Kenya Deposit Insurance Act 2012, the Kenya Deposit Insurance Corporation (KDIC) is a body mandated to:

- a) Provide a deposit insurance scheme for customers of member institutions
- b) Receive, liquidate and wind up any institution where KDIC is appointed receiver or liquidator

To accomplish this, the KDIC is empowered to:

- a) Levy contributions from member institutions into the insurance fund
- b) Hold, manage and apply the fund and administer the deposit insurance scheme
- c) Provide incentives for sound risk management

Deposit insurance protects depositors, especially the vulnerable and less financially endowed, against losses they would face as a result of failure of banks and other deposit taking institutions, with a goal of enhancing public confidence in the national financial system.

Deposit insurance in addition protects banks against the risk of “runs”, where depositors withdraw funds from banks en masse.

During the period 1st July 2018 to 30th June 2019, the KDIC registered an increment of Ksh. 16 billion (16.5%), growing the Fund from Ksh. 90 billion to Ksh. 105.7 billion. On their part, the total deposits in the country increased from Ksh. 3,291 billion to Ksh. 3,559 billion, a difference of Ksh. 268 billion (8.1%). A protection level of 8% was maintained during the reporting period, which was the same as the 2017/2018 level. Nonetheless, with KES 281 billion of deposits insured, the effective cover increased to 38%, up from 33% the previous period.

The reporting period marked the first year of implementation of the Corporation’s 2nd Strategic Plan (2018 – 2022). Under this plan, the Corporation is focusing on 5 pillars, with the following during the 2018/2019 period:

“Going forward, the Corporation will remain focused on enhancing the achievement of the core mandate, growing the fund, and increasing the total coverage of deposits to 4%.”

a) Risk Management

The Corporation commenced implementation of a risk-based surveillance model that combines data analysis and risk profiling of member institutions. This has enabled the Corporation to have an early warning system, which is enhancing sector stability and Safeguarding the insurance fund from depletion. Notably, the risk based premium assessment was commenced, with the intention of facilitating computation of contributions of member institutions.

b) Deposit Insurance

The Deposit Insurance Fund stood at Ksh. 105.7 billion by the end of June 2019, which is 2.97% of the total deposits. A total of 62 million accounts are covered by the Insurance, which is 98% of accounts held in the financial sector.

c) Stakeholder management

The Corporation during the reporting period visited 48 of the 55 members for one on one discussions on the role of the Corporation, risks facing the institutions, and the risk based premium assessment model. Further, meetings with Chief Executive Officers of member institutions to sensitize them on the risk based premium assessment model, obtain their feedback, and discuss areas of collaboration.

In addition, it was during this period that the Corporation developed a Whistleblowing Framework to encourage holders of pertinent information to disclose the same so as to safeguard depositor interests.

Further, the Corporation continued to participate in the activities of the International Association of Deposits

Insurers (IADI) and the Africa Regional Committee

d) Prompt Resolution

The Corporation during the reporting period facilitated the resolution of Chase Bank Limited through transfer of assets and liabilities to SBM Bank, resulting in guaranteed depositors' recovery rate of 75%. Also achieved during the period was the declaration of payment of depositors and creditors of Reliance Bank Ltd (after 18 years waiting period), Meridien Biao Bank (collapsed 20 years ago), and Pan African Bank Limited (collapsed 25 years ago).

e) Organizational Capacity

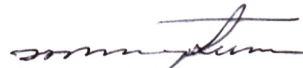
The Corporation continued to build the capacities of the staff through trainings in financial analysis, crisis preparedness, bank examination and fraud, and forgeries prevention. Staff in addition participated in a Basic Course in Deposit Insurance.

Going forward, the Corporation will remain focused on enhancing the achievement of the core mandate, growing the fund, and increasing the total coverage of deposits to 4%.

I express deep gratitude to the members of the Board of Directors for working tirelessly to provide direction and strategic governance of the Corporation.

I commend the Chief Executive Officer, the management team, and all staff for the unlimited efforts expended to ensure effective, efficient and accountable management of the Corporation's Fund. I also thank the National Treasury, Central Bank of Kenya, the member institutions, and other stakeholders for the continued support in ensuring that we attain the

objective of fostering financial stability in the country.



**Mr. James T. Lopoyetum, HSC;
CHAIRMAN OF THE BOARD.**

REPORT OF THE CHIEF EXECUTIVE OFFICER

It is with great pleasure that I present this Annual Report and Financial Statements of the Kenya Deposits Insurance Corporation for the year ending 30th June 2019. It is the first one under the 2nd Strategic Plan of the Corporation (July 2018 – June 2023).

During this period, the Corporation's Fund grew to KES 105 billion, which entailed Ksh. 4,746M premiums from the member institutions and Ksh. 10,775M interest income from the Corporation's investments. This was a 16.5% increase from the fund balance as at 30th June 2018.

This performance enabled the Corporation to continue discharging her primary mandate of insuring deposits, raising the number of insured accounts to 61.8 million, up from 49.7 million the previous year. The insured accounts comprised 98% of the total number of accounts in the member institutions, a slight increase from 97% the previous year. The total deposits covered amounted to Ksh. 281 billion, which represents 8% of the total deposits held by the member institutions. These stood at Ksh. 3.56 trillion by the end of the year. The coverage rate of 8% was the same as the previous year.



Mr. Mohamud Ahmed Mohamud;CEO

The scenario above meant that with a Fund balance of Ksh. 105 billion, the Corporation has an effective cover of 38% of the insured deposits, thus posing an exposure of 62%.

It is the goal of the Corporation to increase the fund size from 2.9% of the total deposits to 3.4% by 2023. In the process, the value of deposits covered will be increased to 16%, up from the current 8%.

Performance of the Kenyan Economy

Most banks and financial institutions remained stable during the reporting period. Quite notably, total deposits increased from Ksh. 3,291 billion to Ksh. 3,559 billion, an 8.1% increment. Over the same period, depositors' accounts increased from 51 million to 63 million, a rise of 23.6%.

Implementation of the 2nd Strategic Plan

The implementation of the 2nd Strategic Plan (2018 – 2023) of the Corporation commenced in July 2018. The plan identifies five strategic themes, or pillars, which guide the operations of the Corporation. These are:

Theme / Pillar	Objectives
Risk Management	1. To enhance early detection and timely interventions of risk exposure
Deposit Insurance	1. To increase the ratio of fund to total deposit from 2.7% in 2018 to 3.4% in 2023 2. To increase the value of deposits covered from 8.75% in 2018 to 16% in 2023 3. To ensure payment of protected deposits within 30 days
Stakeholder Management	1. To increase public awareness level from 9% in 2018 to 40% in 2023 2. To strengthen complains handling and consumer protection 3. To embrace best practices
Prompt Resolution	1. To ensure a decision is made on the most appropriate resolution option within 60 days by 2023 for non-systemic institutions 2. To ensure effective and efficient receiverships / liquidation 3. To increase the debt recovery rate from 20% in 2018 to 30% by 2023
Organizational Capacity	1. To review the legal and regulatory framework 2. To enhance talent management 3. To entrench a robust organizational culture 4. To enhance operational efficiency 5. To promote good corporate governance practice

The section below highlights the achievements made under these pillars.

f) Risk Management

Early warning signs detection and subsequent timely intervention was enhanced through the implementation of a risk-based surveillance model that combines data analysis and risk profiling. This was aimed at promoting stability in the banking sector, with the additional benefit of safeguarding the Deposit Insurance Fund from depletion that would occur when banks fail. Other than undertaking Risk Based Premium Assessments, the Corporation also fostered strong linkages with other safety net players, member institutions and depositors.

During the same period, the Corporation developed the Whistleblowing Framework, which

will provide a safe platform for holders of pertinent information to securely disclose the same for the safeguarding of depositor interests.

g) Deposit Insurance

By 30th June 2019, the Corporation had a membership comprising of 42 commercial banks, one mortgage finance institution, and 13 Deposit Taking Microfinance Banks. Each of the members pays a premium equivalent to 0.15% of the institution's average total deposits for the previous 12 months, or Ksh. 300,000, whichever is higher. The amount paid consists of premium assessment contributions and investment of the funds that has been increasing over time. By the

end of June 2019, the fund was holding Ksh. 106 billion. The status of the Insurance Fund is summarized in the table below:

Year	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	% Change
1 Total Deposits (M)	1,420.46	1,678.59	1,884.78	2,188.07	2,630.91	2,762.39	2,984.91	3,290.91	3,559.08	8.9%
2 Total Insured (M)	168.12	170.93	192.89	213.71	246.77	252.50	261.05	271.49	281.34	3.63%
3 Protection Level (2/1)	11.84%	10.18%	10.23%	9.77%	9.38%	9.14%	8.75%	8.25%	7.90%	-4.18%
4 Fund Balance (Kes 'M')	24.15	28.09	39.46	46.58	54.91	65.28	77.16	90.37	105.72	16.99%
5 Effective Cover (4/2)	14.36%	16.43%	20.46%	21.80%	22.25%	25.85%	29.56%	33.29%	37.58%	12.89%
6 Total no. of accounts (000)	14,213	16,471	20,908	27,423	33,936	40,776	46,624	51,262	63,391	23.66%
7 Accounts fully covered (000)	13,365	15,588	19,911	26,327	32,689	39,443	45,140	49,721	61,838	24.37%
8 Share of protected accounts (7/6)	94.04%	94.64%	95.23%	96.00%	96.33%	96.73%	96.82%	96.99%	97.55%	0.57%
9 Exposure Level (100% - 5)	85.64%	83.57%	79.54%	78.20%	77.75%	74.15%	70.44%	66.71%	62.42%	-6.43%

It is outstanding that the fund has effectively covered 38% of the protected deposits, as compared to the 33% requirement by International Association of Deposits Insurers (IADI).

