

SPECIAL ISSUE



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DEPOSIT PROTECTION FUND BOARD

ANNUAL REPORT AND FINANCIAL STATEMENTS 30 JUNE 2010

BOARD OF DIRECTORS

Prof. Njuguna S. Ndung'u
Joseph Kinyua
Rasiklal C. Kantaria
Terence Davidson
Gideon M. Muriuki
Anne Weda Ammissabuor
James Macharia
Nasim Devji
Richard Etemesi
Jane K. Ikunyua

Chairman
Permanent Secretary, Treasury
Member (Retired on 12 January 2010)
Member
Member (Retired on 12 January 2010)
Member
Member (Appointed on 15 March 2010)
Member (Appointed on 15 March 2010)
Member
Board Secretary

BOARD AUDIT COMMITTEE

Terence Davidson
Rasiklal C. Kantaria
Richard Etemesi
Martin Gumo
William Nyagaka

Chairman
Retired (12 January 2010)
Appointed (25 March 2010)
Alternate to PS Treasury

SENIOR MANAGEMENT

Rose Detho
Kakai Cheloti
Linah C. Soi
Jane K. Ikunyua
Mohamud A. Mohamud
Irene M'rabu
Samson N. Aling'

Director (Appointed on 26 August 2009)
Director (Retired on 26 August 2009)
Assistant Director - Finance & Administration
Assistant Director - Legal
Assistant Director - Liquidations
Manager - Deposit Insurance and Risk Management
Manager - Finance

PRINCIPAL PLACE OF BUSINESS

Marshall House
Harambee Avenue
P.O. Box 45983 - 00100
NAIROBI

AUDITORS

Ernst & Young
Kenya-Re Towers, Upper-hill
Off Ragati Road
P.O. Box 44286 - 00100
NAIROBI

BANKERS

Central Bank of Kenya
P.O. Box 60000-00200
NAIROBI

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2010

The directors submit their report together with the audited financial statements for the year ended 30 June 2010, which shows the state of affairs of the Board.

1. INCORPORATION

The Board is incorporated under the Banking Act Cap 488 of the Laws of Kenya.

2. PRINCIPAL ACTIVITIES

The Board is established and administered under the Banking Act with the principal object to provide a deposit insurance scheme for customers of member institutions and liquidate and wind up the operations of any institution in respect of which the Board is appointed as a liquidator in accordance with the Banking Act or any other written law.

3. RESULTS

The results for the year are set out on page 7.

4. DIRECTORS

The directors who served during the year and up to the date of this report are listed on page 3569.

5. AUDITORS

The auditors, Ernst & Young, were appointed during the financial year 2007/2008 in line with the Public Procurement and Disposal Act (2005), for a period of four years.

By order of the Board

JANE K. IKUNYUA
Board Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

The Banking Act requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Board as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure that the Board keeps proper accounting records, which disclose with reasonable accuracy the financial position of the Board. They are also responsible for safeguarding the assets of the Board.

The directors accept responsibility for the annual 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 and in the manner required by the Banking Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Board and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of the financial statements, as well as adequate systems of internal financial control.

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

PROF. NJUGUNA S. NDUNGU
CHAIRMAN

RICHARD ETEMESI
MEMBER

23rd September, 2010.
Date

**REPORT OF THE INDEPENDENT AUDITORS TO THE MINISTER FOR FINANCE ON THE FINANCIAL STATEMENTS OF
DEPOSIT PROTECTION FUND BOARD****Report on the Financial Statements**

We have audited the accompanying financial statements of the Deposit Protection Fund Board set out on pages 3571 to 3581, which comprise the Statement of Financial Position as at 30 June 2010, and the Statement of Comprehensive Income, Statement of Changes in Fund Balance and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Deposit Protection Fund Board as at 30 June 2010, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, and the requirements of the Banking Act (Cap 488).

REPORT OF THE INDEPENDENT AUDITORS TO THE MINISTER FOR FINANCE ON THE FINANCIAL STATEMENTS OF DEPOSIT PROTECTION FUND BOARD

Report on Other Matters

We also report to you, based on our audit, that:

- (i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- (ii) In our opinion proper books of account have been kept by the Board, so far as appears from our examination of those books;
- (iii) The Board's Statement of Financial Position and Statement of Comprehensive Income are in agreement with the books of account.

