SPECIAL ISSUE

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GAZETTE NOTICE NO. 13558

DEPOSIT PROTECTION FUND BOARD

DIRECTORS AND STATUTORY INFORMATION

DIRECTORS

Prof. Njuguna Ndung'u	Chairman	
Joseph Kinyua	Permanent Secretary, Treasury	
Martin Gumo	Alternate to Permanent Secretary, Treasury	
Terence Davidson	Member	
Anne Weda Ammissabuor	Member	(Retired 3/4/2012)
James Macharia	Member	
Nasim Devji*	Member	
Richard Etemesi	Member	
Rose Detho	Director	
Jane K. Ikunyua	Board Secretary	

* British

BOARD AUDIT COMMITTEE

Terence Davidson	Chairman
Richard Etemesi	Member
Martin Gumo	Alternate to Permanent Secretary, Treasury
William Nyagaka	Member (Retired on 16/9/2011)
James Macharia	Member (Appointed on 16/9/2011)
Nasim Devji	Member (Appointed on 16/9/2011)
Evaline Nafula	Board Secretary

SENIOR MANAGEMENT

Rose Detho	Director
Linah C. Soi	Assistant Director – Finance & Admin (Effective to 23/4/2012)
Jane K. Ikunyua	Assistant Director - Legal
Mohamud A. Mohamud	Assistant Director – Liquidations
Walter Onyino	Assistant Director – ICT
Kimani Mwega	Assistant Director- Fin. & Admin (Effective from 23/4/2012)

PRINCIPAL PLACE OF BUSINESS

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

AUDITORS

KPMG Kenya
16th Floor, Lonrho House
Standard Street
PO Box 40612 - 00100
Nairobi

BANKERS

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

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2012

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 30 June 2012 which disclose 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.

The Kenya Deposit Insurance Act, 2012 (the "Act") signed into law by the President on May 9th 2012 establishes a Deposit Insurance Fund (the "Fund") to replace the Deposit Protection Fund currently governed by the Banking Act. The Act also establishes the Kenya Deposit Insurance Corporation ("KDIC") and has increased its mandate to include risk management and the promotion of a stable financial system. KDIC will be responsible for the administration of the deposit insurance scheme set up under the Act. The Act also bestows upon KDIC such powers as are necessary to attain the stated objectives. The commencement date for the Act will be gazetted once the subsidiary legislation is ready.

3. Results

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

4. Directors

The directors who served during the year are set out on page 1.

5. Auditors

The auditors, KPMG Kenya, continue in office in line with the Public Procurement and Disposal Act (2005), for a period of four years.

6. Approval of financial statements

The financial statements were approved by the directors on

BY ORDER OF THE BOARD

JANE K. IKUNYUA
BOARD SECRETARY

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2012

The Directors are responsible for the preparation and presentation of the financial statements of Deposit Protection Fund Board set out on pages 7 to 30 which comprise the statement of financial position at 30 June 2012, the statement of comprehensive income, statement of changes in Fund balance and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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

Under the Banking Act, the Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Board as at the end of the financial year and of the operating results of the Board for that year. It also requires the Director to ensure the Board keeps proper accounting records which disclose with reasonable accuracy the financial position 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 judgments 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 financial statements, as well as adequate systems of internal financial control.

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

Approval of the financial statements

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

NJUGUNA NDUNGU,
Chairman

RICHARD ETEMESI
Member

STATEMENT OF CORPORATE GOVERNANCE

DPFB is a body corporate established by section 36 of the Banking Act, Cap 488 Laws of Kenya. The DPFB currently operates as a department of Central Bank of Kenya. DPFB is committed to maintaining the highest standards of integrity, professionalism and business ethics in all its operations.

Board of Directors

Section 36 (4) provides that the Board of directors shall be composed of the Governor of Central Bank of Kenya, as the Chairman, Permanent Secretary to the Treasury and five other members, appointed by the Minister for Finance, representing the member institutions. The current members representing the Institutions are: Mr. Terence Davidson, Mrs. Nasim Devji, Mr. James Macharia and Mr. Richard Etemesi.

Board Meetings

The Board meets every 3 months and has a formal schedule of Agenda items due for deliberations. The Directors are given appropriate and timely information to maintain full and effective control over strategic, financial and operational issues. The Board is not involved in the conduct of day-to-day business as this is a responsibility given to the Director, DPFB by the Banking Act. It, however, retains responsibility for determining the policy of the Fund.