In April 2019, the National Treasury granted the Corporation approval to adopt the Risk Based Premium Assessment methodology. This will be applied in the premium calculation for member institutions from July 2020. The methodology will utilize the Central Bank of Kenya's CAMEL ratings.

Towards this, the Corporation organized three stakeholder engagements with member institutions to discuss the system in readiness for its implementation.

h) Stakeholder management

The Corporation continued to undertake stakeholder engagement during the reporting period. The goal of the engagements was to enable the beneficiaries understand the role of the Corporation, and for the Corporation to understand the risks facing the institutions. Towards this, the Corporation visited 48 of the 55 member institutions for one-on-one discussions.

“

In April 2019, the National Treasury granted the Corporation approval to adopt the Risk Based Premium Assessment methodology. This will be applied in the premium calculation for member institutions from July 2020.”

Two meetings were held with the Chief Executive Officers and senior management of the member institutions to sensitize them on the Risk Based Premium Assessment model/. These were in January and May 2019. The forums enabled the Corporation to receive critical feedback from the member institutions, and agree with them on

areas of collaboration. Also present in the forums were representatives from the National Treasury and the Central Bank of Kenya.

During the same period, the Corporation continued to actively participate in the activities of the International Association of Deposits Insurers (IADI), especially in the African Regional Committee. Participation was mostly in the executive committee meetings and research activities.

i) Prompt Resolution

The Corporation during the reporting period continued to focus on ensuring that receiverships are carried out efficiently and effectively, and increasing debt recovery rates from debtors of banks under liquidation. Towards this, the Corporation during the period organized consultative meetings with government ministries and agencies which are critical in preserving the assets of banks under receivership or liquidation.

In this regard, the Corporation achieved a number of milestones, which included:

- Successful transfer of assets and liabilities of Chase Bank Ltd (In Receivership) to SBM Bank Ltd through purchase and assumption method. This resulted in guaranteed depositors' recovery rate of 75%, setting an unprecedented recovery rate in the country.
- Declared payments to depositors and creditors of three banks that are In Liquidation, and in the process achieved a depositors' recovery rate of 40%, of the highest in the world. The banks were:

- Reliance Bank Ltd – after 18 years
- Meridien Biao Bank – collapsed 20 years ago
- Pan African Bank Ltd – collapsed 25 years ago
- Successfully wound up Fortune Finance Ltd after a five-year wait

Despite these successes, the Corporation faced some challenges, the main being delays in completion and determination of court matters which hampers debt recovery efforts and slows down the resolution process.

j) Organizational Capacity

During the reporting period, the Corporation maintained a staff complement of 60. The staff work in the three directorates of:

- Corporate Affairs
- Risk and Examination
- Resolution

To enhance their capacities, the Corporation facilitated the staff to participate in various trainings, which included: Financial Analysis (London Corporate Training), Crisis Preparedness, Bank Examination and Fraud (Toronto Center), Forgeries Prevention (Kenya School of Monetary Studies), and Basic Course in Deposit Insurance (in

partnership with Korea Deposit Insurance Corporation).

Targets and Goals for 2019/2020 Financial Year

Over the next 12 months, the Corporation will focus on achieving various targets that include:

- Adopt Risk Based Premium Model
- Ensure availability of accurate deposit data from member institutions
- Enhance depositor payments
- Develop database of past resolution experiences for future reference
- Enhance collaboration with other safety net players and regulatory agencies
- Fast track the pending liquidations
- Employ out of court settlements and Alternative Dispute Resolutions where feasible
- Implement convenient loan repayment options to enhance debt recovery
- Strengthen performance management and employ a performance based reward

system to improve staff motivation levels and encourage innovativeness

- Enhance communication flows and win commitment of employees
- Enhance team spirit among the staff
- Enhance Enterprise Risk Management (ERM) and Business Continuity Planning (BCP)
- Enhance continuous improvement and work to maintain the ISO 9001:2015 certification

Conclusion

In conclusion, I extend my sincere gratitude to the Chairman and members of the Board, and the management and entire staff complement for the guidance, cooperation and unwavering commitment to the attainment of the vision and mission of the Kenya Deposits Insurance Corporation (KDIC). May the Almighty God guide us to serve our country by promoting a stable financial system. I now welcome you to read the rest of the report and share with us your feedback.


Mohamud Ahmed Mohamud
CHIEF EXECUTIVE OFFICER

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 the provisions of the Constitution of Kenya 2010, The KDI Act, 2012 and the State Corporations Act. The Board of Directors has enacted policies and put in place, processes, systems and procedures that guide the operations of the Corporation. These measures 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, 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 nine members the Chief Executive Officer included. Out of the nine drawn from different professional backgrounds, five are independent members. This not only ensures that the Corporation is serviced by highly skilled and competent people but also guarantees diversity.

To fulfil its fiduciary responsibility to the stakeholders the Board maintains 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 who oversees daily operations of the Corporation. The Board's statutory meetings are held every quarter of the year, with directors being adequately facilitated to perform their fiduciary duties. During the year under review, the Board held twenty-seven (27) meetings.

Board Committees

The Board has created three Committees aimed at establishing and maintaining an efficient Corporate Governance infrastructure, marching global standards. The three committees established in line with the Board's charter are: Board Audit Committee, Board Technical

CORPORATE GOVERNANCE STATEMENT (Continued)

Committee, Board Finance, Administration & Human Resource Committee. Through the committees, the Board is able to deal with any ad-hoc matters needing focused attention, such as the recruitment of the Chief Executive Officer and other critical issues that may hamper KDIC's service delivery both internally and externally. The various committees are guided in their deliberations by the approved Charters and Terms of Reference. The guidelines were formulated and established through a participatory and inclusive process by all key stakeholders. The Committees submit their recommendations to the Board for consideration.

NAME	MAIN BOARD MEETING	BOARD TECHNICAL COMMITTEE	FINANCE & H.R COMMITTEE	AUDIT COMMITTEE
James Teko Lopoyetum, HSC	27	N/A	1	N/A
Dr.Patrick Njoroge	3	5	N/A	
Mohamud Mohamud	19	5	6	N/A
Dr. Habil Olaka	13	N/A	5	5
Ms.Dorothy Kiprono	19	N/A	8	5
Alex Mbuvi – Alternate to Attorney General	14	3	4	
Pro. Karuti Kanyinga	13	N/A	5	N/A
Mr. John Maina	17	6	1	6
Mr. Amos Sipoi Ntimama	20	5	1	5
Martin Gumo – Alternate to PS, Treasury	17	5	6	4

In the financial year 2017/2018, the Management of Kenya Deposit Insurance Corporation, with the approval and guidance of its Board, executed the following strategic objectives with a view to facilitating the Corporation's effectiveness in achieving its enhanced mandate under the Kenya Deposit Insurance Act, 2012:

(a) Recruitment:

Recruitment of Senior Management was the first task. This recruitment was aimed at filling vacant positions that are critical to KDIC's overall mandate.

The recruitment covered the following functions: Corporate Services, Legal, Risk Management, ICT and Human Resources.

(b) Relocation of KDIC Offices:

On 27th April 2019, KDIC relocated from CBK Pension House (along Harambee Avenue, Nairobi) in the Central Business District to its new Headquarters in UAP Old

Mutual Towers, Upper-Hill, Nairobi. The Corporation now occupies five floors of the building.

CORPORATE GOVERNANCE STATEMENT (Continued)

(c) Review & Implementation of KDIC Policies (Stakeholders & Staff):

The Corporation's overall engagements with various stakeholders, are guided by its governing law, the Kenya Deposit Insurance Act (2012). During the last financial year, KDIC implemented important Human Resource and Financial Management policies internally (i.e., Staff Mortgage Loan Scheme, Fund Investment). Such initiatives will enable the Corporation to achieve significant milestones.

A. THE DIRECTORATE OF RISK and EXAMINATION

1. Risk Minimization

This directorate is responsible for the implementation of Risk minimization, which is the Corporation's key mandate. This involves early detection and timely intervention with regards to risk exposures of member institutions to the Deposit Insurance Fund.

The Corporation endeavours to deliver the mandate under three Strategic Pillars as envisioned in the KDIC's Strategic Plan, namely; Risk management, Deposit Insurance and Stakeholder Management.

As such, the Corporation has designed a risk-based surveillance model that combines data analysis and risk profiling of member institutions, whose outcome is the early warning system.

The framework in risk profiling of banks enhances the detection of early warning signs thus informing timely intervention. The sole objective of the risk minimization initiatives is not just to ensure there is stability within the banking system, but also safeguard the Deposit Insurance Fund from depletion as a result of failure of banks.

As part of the strategies for risk minimization, the corporation is implementing the risk based premium assessment. This will ensure that in computation of the contribution of the member institutions to the Fund, the risk profile of the member institution is priced.

As part of the strategies to enhance risk minimization through information sharing, KDIC continues to foster strong linkages and collaborations with other safety-net players as well as member institutions and depositors.

Further, the Corporation has developed the Whistleblowing Framework aimed at providing a safe mechanism through which those with pertinent information that may safeguard depositors interests and stability of the banking sector can share without feeling exposed. KDIC is convinced that the implementation of the framework will go a long way to support the strategies of risk minimization.

2. Deposit Insurance Scheme and the Fund

Kenya Deposit Insurance Corporation, KDIC runs a mandatory ex-ante deposit insurance scheme for members in line with the Kenya Deposit Insurance (KDI) Act of 2012, for all deposit taking institutions licensed and supervised by the Central Bank of Kenya.

The scheme comprises 42 Commercial banks, a Mortgage Finance Institution and 13 Deposit Taking Micro-Finance Banks. All member institutions of the scheme are required to contribute to the Deposit Insurance Fund, which is used in the resolution process.

They each pay an annual premium fee of the higher of 0.15% of the institution's average total deposit liabilities for the past twelve months or Ksh. 300,000. The fund is built by this premium and investment income that is earned by investing the fund's cash in government securities. As end of the financial year under review, the fund was valued at Ksh. 105 billion. This is summarized in the table below.

