Deposit Protection Fund Board

Annual Report
& Financial Statements
For The Year Ended 30th June 2004

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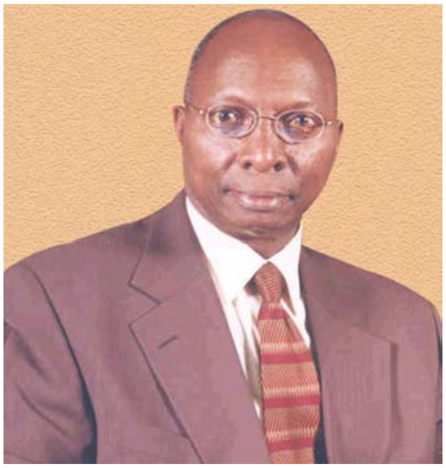
CHAIRMAN'S STATEMENT



Andrew K. Mullei

I am happy to present to the Minister of Finance the Annual Report and Statement of the audited accounts of the Deposit Protection Fund Board (DPFB) for the year ended 30th June, 2004, in accordance with the provisions of Section 42(1) of the Banking Act.

During the year under review, DPFB operated under an improving economic climate. The economy showed signs of recoveries with real GDP growth of 1.8% as at the end of 2003 up from 1.2% in 2002. The estimated annual growth rate of the first half of 2004 was 2.3%. Economic growth in the period under review was attributed to good weather, stable and conducive macro economic environment characterized by low interest rates and stable exchange rates. Investor confidence was boosted by the resumption of the IMF Poverty Reduction and Growth Facility Programme (PRGF) and the signing of agreements with the World Bank and other bilateral donors.

Monetary policy pursued during year 2003/2004 under the PRGF arrangement remained focused on the objective of achieving price stability with underlying inflation over the period increasing from 2.6% in July 2003 to 3.1% in June 2004. On annual basis, the underlying inflation was below 3% throughout the financial year, thus remaining within the target of 3.5%. Based on these modest but encouraging development in year 2003 and the first half of 2004, it is expected that inflation will remain subdued as monetary policy will focus on the achievement of low and stable inflation. However, the current drought and food shortages that have hit several parts of the country will impact negatively on the prices and overall inflation.

In the financial sector, the balance sheet of the banking industry expanded with total assets increasing by 14% from Shs. 477.7 bn as at June 2003 to Shs. 546.7 bn as at June 2004. Pretax profits grew by 7% to Shs. 7.1

bn in June 2004 from Shs. 6.6 bn in June 2003. The improved profitability of banks was mainly attributed to a 46% reduction in interest paid on deposits, reduced operational costs and improved inflows of foreign deposits, following resumption of donor funding. Performance in the financial sector will continue to be driven by efficient utilization of resources, new technology, and provision of an increased range of new products. Currently, there are over 200 automated teller machines including Kenswitch, which is a joint venture by a group of small banks and the industry in looking forward to the operationalisation of real time settlement system (RTGS).

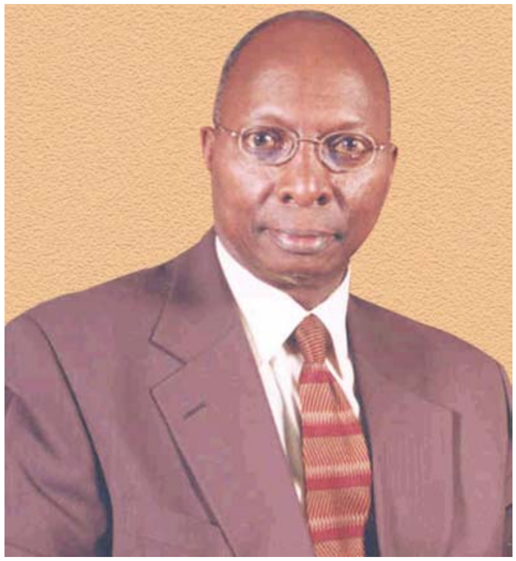
The financial performance of DPFB recorded significant growth both in assets and profitability. Net assets increased by 14.7% to Shs.10,790m in 2004 from Shs.9,407m in 2003. Profitability increased by 6.6% to Shs. 1,383m in 2004, compared to Shs. 1,297m in 2003. The improved financial performance was mainly attributed to write back of provision of unclaimed protected deposit amounting to Kshs.345m which are no longer required, as the 2-year period allowed for payment of protected deposits elapsed for 20 out of the 22 banks under liquidation. The two institutions which continued to pay protected deposits after January 2004 are Euro Bank Ltd. and Trust Bank Ltd. This write back enhanced the amount of investment in government securities and more than offset the effects of low interest rates.

The amendments to section 36(8) contained in the proposed Banking (amendment) Bill 2004 will provide for DPFB to appoint the Chief Executive of the Board, rather than a Board member, to execute and seal legal documents on behalf of an institution under liquidation.

A new section 44A will have the effect of limiting the total interest an institution may recover on a non-performing loan based on the premise that the total amount paid cannot exceed twice the amount of the outstanding principal at the time the loan becomes non-performing. This will form a useful platform for the future envisaged DPFB Act.

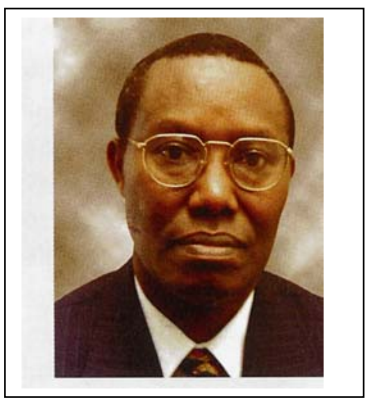
ANDREW K. MULLEI,
CHAIRMAN, DEPOSIT PROTECTION FUND BOARD

Board of Directors



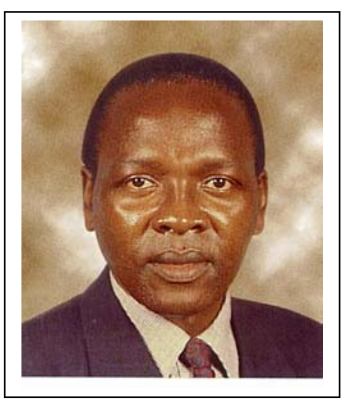
Dr Andrew K. Mullei
Chairman

Joseph Magari
Permanent Secretary, Treasury



Albert J. K. Ruturi
Member

Isaac O. Awuondo
Member



Jeremy P. Okora Muriuki
Member

Rasiklal C. Kantaria
Member

Gideon M.
Member

DIRECTOR'S FOREWORD

Eunice W. Kagane
Director

Background

Since inception in September 1986 as a Division of Bank Supervision Department of Central Bank, the Fund has continued to pursue its basic principle of promoting depositors confidence in the Banking sector. This continues to be achieved through protection of depositors against the loss of their savings in the event of insolvency of an institution which is a member of the Fund. The maximum amount of protected deposits continues to be Kshs.100,000.