Audit Committee

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

Management Structure

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

Directors Emoluments and Loans

The remuneration paid to the Directors for services rendered during the financial year 2011/2012
is disclosed in note 8 of the financial statements. The Directors, who are all non-executive, are paid a monthly retainer fee and a sitting allowance for every meeting attended. There were no loans to Non-Executive Directors during the year.

STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)

Code of Ethics

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

Internal Controls

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

Authorizations

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

Internal Audit and Risk Management

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

Transparency

The Fund publishes an Annual Report which explains the performance of the Banking sector, membership status and other pertinent information. On an annual basis, the Financial Statements are published in the Kenya Gazette and placed in the website of the Fund. DPFB was also in the process of sharing its Strategic Plan with the Stakeholders.

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

We have audited the financial statements of Deposit Protection Fund Board set out on pages 7 to 30 which comprise the statement of financial position at 30 June 2012, the statement of comprehensive income, statement of changes in fund balance and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Director's responsibility for the financial statements

As stated on page 3, the directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

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 relevant 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 our 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, we consider 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 management, 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 opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Board at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

KPMG KENYA
19th September, 2012.

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 KShs'000	2011 KShs'000
REVENUE			
Assessment income	5(a)	1,973,192	1,621,317
Investment income	5(b)	3,422,806	2,501,884
Other income	6	11,457	7,688
Write back of protected deposits	7	-	177
		5,407,455	4,131,066
EXPENSES			
Administration and establishment	8	208,199	189,421
Provision for doubtful debts	9(b)	2,844	302
		211,043	189,723
SURPLUS FOR THE YEAR		5,196,412	3,941,343

The notes set out below form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2012

ASSETS	Note	2012 KShs'000	2011 KShs'000
Non-current assets			
Property and equipment	10	43,044	27,290
Prepaid operating lease rentals	11	3,515	3,614
Investment held for sale	12	100	100
Government securities	13	26,249,260	25,624,852
		26,295,919	25,655,856
Current assets			
Receivables and prepayments	9(a)	5,143	16,554
Government securities	13	7,013,085	2,459,924
Cash and bank balance	17	3,882	12,880
		7,022,110	2,489,358
TOTAL ASSETS		**33,318,029**	**28,145,214**
FUND BALANCE AND LIABILITIES			
Fund balance (Page 9)		33,284,581	28,088,169
Current liabilities			
Payables and accruals	14	6,334	4,937
Due to related party	15	16,943	41,592
Deferred income	16	10,171	10,516
		33,448	57,045
TOTAL FUND BALANCE AND LIABILITIES		**33,318,029**	**28,145,214**

The financial statements were approved by the Board of Directors on and were signed on its behalf by:

NJUGUNA NDUNGU
Chairman

RICHARD ETEMESI
Member

The notes set out below form an integral part of these financial statements.

STATEMENT OF CHANGES IN FUND BALANCE FOR THE YEAR ENDED 30 JUNE 2012

	Fund balance KShs'000
2012:	
Balance at 1 July 2011	28,088,169
Surplus for the year	5,196,412
Balance at 30 June 2012	**33,284,581**
2011:	
Balance at 1 July 2010	24,146,826
Surplus for the year	3,941,343
Balance at 30 June 2011	**28,088,169**

The notes set out form an integral part of these financial statements.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2012

	Note	2012 KShs'000	2011 KShs'000
Cash flows from operating activities			
Surplus for the year		5,196,412	3,941,343
Adjustment for:			
Depreciation of property and equipment		5,077	3,439
Amortisation of prepaid operating lease rentals		99	99
Interest income		(3,422,806)	(2,501,884)
Operating surplus before working capital changes		**1,778,782**	**1,442,997**
Change in working capital			

Receivables and prepayments		1,945	(7,198)
Payables and accruals		1,397	(976)
Deferred income		(345)	10,516
Due to related party		(24,649)	15,167
Net cash flows generated from operating activities		**1,757,130**	**1,460,506**
Cash flows from investing activities			
Net movement in government securities		(5,821,933)	(4,146,596)
Purchase of property and equipment		(11,365)	(2,179)
Interest received		3,422,806	2,501,884
Net cash flows from investment activities		**(2,410,492)**	**(1,646,891)**
Net decrease in cash and cash equivalents		(653,362)	(186,385)
Cash and cash equivalents at the beginning of the year		859,222	1,045,607
Cash and cash equivalents at the end of the year	**17**	**205,860**	**859,222**