ERNST & YOUNG
Nairobi

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

	Note	2010 KShs'000	2009 KShs'000
ASSETS			
NON-CURRENT ASSETS			
Property and equipment	2	28,550	28,328
Prepaid operating lease rentals	3	3,713	3,812
Investment held for sale	4	100	100
Government securities	5	<u>17,825,166</u>	<u>6,592,751</u>
		<u>17,857,529</u>	<u>6,624,991</u>
CURRENT ASSETS			
Receivables and prepayments	6	9,356	12,896
Government securities	5	6,311,333	14,118,498
Cash and bank balance		<u>946</u>	<u>564</u>
		<u>6,321,635</u>	<u>14,131,958</u>
TOTAL ASSETS		<u>24,179,164</u>	<u>20,756,949</u>
FUND BALANCE AND LIABILITIES			
FUND BALANCE	7	<u>24,146,826</u>	<u>20,739,365</u>
CURRENT LIABILITIES			
Payables and accruals	8	5,913	4,554
Due to related party	9	<u>26,425</u>	<u>13,030</u>
		<u>32,338</u>	<u>17,584</u>
TOTAL FUND BALANCE AND LIABILITIES		<u>24,179,164</u>	<u>20,756,949</u>

The financial statements were approved by the Board of Directors for issue on 23rd September, 2010 and signed on its behalf by:-

PROF. NJUGUNA S. NDUNGU
Chairman

RICHARD ETEMESI
Member

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 KShs'000	2009 KShs'000
REVENUE			
Assessment income	11(a)	1,359,313	1,110,684
Investment income	11(b)	2,215,972	1,755,715

	Note	2010 KShs'000	2009 KShs'000
Other income	12	11,221	37,088
Write back of protected deposits	13	<u>313</u>	<u>26,760</u>
		<u>3,586,819</u>	<u>2,930,247</u>
EXPENSES:-			
Administration and establishment	14	175,328	142,082
Provision for doubtful debts	6(b)	<u>4,030</u>	<u>17,116</u>
		<u>179,358</u>	<u>159,198</u>
SURPLUS FOR THE YEAR		<u>3,407,461</u>	<u>2,771,049</u>

STATEMENT OF CHANGES IN FUND BALANCE FOR THE YEAR ENDED 30 JUNE 2010

	Fund Balance KShs'000
Balance at 1 July 2008	17,968,316
Surplus for the year	<u>2,771,049</u>
Balance at 30 June 2009	<u>20,739,365</u>
Balance at 1 July 2009	20,739,365
Surplus for the year	<u>3,407,461</u>
Balance at 30 June 2010	<u>24,146,826</u>

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 KShs'000	2009 KShs'000
Cash flows from operating activities:-			
Surplus for the year		3,407,461	2,771,049
Adjustment for:-			
Depreciation of property and equipment		3,452	3,446
Amortisation of prepaid operating lease rentals		99	99
Write-back of provision for protected deposits		-	(20,791)
Interest income		<u>(2,215,972)</u>	<u>(1,755,715)</u>
Operating surplus before working capital changes		1,195,040	998,088
Receivables and prepayments		3,540	9,400
Payables and accruals		1,359	(6090)
Related party account		<u>13,395</u>	<u>(1,489)</u>
Net cash flows generated from operating activities		<u>1,213,334</u>	<u>999,909</u>
Cash flows from investing activities:-			
Reversal (payment) of protected deposit claims	10	-	72
Purchase of investments		(10,727,802)	(586,158)
Purchase of property and equipment		(3,674)	(836)
Interest received		<u>2,215,972</u>	<u>1,755,715</u>
Net cash flows from investment activities		<u>(8,515,504)</u>	<u>1,168,793</u>
Net movement in cash and cash equivalents		(7,302,170)	2,168,702
Cash and cash equivalents at the beginning of the year		<u>8,708,657</u>	<u>6,539,955</u>
Cash and cash equivalents at the end of the year	15	<u>1,406,487</u>	<u>8,708,657</u>

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2010

1. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation of financial statements

(i) Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) and Interpretations of those Standards as adopted by the International Accounting Standards Board. The financial statements are presented in thousands of Kenya Shillings (KShs'000) and are prepared under the historical cost convention except for measurement at fair value of certain investments.

(ii) Statement of compliance

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) and interpretations of those Standards.

(iii) Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

(iv) Standards, amendments and interpretations effective in 2009

The Board has adopted the following new and amended International Financial Reporting Standard (IFRS) as of 1 January 2009.

- IAS 1 Presentation of financial statements. This standard requires an entity to present all owner changes in equity and all non-owner changes to be presented in either in one statement of comprehensive income or in two separate statements of income and comprehensive income. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed. In addition, it requires entities to present a comparative statement of financial position as at the beginning of the earliest comparative year when the entity has applied an accounting policy retrospectively, makes a retrospective restatement, or reclassifies items in the financial statements. The Board has elected to present comprehensive income in a single statements approach. Information about the individual components of comprehensive income. The Board has not provided a restated comparative set of financial position for the earliest comparative period, as it has not adopted any new accounting policies retrospectively, or has made a retrospective restatement or retrospectively reclassified items in the financial statements.