In addition to providing insurance cover to depositors, the Fund's other major role is liquidation and winding up of operations of failed member institutions where DPFB is appointed as a liquidator. In the process of performing these functions, the Fund aims at attaining internationally recognized standards.

Membership

All institutions licensed under the Banking Act are required to be members of the Fund. In this regard, as at 30th June 2004, the Fund had 43 commercial banks, 4 financial institutions and 4 building societies. Two member institutions namely Daima Bank and Prudential Building Society were under Statutory Management of the Central Bank of Kenya.

The Banking (Amendments) Act 2001 which stipulates that all claims for payment of protected deposits due and payable to depositors shall not be honoured after the expiry of two years from the date of publication of commencement of such payment came into effect. This caused an announcement to be placed in the media to inform all protected depositors of the 22 institutions in liquidation to collect pending claims for payment on or before 31st December, 2003. Euro Bank which was placed in liquidation in February 2003 was the only institution not affected by this legislation.

Liquidation Function

The member institutions for which the Board has been appointed a liquidator stood at 22 out of which 7 are earmarked for winding-up. Towards this end, the Fund has sought technical assistance required for effectively performing this task. The experts will also advise on other matters touching on the necessary improvements needed on the legal and administrative framework of the Fund that would ensure efficiency and cost effectiveness.

Sources of Income

The principal source of the Fund's income is the annual premium levied to member institutions which at the moment stands at 0.15% of the average total deposit liabilities during the preceding 12 months period with a minimum of Kshs.0.3m. The Fund raised Kshs.543.7m from premium contributions for the year under review.

The other source is investment income from Government Securities which raised Kshs.674.7m in the year. However, returns from Government Securities continued to decline owing to the decline in the interest rates.

Earnings for the year increased by Kshs.187m or 12.9% from Kshs.1,449m in 2003 to Kshs.1,636m in 2004. The most significant cause of the increase in earnings was the write back of provision of unclaimed protected deposits of Kshs.345.1m.

Expenses increased by 67% from Kshs.151m in 2003 to Kshs.253m in 2004. This was due to increased provisions for bad debts for institutions under liquidation.

Net surplus for the period increased by Kshs.86m or 6.6% from Kshs.1,297m in 2003 to Kshs.1,383m in 2004.

Challenges

Debt recovery remains a major challenge. Debt recovery was 13% of total outstanding loans and is hampered by lack of securities, poor loan documentation and delay in determination of court cases. To address these challenges, the Fund intends to amend the draft DPFB Act that will address the legal framework and other pertinent issues including:-

- Complete redrafting of the DPFB Act to ensure the conceptual approach to supervision, problem bank resolution and the function of the safety net which is accurately reflected in law.

- It would be necessary to simultaneously review related statues e.g. Banking Act, CBK Act and Companies Act to ensure consistency and identifying the amendments that would be required to other laws in conjunction with the introduction of the DPFB Act.

- Improvements on bank resolution techniques and procedures for prompt payment of depositors should not necessarily await the change in law.

- Capacity building in DPFB can proceed through development of expertise in bank resolution techniques and there is need for staffing agreement with CBK to ensure continuity and retention of qualified staff in DPFB.

The Fund has continued to serve the financial sector well and to pursue its mission of contribution to the stability of the Banking Sector through protection of the interests of small depositors.

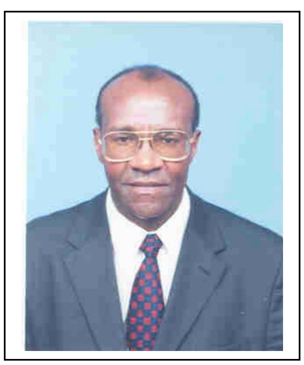
Eunice W. Kagane
Director, Deposit Protection Fund Board

Senior Management Staff

Eunice W. Kagane
Director

Linah C. Soi (Mrs)
Deputy Director

Jane Ikunyua (Ms)
Secretary to the Board



Joseph M. Wahome **Charles T. Chege** **Rose Detho**
Senior Manager Administration Manager, Finance
Manager
& Finance Risk
Management

Liquidation Agents for Institutions in Liquidation

B.K. Mitei
Senior Manager, Liquidations
Kenya Finance Bank Ltd
Meridien BIAO Bank Ltd

C.K. Nduru
Trust Bank Ltd

K.S. Oloitipitip
Postbank Credit Ltd
Ari Bank Ltd
Heritage Bank Ltd.

L. A. Wambete (Mrs)
Pan African Bank Ltd
Pan African Credit & Finance Ltd
Prudential Bank Ltd

D. L. Ngatuny
Trade Bank Ltd
Trade Finance Ltd
Diners Finance Ltd
Thabiti Finance Ltd
Fortune Finance Ltd

M.A. Mohamud
Reliance Bank Ltd
Nairobi Finance Corporation Ltd
Inter Africa Credit Finance L td
International Finance Co. Ltd
Central Finance (K) Ltd
Middle Africa Co. Ltd
Euro Bank Ltd.

The Year Under Review

Overview of the economy

The year under review 2003 – 2004 is important because it covers twelve months of the first eighteen months of the NARC Government. Various economic policy measures and reforms were initiated by the NARC Government as underpinned by the Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC). The strategy is based on improving growth, governance, equity and poverty reduction, and employment generation. The Government has made tremendous efforts with positive prospects showing in the first eighteen months in office with improved public affairs management, bringing back good relationship with development partners among others, while addressing the myriad problems of poor governance, dilapidated infrastructure, insecurity and depressed investments.

During the year under review, the economy recovered with real GDP growth rate improving to 1.8% in 2003 from 1.2% in 2002 and is estimated to have grown at an annual rate of 2.3% in the first half of 2004. Economic growth in the period under review followed by positive changes in economic and political governance, favourable weather conditions, improved donor support, stable and conducive macroeconomic environment characterized by low interest and competitive stable exchange rate, and improved investor confidence brought about by the resumption of the IMF Poverty Reduction and Growth Facility Programme and the signing of agreements with the World Bank and other bilateral donors.