The notes set out below form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2012

1. REPORTING ENTITY

The Board is incorporated under the Banking Act Cap 488 of the Laws of Kenya and is domiciled in Kenya. The address of its registered office is as follows:

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

2. BASIS OF PREPARATION

(a) Basis of preparation

The financial statements have been prepared on the historical cost convention except for measurement at fair valuation of certain investments.

(b) Statement of compliance

The financial statements have been prepared in compliance with International Financial Reporting Standards (IFRSs) and interpretation of those standards.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events, actual results may ultimately differ from those estimates.

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

In particular, information about significant areas of estimation and critical judgement in applying accounting policies that have the most significant effect on the amount recognised in the financial statement is described in Note 4.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Revenue recognition

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

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

(b) Translation of foreign currencies

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

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

(c) Provisions for payments to depositors

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

(d) Leases

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

(e) Employee entitlements

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

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.

(f) Taxation

The Board's income is not subject to 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) Recognition and measurement of financial instruments

The Board classifies its financial assets into four categories described below. Management determines the appropriate classification of its financial instruments at the time of purchase and re-evaluates its portfolio on a regular basis to ensure that all financial assets are appropriately classified.

(i) Financial assets at fair value through profit or loss

Financial assets in this category held for trading are those that the Board principally holds for the purpose of short-term profit taking and/or those designated at fair value through profit or loss at inception. These are recognised on the date the Board commits to acquire the instruments.

Trading instruments are initially recognised at cost, including transaction costs. Subsequent to initial recognition, trading instruments are stated at fair value based on quoted bid prices. Where the fair value cannot be reliably measured, the assets are stated at cost less impairment losses. Changes in fair value are recognised in profit or loss.

(ii) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market.
They arise when the Board provides money directly to borrowers, other than those created with the intention of short-term profit taking. They are recognised at the date money is disbursed to the borrower or when they are transferred to the Board from a third party.

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

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

(ii) ***Held-to-maturity***

These are financial assets with fixed or determinable payments and fixed maturities that the Board's management has the positive intention and ability to hold to maturity. The sale of a significant amount of held-to-maturity assets would taint the entire category leading to reclassification as available-for-sale.

Subsequent to initial recognition, these are carried at amortised cost, which is the present value of the expected future cash flows, discounted at the instrument's original effective interest rate.

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

(iii) ***Available-for-sale***

Other financial assets held by the Board are classified as available-for-sale and are initially recognised at cost, including transaction costs. Subsequent to initial recognition, available-for-sale financial assets are stated at fair value based on quoted bid prices. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity in the fair value reserve, net of deferred tax. When these investments are derecognised, the cumulative gain or loss previously directly recognised in equity is recognised in profit or loss.

Derecognition

A financial asset is derecognised when the Board loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

Available-for-sale assets and assets held for trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the Board commits to sell the assets. The Board uses the specific identification method to determine the gain or loss on derecognition.

Held-to-maturity instruments and loans and receivables are derecognised on the day they are repaid in full or when they are transferred by the Board to a third party.

(h) 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.

(i) Cash and cash equivalents

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 from the date of issue.

(j) 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 Board and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iii) ***Depreciation***

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

Long term leasehold land	Over the lease period
Buildings	2%
Computer equipment	33%

Office equipment, furniture and fittings	20%
Motor vehicles	25%

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

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

(k) Impairment of assets

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(ii) Non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(l) Provision

Provisions are recognised when the Board has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

(m) Related parties

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

(n) Grants

Other grants are recognised initially as deferred income at fair value when there is reasonable assurance that they will be received and the Group will comply with the conditions.