SNO	Year	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
1	Total Deposits (B)	1,420	1,679	1,885	2,188	2,631	2,762	2,985	3,291	3,559
2	Total Deposits Insured (B)	168	171	193	214	247	253	261	271	281
3	Protection Level (2/1)	12%	10%	10%	10%	9%	9%	9%	8%	8%
4	Fund Balance (Kes B)	24	28	39	47	55	65	77	90	106
5	Effective Cover (4/2)	14%	16%	20%	22%	22%	26%	30%	33%	38%
6	Total no. of accounts (M)	14	16	21	27	34	41	47	47	63
7	Accounts fully covered (M)	13	16	20	26	33	39	45	45	62
8	Share of protected accounts (7/6)	94%	95%	95%	96%	96%	97%	97%	97%	98%
9	Exposure Level (100% - 5)	86%	84%	80%	78%	78%	74%	70%	67%	62%

The customers' deposit liability has continued to grow in line with the growth of the fund. By June 30th 2019, the liability stood at Ksh.3.5 trillion, which accounted for an 8% growth compared to the previous financial year.

As such, the amount of deposits insured has consistently grown to Ksh 281 billion, as at 30th June 2019. While the deposit liability and amount protected has increased over time, the proportion of total deposits protected has been marginally declining, closing the year at 8%.

As part of the strategic positioning and maintaining financial stability, the Corporation intends to increase the Deposit Fund Size from 2.7% to 3.4% of total deposits by 2023. This will enable the

Corporation to reach the Optimal Target Fund of 4% of total deposits. As K.D.I.C progresses, the value of deposits covered is expected to increase to 16% of the total deposits by 2023.

So far KDIC has been able to cover 62 million accounts, representing 98% of the accounts held in the banks by the close of the last financial year. This fulfils the policy objective of protecting majority of the participants in the Banking market.

As the Fund and amount of protected deposits has been growing, KDIC has equally been increasing the effective cover. By June 2019, the Fund had surpassed by 5% the requisite 33% requirement of the International Association of Deposit Insurers.

Going forward the Corporation has started to implement the risk based method of contribution, keeping in line with the critical components of fairness in contribution to the fund and improving market discipline.

Towards this end KDIC was in April 2019, granted by the National Treasury, approval to adopt the Risk based Premium Assessment methodology. The methodology will be applied in premium assessment for member institutions starting July 2020.

In the period under review, KDIC held three stakeholder engagement meetings during which the risk-based premium system in preparation for its implementation was discussed. As such, the Corporation intends to utilize the Central Bank of Kenya CAMEL ratings of member institutions, as a risk measure for the Risk Based Premium System, even as KDIC engages CBK on information sharing aimed at ensuring the implementation is successful.

3. Stakeholder Engagement and Partnerships

KDIC continues to engage her stakeholders especially member institutions with a view to fulfilling the public policy objective of fostering financial stability in Kenya. This engagement, is aimed at proactively enhancing early detection while informing interventions in line with KDIC's mandate, even as both the stakeholders and the Corporation explore areas of mutual engagement for robust partnerships. During the financial year under review, Corporation engaged forty-eight (48) of the fifty five (55) member institutions in a one on one discussion.

KDIC further, met CEOs and Senior Management of member institutions, in January and May 2019, where the teams were sensitized on the concept of risk based premium assessment model. During the meeting, the Corporation also obtained feedback from member institutions as well as explored areas of collaboration. Among those who attended the meeting were representatives from the National Treasury and Central Bank of Kenya who are part of the safety net players playing a critical role in bank resolution.

During the engagement, the invited consultant –Bruno Lund, from IADI- facilitated extensive discussions of the Differential Premium System (DPS) which was on the agenda. The members thus gained knowledge of the international experience on the risk based contributions. Towards this end, the corporation will continue engaging member institutions on emerging issues to deposits insurance, risk minimization and prompt resolution.

Further, the Corporation undertakes to continuously and regularly engage key stakeholders so as to strengthen partnerships and ensure financial stability. For instance, KDIC and Central Bank shall continue exploring on how best to implement the information sharing framework as well as resolutions.

As a member of IADI and Africa Regional Committee, KDIC continues to participate in activities of the two bodies such as executive committees and research. As such the Corporation remains a critical player in the international arena of deposit insurance, receivership, liquidation and winding up of institutions.

4. Capacity Building

To effectively deliver on its mandate of risk minimization, deposit insurance and prompt resolution, the Corporation continuously enhances the technical skills and capacity of her personnel, through various exposure visits of staff and board to partner organizations. .

In this regard, KDIC facilitated the training of staff through various relevant institutions as follow; Financial Analysis (London Corporate Training), Crisis Preparedness, Bank Examination and Fraud (Toronto Centre) and Forgeries Prevention from the Kenya School of Monetary Studies (KSMS). Further, the staff were also trained in Basic Course in Deposit Insurance in partnership with the Korea Deposit Insurance Corporation (KDIC).

B. DIRECTORATE OF RESOLUTION

The Directorate of Resolution is mandated to execute one of the core mandates of KDIC on behalf of the board. In this regard, the directorate receives, liquidates and winds up any financial institution in accordance with the KDI Act, once the Corporation is appointed receiver or liquidator.

As such, the directorate ensures that troubled banks and deposit taking financial institutions are resolved in a timely manner. To achieve this, KDIC through the Directorate of Resolution undertakes the following:

- Ensures the process of receivership is effectively and efficiently executed through prompt resolution decisions that benefit all depositors.
- Focuses on increasing the debt recovery rate from banks debtors under liquidation aimed at maximizing pay out to the depositors of the respective banks.
- Collaborates with other financial sector safety net players with a view to tracing and preserving the assets of the Banks under receivership or liquidation.
- Benchmarking with other deposit insurance schemes worldwide to embrace best practices.

During the period under review KDIC successfully implemented several initiatives

in pursuit of timely resolution which includes. The following are some of the highlights:

- Held sensitization forums with key ministries that are critical in preserving the assets of the Banks under the administration of KDIC so as to strengthen partnership.
- Participated in exchange programs with other Deposit Insurance Schemes on resolution of failed banks.

As a result, sustained focus on prompt resolution saw KDIC achieve a number of milestones during the period, as highlighted below:

- Successfully transferred some assets and liabilities of Chase Bank Ltd (IR) to SBM Bank Ltd through purchase and assumption method, resulting in a minimum guaranteed depositors' recovery rate of 75%, thus setting unprecedented recovery rate in the country for any failed bank.

- Declared payments to depositors and creditors of three banks in liquidation i.e.
 - a) Reliance Bank Ltd (IL) after 18 years of waiting
 - b) Meridien Biao Bank that collapsed two decades ago.
 - c) Pan African Bank Ltd (IL) that collapsed 25 years ago.

The above payments will greatly improve the depositors' recovery rate that currently stands at 40% on average, one of the highest in the world.

- Successfully wound up Fortune Finance Ltd after five years of waiting from the last winding up of another bank under liquidation.

Despite the achievements the directorate encountered some challenges such as delays in completion and determination of court matters. As a result, the recovery efforts of the outstanding debts and restrictive resolution legal framework was greatly hampered thus slowing down prompt resolution process. Going forward, the directorate will emphasize on fast tracking liquidation of the remaining banks. This will be achieved through:

- Embracing alternative, cost-effective, and efficient debt recovery mechanisms.
- Developing alternative loan repayments channels by embracing mobile-banking technology so as to increase the debts recovery rate.
- Reviewing the existing resolution legal frameworks so as to support prompt receivership and liquidation.
- Enhancing local collaboration with other safety net players, regulatory and government agencies as well as with other internal deposit Insurance schemes in order to employ best practices.

In order to fast tracking pending liquidation, KDIC will seek to resolve the banks under receivership through partial transfer of assets and liabilities to other banks and develop a digital banking platform for timely update to the depositors on resolution progress.



CEO Mr. Mohamud A. Mohamud with his counterpart Mr. Joshua Oigara of KCB, addressing the media during a joint news conference at our UAP Old Mutual HQ, Nairobi.

KDIC STRATEGIC DIRECTION:

The Corporation in 2018 embarked on an aggressive campaign to formulate and develop the five (5) years strategic plan to guide the institution and align its operations and plans.

The process began with the review of the 2015-2018 transitional strategic plan and the assessment of the current operating environment.

A consultant was retained to help in the design phase of the process and a participatory approach was adopted.

One on one interviews with the various stakeholders was undertaken with a view to understand their needs and expectation of the Corporations mandate and services.

Management workshops followed with an intention to design a solid strategic plan that has the input of the implementers.

The design of the plan included the High elements of a strategic plan in which case the Corporation reviewed their vision, mission and core values.

The Corporations also developed and defined the Corporate Strategic Objectives, Strategic Initiatives, activities to operationalize the achievement of desired results.

Performance measures and Targets were also agreed upon with a view to enable the Monitoring and evaluation and hence the performance management system in the institution.

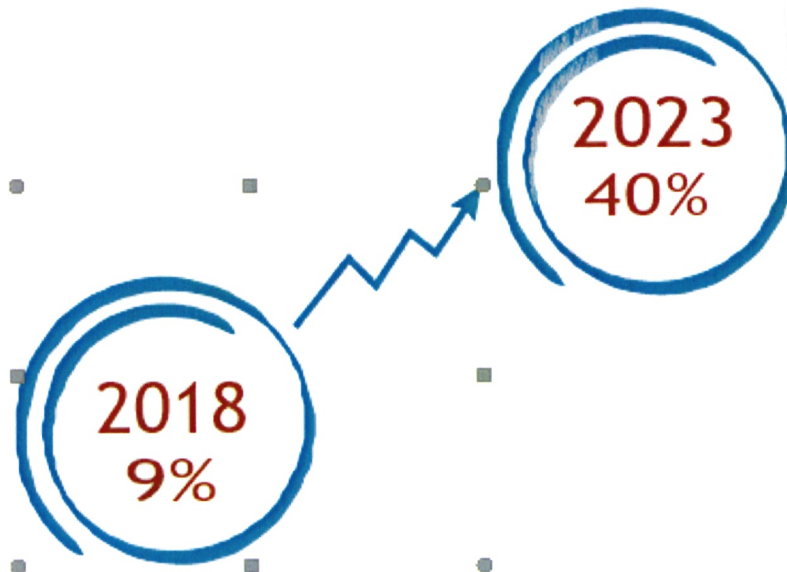
Key performance Indicators were also developed in order to measure the levels of achievement.