The following amendment to standard and interpretation are mandatory though not relevant to the Board

- IFRS 7 Financial Instruments: Disclosures - The amended standard requires additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management.
- IFRS 2, Amendments to IFRS 2 Share-based Payment - Vesting Conditions and Cancellations (effective from 1 January 2009) - The IASB issued an amendment to IFRS 2 which clarifies the definition of vesting conditions and prescribes the treatment for an award that is cancelled. It also clarified the scope and the accounting for Organisation cash-settled share-based payment transactions.
- IFRS 3 revised -Business combinations and IAS 27 revised -Consolidated and Separate Financial Statements. The revised standards were issued in January 2008 and become effective for financial years beginning on or after 1 July 2009. IFRS 3R introduces a number of changes in the accounting for business combinations occurring after this date that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. IAS 27R requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as an equity transaction. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to IAS 7 Statement of Cash Flows, IAS 12 Income Taxes,
- IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 28 Investment in Associates and IAS 31 Interests in Joint Ventures. The changes by IFRS 3R and IAS 27R will affect future acquisitions or loss of control and transactions with minority interests. The standards may be early adopted.
- IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective 1 July 2009) - The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.
- IFRS 8, Operating Segments (effective from 1 January 2009) - clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- IFRIC 9 Remeasurement of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement (effective for periods ending on or after 30 June 2009) - This amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of

the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 now states that if an embedded derivative cannot be reliably measured, the entire hybrid instrument must remain classified as at fair value through profit or loss.

- IFRIC 13 Customer Loyalty Programmes (effective from 1 July 2008) - IFRIC 13 requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognised as revenue over the period that the award credits are redeemed.
- IFRIC 16 – Hedges of a net investment in a foreign operation (IFRIC 16 was issued in July 2008 and becomes effective for financial years beginning on or after 1 October 2008. The interpretation is to be applied prospectively. IFRIC 16 provides guidance on the accounting for a hedge of a net investment. As such it provides guidance on identifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment, where within the Organisation the hedging instruments can be held in the hedge of a net investment and how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment
- IFRIC 18 Transfer of assets from customers (effective from 1 July 2009)
- IFRIC 15 – Agreements for the construction of real estate IFRIC 15 was issued in July 2008 and becomes effective for financial years beginning on or after 1 January 2009. The interpretation is to be applied retrospectively. It clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18.

(v) Amendments that are part of the IASB's annual improvement project published in April 2009 (not addressed above) are:

	<i>Effective date</i>
▪ IFRS 2 (amendment), 'Share-based payments'	1 July 2009
▪ IFRS 5 (amendment), 'Non-current assets held for sale and discontinued operations'	1 January 2010
▪ IFRS 8 (amendment), 'Operating segments'	1 January 2010
▪ IAS 1 (amendment), 'Presentation of financial statements'	1 January 2010
▪ IAS 7 (amendment), 'Statement of cash flows'	1 January 2010
▪ IAS 17 (amendment), 'Leases'	1 January 2010
▪ IAS 18 (amendment), 'Revenue'	1 January 2010
▪ IAS 36 (amendment), 'Impairment of assets'	1 January 2010
▪ IAS 38 (amendment), 'Intangible assets'	1 July 2009
▪ IAS 39 (amendment), 'Financial instruments: recognition and measurement'	1 January 2010
▪ IFRIC 9 (amendment), 'Reassessment of embedded derivatives'	1 July 2009
▪ IFRIC 16 (amendment), 'Hedges of a net investment in a foreign operation'	1 July 2009

The directors anticipate that the adoption of these standards will have no material effect on the financial statements of the Board.

(b) Significant accounting judgments, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. The most significant use of judgment and estimates are as follows:

Property and Equipment

Critical estimates are made by the management in determining depreciation and amortisation rates for property and equipment. The rates used are set out in the accounting policy for property, equipment and depreciation.

Allowance for doubtful receivables

The Board 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.

Going concern

Management has made an assessment of the Board's ability to continue as a going concern and is satisfied that the Board has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Board's ability to continue as a going concern. Therefore the financial statements continue to be prepared on the going concern basis.

(c) 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 period in which it is earned based on the expired portion of the life of the investments it relates to. Interest is primarily earned on Treasury bills and bonds and other interest carrying instruments.

Discounts and premiums on acquisition of Government securities are amortized over the life of the security.

(d) 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.

(e) 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 statement of comprehensive income on a straight line basis over the lease term.

(f) Employee entitlements

Employee entitlements are recognized when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the Statement of Financial Position date. The estimated monetary liability for employees' accrued annual leave entitlement at the Statement of Financial Position date is recognized as an expense accrual.

The Board's employees are eligible for retirement benefits under a defined benefit plan provided through a separate fund. The defined benefit plan is funded by the Board and the Central Bank, the main sponsor. The retirement benefit asset is wholly recognized in the financial statements of the Central Bank while the Board recognizes contributions to the fund as if it were a defined contribution scheme by charging them to the profit and loss account in the year to which they relate.