Monetary policy pursued in 2003/04 under the PRGF arrangement remained focused on the achievement of price stability. The objective of monetary policy in the financial year 2003/04 as set out in the budget speech was to maintain inflation rate at a single digit, below 5%. During the financial year, broad money supply, M3X grew by an annual rate of 12.9% compared with 7.2% target growth. The growth in money supply, though above target, was largely in credit to private sector, which expanded by an annual rate of 13.1% in the period under review up from 4.9% in the financial year 2002/2003. Consequently, month-on-month overall inflation eased from 10.91% in June 2003 to 8.35% in December 2003 and further to 5.94% in June 2004. On an annual basis, however, inflation increased modestly to 8.18% in 2003/04 from 6.57% in 2002/2003. The slightly higher inflation in excess of 5% was largely in food prices on the one hand, and imported fuel prices on the other. Food inflation was in double digits during the first ten months of the financial year 2003/04, while inflation in fuel and power category edged up from 3.8% at the beginning of the financial year to 7.9% in June 2004. Similarly, following the reorganisation of the public transport sector, fares increased leading to an increase in inflation in the transport and communication category from single digit in first half of the financial year to between 19.5% and 24.7% in the last first months of 2004.

Underlying inflation, which reflects monetary policy stance, however, increased during the financial year from 2.62% in July 2003 to 3.06% in June 2004. On annual basis, the underlying inflation was below 3.0% throughout the financial year, thus remaining within the objective of 3.5%. In view of the success achieved with inflation in 2003 and the first half of 2004, inflation expectations are clearly on the decline and monetary policy will stay focused on the achievement of low and stable inflation. However, the current drought and food shortages that have hit several parts of the country, slight depreciation in the shilling exchange rate and the expectation that prices of key raw materials such as oil will remain high for most of 2004, remain real threats to price stability.

In the fiscal front, the financial pressures on government expenditure to meet various development goals such as the free primary education, and infrastructure development meant that the fiscal situation became expansionary over the financial year ended June 2004. Given the limited scope of external financing due to the slow disbursement, the stock of domestic debt increased to Ksh 306.23 billion during the financial year from Ksh 289.38 billion in the year ended June 2003. However, the reduction in government domestic borrowing from Ksh46.923 billion in the financial year ended June 2003 to Ksh 8.98 billion the year ended June 2004 and restructuring of debt in favour of long-dated instruments, helped increase private sector access to credit. Consequently, short-dated interest rates reduced, while the average maturity of domestic debt lengthened to 2.22 years in June 2004 from 1.6 years in June 2003. More importantly, credit to the private sector grew by 13.1% in the year to June 2004 from 4.9% in the year to June 2003 after a long period of stagnation. Over the same times, lending rates have become increasingly affordable with the weighted average lending interest rate declining by 3.3 percentage points to 12.2% in the year to June 2004 from 15.3% in the year to July 2003. Affordable interest rates are expected to persist due to the government's commitment to limit domestic borrowing to Ksh 32 billion during the fiscal year

2004/05.

In the external sector, the overall balance of payments (BOP) position deteriorated to a surplus of US$ 162 million during the year ended April 2004 from US$ 236 million during the year ended April 2003. Most of the deterioration was in the capital and financial accounts. Imports grew faster than exports, widening the deficit in the merchandise account by US$ 291 million to US$ 1,539 million in the year to April 2004 from US$ 1,248 million in the previous year. Major increases were noted in imports of machinery and transport equipment, oil, manufactured goods and chemicals due to increase investor confidence. Imports of oil grew by US$ 188 million while imports of machinery and transport equipment grew by US$ 189 million thus accounting for much of the increase in the value of imports during the year to April 2004. Exports in value grew by 8%. The improvement was mainly in horticulture, particularly vegetables and cut flowers; re-exports; and raw materials. The increase in the value of horticulture exports by US$ 89 million to US$ 372 million reflected improved export price. Despite the widening merchandise account deficit, the current account deficit narrowed to US$ 2 million over the year ended April 2004 from US$ 77 million the previous year. Notwithstanding, the deterioration in the balance of payments, gross official foreign exchange reserves rose by US$ 125 million to US$ 1,379 million (equivalent to 3.7 months of imports cover) at the end of April 2004 from US$ 1,254 million at the end of April 2003. Gross foreign asset of commercial banks similarly rose by US$ 111 million to US$ 530 million. Gross foreign reserves of the entire banking system therefore rose by US$ 235 million to US$ 1,909 million or 5.2 months of imports cover at the end of April 2004 from US$ 1,673 million or 5.1 months of import cover at the end of April 2003

In the foreign exchange market, the shilling lost ground in trading against major international currencies between July 2003 and June 2004. It depreciated against the US dollar to trade at an average of Ksh 79.27 at the end of June 2004 compared to Ksh 74.75 in July 2003. Similarly, against the Pound Sterling, the shilling depreciated to an average of Ksh 144.81 in June 2004, from Ksh 121.47 in July 2003 while against the Euro, it depreciated to exchange at Ksh 96.14 from Ksh 85.04 in the period. Fluctuations of the shilling mainly reflect developments in the international currency market, that is, the strengthening of the Great Britain Sterling Pound and Euro against the US dollar. However, in nominal effective terms, the depreciation of the shilling was much lower and not as appears from the bilateral exchange rates. The nominal effective exchange rate is weighted taking into account trade volumes as well as the extent to which each of the considered currencies are used in financing trade. The depreciation of the Kenya shilling is expected to enhance exports earnings.

Comment: Page: 4
Wambua's input

In the financial sector, commercial banks, non-banking financial institutions and building societies maintained stability during the financial year 2003/2004. The banking sector recorded improved performance in 2003 with net profits increasing to Ksh 14.1 billion from Ksh 6 billion in 2002. However, there was an improvement in asset portfolio, deposits and capitalization while liquidity remained high and non-performing loans remained the sector's main problem. While the sector remained stable during the year ending June 2004 with no institution place under liquidation or statutory management compared to two banks placed under liquidation in the first half of 2003. During the same period, one bank, Daima Bank and one Building Society, Prudential Building Society were placed under statutory management. The improved performance resulted in lower provisions for bad and doubtful debts, reduced operational costs and improved inflows of foreign deposits. Performance in the financial sector will continue to be driven by adoption of new technology and provision of increased wide range of products and services.