The Corporations identified the five (5) Strategic themes to focus during the plan period.

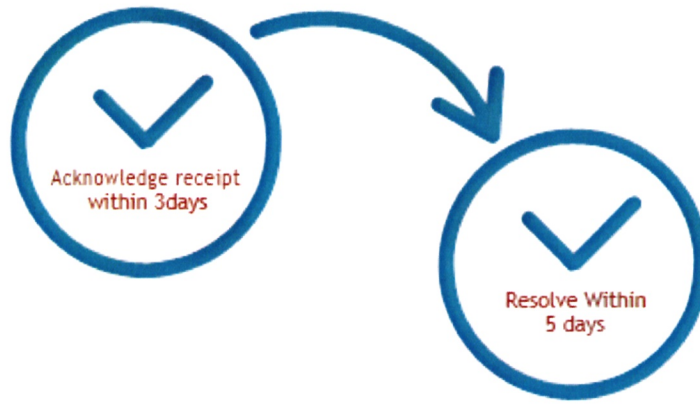
Highlights of the 2018-2023 Strategic Planning



INCREASED PUBLIC AWARENESS



TIME TAKEN TO ADDRESS COMPLAINTS/FEEDBACK



STRENGTHENING STRATEGIC ALLIANCES



TIMELY INFORMATION SHARING



TIMELY DECISION OF RESOLUTION OPTION



INCREASED DEBT RECOVERY / COLLECTION



PROMPT PAYMENTS OF DEPOSITORS

INCREASE VALUE OF DEPOSITS COVERED



Enterprise Risk Management and Business Continuity Planning.

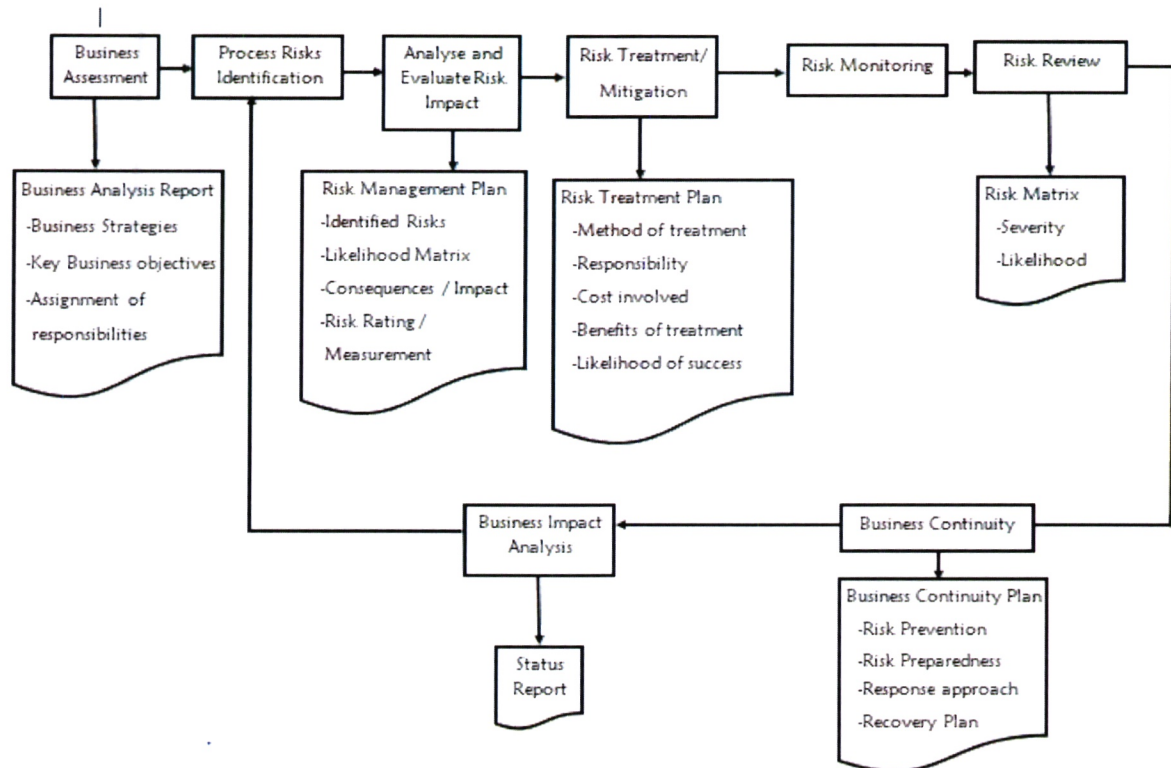
Through the revised career guidelines and Organizational structure, the Corporation has established a fully-fledged department under the Directorate of Corporate Services to Coordinate and facilitate the design and delivery of a robust Enterprise Risk management framework and Business Continuity planning to ensure the Corporations services are available round the clock with minimum disruption and with minimized risks that can pose a serious risk to the business.

The Corporation is putting in place mechanisms to enhance the reduction of corporate risk exposure by implementing the Enterprise risk management framework and sensitizing all staff on the ERM framework.

Subsequently the Corporation is in the process of developing a Business continuity and recovery plan.

The Corporation is in the process of publishing as a matter of immediate priority and next steps the Board of Directors approved Risk Appetite and Risk Tolerance statement which will guide the Management of the institution within the developed framework.

ENTERPRISE RISK MANAGEMENT (ERM) PROCESS FLOWCHART



Quality Management System (QMS)

The corporation in the year 2018 made a strategic Decision to Implement the Quality Management system using the ISO 9001:2015 Standard.

This culminated with the issuing of the Certificate in October 2018.

The Corporation is excited to implement the system using the developed Quality manual and in line with the Processes and Standard operating procedures(SOPs) which have seen the Corporation improve on its operations in a systematic way that guarantees customer focus, Leadership, Engagement of people, Process approach, Improvement, Evidence-based decision making and Relationship management.

In order to operationalize the system, the system the corporation has established the office of Management Representative which amongst other roles is tasked to ensure control and issuance of approved QMS documentation, Coordinating QMS administrative activities including Certification/Internal audits, Follow up on Corrective actions and management review.

The MR also reports to the CEO on the general performance/status of QMS in the corporation.

KDIC is proud of the Certification and the Board and Management commits to ensure the system is enhanced and strengthened in the spirit of Continuous improvement in line with the Principles of Quality management system and the standard.

The Corporation is fully committed to ensure the Internal and external audits are undertaken as per the Policy manual and the Management review meetings are held regularly to evaluate the progress of the system and recommend the appropriate corrective action plan for any areas of non-conforming outputs or observation.

PERFORMANCE CONTRACT BETWEEN KDIC AND THE GOVERNMENT OF KENYA.

Statement of Responsibility by the Board

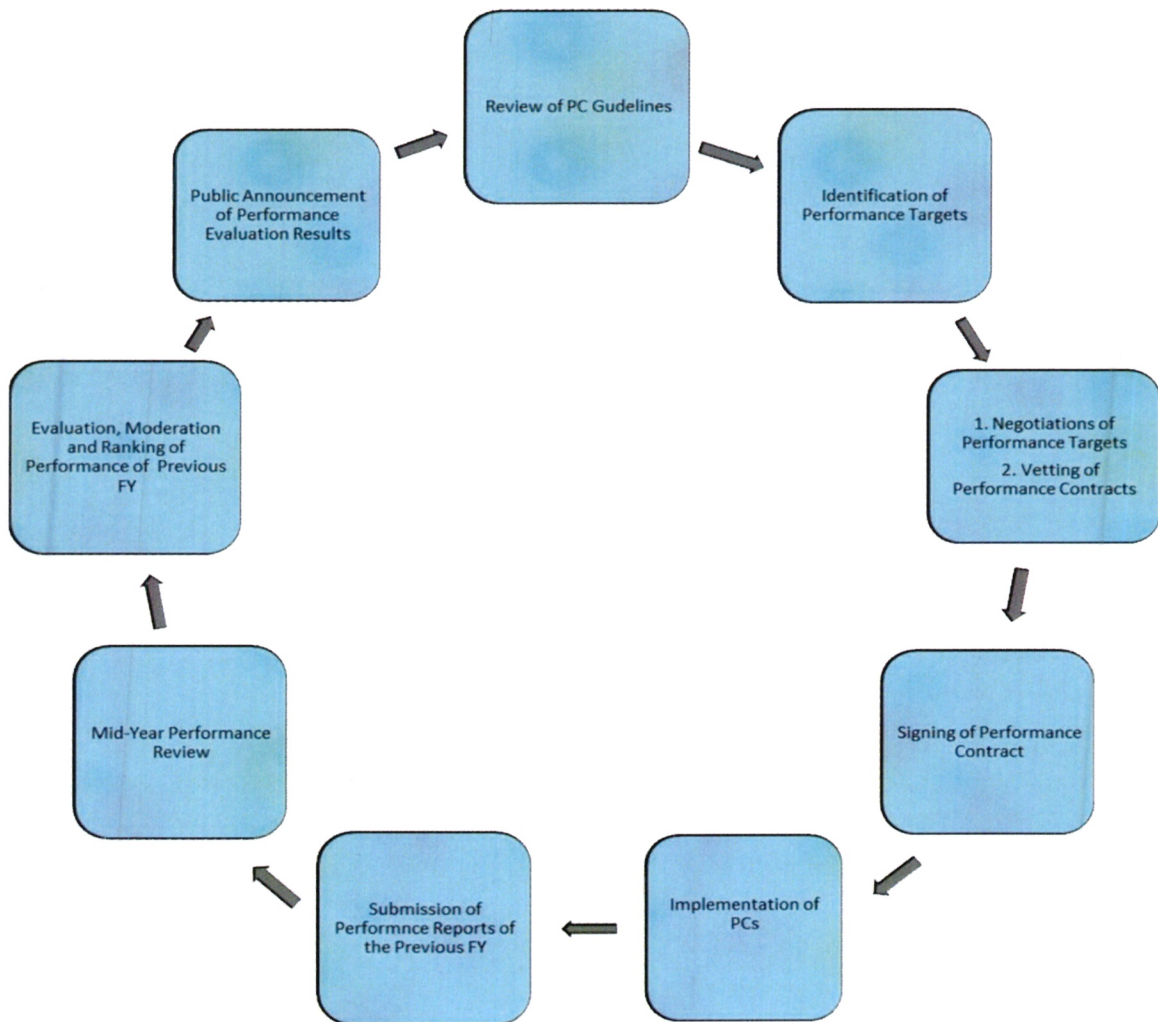
The Mandate of the Kenya Deposit Insurance Corporation is to provide a deposit insurance scheme for depositors of member institutions licensed by the Central Bank of Kenya, provide incentives for sound risk management, promote stability of the financial system and to receive, liquidate and wind up any institution in respect of which the corporation is appointed receiver or liquidator.