(o) Comparatives

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

(p) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2012 and have not been applied in preparing these financial statements. These are summarised below, and are not expected to have a significant impact on the financial statements of the Board:

- IFRS 9 *'Financial Instruments'*. IFRS 9 will become mandatory for the Board's 2015 financial statements.
- IFRS 10 *'Consolidated Financial Statements'* (effective for annual periods beginning on or after 1 January 2013).
- IFRS 11 *'Joint Arrangements'* (effective for annual periods beginning on or after 1 January 2013).
- IFRS 12 'Disclosure of Interests in Other Entities' (effective for annual periods beginning on or after 1 January 2013).
- IFRS 13 *'Fair Value Measurement'* (effective for annual periods beginning on or after 1 January 2013).
- IAS 19 *'Employee Benefits (Amended)'* (effective for annual periods beginning on or after 1 January 2013).
- IAS 27 (2011) Separate Financial Statements (effective 1 January 2013).
- IAS 28 (2011) Investments in Associates and Joint Ventures (effective 1 January 2013).
- Amendments to IAS 1 *'Presentation of items of other comprehensive income'* (effective 1 July 2012).

The Board does not plan to adopt any of the above standards early and the extent of the impact has not been determined.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including experience of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

(i) Property and equipment

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

(ii) Impairment of 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.

(iii) Fair value estimation

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

(b) Critical judgements in applying the entity's accounting policies

In the process of applying the Board's accounting policies, management has made judgements in determining whether assets are impaired.

5. INCOME

	2012	2011
(a) Assessment income	**KShs'000**	**KShs'000**
Total average deposits of institutions assessed as contributors	1,315,061,133	1,079,678,000
0.15% of total average deposits	1,972,592	1,619,517
Minimum contribution from 2 Deposit Taking Microfinance (DTM) (2011: 1 bank and 5 DTM)	600	1,800
Total assessment income	**1,973,192**	**1,621,317**

(b) Investment income

(i) Interest earned on treasury bills received

		2012 KShs'000	2011 KShs'000
	Discount on 91 day treasury bills	249,238	14,081
	Discount on 182 day treasury bills	209,919	40,121
	Discount on 364 day treasury bills	24,664	34,745
		483,821	88,947
(ii)	***Interest earned on treasury bonds received***	**2012 KShs'000**	**2011 KShs'000**
	Matured bonds	2,811,834	2,359,713
	Discount on purchase	149,304	67,918
	Amortisation of premium	(22,153)	(14,694)
		2,938,985	2,412,937
Total investment income		**3,422,806**	**2,501,884**

6. **OTHER INCOME**

	2012	2011
Recoveries from subrogated claims	1,071	-
Penalty charges on late contributions	2,680	-
Bad debts recovered	880	-
Miscellaneous income	-	1,586
Grant income	6,826	6,102
	11,457	7,688

7. **WRITE BACK OF PROTECTED DEPOSITS**

	2012	2011
Write-back of provision for protected deposits	-	177

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.

8. **ADMINISTRATION AND ESTABLISHMENT EXPENSES**

	2012 KShs'000	2011 KShs'000
Staff costs	130,679	139,550
Depreciation	5,077	3,439
Lease amortization	99	99
Auditors remuneration	925	841
Directors' emoluments - fees	6,513	2,976
Legal and professional fees	380	645
Occupancy costs	12,355	11,158
Other	52,171	30,713
	208,199	189,421

9. **RECEIVABLES AND PREPAYMENTS**

(a) **Receivables and prepayments**

	2012 KShs'000	**2011 KShs'000**
Receivables and prepayments	109,269	118,716
Provision for bad debts (Note 9(b))	(104,126)	(102,162)
	5,143	16,554

(b) **Provisions for impaired receivables**

As at 30 June 2012, receivables amounting to KShs 104 million (2011 - KShs 102 million) were fully impaired and provided for. Movements in the provisions for impairment of receivables were as follows:

	2012 KShs'000	**2011 KShs'000**
At 1 July	102,162	103,275
Additional provision	2,844	302
Write back-provision for bad debts	(880)	(1,415)
At 30 June (Note 19(a))	**104,126**	**102,162**