The Board also contributes to a statutory defined contribution Pension Scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to KShs. 200 per employee per month. The contributions are charged to income and expenditure account in the year to which they relate.

(g) Taxation

The Board's income is not subject to tax as it has been granted exemption by the Commissioner of Income Tax. Therefore no provision for current tax or deferred tax is made in the financial statements.

(h) Financial instruments

The Board's financial instruments which comprise government securities, receivables and payables fall into the following categories:

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the Board has the positive intention and ability to hold to maturity. All Investments in government securities are classified as held to maturity and are initially recognised at cost and subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition. The amortisation of such investments is recognised in the statement of comprehensive income.

Receivables

Receivables which comprise receivables and prepayments are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the receivables are derecognised or impaired, as well as through the amortisation process.

Payables

Payables comprise payables and accruals, provisions for protected deposit claims and amounts due to Central Bank of Kenya. They are classified as financial liabilities and are carried at amortized cost.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment losses are recognised in the statement of comprehensive income.

(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

Cash and cash equivalents are defined as cash on hand and in bank accounts. Cash and cash equivalents are carried at cost. For the purposes of the cash flow statement cash and cash equivalents comprise cash on hand, bank balances, and government securities maturing within 91 days of the Statement of Financial Position.

2. PROPERTY AND EQUIPMENT	Buildings	Furniture & fittings	Office and kitchen equipment	Motor vehicle	Computers	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'00	KShs'000
COST						
At 1 July 2009	16,559	15,341	6,219	8,713	4,394	51,226

	Buildings	Furniture & fittings	Office and kitchen equipment	Motor vehicle	Computers	Total
Additions	<u>181</u>	<u>173</u>	<u>2,216</u>	<u>-</u>	<u>1,104</u>	<u>3,674</u>
At 30 June 2010	<u>16,740</u>	<u>15,514</u>	<u>8,435</u>	<u>8,713</u>	<u>5,498</u>	<u>54,900</u>
DEPRECIATION						
At 1 July 2009	2,583	5,280	4,821	6,175	4,039	22,898
Charge for the year	<u>367</u>	<u>1,279</u>	<u>528</u>	<u>634</u>	<u>644</u>	<u>3,452</u>
At 30 June 2010	<u>2,950</u>	<u>6,559</u>	<u>5,349</u>	<u>6,809</u>	<u>4,683</u>	<u>26,350</u>
NET BOOK VALUE						
At 30 June 2010	<u>13,790</u>	<u>8,955</u>	<u>3,086</u>	<u>1,904</u>	<u>815</u>	<u>28,550</u>
COST						
At 1 July 2008	16,559	14,744	6,219	8,713	4,155	50,390
Additions	<u>-</u>	<u>597</u>	<u>-</u>	<u>-</u>	<u>239</u>	<u>836</u>
At 30 June 2009	<u>16,559</u>	<u>15,341</u>	<u>6,219</u>	<u>8,713</u>	<u>4,394</u>	<u>51,226</u>
DEPRECIATION						
At 1 July 2008	2,219	3,843	4,473	5,330	3,587	19,452
Charge for the year	<u>364</u>	<u>1,437</u>	<u>348</u>	<u>845</u>	<u>452</u>	<u>3,446</u>
At 30 June 2009	<u>2,583</u>	<u>5,280</u>	<u>4,821</u>	<u>6,175</u>	<u>4,039</u>	<u>22,898</u>
NET BOOK VALUE						
At 30 June 2009	<u>13,976</u>	<u>10,061</u>	<u>1,398</u>	<u>2,538</u>	<u>355</u>	<u>28,328</u>

No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated assets with a cost of KShs 3,038,135 (2009: KShs 3,038,135) and are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates it would have amounted to KShs 1,012,712 (2009: KShs 1,012,712).

3. PREPAID OPERATING LEASE RENTALS

	2010 KShs'000	2009 KShs'000
Cost		
At 30 June	4,522	4,522
Amortisation		
At beginning of the year	710	611
Amortisation for the year	<u>99</u>	<u>99</u>
At end of the year	<u>809</u>	<u>710</u>
Net carrying value at end of the year	<u>3,713</u>	<u>3,812</u>

4. INVESTMENT HELD FOR SALE

Investment in Consolidated Bank of Kenya Limited		
10,000,000 ordinary shares of KShs 20 each	200,000	200,000
Provision for diminution in value	<u>(199,900)</u>	<u>(199,900)</u>
	<u>100</u>	<u>100</u>

The Board owns 50.2% of the ordinary share capital of the Consolidated Bank of Kenya Limited. At the time of acquisition of the investment, the Banking Act allowed the Board to acquire, hold or dispose shares of an institution that would result in a loss to the Board. The Banking Act was later amended and now prevents the Board from holding investments other than in government securities. The Government, through Treasury plans to privatize Consolidated Bank and has therefore directed the Privatization Commission to explore and advice on how the shares are to be sold. A Consortium has been appointed to advice on the intended Privatization. Due to the above, the requirement for consolidation on IAS 27 does not apply.