The Government initiated various reforms and strategy during the year under review in the financial system that when completed will promote the effectiveness, efficiency, and stability of the system and increase the access of financial services by majority Kenyans and small-scale enterprises. Similarly performance will be enhanced by the expected restructuring of banks with government related ownership, establishment of credit reference bureaus to enable banks share information, and improvement in corporate governance introduced in the 2004/05 Budget Speech. These include initiatives to establish a regulatory and supervisory framework for the micro finance institutions and savings and credit co-operative societies and a legal framework to combat the money laundering and the financing of terrorism menaces as well as developing a strategy for development finance institutions and rural finance.
On payments, over the period commercial banks have increasingly adopted modern technology. Currently, there are over 200 automated teller machines in the country including KENSWITCH, a joint venture among a group of small banks. Settlement system has also improved significantly with cheque clearing currently taking only one day and three days within the same bank and between different banks. It is expected that the real time gross settlement system (RTGS) will be operational in the next two years. The government is also in

the process of enacting National Payment System and Electronics Funds Transfer legislations.

On the outlook forward, the projected good performance in the regional and international front is expected to impact positively on the economy. Global economic growth forecast will be strong with the world economy expected to grow at 4.8% in 2004, the strongest performance since 1984. Growth in the world economy will boost Kenya's overall growth prospects in 2004 with major export categories like horticulture, tourism, tea, coffee and textiles expected to grow fast during the year. At the regional level, the peaceful resolution of armed conflicts particularly the recent signing of a peace agreement in Southern Sudan is expected to provide business opportunities for Kenya in the medium term particularly given the planned extension of the railway line to the region and construction of a pipeline to Mombasa for crude oil exports from Southern Sudan. Besides, Kenyan exporters stand to gain from the widened European Union market following the recent enlargement of the trading bloc to include ten other countries making the largest market bloc in the world, bigger than the US, Canada and Mexico combined. A number of Kenyan goods access the market duty free through preferential trade agreements. Other positive developments include the reversal of the adverse travel advisory by the UK and the downgrading of the negative advice by the US Government. In addition, the expected implementation of the government's investment programme particular in the construction and rehabilitation of major infrastructure and other projects will further boost growth prospects in the year and into the medium term.

However, the economic performance registered during the first half of 2004 and optimistic forecast is unlikely in the second half of the year due to the unfavourable weather conditions and the slower than anticipated disbursement of the balance of payments support by the IMF and Programme aid from other bilateral donors. In the global scene, the sharp rise in world oil prices and other raw materials poses a near–term risk to global growth, while possibility of a more general rise in inflationary pressure and policy reactions thereto pose a greater medium-term risk. Similarly, the volatility in world travel due to terrorism threat will also continue to undermine economic growth in tourism and service sectors. The poor weather and governance issues are expected to also dampen domestic activity and lower growth prospects in the second half of 2004.

PERFORMANCE OF MEMBER INSTITUTIONS

Overview

The banking sector comprised 50 financial institutions with 43 commercial banks, 1 non-bank financial institutions (NBFIs), 2 mortgage finance companies and 4 building societies. The Minister for Finance cancelled the operating license of one NBFI in June 2004 after it failed to meet the minimum capital requirement. And following the lifting of the moratorium on the licensing of foreign exchange bureaus in June 2003, the number of licensed foreign exchange bureaus increased to 75 in June 2004 from 48 in June 2003. Ten other foreign exchange bureaus have been licensed and are expected to begin operations during the financial year 2004/2005.

Following the economic recovery, the banking sector recorded a stable growth in the financial year 2003/2004. Deposits and capital levels in the sector grew significantly, while improved rate of compliance with statutory and prudential regulations was achieved. The improvement in the performance of the sector was also manifested in improved profitability and reduced level of non-performing loans. There were no financial institutions placed under CBK statutory management or under liquidation during the year. However, Devna Finance Co. Ltd had its license revoked for failure to meet capital adequacy requirements.

Structure of the Balance Sheet

As at the end of June 2004, total assets of the banking sector increased by 14% to Kshs..546.7 bn from Kshs.477.7 bn in June 2003. The assets were mainly held 48% in loans and advances, 24% in government securities, 10% in other foreign assets and 7% in cash and balances with the Central Bank. Loans and advances rose by 19% mainly due to reduced lending rates and increased lending by commercial banks, especially of personal loans.

Despite the decline in the yields on Government securities, banks continued to invest in Treasury bills and Treasury bonds partly due to less risks of default associated with government papers.

Table 1

Balance Sheet (Kshs. m)			
Assets	**Jun-04**	**Jun-03**	**% Change**
Cash	8,715	7,117	22
Balances from CBK	27,786	30,070	-8
Placements	14,859	8,167	82
Govt. securities	131,254	117,177	12
Investments	4,800	6,549	-27
Loans & advances (Net)	218,424	183,172	19
Foreign assets	44,013	39,698	11
Other assets	96,831	85,768	13
Total Assets	546,682	477,718	14
Liabilities and Shareholders Funds			
Deposits	445,177	381,757	17
Foreign liabilities	5,180	4,763	9
Other liabilities	33,901	31,806	7
Capital & reserves	62,424	59,392	5
Total Liabilities and Shareholders Funds	546,682	477,718	14

The stock of non-performing loans (NPLs) was estimated at Kshs. 70.7 bn or 23.4% of total loans, at the end of June 2004, compared with Kshs. 74.5 bn or 28.9% of total loans at the end of June 2003. The decline in the ratio of NPLs to total loans, was attributed to the repayment and write offs of previously non-performing advances and increase in new lending. With specific provisions amounting to Kshs35.9bn and securities worth Kshs.34.2bn, net exposure of the sector stood at Kshs0.6bn or 0.8% of total NPLs as at 30th June 2004 compared with Kshs.7.2 bn or 9.7 % as at 30th June 2003.

Deposit Liabilities

Deposit liabilities increased by 17% to Kshs.445bn as at the end of June 2004 from

Kshs.382bn in June 2003. This increase was attributed to external inflows from development partners mainly to support the free primary school programmes and other government development activities. As shown in Table 2, banks held 94.5% of the deposits, while non-bank financial institutions (NBFIs) and building societies held 3.1% and 2.4% respectively.