It is our responsibility to provide the required leadership in designing suitable plans and strategies that will contribute to high and sustainable socio-economic development. It is our undertaking to ensure that the Corporation has a credible strategic plan and performance contract that will deliver the desired goals.

It is also our undertaking that we will perform our responsibilities diligently and to the best of our abilities to support the achievement of the agreed performance targets.

Performance Contracting Cycle

The flowchart below shows the annual performance contracting cycle.



CORPORATE SOCIAL RESPONSIBILITY STATEMENT/SUSTAINABILITY REPORTING

KDIC continues to embody the true spirit of corporate social responsibility. As such, the Corporation remains committed to the highest standards of corporate citizenship, as guided by our culture and values, rooted in service delivery, integrity, and taking personal responsibility for our actions, outcomes and reputation.

We endeavor to make a difference in the communities in which we live and work, given our national mandate.

Towards this end, our activities for the year are approved by the CSR Committee taking into consideration our KDIC CSR pillars namely;

- Social Responsibility: Commitment to gain the support and approval of its employees, stakeholders and the community
- Economic Responsibility: Commitment to ensure our activities are economically beneficial to communities
- Environmental Responsibility: Commitment towards environmental protection and stewardship

In order to identify projects to be funded by KDIC, the following criteria is strictly adhered to;

- Project objectives must align to the 3 KDIC CSR pillars
- Implementation schedules-Timelines for milestones of the activity/program/project ought to be prescribed
- Responsibilities and authorities
- Expected results and outcomes should be measurable

With this understanding, KDIC therefore undertook to contribute to Universal Health Care agenda in the country by donating hospital equipment and offering training opportunities in Tana River County, at a cost of Ksh. 5 million. However, after a careful re-evaluation with the County health officials, it was agreed that Wenje dispensary was in dire need of such support give that the maternity wing at the Referral Hospital where the equipment was to be delivered initially was far from completion. This new arrangement saw KDIC procure and deliver to the facility medical equipment worth Ksh. 1.8 million. The facility serves over 1000 people living in the area.

Speaking when he received the donation on behalf of the County leadership Tana River County secretary Joshua Jara lauded

KDIC for the support saying it would go a long way in the improvement of service at the dispensary. KDIC delegation was led by Lawrence Lein who represented the Corporation's Chief Executive Officer Mr. Mohamud Ahmed Mohamud.

Away from CSR activities, KDIC held road shows in Coast and Nyanza regions, in a bid to increase its public awareness among depositors in the Country. The successful roadshows that were part of KDIC's publicity activities, were executed in partnership with the Kenya Broadcasting Corporation. During the event, KDIC team also sought to demystify the notion that the banking industry in the country was unstable.



Above: Mr. Lawrence Lein, on behalf of KDIC presents hospital equipment to T. River County Sec. Mr. Joshua Jara. Looking on are CEC Finance and Wenje Dispensary Staff. Below: Wananchi are sensitized on KDIC's mandate during one of our highly successful roadshows in Nyanza





For we care about your welfare...CEO Mr. Mohamud A. Mohamud presenting branded umbrellas to Senior Traffic Officers in Nairobi
During last year's rainy season. The officers later distributed the umbrellas to their juniors who many at times are rained on as they go about their duties. Below, the CEO poses for a group photo with the officers. He was accompanied by Mr. Robert Mbarani, General Manager, Corporate Services



REPORT OF THE DIRECTORS

The Directors of Kenya Deposit Insurance Corporation submit their report together with the draft Financial Statements for the year ended June 30, 2019 which show the state of the Corporation's affairs.

Principal activities

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

Results

The financial results of the Corporation for the year ended June 30, 2019 are set out in the Statement of Profit and Loss and Other Comprehensive Income on page 42.

Directors

The members of the Board of Directors who served during the year were appointed as guided by Section 7 (1) of the Kenya Deposit Insurance Act, 2012. The Directors who served during the period are shown on page 2 of this report.

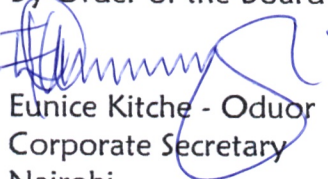
Auditors

The Auditor General is responsible for the statutory audit of the Corporation in accordance with Article 229 of the Constitution of Kenya and the Public Audit Act 2015 for the year/period ended June 30, 2019 in accordance to section 23 of the Public Audit Act, 2015 which empowers the Auditor General to appoint an auditor to audit on his behalf.

Approval of Financial Statements

The Financial Statements were approved at a board meeting of the Directors held 30th August 2019.

By Order of the Board


Eunice Kitche - Oduor
Corporate Secretary

Nairobi

Date:

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and Section 19 of Kenya Deposit Insurance Act, 2012 require the Directors to prepare financial statements in respect of the Corporation, which give a true and fair view of the state of affairs of the Corporation at the end of the financial year/period and the operating results of the Corporation for that year/period. 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 Corporation's financial statements, which give a true and fair view of the state of affairs of the Corporation for and as at the end of the financial year (period) ended on June 30, 2019. 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 Corporation; (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 Corporation; (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 Kenya Deposit Insurance Act, 2012. 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, 2019, 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.

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

Approval of the financial statements

The Corporation's financial statements were approved by the Board on 30th August 2019 and signed on its behalf by:


MR. JAMES TEKLO LOFOYETUM, HSC
CHAIRMAN OF THE BOARD

REPUBLIC OF KENYA

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Enhancing Accountability

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Monrovia Street
P.O. Box 30084-00100
NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA DEPOSIT INSURANCE CORPORATION FOR YEAR ENDED 30 JUNE, 2019

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Kenya Deposit Insurance Corporation set out on pages 42 to 78, which comprise the statement of financial position as at 30 June, 2019, and the statement of profit or loss and other comprehensive income, statement of changes in fund balance, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of Kenya Deposit Insurance Corporation as at 30 June, 2019, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS), and comply with the Public Finance Management Act, 2012 and the Kenya Deposit Insurance Act, 2012.

Basis for Opinion

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of the Kenya Deposit Insurance Corporation Management in accordance with ISSAI 130 on Code of Ethics. I have fulfilled other ethical responsibilities in accordance with the ISSAI and in accordance with other ethical requirements applicable to performing audits of financial statements in Kenya. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

As required by Section 7(1)(a) of the Public Audit Act, 2015, based on the audit procedures performed, I confirm that, nothing has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

The audit was conducted in accordance with ISSAI 2315 and ISSAI 2330. The standards require that I plan and perform the audit to obtain assurance about whether effective processes and systems of internal control, risk management and overall governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

Responsibilities of Management and those Charged with Governance

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and for maintaining effective internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error and for its assessment of the effectiveness of internal control, risk management and overall governance.

In preparing the financial statements, Management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management is aware of the intention to terminate the Corporation or to cease operations.

Management is 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.

In addition to the responsibility for the preparation and presentation of the financial statements described above, Management is also responsible for ensuring that the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities which govern them, and that public resources are applied in an effective way.

The Board of Directors is responsible for overseeing the financial reporting process, reviewing the effectiveness of how the Corporation monitors compliance with relevant legislative and regulatory requirements, ensuring that effective processes and systems are in place to address key roles and responsibilities in relation to overall governance and risk management, and ensuring the adequacy and effectiveness of the control environment.

Auditor-General's Responsibilities for the Audit

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

In addition to the audit of the financial statements, a compliance audit is planned and performed to express a conclusion about whether, in all material respects, the activities, financial transactions and information reflected in the financial statements are in compliance with the authorities that govern them and that public resources are applied in an effective way, in accordance with the provisions of Article 229(6) of the Constitution and submit the audit report in compliance with Article 229(7) of the Constitution.

Further, in planning and performing the audit of the financial statements and audit of compliance, I consider internal control in order to give an assurance on the effectiveness of internal controls, risk management and overall governance processes and systems in accordance with the provisions of Section 7(1)(a) of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution. My consideration of the internal control would not necessarily disclose all matters in the internal control that might be material weaknesses under the ISSAIs. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation

to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Because of its inherent limitations, internal control may not prevent or detect misstatements and instances of non-compliance. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the Corporation's policies and procedures may deteriorate.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.
- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Corporation to cease to continue as a going concern
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Corporation to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

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

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships

and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.