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

5. GOVERNMENT SECURITIES

	2010 KShs'000	2009 KShs'000
Treasury bills maturing within 91 days of the Statement of Financial Position date (Note 14)	1,044,660	8,223,846
Treasury bills maturing after 91 days of the Statement of Financial Position date	4,073,289	4,027,291
Treasury bonds maturing within 91 days of the Statement of Financial Position date (Note 14)	360,880	484,247
Treasury bonds maturing after 91 days of the Statement of Financial Position date but within 1 year	832,504	1,383,114
Treasury bonds maturing after 1 year of the Statement of Financial Position date	<u>17,825,166</u>	<u>6,592,751</u>
	<u>24,136,499</u>	<u>20,711,249</u>
Comprising:-		
Maturing within 1 year of the Statement of Financial Position date	6,311,333	14,118,498
Maturing after 1 year of the Statement of Financial Position date	<u>17,825,166</u>	<u>6,592,751</u>
	<u>24,136,499</u>	<u>20,711,249</u>

The weighted average effective interest rate on held to maturity investments as at 30 June 2010 was 8.57% (2009: 10.22%).

6. (a) RECEIVABLES AND PREPAYMENTS

	2010 KShs'000	2009 KShs'000
Receivables and prepayments	112,631	162,158
Provision for bad debts (Note 6b)	<u>(103,275)</u>	<u>(149,262)</u>
	<u>9,356</u>	<u>12,896</u>

(b) PROVISIONS FOR IMPAIRED RECEIVABLES

As at 30 June 2010, receivables amounting to KShs 103 million were fully impaired and provided for. Movements in the provisions for impairment of receivables were as follows:

	2010 KShs'000	2009 KShs'000
At 1 July	149,262	166,479
Additional provision	4,030	17,116
Write back-provision for bad debts (Note 11)		(34,333)
Write off of bad debts	<u>(50,017)</u>	<u>-</u>
At 30 June (Note 6a)	<u>103,275</u>	<u>149,262</u>

7. FUND BALANCE

	2010 KShs'000	2009 KShs'000
At start of year	20,739,365	17,968,316
Surplus for the year	<u>3,407,461</u>	<u>2,771,049</u>
At end of year	<u>24,146,826</u>	<u>20,739,365</u>

The Fund balance relates to accumulated surpluses.

8. PAYABLES AND ACCRUALS

	2010 KShs'000	2009 KShs'000
Sundry payables and accruals	5,913	4,241
Unclaimed stale cheques	<u>-</u>	<u>313</u>
	<u>5,913</u>	<u>4,554</u>

9. RELATED PARTY TRANSACTIONS

	2010 KShs'000	2009 KShs'000
(a) Due to Central Bank of Kenya	<u>26,425</u>	<u>13,030</u>
(b) Directors' emoluments and senior management remuneration		
Fees to directors	<u>3,027</u>	<u>2,840</u>
Remuneration to senior management	<u>55,514</u>	<u>44,465</u>

10. PROVISION FOR PROTECTED DEPOSIT CLAIMS

Balance brought forward	-	20,719
Reversal (payments) during the year	-	72
	-	20,791
Write-back of protected deposit	-	(20,791)
Balance carried forward	-	-

11. INCOME**(a) ASSESSED INCOME**

Total average deposits of institutions assessed as contributors	906,008,854	740,255,964
0.15% of total average deposits	1,359,313	1,110,684
Minimum contribution from a bank (2009: 1 bank)	300	300
Total assessed income	<u>1,359,313</u>	<u>1,110,684</u>

(b) INVESTMENT INCOME

(i) Interest earned on Treasury bills received on		
Matured bills	498,508	1,089,958
Discount on purchase	<u>179,017</u>	<u>3,743</u>
	<u>677,525</u>	<u>1,093,701</u>
(ii) Interest earned on Treasury bonds received on		
Matured bonds	1,448,553	612,904
Discount on purchase	101,178	58,762
Amortisation of premium	<u>(11,284)</u>	<u>(9,652)</u>
	<u>1,538,447</u>	<u>662,014</u>
Total investment income	<u>2,215,972</u>	<u>1,755,715</u>

12. OTHER INCOME

Recoveries from subrogated claims	6,523	2,330
Penalty charges on late contributions	3,102	425
Bad debts recovered	4	34,333
Grant income	<u>1,592</u>	<u>-</u>
	<u>11,221</u>	<u>37,088</u>

13. WRITEBACK OF PROTECTED DEPOSITS

Write-back of provision for protected deposits	-	20,791
Stale cheques written back	<u>313</u>	<u>5,969</u>
	<u>313</u>	<u>26,760</u>

The Board has been making provisions equivalent to the amount of its exposure to protected depositors whenever a bank or financial institution is put under liquidation. The period for claims to be made by protected depositors under the statute is two years after the date of notice. The Board wrote back cheques that were issued to protected depositors that have not been presented at June 30 2010 and were stale by virtue of being over 7 years old. The directors are of the opinion that no claim will be payable in respect of these cheques.