Table 2

Composition of Deposits (Kshs M)	**Jun-04**	**% (Share)**	**Jun-03**	**% (Share)**	**% Change**
Deposits with:					
1. Banks	**420,534**	**94.5%**	**360,110**	**94.3%**	**17%**
Kenya Shillings	351,592		302,370		
Foreign Currency	67,692		55,885		
Accrued Interest	1,250		1,855		
2. NBFIs	**13,856**	**3.1%**	**13,460**	**3.5%**	**3%**
Kenya Shillings	13,734		13,294		
Foreign Currency	-		-		
Accrued Interest	122		166		
3. Building Societies	**10,787**	**2.4%**	**8,187**	**2.1%**	**32%**
Kenya Shillings	10,705		8,047		
Foreign Currency	-		-		
Accrued Interest	82		140		
Sub-total	445,177		381,757		
Kenya Shillings	376,031		323,711		
Foreign Currency	67,692		55,885		
Accrued Interest	1,454		2,161		
Total	**445,177**	**100.0%**	**381,757**	**100.0%**	**17%**

Capital and Reserves

The banking industry remained capitalised during the year to June 2004 with total capital to total risk-weighted assets ratio of 16.5% compared to 17.7% in June 2003. This was above the 12% statutory minimum requirement. The increase in absolute capital and reserves from Kshs.59.4m to Kshs.62.4m over the period was attributed to fresh capital injections and retention of profit made in year 2003 by some banks.

Profitability

During the six-months period ending June 2004, the pre-tax profit of the banking sector increased by 7.0% to Kshs.7.1bn from Kshs. 6.6bn over a similar period in 2003 as shown in Table 3 below. The improved profitability was mainly attributed to a 46% reduction in interest paid on deposits.

Table 3

Banking Industry Profits (Kshs m)	Jun-04	Jun-03	% Change
Total income	**29,816**	**30,939**	**-4%**
Expenses before provisions	**19,477**	**21,102**	**-8%**
Profit before provisions	**10,339**	**9,837**	**5%**
Provisions for bad debts	**3,263**	**3,217**	**1%**
Profit before tax	**7,076**	**6,620**	**7%**

Compliance with the Banking Act and Prudential Regulations

Central Bank's enforcement of compliance requirements through levying of penalties resulted in reduced incidences of non-compliance with the frequency of non-compliance reducing from 38 in June 2003 to 15 in June 2004. Similarly, the number of institutions that were non-compliant declined from 14 in June 2003 to 10 as at the end of June 2004. The Central Bank will continue to monitor the level of compliance in the banking sector with a view to ensuring compliance with the requirements of the Banking Act and prudential regulations.

Future Outlook

The banking sector is expected to improve further in 2004/2005 as the economy recovers and banking institutions continue to prudently manage their operations. The Central Bank will also continue to publish bank charges thereby increasing customer awareness of products and services available, their associated costs and thereby enhance competition and market discipline.

REVIEW OF DPFB OPERATIONS

Fund Membership

At the end of the financial year, the total number of member institutions remained as in the previous year at 43 commercial banks 2 non bank financial institutions, 2 mortgage finance companies and 4 building societies. During the year Devna Finance Ltd. had its banking license revoked by the Minister for Finance through Gazette Notice No. 5101 dated 29th June 2004. It therefore ceased to be a member of the Fund with effect from the same date. Daima Bank and Prudential Building Society, both of which are under statutory management since 14th March 2003 and 11th June 2003 continued to be members of the Fund.

Financial Performance

The Fund's total income increased by 12.9% to Kshs.1,636 million compared with Kshs.1,449 million recorded in the last financial year. The increase was attributed to write back of provisions for protected deposits no longer required amounting to Kshs.345 million as at 31st December 2003. Interest earned on Government Securities however declined by 22.8% from Kshs.874 million to Kshs.675 million during the financial year, due to depressed interest rates during the period under review.

On the other hand, total expenses increased to Kshs.253 million compared to Kshs.152 million the previous year.

Total assets of the Fund increased by 10.5% to Kshs.10.8 billion from Kshs.9.77 billion in the last financial year. This increase was mainly due to enhanced investments in Government Securities which increased by 12.5% to Kshs.10.8 billion from Kshs.9.6 billion in the last financial year. The Fund balance grew by 10.5% to Kshs.10.8 billion from 9.8 billion recorded the previous year. Highlights on the trend in some selected financial indicators are summarised in Table 4 below:

TABLE 4: SELECTED FINANCIAL INDICATORS (KSHS.MILLIONS)

Year	1998	1999	2000	2001	2002	2003	2004
Premium Receipts	381	399	445	465	486	497	544
Interest earned on T/Bills	809	737	831	499	387	165	63
Interest earned on T/Bonds	2	25	11	293	538	709	608
Surplus	1,076	199	1,333	943	1,195	1,297	1,478
Net Assets	4,554	4,707	5,995	6,915	8,108	9,407	10,885

Source:DPFB

Liquidation Activities

Payment of Protected Deposits

Total payments on protected deposit from liquidation date to June 30th 2004 for all the twenty two (22) institutions in liquidation combined amounted to Kshs.1,070 million an increase of only Kshs.6 million from 30th June 2003. This amount represents 75% of Kshs.1,432 million provided for payment to protected depositors in the twenty two institutions under liquidation. From January 2004, the only institutions which have been paying protected deposits were Euro Bank Ltd. and Trust Bank Ltd. For all the other institutions, the two-year period allowed for payment of the protected deposits expired by December 2003.

Details of payment of protected deposits by each individual institution is shown on Table 5.