Nancy Gathungu
AUDITOR-GENERAL

Nairobi

18 February, 2021

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2019

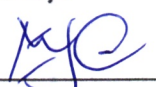
	Note	2019 KShs'000	2018 KShs'000
REVENUE			
Assessment income	4	4,745,812	4,343,271
Investment income	5	10,775,201	9,303,591
Other income	6	24,967	37,342
		<u>15,545,979</u>	<u>13,684,204</u>
		=====	=====
EXPENSES			
Staff costs	7	269,112	225,624
Administration and establishment expenses	7	218,840	214,727
Board Expenses	7	24,400	15,082
Depreciation and amortisation	8, 9, 10	58,858	13,813
		<u>14,974,770</u>	<u>13,214,958</u>
SURPLUS FOR THE YEAR BEFORE TAXATION			
Taxation	1(f)	0	0
		<u>14,974,770</u>	<u>13,214,958</u>
SURPLUS FOR THE YEAR AFTER TAXATION			
Other comprehensive income		0	0
		<u>14,974,770</u>	<u>13,214,958</u>
TOTAL COMPREHENSIVE INCOME			
		=====	=====

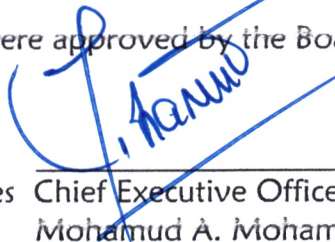
Kenya Deposit Insurance Corporation
Annual Report and Financial Statements for the year ended June 30, 2019

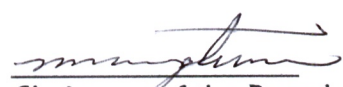
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Note	2019 KShs'000	2018 KShs'000
ASSETS			
Non-current assets			
Property and equipment	8	359,457	73,366
Intangible assets	9	57,153	86,067
Prepaid operating lease rentals	10	2,824	2,922
Government securities	11	55,403,347	28,061,781
		<hr/>	<hr/>
		55,822,781	28,224,136
		<hr/>	<hr/>
Current assets			
Government securities	11	49,814,222	62,228,318
Receivables and prepayments	12	24,257	69,827
Inventories	13	3,211	6,529
Cash and bank balances	14	64,232	17,220
		<hr/>	<hr/>
		49,905,922	62,321,894
		<hr/>	<hr/>
TOTAL ASSETS		105,728,703	90,546,030
		=====	=====
FUND BALANCE AND LIABILITIES			
Fund balance		105,350,248	90,374,763
		<hr/>	<hr/>
Current liabilities			
Payables and accruals	15	266,732	102,258
Due to related party	16	23,949	7,743
Deferred income	17	87,774	61,266
		<hr/>	<hr/>
		378,455	171,267
		<hr/>	<hr/>
TOTAL FUND BALANCE AND LIABILITIES		105,728,703	90,546,030
		=====	=====

The financial statements were approved by the Board on 30th August 2019 and signed on its behalf by:


Head of Corporate Services
Robert Mbarani
ICPAK M/NO: 3594


Chief Executive Officer
Mohamud A. Mohamud


Chairman of the Board
James Teko Lopoyetum, HSC

STATEMENT OF CHANGES IN FUND BALANCE FOR THE YEAR ENDED 30 JUNE 2019

	Fund balance KShs'000
30 June 2018	
At 1 July 2017	77,159,804
Surplus for the year	13,214,959
	<hr/>
At 30 June 2018	90,374,763
	=====
30 June 2019	
At 1 July 2018	90,374,763
Adjustment on 2017/2018 transaction	715
	<hr/>
Surplus for the year	14,974,770
	<hr/>
At 30 June 2019	105,350,248
	=====

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2019

	Note	2019 KShs'000	2018 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the year		14,974,770	13,214,959
<i>Adjustment for:</i>			
Depreciation of property and equipment	8	29,846	13,813
Amortisation of software	9	28,914	28,914
Amortisation of prepaid operating lease rentals	10	98	98
Interest income		-10,775,201	-9,303,591
<i>Changes in working capital:</i>			
Receivables and prepayments		45,570	-25,098
Inventory		3,318	-2,309
Payables and accruals		164,474	-15,087
Deferred income		26,508	45,940
Due to related party		16,206	-17,838
		<hr/>	<hr/>
Net cash generated from operating activities		4,514,504	3,939,801
		=====	=====
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of government securities		-80,206,068	-75,741,298
Disposal of government securities		65,275,721	62,226,206
Purchase of intangible assets	9	-	-
Purchase of property and equipment	8	-315,936	-20,030
Interest received		10,512,340	9,303,591
		<hr/>	<hr/>
Net cash (used in)/generated from investment activities		-4,733,943	-4,231,531
		=====	=====
Net (decrease)/increase in cash and cash equivalents		-219,439	-291,730
CASH AND CASH EQUIVALENTS AT 1 JULY 2018		684,377	976,108
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT 30 JUNE 2019	14	464,938	684,378
		=====	=====

Kenya Deposit Insurance Corporation
Annual Reports and Financial Statements for the year ended June 30, 2019

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2019

KDIC Operational Budget

	2018/2019 BUDGET	ADJST	FINAL BUDGET	ACTUAL INCOME/ EXPENDITURE	PERFORMANCE DIFFERENCE IN KSHS.	IN %
NOTE						
Revenue						
23	Approved Budget		1,965,886,939	1,965,886,939	0	0.00%
	Total Revenues		1,965,886,939	1,965,886,939	0	
Expenditure						
23(i)	Staff costs	-	327,060,270	269,112,211	57,948,059	82.28%
23(ii)	Administration and establishment expenses	-	410,090,321	218,839,501	191,250,820	53.36%
23(iii)	Board Expenses	-	28,136,679	24,399,829	3,736,850	86.72%
23(iv)	Depreciation/Amortisation	-	53,519,669	58,858,235	-5,338,566	109.97%
23(v)	Capital Budget	-	400,080,000	262,258,865	137,821,135	65.55%
23(vi)	Mortgage/Car Loan Budget	-	747,000,000	747,000,000	-	100.00%
	Total expenditures	-	1,965,886,939	1,580,468,642	385,418,297	80.39%
	Net Surplus	0	0	385,418,297	385,418,297	
	=====		=====	=====	=====	

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2019
(CONTINUED)

	2018/2019 BUDGET	ADJST	FINAL BUDGET	ACTUAL INCOME/ EXPENDITURE	PERFORMANCE DIFFERENCE IN KSHS.	IN %
KDIC Fund Budget						
Revenue						
23(vii) Assessed Contributions	4,548,019,000	-	4,548,019,000	4,745,812,102	197,793,102	104.35%
23(2) Grants Received	-	-	-	-	-	
23(3) Government Securities	9,127,941,000	-	9,127,941,000	10,775,200,604	1,647,259,604	118.05%
23(4) Other Income	-	-	-	9,143,739	9,143,739	100.00%
Total Fund Revenues	13,675,960,000		13,675,960,000	15,530,156,446	1,854,196,446	113.56%

1. GENERAL INFORMATION

Kenya Deposit Insurance Corporation is established by and derives its authority and accountability from Kenya Deposit Insurance (KDIC) Act 2012. This is a wholly owned by the Government of Kenya and is domiciled in Kenya. The Corporation's principal activity is to provide deposit insurance scheme to customers of member institutions.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis except for the marketable securities and financial instruments at fair value and impaired assets at their estimated recoverable. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions.

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

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

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

- i) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2019

IFRS 17 Insurance Contracts (Issued 18 May 2017)

IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 *Insurance Contracts* as of 1 January 2021.

*Amendments to References to the Conceptual Framework in IFRS Standards
(Issued 29 March 2018- Applicable for annual periods beginning 1 January 2020)*

Together with the revised Conceptual Framework published in March 2018, the IASB also issued Amendments to References to the Conceptual Framework in IFRS Standards. The document contains amendments to IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32. Not all amendments, however update those pronouncements with regard to references to and quotes from the framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the framework they are referencing to (the IASC framework adopted by the IASB in 2001, the IASB framework of 2010, or the new revised framework of 2018) or to indicate that definitions in the standard have not been updated with the new definitions developed in the revised Conceptual Framework.

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the Corporation's financial statements.

IFRS 16 Leases

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

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

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any re-measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease

payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion, which will be presented as financing and operating cash flows respectively.

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

The Directors of the Corporation anticipate IFRS 16 will be adopted in the Corporation's financial statements for the annual period beginning 1 January 2019 for the financial year 2019/2020. It is not practicable to provide a reasonable estimate of the effect of IFRS 16 until a detailed review has been completed and the review shall be conducted in the financial year 2019/2020.

ii) Impact of the relevant new and amended standards and interpretations in issue and effective for the year ended 30 June 2019 and application to the financial statements

IFRS 9 Financial Instruments

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

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

Key requirements of IFRS 9:

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

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

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

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

Phase 2: Impairment methodology

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

Phase 3: Hedge accounting

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

The Directors of the Corporation have applied the business model test to classify the Corporation's financial assets being Government Securities held to maturity and trade receivables and have determined that the assets should be measured at amortised cost. There are no indications of impairment on the Government Securities. In line with the provisions of this standard, we have provided for bad debts on trade receivables at 5% of all receivables aged 91 days and above.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current

revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

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

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

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

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

The operations of the Corporation do not give rise to a measurable obligation therefore the transaction price cannot be determined and recognised as revenue as per the provisions of this standard. This standard therefore does not affect the Corporation's Financial Statements.

IV. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies adopted in the preparation of these financial statements are set out below:

a) Revenue recognition

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

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

b) Translation of foreign currencies

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

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

c) Provisions for payments to depositors

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

d) Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Payments made under operating leases are recognized as an expense in the profit or loss on a straight-line basis over the lease term.

e) Retirement Benefit Obligation

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 holds a designated gratuity account where 31% of the basic pay of employees on contract is placed after every month,

The Corporation is also in the process of setting up a pension scheme for all staff that are employed on a permanent and pensionable basis.