14. ADMINISTRATION AND ESTABLISHMENT EXPENSES

	2010	2009
	KShs'000	KShs'000
Staff costs	133,710	108,784
Depreciation	3,451	3,446
Lease amortization	99	99
Auditors remuneration	601	601
Directors' emoluments - fees	3,027	2,840
Legal and professional fees	174	375
Occupancy costs	10,196	8,035
Other	<u>24,070</u>	<u>17,902</u>
	<u>175,328</u>	<u>142,082</u>

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents included in the cash flow statement comprises the following Statement of Financial Position amounts

Treasury bills maturing within 91 days of the Statement of Financial Position date (Note 5)	1,044,661	8,223,846
Treasury bonds maturing within 91 days of the Statement of Financial Position date (Note 5)	360,880	484,247
Cash and bank balance	<u>946</u>	<u>564</u>
	<u>1,406,487</u>	<u>8,708,657</u>

16. COMMITMENTS

2010
KShs'000

2009
KShs'000

Authorised but not contracted for	<u>16,450</u>	<u>17,150</u>
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Capital commitments authorised relates mainly to library books, safe, two motor vehicles and fittings and furnishing.

	2010 KShs'000	2009 KShs'000
Operating lease commitments		
Falling due within one year	25	25
Falling due between one and five years	102	102
Falling due over five years	<u>856</u>	<u>881</u>
	<u>983</u>	<u>1,008</u>

17. RISK MANAGEMENT**Structure and Reporting**

The Board of Directors is 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 Board including;

(a) Audit Committee of the Board

The Audit Committee assists the Board in the fulfillment of its oversight responsibilities. The Committee guides and monitors the implementation of controls by the Board.

(b) Deposit Insurance and Risk Management Section

The Board 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.

(c) Internal Audit and Risk Management Department (IARM)

The operations of the Board are subject to internal audit by the (IARM) department of the Central Bank of Kenya. The (IARM) department employs risk-based 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 Board 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 Board maintains a conservative policy regarding interest rate and liquidity risks. The Board does not engage in speculation in the markets. In addition, the Board does not speculate or trade in derivative financial instruments.

The Board's principal financial instruments comprise investments held to maturity; cash and cash equivalents; receivables and prepayments; payables and accruals; provisions for protected deposit claims; and amounts due to related parties.

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 Board are invested in Treasury bills and Treasury bonds.

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

	Upto 3 months KShs'000	3-12 Months KShs'000	1-6 Years KShs'000	Non Interest Bearing KShs'000	Total KShs'000
Receivables and prepayments	-	-	-	9,356	9,356
Cash and bank balance	-	-	-	946	946
Investments held to Maturity	1,405,540	4,905,793	17,825,166	-	24,136,499
Payables and accruals	-	-	-	(5,913)	(5,913)
Due to related party	-	-	-	(26,425)	(26,425)
Interest sensitivity gap	<u>1,405,540</u>	<u>4,905,793</u>	<u>17,825,166</u>	<u>(22,036)</u>	<u>24,114,463</u>
At 30 June 2010	<u>1,405,540</u>	<u>4,905,793</u>	<u>17,825,166</u>	<u>(22,036)</u>	<u>24,114,463</u>
At 30 June 2009	<u>8,708,094</u>	<u>5,410,404</u>	<u>6,592,751</u>	<u>(4,124)</u>	<u>20,707,125</u>

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

	2010 KShs'000	2009 KShs'000
Effect on profit before tax of a +5% change in interest rates	110,799	87,786
Effect on profit before tax of a -5% change in interest rates	(110,799)	(87,786)

Liquidity risk management

Liquidity risk is the risk that the Board will encounter difficulty in meeting obligations from its financial liabilities. The Board'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 Board's reputation. In the course of its operations the Board 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 Board's financial liabilities amount to KShs 32,338 million (2009: KShs 17,584 million) and are all short term.

Currency risk

The Board operates wholly within Kenya and its assets and liabilities are reported in the local currency. It does not transact in foreign currencies.

Fair value

(a) Determination of fair value and fair value hierarchy

The Board uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed government securities in Nairobi Stock exchange

Level 2 – other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy. This hierarchy requires the use of observable market data when available. The Board considers relevant and observable inputs in its valuation of fair value.

	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Total KShs'000
Held to Maturity investments				
Government securities	-	24,136,499	-	24,136,499
	<u>-</u>	<u>24,136,499</u>	<u>-</u>	<u>24,136,499</u>

(b) Fair value of financial assets and liabilities not carried at fair value

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Board statement of financial position at their fair value. This table does not include the fair values of non-financial assets and non-financial liabilities.