TABLE 5 : PROTECTED DEPOSITS PAID AS AT 30TH JUNE 2004 (KSHS MILLION)

Name of Institution	Liquidation Date		Total Deposits at Liquidation	Total Protected Deposits	Protected Deposits paid as at 30.06.2003	Protected Deposits paid as at 30.06.2004	% of protected Deposits Paid as at 30.06.2004
Inter-Africa C. & Fin. Ltd.	31 Jan.1993		138	4	2	2	50
International Finance Ltd.	16 Apr.1993		168	2	1	1	50
Central Finance Ltd.	19 May.1993		111	15	12	12	80
Postbank Credit Ltd.	20 May 1993	*	3,834	50	48	48	96
Trade Bank Ltd.	18 Aug.1993	**	4,680	277	255	255	92
Trade Finance Ltd.	18 Aug.1993		209	10	6	6	60
Middle Africa Fin. Ltd.	20 Aug.1993		236	17	13	13	76
Diners Finance Ltd.	20 Aug.1993		554	144	97	97	67
Nairobi Finance Ltd.	20 Aug.1993		188	5	4	4	80
Allied Credit Ltd.	20 Aug.1993		81	14	8	8	57
Pan-African Bank Ltd.	18 Aug.1994	***	2,421	107	90	90	84
Pan-African C & Fin.	18 Aug.1994		139	8	6	6	75
Thabiti Finance Ltd.	19 Dec.1994		924	54	33	33	61
Meridien Biao Bank Ltd.	15 Apr.1996		805	47	39	39	82
Heritage Bank Ltd.	13 Sept.1996		376	10	8	8	80
Kenya Finance Bank Ltd.	29 Oct.1996		2,009	386	323	323	96
Ari Bank Corporation Ltd.	5 Dec.1997		286	13	6	6	46
Prudential Bank Ltd.	5 May 2000		600	18	12	12	67
Reliance Bank Ltd.	12 Sept. 2000		1,154	88	48	50	57
Fortune Finance Ltd.	14 Sept. 2000		320	33	24	24	73
Trust Bank Ltd.	15 Aug. 2001		167	111	21	24	22
Euro Bank Ltd.	21 Feb. 2003		2,060	19	8	9	47
TOTAL			21,460	1,432	1,064	1,070	75

Source: DPFB

* Includes CBK balance of Ksh 1,433million.
** Includes CBK balance of Ksh 2,414million and DPFB balance of Ksh 659million.
*** Includes investor's funds (CBK) of Ksh 1,800million.

Debt Recovery

The number of institutions in liquidation remained unchanged at twenty two (22) in the period under review. Cumulatively these institutions had collected Kshs.4,561 million as at the end of June 2004 from liquidation. These collections constituted 12.6% of the total outstanding loans of Kshs.36,216 million as at liquidation date. Over the last one year only half of the institutions managed to make collections while the other half collected nothing or negligible amounts. Apart from two, most of those which did not make any collections are institutions which went under in 1993 and 1994 and therefore collections have become marginal, partly due to lack of securities, poor loan documentation, delay in determination of cases in court, inability to execute judgements and the harsh economic conditions. The collections for the current year therefore dropped by 29% compared to the last financial year. Another factor which affected collections in Trust Bank was a court order which stopped the liquidation process for four months from January – April, 2004.

The performance of the individual institutions is indicated in Table 6 below.

TABLE 6:DEBT RECOVERY / SALE OF ASSETS AS AT 30TH JUNE 2004 (KSHS MILLION)

Name of Institution	Liquidation Date	Total Loans as at Liquidation Date.	Total Loans Recovered as at June 2003	Total Loans Recovered as at June 2004	Recoveries In 2002/2003	Recoveries In 2003/2004	% of Original Debt Recovered
Inter-Africa C. & Fin. Ltd.	31 Jan.1993	155	35.70	35.70	0.00	0.00	23.03
International Finance Ltd.	16 Apr.1993	176	5.20	5.20	0.00	0.00	2.95
Central Finance Ltd.	19 May.1993	111	106.07	106.07	0.07	0.00	95.55
Postbank Credit Ltd.	20 May 1993	3,605	1,755.26	1,784.69	24.22	29.39	49.50
Trade Bank Ltd.	18 Aug.1993	3,955	739.80	743.85	32.90	4.05	18.81
Trade Finance Ltd.	18 Aug.1993	105	94.66	94.66	1.51	0.00	90.15
Middle Africa Fin. Ltd.	20 Aug.1993	656	53.85	53.85	0.62	0.00	8.21
Diners Finance Ltd.	20 Aug.1993	358	116.00	116.13	1.50	0.13	32.44
Nairobi Finance Ltd.	20 Aug.1993	187	57.50	57.50	0.00	0.00	30.75
Allied Credit Ltd.	20 Aug.1993	111	4.40	4.40	0.00	0.00	3.96
Pan-African Bank Ltd.	18 Aug.1994	1,433	264.64	269.77	8.90	5.13	18.82
Pan-African C & Fin. Ltd	18 Aug.1994	445	103.38	104.43	15.38	1.05	23.46
Thabiti Finance Ltd.	19 Dec.1994	1,217	98.88	100.08	3.13	1.20	8.22
Meridien Biao Bank Ltd.	15 Apr.1996	224	73.82	74.15	0.24	0.33	33.10
Heritage Bank Ltd.	13 Sept.1996	458	46.03	48.63	0.55	2.60	10.62
Kenya Finance Bank Ltd.	29 Oct.1996	2,329	337.01	388.67	11.78	51.66	16.69
Ari Bank Corporation Ltd.	05 Dec.1997	453	24.74	24.74	1.03	0.00	5.46
Prudential Bank Ltd.	05 May 2000	633	57.00	57.79	8.60	0.79	9.13
Reliance Bank Ltd.	12 Sept. 2000	1,591	66.31	101.80	37.51	35.49	6.40
Fortune Finance Ltd.	14 Sept. 2000	345	32.90	36.11	15.70	3.21	10.47
Trust Bank Ltd.	15 Aug. 2001	13,808	248.20	308.81	143.27	60.61	2.24
Euro Bank Ltd.	21 Feb. 2003	3,861	12.32	44.05	12.32	31.73	1.14
TOTAL		36,216	4,333.67	4,561.04	319.23	227.37	12.59

Source: DPFB

Payment of Dividends

A total of Kshs.4,093 million had been paid in the form of dividends as at 30th June 2004 compared with Kshs.4061 million as at 30th June 2003, a marginal increase of 0.8%. During the year under review only Kshs.32 million was paid out as dividends compared with Kshs.167 million in the year 2002/2003. Only Thabiti Finance Ltd. managed to declare dividends during the year compared with five institutions the previous year. Two main reasons affected the payment of dividends in the year under review namely:- Poor recoveries and the fact that payment of previous declared dividends for those who had not collected legally came to an end in December 2003.

Details of payments by individual institutions are as per Table 7 below.