The Corporation has staff seconded from the Central Bank of Kenya. The staff are paid by the Central Bank and KDIC reimburses the Central Bank for these expenses.

All KDIC staff are members of the National Social Security Fund (NSSF).

f) Taxation

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

g) Financial assets and liabilities

(i) Recognition

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

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

(ii) Classification

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

Held-to-maturity

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

Other financial liabilities

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

(iii) Identification and measurement of impairment of financial assets

At each reporting date the Corporation assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates

that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the carrying amount.

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

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

g. Financial assets and liabilities

(iv) Derecognition

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

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

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

(v) Offsetting of financial assets and financial liabilities

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

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

(vi) Fair value of financial assets and liabilities

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

h. Impairment for non-financial assets

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

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset Corporation that generates cash flows that largely are independent from other assets and Corporations. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (Corporation of units) on a pro-rata basis.

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

i. Investment held for sale

Investment held for sale relates to investment in a subsidiary which is accounted for under IFRS 5 'Non-current assets held for sale and discontinued operations'. The investment is stated at the lower of its carrying amount and the fair value less costs to sell.

j. Cash and cash equivalents

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

k. **Property and equipment**

(i) *Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

(ii) *Subsequent costs*

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

(iii) *Depreciation*

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

Long-term leasehold land	<i>over the lease period</i>
Buildings	2.00%
Computer equipment	33.33%
ICT equipment	20.00%
Office equipment, furniture and fittings	20.00%
Motor vehicles	25.00%
Intangible assets (Software)	25.00%

Depreciation methods, useful lives and residual values are reassessed and adjusted, if appropriate, at each reporting date. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are recognized in profit or loss in the year in which they arise.

l. **Related parties**

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

m. **Grants**

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

n. **Inventory**

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

3. 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 fulfilment 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.

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

	2019 KShs'000	2018 KShs'000
Bank and cash balances	64,232	17,219
Receivables	24,256	15,570
Government securities	105,217,569	90,290,100
	<hr/>	<hr/>
	105,306,057	90,322,889
	=====	=====

The aging of receivables at the reporting date was:

Not past due	-	-
Past due 0 – 30 days	7,450	14,859
Past due 31 – 90 days	9,612	-
Past due above 90 days	7,195	<u>711</u>
	<hr/>	<hr/>
	24,257	15,570
	=====	=====

c) 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:

	Effective Interest Rate	Upto 1 year KShs'000	1 – 5 years KShs'000	6 – 10 years KShs'000	10 years KShs'000	Total KShs'000
2019						
Investments held to maturity		48,429,856	23,366,138	22,049,570	11,372,005	105,217,569
Interest sensitivity gap at 30 June 2019	10.97%	48,429,856	23,366,138	22,049,570	11,372,005	105,217,569
2018						
Investments held to maturity		62,228,319	13,577,800	13,017,329	1,466,651	90,290,100
Interest sensitivity gap at 30 June 2018	10.82%	62,228,319	13,577,800	13,017,329	1,466,651	90,290,100

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.

	2019 Shs'000	2018 Shs'000
Effect on surplus for the year of a +5% change in interest rates	538,760	465,180
Effect on surplus for the year of a -5% change in interest rates	-538,760	-465,180
	<u> </u>	<u> </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.

(b) **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 310.9 million (2018 - KShs 109.92 million) and are all short term.

Kenya Deposit Insurance Corporation
Annual Reports and Financial Statements for the year ended June 30, 2019

c. 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:

	Other financial liability KShs '000	Loans and receivables KShs '000	Held to maturity KShs '000	Total carrying value KShs '000	Fair value KShs '000
2019					
Financial assets					
Government securities	-	-	105,217,569	105,217,569	105,217,569
Cash and bank balances	-	64,232	-	64,232	64,232
Receivables	-	24,257	-	24,257	24,257
	-	88,489	105,217,569	105,306,058	105,306,058
Financial liabilities					
Amounts due to related parties	23,949	-	-	23,949	23,949
Payables and accruals	266,732	-	-	266,732	266,732
	290,681	-	-	290,681	290,681
2018					
Financial assets					
Government securities	-	-	90,290,100	90,290,100	90,290,100
Cash and bank balances	-	17,220	-	17,220	17,220
Receivables	-	69,826	-	69,826	69,826
		87,046	90,290,100	90,377,146	90,377,146
Financial liabilities					
Amounts due to related parties	7,743	-	-	7,743	7,743
Payables and accruals	102,258	-	-	102,258	102,258
	110,001	-	-	110,001	110,001

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Budget information

The original budget for FY 2018-2019 was approved by the National Assembly on 26th September 2018. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Corporation upon receiving the respective approvals in order to conclude the final budget.

The Corporation's budget is prepared on a different basis to the actual income and expenditure disclosed in the financial statements. The financial statements are prepared on accrual basis using a classification based on the nature of expenses in the statement of financial performance, whereas the budget is prepared at the beginning of the period on assumptions and projections for costs that have not been incurred. A comparison of budget and actual amounts, prepared on a comparable basis to the approved budget, is then presented in the statement of comparison of budget and actual amounts. A statement to reconcile the actual amounts on a comparable basis included in the statement of comparison of budget and actual amounts and the actuals as per the statement of financial performance has been presented in these financial statements.

i) Comparative figures

Where necessary comparative figures for the previous financial year have been amended or reconfigured to conform to the required changes in presentation.

j) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2019.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4 ASSESSMENT INCOME

	2019 KShs'000	2018 KShs'000
Total average deposits of institutions assessed as contributors	3,163,417,482	2,893,913,995
0.15% of total average deposits		
- Contributions from Commercial Banks	4,686,032	4,340,871
- Contribution from Deposit Taking Microfinance at 0.15% of deposits	58,580	-
- Contribution from Deposit Taking Microfinance at minimum premium	1,200	2,400
Total assessment income	4,745,812	4,343,271

5 INVESTMENT INCOME

	2019 KShs'000	2018 KShs'000
<i>(i) Interest earned on treasury bills</i>		
Discount on 91 day treasury bills	49,349	108,115
Discount on 182 day treasury bills	361,025	315,586
Discount on 364 day treasury bills	5,006,196	4,820,087
	5,416,570	5,243,788
<i>(ii) Interest earned on treasury bonds</i>		
Matured bonds	5,277,648	4,005,562
Discount on purchase	61,593	86,317
Amortisation of premium	19,389	-32,076
	5,358,631	4,059,803
Total investment income	10,775,201	9,303,591

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6 OTHER INCOME

	2019 KShs'000	2018 KShs'000
Recoveries from subrogated claims	91	10,566
Penalty charges on late contributions	8,957	8,444
Miscellaneous income	96	107
Grant income	15,823	18,225
	<hr/>	<hr/>
	24,967	37,342
	<hr/> <hr/>	<hr/> <hr/>

7 ADMINISTRATION COSTS

	2019 KShs'000	2018 KShs'000
a. Staff Costs		
Staff salaries	215,668	199,671
Gratuity	25,210	-
Medical Expenses	23,598	25,953
Subscriptions	4,636	-
	<hr/>	<hr/>
	269,112	225,624
	<hr/> <hr/>	<hr/> <hr/>
b. Administration and establishment expenses		
Philanthropic donations	643	4,772
Auditors remuneration	2,050	1,930
Occupancy costs	54,377	19,007
Other expenses	161,769	189,018
	<hr/>	<hr/>
	218,840	214,727
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7. ADMINISTRATION COSTS (CONTINUED)

c. Board expenses

Fees to Directors	8,669	5,677
Other Directors' Expenses	15,731	9,405
	<hr/>	<hr/>
	24,400	15,082
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8 PROPERTY, PLANT AND EQUIPMENT

	Buildings*	Motor vehicles	Furniture & Fittings	Computers	ICT Equipment	Office & Kitchen Equipment	Work in Progress	Total
COST	Kshs.'000'							
At 1st July 2017	19,224	14,687	26,108	13,697	56,673	22,221	-	152,610
Additions	-	10,481	45	4,342	4,792	370	-	20,005
At 30th June 2018	19,224	25,168	26,153	18,039	61,465	22,591	-	172,640
At 1st July 2018	19,224	25,168	26,153	18,039	61,465	22,591	-	172,640
Additions		16,435		1,545	102,052	716	195,188	315,936
At 30th June 2019	19,224	41,603	26,153	19,584	163,517	23,307	190,516	488,576
DEPRECIATION								
At 1st July 2017	5,634	9,411	15,549	11,092	31,342	12,433	-	85,461
Charge for the year	421	2,136	1,321	2,190	5,772	1,973	-	13,813
Disposals	-	-	-	-	-	-	-	-
At 30th June 2018	6,055	11,547	16,870	13,282	37,114	14,406	0	99,274
At 1st July 2018	6,055	11,547	16,870	13,282	37,114	14,406	0	99,274
Charge for the year	421	3,405	1,160	2,936	20,178	1,745	-	29,845
Disposals	-	-	-	-	-	-	-	-
At 30th June 2019	6,476	14,952	18,030	16,218	57,292	16,151	-	129,119
NET BOOK VALUES								
At 30th June 2018	13,169	13,621	9,283	4,757	24,351	8,185	-	73,366
At 30th June 2019	12,748	26,651	8,123	3,366	106,225	7,156	190,516	359,457

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The additions relate to the acquisition of two motor vehicles (motor vehicles) establishment of a disaster recovery data centre (ICT equipment) and ongoing partitioning works that is currently held under work in progress.

The amount held in Buildings is attributable to a go-down that the corporation owns in Nairobi. The go-down is used for storage of documents and other assets that are owned by institutions which KDIC is acting as a receiver, liquidator or have been liquidated. The directors have proposed that the building be valued during the financial year 2018/2019 for purposes of reflecting the updated market value in the financial statements.