10. **PROPERTY AND EQUIPMENT**

Furniture	Office and kitchen	Motor

2012:	**Buildings**	**& fittings**	**equipment**	**vehicle**	**Computers**	**Work-In-Progress**	**Total**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Cost							
At 1 July 2011	16,740	16,130	9,659	8,713	5,837	-	57,079
Additions	-	464	546	7,766	2,589	9,466	20,831
At 30 June 2012	16,740	16,594	10,205	16,479	8,426	9,466	77,910
Depreciation							
At 1 July 2011	3,317	7,755	6,243	7,284	5,190	-	29,789
Reclassification							
Charge for the year	367	1,105	792	2,299	514	-	5,077
At 30 June 2012	3,684	8,860	7,035	9,583	5,704	-	34,866
Net book value							
At 30 June 2012	**13,056**	**7,734**	**3,170**	**6,896**	**2,722**	**9,466**	**43,044**
2011:							
Cost							
At 1 July 2010	16,740	15,514	8,435	8,713	5,498	-	54,900
Reclassification	-	-	156	-	(156)		-
Additions	-	616	1,068	-	495	-	2,179
At 30 June 2011	16,740	16,130	9,659	8,713	5,837	-	57,079
Depreciation							
At 1 July 2010	2,950	6,559	5,349	6,809	4,683	-	26,350
Reclassification	-	-	53	-	(53)	-	-
Charge for the year	367	1,196	841	475	560	-	3,439
At 30 June 2011	3,317	7,755	6,243	7,284	5,190	-	29,789
Net book value							
At 30 June 2011	**13,423**	**8,375**	**3,416**	**1,429**	**647**	**-**	**27,290**

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. 4,392,930 (2011: KShs 4,153,818) 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. 1,464,309 (2011: KShs 1,384,605).

11. PREPAID OPERATING LEASE RENTALS

	2012	**2011**
	KShs'000	**KShs'000**
Cost		
At 30 June	4,522	4,522
Amortisation		
At 1 July	908	809
Amortisation for the year	99	99
At 30 June	1,007	908
Net carrying value at 30 June	**3,515**	**3,614**

12. 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	(199,900)	(199,900)
	100	**100**

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.

13. GOVERNMENT SECURITIES

	2012	**2011**
	KShs'000	**KShs'000**
Treasury bills maturing within 91 days of placement (Note 17)	201,978	846,342

Treasury bills maturing after 91 days from date of placement	3,276,626	49,964
Treasury bonds maturing within 1 year	3,534,481	1,563,618
Treasury bonds maturing after 1 year	26,249,260	25,624,852
	33,262,345	28,084,776
Comprising:		
Maturing within 1 year of the Statement of Financial Position date	7,013,085	2,459,924
Maturing after 1 year of the Statement of Financial Position date	26,249,260	25,624,852
	33,262,345	28,084,776

The weighted average effective interest rate on held to maturity investments as at 30 June 2012 was 11.06% (2011 - 9.52%).

14. PAYABLES AND ACCRUALS

	2012 KShs'000	2011 KShs'000
Sundry payables and accruals	6,334	4,937

15. 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:

		2012 KShs'000	2011 KShs'000
(a)	**Due to Central Bank of Kenya**	16,943	41,592
(b)	**Directors' emoluments and senior management remuneration**		
	Fees to directors	6,514	2,976
	Remuneration to senior management	55,608	56,252
(c)	**Cash and balances held with Central Bank of Kenya**	3,882	12,880

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

(e) 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 125.4 million (2011 - KShs 108 million).

(f) The Central Bank is also the sponsor of the CBK 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 5.6 million (2011 - KShs 5.1 million).

(g) 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 12.7 million (2011 - KShs 10 million).

16. DEFERRED INCOME

	2012 KShs'000	2011 KShs'000
Unamortised grant income	10,171	10,516

17. CASH AND CASH EQUIVALENTS

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

Treasury bills maturing within 91 days from the date of placement	201,978	846,342
Cash and bank balance	3,882	12,880
	205,860	**859,222**

18. COMMITMENTS

	2012 KShs'000	2011 KShs'000
Authorised but not contracted for	207,438	42,670

Capital commitments authorised relates mainly to Guard house, office equipment, ICT infrastructure, library access and network connections.

	2012 KShs'000	2011 KShs'000
Operating lease commitments:		

Falling due within one year	11,172	11,172
Falling due between one and five years	11,172	8,379
	22,344	19,551

19. 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;

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.

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.

Internal Audit and Risk Management Unit

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

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.

(a) Credit risk

Credit risk is the risk of financial loss to the Board if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Board's receivables from customers.