Table 7: Dividends Paid as at 30th June 2004 (Kshs Million)

Name of Institution	Liquidation Date		Total Deposits at Liquidation	Dividends paid as at 30.06.2003	Dividends paid as at 30.06.2004	Dividends paid in 2002/2003	Dividends paid in 2003/2004
Inter-Africa C. & Fin. Ltd.	31 Jan.1993		138	14.10	14.10	0.00	0.00
International Finance Ltd.	16 Apr.1993		168	0.00	0.00	0.00	0.00
Central Finance Ltd.	19 May.1993		111	104.10	104.10	0.00	0.00
Postbank Credit Ltd.	20 May 1993	*	3,834	1,284.66	1,284.66	19.90	0.00
Trade Bank Ltd.	18 Aug.1993	**	4,680	596.50	596.52	0.60	0.02
Trade Finance Ltd.	18 Aug.1993		209	80.23	80.23	0.00	0.00
Middle Africa Fin. Ltd.	20 Aug.1993		236	14.70	14.70	0.00	0.00
Diners Finance Ltd.	20 Aug.1993		554	244.80	244.84	0.00	0.04
Nairobi Finance Ltd.	20 Aug.1993		188	48.10	48.10	0.00	0.00
Allied Credit Ltd.	20 Aug.1993		81	0.00	0.00	0.00	0.00
Pan-African Bank Ltd.	18 Aug.1994	***	2,421	584.51	584.51	0.38	0.00
Pan-African C & Fin.	18 Aug.1994		139	136.43	136.43	0.00	0.00
Thabiti Finance Ltd.	19 Dec.1994		924	59.30	71.45	0.00	12.15
Meridien Biao Bank Ltd.	15 Apr.1996		805	325.85	326.85	1.64	1.00
Heritage Bank Ltd.	13 Sept.1996		376	12.43	12.43	0.00	0.00
Kenya Finance Bank Ltd.	29 Oct.1996		2,009	174.40	177.05	25.78	2.65
Ari Bank Corporation Ltd.	05 Dec.1997		286	20.80	20.80	0.00	0.00
Prudential Bank Ltd.	05 May 2000		600	139.40	139.40	47.10	0.00
Reliance Bank Ltd.	12 Sept. 2000		1,154	86.99	86.99	1.47	0.00
Fortune Finance Ltd.	14 Sept. 2000		320	86.90	92.84	23.80	5.94
Trust Bank Ltd.	15 Aug. 2001		167	46.79	56.78	46.79	9.99
Euro Bank Ltd.	21 Feb. 2003		2,060	0.00	0.00	0.00	0.00
TOTAL			21,460	4,060.99	4,092.78	167.4	31.79

Source: DPFB

*	Includes CBK balance of Kshss 1,433million.
**	Includes CBK balance of Ksh 2,414million and DPFB balance of Kshs 659million.
***	Includes investor's funds (CBK) of Kshs.1,800 million.

FUND INFORMATION

Board of Directors	: Andrew K. Mullei	- Chairman
	: Isaac A. Awuondo	- Member
	: Joseph Kinyua	- Permanent Secretary, Treasury
	: Rasiklal C. Kantaria	- Member
	: Jeremy P. Okora	- Member
	: Albert J.K. Ruturi	- Member
	: Gideon M. Muriuki	- Member
Secretary	: Jane K. Ikunyua	
Auditors	: KLSA Pannell Kerr Forster	
	: Certified Public Accountants	
	: P.O. Box 47323, 00100	
	: NAIROBI	
Principal Bankers	: Central Bank of Kenya	
	: P.O. Box 60000	
	: NAIROBI	
Principal place of business	: Central Bank of Kenya Building	
	: Haile Selassie Avenue	
	: NAIROBI	
Subsidiary	: Consolidated Bank of Kenya Limited (51%)	

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 fund as at the end of the financial year and of its operating results for the year. It also requires the directors to ensure the fund keeps proper accounting records which disclose, with reasonable accuracy, the financial position of the fund. They are also responsible for safeguarding the assets of the fund.

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 fund as at 30th June 2004 and of its operating results for the year then ended. The directors further confirm the accuracy and completeness of the accounting records maintained by the fund which have been relied upon in the preparation of the financial statements, as well as on the adequacy of the systems of internal financial controls.

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

Approved by the board of directors on …………………2004 and signed on its behalf by:

…………………………………	**……………………………..**
Chairman	**Member**

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

We have audited the financial statements set out on pages 4 to 14. 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.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of the financial statements as set out on page 2. Our responsibility is to express an independent opinion on the financial statements based on our audit and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes examining, on a test basis evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion

Qualifications

As stated in note 17, the financial statements of the subsidiary company, Consolidated Bank of Kenya Limited, have not been consolidated with those of the fund because the Banking Act restricts its investments to government securities only. Non consolidation of the financial statements contravenes the requirement of the International Accounting Standard 27 on 'Consolidation of Financial Statements and Accounting for Investments in Subsidiaries'. Further, the investment in the subsidiary is in contravention of the provisions of Section 37(3) of the Banking Act.

International Accouting Standard 39 on Financial Instruments requires that such equity investments be valued every year to determine the fair value. The value of Kshs. 100,000 stated in the balancesheet is inadequate in view of the of the subsidiary's financial position as at 31 December 2003.

Opinion

Except for the above and to the effect of any adjustments that may be necessry, in our opinion, proper books of account have been kept and the financial statements which are in agreement therewith, give a true and fair view of the state of the financial affairs of the Deposit Protection Fund Board as at 30th June 2004 and of the surplus and the cash flows for the year then ended and comply with the Banking Act and International Financial Reporting Standards in all other respects.

KLSA
Certified Public Accountants
Nairobi

PIN NO: P051130467R

………………………..2004

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INCOME AND EXPENDITURE ACCOUNT

	Notes	2004 KShs'000	2003 KShs'000
INCOME			
Assessed income		543,769	496,556
Investment income	1	674,749	874,348
Other income	2	72,044	96,654
Write back/(additional) provisions for protected deposits	3	345,172	(18,544)
		1,635,734	1,449,014
EXPENDITURE			
Administration and establishment expenses	4	150,270	141,467
Provision for bad debts		102,345	10,126
		252,615	151,593
SURPLUS FOR THE YEAR		1,383,119	1,297,421

The accounting policies on pages 8 and 9 and the notes on pages 10 to 14 form an integral part of the financial statements.

Report of the auditors - page 3.