	2010 Carrying value KShs'000	Fair value KShs'000	2009 Carrying value KShs'000	Fair value KShs'000
Financial assets				
Receivables and prepayments	9,356	9,356	12,896	12,896
Cash and Bank balance	<u>946</u>	<u>946</u>	<u>564</u>	<u>564</u>
Financial liabilities				
Payables and accruals	5,913	5,913	4,554	4,554
Due to Related Party	<u>26,425</u>	<u>26,425</u>	<u>13,030</u>	<u>13,030</u>

For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. The directors are of the opinion that the carrying value of financial instruments approximates their fair value.

18. RELATED PARTY TRANSACTIONS

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

- (a) The Central Bank pays some operating expenses on behalf of the Board. These are fully reimbursed.
- (b) The staff of the Board are contractually employees of the Central Bank but seconded to the Board. Salaries of these staff are met by the Central Bank and fully reimbursed by the Board. In the year, salaries paid to staff by the Central Bank amounted to KShs 104 million (2009: KShs 87.74 million).
- (c) The Central Bank is also the sponsor of the Staff Pension Fund to which the Board contributes on behalf of employees seconded to it from the Central Bank. In the year, the Board's contribution to the fund amounted to KShs 4.6 million (2009: KShs 3.7 million).
- (d) The Central Bank provides the Board with office space and charges it rent. The Board also reimburses maintenance costs incurred by the Central Bank on its behalf. In the year, rent and maintenance costs charged amounted to KShs 10 million (2009: KShs 8.11 million).

The balance at year-end on transactions with the Central Bank is shown in note 9.

19. CAPITAL MANAGEMENT

The primary objectives of the Board's capital management are to ensure that the Board maintains healthy capital ratios in order to support its business and to maximize the value for the insured depositors in member institutions. The Board manages its capital structure and makes adjustments to it, as per the requirements of the Banking Act. The total accumulated Fund as at 30 June 2010 was KShs 24.18 billion (2009: KShs 20.74 billion).

20. CONTINGENT LIABILITIES

Litigation

Mr. Ajay Shah filed a case in 2002 claiming general damages and special damages amounting to KShs 144 million against Trust Bank Limited (In Liquidation) and the Board on allegations of defamation and publication of malicious false statements. The suit is pending for hearing. No provision has been made in the financial statements because, in the opinion of the directors, the claim is unlikely to succeed.

21. COMPARATIVES

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

22. ESTABLISHMENT

Deposit Protection Fund Board is established in Kenya under the Banking Act and is domiciled in Kenya.

23. CURRENCY

These financial statements are presented in thousands of Kenya Shillings (KShs'000), and are rounded to the nearest KShs 1,000.

COMMERCIAL BANKS AND OTHER FINANCIAL INSTITUTIONS ASSESSED CONTRIBUTORS FOR THE YEAR ENDED 30 JUNE 2010

COMMERCIAL BANKS

SCHEDULE A

1. African Banking Corporation Limited
2. Bank of Africa Kenya Limited
3. Bank of Baroda Kenya Limited
4. Bank of India
5. Barclays Bank of Kenya Limited
6. CFC Stanbic Bank Limited
7. Charterhouse Bank Limited
8. Chase Bank Limited
9. Citibank N.A.
10. City Finance Bank Limited
11. Commercial Bank of Africa Limited
12. Consolidated Bank of Kenya Limited
13. Co-operative Bank of Kenya Limited
14. Credit Bank Limited
15. Development Bank of Kenya Limited
16. Diamond Trust Bank of Kenya Limited
17. Dubai Bank Kenya Limited
18. Ecobank Kenya Limited
19. Equatorial Commercial Bank Limited
20. Equity Bank Limited
21. Family Bank Limited
22. Fidelity Commercial Bank Limited
23. FINA Bank Limited
24. First Community Bank Limited
25. Giro Commercial Bank Limited
26. Guardian Bank Limited
27. Gulf African Bank Limited

28. Habib Bank A.G. Zurich
29. Habib Bank Limited
30. Imperial Bank Limited
31. Investment & Mortgages Bank Limited
32. Kenya Commercial Bank Limited
33. K-Rep Bank Limited
34. Middle East Bank Kenya Limited
35. National Bank of Kenya Limited
36. NIC Bank Limited
37. Oriental Commercial Bank Limited
38. Paramount Universal Bank Limited
39. Prime Bank Limited
40. Southern Credit Banking Corporation Limited
41. Standard Chartered Bank of Kenya Limited
42. Transnational Bank Limited
43. Victoria Commercial Bank Limited
44. United Bank Limited

OTHER FINANCIAL INSTITUTIONS

1. Housing Finance Company of Kenya Limited

MICRO FINANCE INSTITUTIONS

1. Faulu Kenya
2. Kenya Women Finance Trust

GAZETTE NOTICE NO. 11896

THE BANKING ACT

(Cap. 488)

NOTICE is given under section 38 (7) of the Banking Act that the under listed Institutions have their deposits protected by the Deposit Protection Fund Board for the period July 01, 2010 to June 30, 2011.