9 INTANGIBLE ASSETS

COST	Kshs.'000
At 1st July 2017	4,055
Additions	111,601
Disposals	-
At 30th June 2018	115,656
At 1st July 2018	115,656
Additions	-
At 30th June 2019	115,656
AMORTIZATION	
At 1st July 2017	676
Charge for the year	28,914
At 30th June 2018	29,590
At 1st July 2018	29,590
Charge for the year	28,914
At 30th June 2019	58,504
NET BOOK VALUES	
At 30th June 2018	86,066
At 30th June 2019	57,153

Intangible Assets relate to Computer Software being the ERP system, e-Board system and server software. There were no acquisitions of Intangible Assets during the financial year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

10 PREPAID OPERATING LEASE RENTALS

COST	Kshs.'000'
At 1st July 2017	4,522
Additions	-
At 30th June 2018	4,522
At 1st July 2018	4,522
Additions	-
At 30th June 2019	4,522
DEPRECIATION	
At 1st July 2017	-
Charge for the year	98
At 30th June 2018	98
At 1st July 2018	1,599
Charge for the year	98
At 30th June 2019	1,697
NET BOOK VALUES	
At 30th June 2018	2,923
At 30th June 2019	2,824

The prepaid operating lease rental carries the value of the land where our go down is located. The land is leasehold land and is amortized over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

11 GOVERNMENT SECURITIES

	2019 KShs'000	2018 KShs'000
Treasury bills maturing within 91 days of placement (note 14)	400,706	667,158
Treasury bills maturing after 91 days from date of placement	48,788,513	58,341,350
Treasury bonds maturing within 1 year	625,003	3,219,811
Treasury bonds maturing after 1 year	55,403,347	28,061,781
	<hr/>	<hr/>
	105,217,569	90,290,100
	<hr/>	<hr/>
Comprising:		
Maturing within 1 year	49,814,222	62,228,319
Maturing after 1 year	55,403,347	28,061,781
	<hr/>	<hr/>
	105,217,569	90,290,100
	<hr/>	<hr/>

12 TRADE RECEIVABLES & PREPAYMENT

	2019 KShs'000	2018 KShs'000
Prepayments	1,303	5,251
Grant Receivable	498	49,005
Other Receivables	22,456	15,570
	<hr/>	<hr/>
	24,257	69,826
	<hr/>	<hr/>

13 INVENTORIES

	2019 KShs'000	2018 KShs'000
Inventories	3,211	6,529
	<hr/>	<hr/>

Inventories comprise of stationery and other consumables

NOTES TO THE FINANCIAL STATEMENTS (Continued)

14 BANK AND CASH BALANCES

	2019 KShs'000	2018 KShs'000
Treasury bills maturing within 91 days from the date of placement (note 11)	400,706	667,158
Cash and bank balance	64,232	17,220
	<u>464,938</u>	<u>684,378</u>

The Cash and Bank Balance is made up of:

Cash In Hand	16	1
KDIC's Corporation Current Account	17,448	17,020
KDIC's Fund Current Account	667	199
KDIC's Fund Investment Account	46,101	0
	<u>64,232</u>	<u>17,220</u>

15 TRADE PAYABLES & ACCRUALS

	2019 KShs'000	2018 KShs'000
Retention fees payable to contractors*	11,821	-
Provision for Trade Liabilities**	135,567	-
Provision for deposit payoffs	59,419	59,978
Provision for Staff Leave Days	4,101	-
Provision for Gratuity	17,166	-
Provision for bad debts*	357	-
Provision for audit fees	1,500	-
Sundry payables and accruals	36,800	42,281
	<u>266,732</u>	<u>102,259</u>

* Retention fees payable to contractors are payments withheld contractually for an agreed performance period on works attributable to the ongoing partitioning of our office premises at UAP Old Mutual Towers.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

** Provision for Trade Liabilities is made up of the partitioning works that had been delivered by the reporting date but the contractor had not completed the Government of Kenya's works certification process therefore could not have issued invoices.

In line with the provisions of IFRS 9: Financial Instruments which became effective during the financial year under review, the directors of the corporation have provided for bad debts on trade receivables at 5% of all receivables aged 91 days and above.

16 DUE TO RELATED PARTY

	KShs'000	KShs'000
Central Bank of Kenya	22,728	7,638
Kenya School of Monetary Studies	1,221	105
	<hr/>	<hr/>
	23,949	7,743
	<hr/> <hr/>	<hr/> <hr/>

The amounts due to the Central Bank of Kenya are comprised of salary refund for CBK staff on secondment to KDIC (17.6 million) and other refunds on expenses related to the staff (5.1 million). The amounts due to the Kenya School of Monetary Studies are for the payment of training and conferencing facilities for KDIC's staff.

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

17 DEFERRED INCOME

	2019 KShs'000	2018 KShs'000
Unamortised grant income		
At 1 July 2018	61,266	15,326
Additional grant	42,331	49,005
Amortisation charge	(15,823)	(3,065)
	<hr/>	<hr/>
At 30 June 2019	87,775	61,266
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

18 RELATED PARTY TRANSACTIONS

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

	2019 KShs'000	2018 KShs'000
(a) Directors' emoluments and senior management remuneration		
(i) Fees to Directors	8,669	5,677
(ii) Other Directors' Expenses	15,731	9,405
(iii) Remuneration to senior management	46,693	69,921
(b) Cash and balances held with Central Bank of Kenya	64,232	17,220
(c) Investments in Government Securities through the Central Bank of Kenya	105,217,569	
d) Part of the staff establishment of the Corporation are seconded to the Corporation by Central Bank of Kenya. The salaries of these staff are paid by the Central Bank of Kenya and fully reimbursed by the Corporation. In the year salaries paid to staff by the Central Bank of Kenya amounted to Kshs.242.4Million (2018-Kshs.138.6 Million)		
e) The Central Bank of Kenya is also the sponsor of the CBK Staff Pension Fund to which the Corporation contributes on behalf of employees seconded to it from Central Bank of Kenya. In the year, the Corporation's contribution to the Fund amounted to Kshs. 9.7Million (2018-Kshs.11.68 Million)		
f) The CBK Staff Pension Fund provides the Corporation with office space and charges it rent. The Corporation also reimburses maintenance costs incurred by the Central Bank of Kenya on its behalf. In the year, rent and maintenance costs charged amounted to Kshs.54.2 Million (Kshs.19.01Million-2018)		

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 COMMITMENTS

	2019 KShs'000	2018 KShs'000
(a) Capital Commitments		
Authorized but not contracted for	400,080	1,683,080
	=====	=====

The Corporation has moved into a new office complex and the Capital commitments authorized relates mainly to office furniture, fittings, equipment, Data Centre installations, cabling and Telephone wirings and three motor vehicles.

	2019 KShs'000	2018 KShs'000
(b) Operating lease commitments		
Falling due within one year	97,111	94,032
Falling due between one and five years	445,577	-
Falling due after 5 years	40,531	
	<u>583,220</u>	<u>94,032</u>

During the financial year ended 30 June 2019, KShs 54.2 million (2018 – KShs 19.01 million) was recognized as rental expense.

20 CONTINGENT LIABILITIES

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

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

21 CURRENCY

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

22 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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 EXPLANATION OF PERFORMANCE ON THE STATEMENT OF BUDGET & ACTUAL COMPARISON

- i. The Corporation had a budget provision for additional staff complement within the various Directorates, to meet its new mandate. As of 30th June 2019 the Corporation had recruited 30 members out of the approved staff establishment of 110. The corporation is in the process of populating the structure an exercise that is projected to be finalised in September, 2019.
- ii. There was an under expenditure in administration and establishment expenses occasioned by the Corporation still undergoing transition by the close of the financial year and with less than the planned number of staff, administrative expenses were lower.
- iii. Board expenses covers all expenses directly incurred on the Board business and they were reasonably within budget.
- iv. The costs relating to the concluded ICT project were amortized hence increasing the Depreciation/Amortization costs. This had not fully been factored in the budget as the commissioning was earlier than scheduled.
- v. The capital budget was not fully utilized during the period under review for the following reasons:
 - The ongoing partitioning works were expected to have been completed during the year but the contractors had not completed the works by the end of the financial year. Further, expenses associated to the completion of the works were not incurred. Such include the purchase of furniture.
 - It had been anticipated that the corporation was to recruit additional staff during the financial year. The number of positions that were filled during the financial year was below the anticipated number.
- vi. The Corporation anticipated to implement a Mortgage and Car Loan policy for its staff during the 2018/2019 financial year. The Corporation developed the policy and it was approved by the Board of Directors. The final approval from the National Treasury was obtained in May 2019 and no application of a facility had led to a disbursement of funds during the financial year under review.
- vii. The assessed contributions from member Institutions was Kshs.4.7B against a budget of Kshs.4.5B. The increase is attributed to the increase of total deposits by member institutions.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

- ix. Other miscellaneous income received amounted to Kshs. 9 Million relating to penalties levied to the financial institutions that paid premium contributions after the due date plus recoveries from subrogated debts. The late payments were not envisaged during budgeting since it was assumed that all contributions will be remitted as they fall due.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

APPENDIX 1: COMMERCIAL BANKS AND OTHER FINANCIAL INSTITUTIONS ASSESSED
FOR THE YEAR ENDED 30TH JUNE 2019

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

**APPENDIX 1: COMMERCIAL BANKS AND OTHER FINANCIAL INSTITUTIONS ASSESSED
FOR THE YEAR ENDED 30TH JUNE 2019**

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. Key Microfinance Bank Limited
10. SMEP Microfinance Bank Limited
11. Sumac Microfinance Bank Limited
12. U & I Microfinance Bank Limited
13. Uwezo Microfinance Bank Limited