Trade and other receivables

The Board's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

The Board establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

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

	2012 KShs'000	**2011 KShs'000**
Trade receivable	109,269	118,716
Impairment losses recognised in the year	(104,126)	(102,162)
	5,143	**16,554**

The aging of trade receivables at the reporting date was:

Not past due	11,088	14,553
Past due 0 – 30 days	2,536	766
Past due 31 – 90 days	698	179
Past due above 90 days	104,413	103,218
	118,735	**118,716**

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

	2012 KShs'000	**2011 KShs'000**

Balance at 1 July	102,162	103,275
Made in the year	2,844	302
Write backs	(880)	(1,415)
Balance at 30 June	**104,126**	**102,162**

(b) **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:

2012:	Upto 1 year KShs'000	1 – 5 years KShs'000	6 – 10 years KShs'000	Over 10 years KShs'000	Non interest bearing KShs'000	Total KShs'000
Receivables and prepayments	-	-	-	-	5,143	5,143
Cash and bank balance	-	-	-	-	3,882	3,882
Investments held to maturity	7,013,085	7,025,255	9,532,262	9,691,743	-	33,262,345
Payables and accruals	-	-	-	-	(6,334)	(6,334)
Due to related party	-	-	-	-	(16,943)	(16,943)
Interest sensitivity gap **At 30 June 2012**	**7,013,085**	**7,025,255**	**9,532,262**	**9,691,743**	**(4,786)**	**33,257,559**
2011:						
Receivables and prepayments	-	-	-	-	16,554	16,554
Cash and bank balance	-	-	-	-	12,880	12,880
Investments held to maturity	2,459,924	8,758,629	11,882,648	4,983,575	-	28,084,776
Payables and accruals	-	-	-	-	(4,937)	(4,937)
Due to related party	-	-	-	-	(41,592)	(41,592)
Interest sensitivity gap **At 30 June 2011**	**2,459,924**	**8,758,629**	**11,882,648**	**4,983,575**	**(17,095)**	**28,067,681**

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.

	2012 KShs'000	2011 KShs'000
Effect on surplus for the year of a +5% change in interest rates	1,663,117	1,402,894
Effect on surplus for the year of a -5% change in interest rates	(1,663,117)	(1,402,894)

(c) **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. 23,277,000 (2011 - KShs 46,529,000) and are all short term.

(d) **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.

(e) 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:

2012:	Other financial liability KShs '000	Loans and receivables KShs '000	Available for sale KShs '000	Held to maturity KShs '000	Total carrying value KShs '000	Fair Value KShs '000
Financial assets						
Government securities	-	-	-	33,262,345	33,262,345	33,262,345
Investment held for sale	-	-	100	-	100	100
Cash and bank balances	-	-	3,882	-	3,882	3,882
	-	-	**3,982**	**33,262,345**	**33,266,327**	**33,266,327**
Financial liabilities						
Amounts due to group companies	16,943	-	-	-	16,943	16,943
Trade and other payables	6,334	-	-	-	6,334	6,334
	23,277	-	-	-	**23,277**	**23,277**
2011:						
Financial assets						
Government securities	-	-	-	28,084,776	28,084,776	28,084,776
Investment held for sale	-	-	100	-	100	100
Cash and bank balances	-	-	12,880	-	12,880	12,880
	-	-	**12,980**	**28,084,776**	**28,097,756**	**28,097,7 56**
Financial liabilities						
Amounts due to group companies	41,592	-	-	-	41,592	41,592
Trade and other payables	4,937	-	-	-	4,937	4,937
	46,529	-	-	-	**46,529**	**46,529**

(f) 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 Fund and makes adjustments to it, as per the requirements of the Banking Act. The total accumulated Fund as at 30 June 2012 was KShs 33,285 million (2011 - KShs 28,088 million).

20. CONTIGENT LIABILITIES

Litigation

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

APPENDIX

COMMERCIAL BANKS AND OTHER FINANCIAL INSTITUTIONS ASSESSED CONTRIBUTORS FOR THE YEAR ENDED 30 JUNE 2012

COMMERCIAL BANKS

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

APPENDIX

OTHER FINANCIAL INSTITUTIONS

1. Housing Finance Company of Kenya Limited

MICRO FINANCE INSTITUTIONS

1. Faulu Kenya
2. Kenya Women Finance Trust
3. SMEP DTM
4. REMU DTM
5. Uwezo DTM
6. Rafiki DTM

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THE CENTRAL BANK OF KENYA

MONETARY POLICY STATEMENT, JUNE, 2012

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