Commercial Banks	Postal Address	
1 African Banking Corporation Ltd	P.O Box 46452 - 00100	Nairobi
2 Bank of Africa Kenya Ltd	P.O. Box 69562 - 00400	Nairobi
3 Bank of Baroda (Kenya) Ltd	P.O. Box 30033 - 00100	Nairobi
4 Bank of India Ltd	P.O. Box 30246 - 00100	Nairobi
5 Barclays Bank of Kenya Ltd	P.O. Box 30120 - 00100	Nairobi
6 CFC Stanbic Bank Kenya Ltd	P.O. Box 72833 - 00200	Nairobi
7 Charterhouse Bank Ltd	P.O. Box 43252 - 00100	Nairobi
8 Chase Bank (K) Ltd	P.O. Box 66049 - 00800	Nairobi
9 Citibank N.A.	P.O. Box 30711 - 00100	Nairobi
10 Commercial Bank of Africa Kenya Ltd	P.O. Box 30437 - 00100	Nairobi
11 Consolidated Bank of Kenya Ltd	P.O. Box 51133 - 00200	Nairobi
12 Co-operative Bank of Kenya Ltd	P.O. Box 48231 - 00100	Nairobi
13 Credit Bank Ltd.	P.O. Box 61064 - 00200	Nairobi
14 Development Bank of Kenya Ltd	P.O. Box 30483 - 00100	Nairobi
15 Diamond Trust Bank Kenya Ltd	P.O. Box 61711 - 00200	Nairobi
16 Dubai Bank (K) Ltd	P.O. Box 11129 - 00400	Nairobi
17 Ecobank Kenya Ltd	P.O Box 49584 - 00100	Nairobi
18 Equatorial Commercial Bank Ltd	P.O. Box 52467 - 00200	Nairobi
19 Equity Bank Ltd	P.O. Box 75104 - 00200	Nairobi
20 Family Bank Ltd	P.O. Box 74145 - 00200	Nairobi
21 Fidelity Commercial Bank Ltd	P.O. Box 34886 - 00100	Nairobi
22 Fina Bank Ltd	P.O. Box 20613 - 00200	Nairobi
23 First Community Bank Ltd	P.O. Box 26219 - 00100	Nairobi
24 Giro Commercial Bank Ltd	P.O. Box 46739 - 00100	Nairobi
25 Guardian Bank Ltd	P.O. Box 67681 - 00200	Nairobi
26 Gulf African Bank Ltd	P.O. Box 43683 - 00100	Nairobi
27 Habib Bank AG Zurich	P.O. Box 30584 - 00100	Nairobi
28 Habib Bank Ltd.	P.O. Box 43157 - 00100	Nairobi
29 Imperial Bank Ltd	P.O. Box 44905 - 00100	Nairobi
30 I&M Bank Ltd	P.O. Box 30238 - 00100	Nairobi
31 Jamii Bora Bank Ltd	P.O. Box 22741 - 00400	Nairobi
32 Kenya Commercial Bank Ltd	P.O. Box 48400 - 00100	Nairobi
33 K-Rep Bank Ltd	P.O. Box 25363 - 00603	Nairobi
34 Middle East Bank Kenya Ltd	P.O. Box 47387 - 00100	Nairobi
35 National Bank of Kenya Ltd	P.O. Box 72866 - 00200	Nairobi
36 NIC Bank Ltd	P.O. Box 44599 - 00100	Nairobi
37 Oriental Commercial Bank Ltd	P.O. Box 44080 - 00100	Nairobi
38 Paramount Universal Bank Ltd	P.O. Box 14001 - 00800	Nairobi
39 Prime Bank Ltd	P.O. Box 43825 - 00100	Nairobi
40 Standard Chartered Bank (K) Ltd	P.O Box 30003 - 00100	Nairobi
41 UBA Kenya Bank Ltd	P.O Box 34154 - 00100	Nairobi

Commercial Banks		Postal Address	
42	Trans-National Bank Ltd	P.O. Box 34353 - 00100	Nairobi
43	Victoria Commercial Bank Ltd	P.O. Box 41114 - 00100	Nairobi
Mortgage Finance Companies			
1	Housing Finance Company of Kenya Ltd	P.O. Box 30088 - 00100	Nairobi
Deposit Taking Micro Finance Institutions			
1	Faulu Kenya Ltd	P.O. Box 60240 - 00200	Nairobi
2	Kenya Women Finance Trust	P.O. Box 55912 - 00200	Nairobi

ROSE DETHO,
Director, Deposit Protection Fund Board.