BALANCE SHEET

	Notes	2004 KShs'000	2003 (Restated) KShs'000
ASSETS			
Non-current assets			
Property and equipment	6	17,679	19,316
Prepaid operating lease rentals	7	4,307	4,406
Investment in subsidiary	8	100	100
Government securities maturing after 12 months	9	5,356,003	6,489,215
		5,378,089	6,513,037
Current assets			
Debtors and prepayments	10	18,195	161,273
Due from Central Bank of Kenya	11	-	986
Government securities maturing within 12 months	9	5,398,309	3,098,850
Cash at bank and in hand	12	8,398	(3,827)
		5,424,902	3,257,282
Total assets		10,802,991	9,770,319
FUNDS BALANCE AND LIABILITIES			
Fund balance	13	10,790,248	9,407,129
Current liabilities			
Creditors and accruals	14	9,059	22,582
Due to Central Bank of Kenya	11	155	-
Provision for protected deposit claims	15	3,529	340,608
		12,743	363,190
Total fund balance and liabilities		10,802,991	9,770,319

The financial statements on pages 4 to 14 were approved by the Board of Directors on ………………….2004 and were signed on its behalf by:

………………………………… **………………………………..**

Chairman **Member**

The accounting policies on pages 8 and 9 and the notes on pages 10 to 14 form an integral part of the financial statements.

Report of the auditors - page 3.

STATEMENT OF CHANGES IN FUND BALANCE

	Fund balance KShs'000
Year ended 30th June 2003	
At start of year	8,109,708
Surplus for the year	1,297,421
At end of year	9,407,129
Year ended 30th June 2004	
At start of year	9,407,129
Surplus for the year	1,383,119
At end of year	10,790,248

The accounting policies on pages 8 and 9 and the notes on pages 10 to 14 form an integral part of the financial statements.

Report of the auditors - page 3.

CASH FLOW STATEMENT

	Notes	2004 KShs'000	2003 (Restated) KShs'000
Cash generated from operating activities			
Surplus for the year		1,383,119	1,297,421
Adjustments for:			
Depreciation of property and equipment	6	1,504	1,631
Amortisation of prepaid operating lease rentals	7	99	99
Leave provision write back		(1,708)	(96)
Property and equipment write off		260	6
Interest income		(674,749)	(874,348)
Operating surplus before working capital changes		708,525	424,713
Changes in working capital:			
Debtors and prepayments		143,078	(81,576)
Creditors and accruals		(11,815)	(21,345)
Central Bank of Kenya Account		1,141	(8,718)
Provision for protected deposits		(337,079)	2,809
Net cash flows from operating activities		503,850	315,883
Cash flow from investing activities			
Purchase of Investments		303,204	(2,635,936)
Purchase of property and equipment	6	(127)	-
Proceeds from disposal of property and equipment		-	910
Interest received		674,749	915,457
Net cash flows from/(used in) investing activities		977,826	(1,719,569)
Net increase/(decrease) in cash and cash equivalents		1,481,676	(1,403,686)
Cash and cash equivalents at 1st July	12	1,723,380	3,127,066
Cash and cash equivalents at 30th June	12	3,205,056	1,723,380

The accounting policies on pages 8 and 9 and the notes on pages 10 to 14 form an integral part of the financial statements.

Report of the auditors - page 3.

ACCOUNTING POLICIES

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

a) **Basis of preparation**
The financial statements have been prepared under the historical cost convention and are in compliance with International Financial Reporting Standards.

b) **Revenue recognition**
Assessed income comprises contributions levied to the contributory institutions and is recognised in the period when they are receivable. Such contributions are assessed at a rate of 0.15% 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 recognised 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 govemtment securities are amortised over the life of the security and are recognised within interest income.

c) **Provisions for payments to depositors**
Provisions for payments to protected depositors are recognised 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) **Taxation**
The fund'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.

e) **Property and equipment**
Depreciation on property and equipment is calculated at rates estimated to write off the cost of the assets concerned over their expected useful lives on the reducing balance basis except for computers which are depreciated on the straight line basis.

The annual rates in use are:-	**Rate %**
Furniture and fittings	12.5
Office and kitchen equipment	20
Motor vehicles	25.
Computers	33 1/3

Leasehold buildings are written off over the estimated useful life of the building, or the remaining lease term, whichever is less.

Where the carrying amount of an asset is greater than the estimated recoverable amount, it is immediately written down to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amounts and are taken into account in determining operating profit.

ACCOUNTING POLICIES (CONTINUED)

f) **Financial Instruments**

The fund's financial instruments which comprise investment in subsidiary, government securities and purchased receivables fall into the following categories:

- Equity investment in the subsidiary company is classified as available for sale and is accordingly carried at fair value.
- Government securities are classified as held to maturity and are accordingly carried at amortized cost using the effective interest rate method.
- Receivables which comprise debtors and prepayments and amounts due from Central Bank of Kenya are classified as originated loans and receivables and are accordingly carried at amortised cost.

- Creditors and accruals, provisions for protected deposit claims and amounts due to Central Bank of Kenya are classified as financial liabilities and are carried at amortised cost.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment losses are taken into account in determining operating profit.

g) **Retirement benefit costs**

The Fund'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 Fund and the Central Bank, the main sponsor. The retirement benefit asset is wholly recognised in the financial statements of the Central Bank while the Fund recognises 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 actuarial valuations of the scheme are performed using the Projected Unit Credit Method and resulting assets or liabilities recognised in the financial statements of Central Bank of Kenya. The Fund staff are seconded from the Central Bank and as such it is not possible to account for their proportionate share of the defined benefit obligation.

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

h) **Employee entitlements**

The monetary liability for employees accrued leave entitlement at the balance sheet date was in the prior years recognised as an expense accrual. However from the current year the leave policy of the fund has changed and accordingly no accrual is required.

i) **Leases**

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

Payments to acquire leasehold interest in land are treated as prepaid operating lease rentals and amortised over the period of the lease.

j) **Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, comparatives have been adjusted as relates to interest receivable from government securities which has now been amalgamated with the value of the securities in consistency with the prescribed treatment under International Accounting Standard 39 on 'Financial Instruments: Recognition and Measurement'. This was previously shown as interest receivable under current assets.

NOTES TO FINANCIAL STATEMENTS

		2004	2003
1.	**Investment income**	**KShs'000**	**KShs'000**
	a) Interest earned on Treasury bills received on matured bills	46,816	134,467
	Discount on purchase	16,131	30,963
		62,947	165,430
	b) Interest earned on Treasury bonds received on matured bonds	457,682	556,212
	Accrued interest	154,120	152,610
		611,802	708,822
	c) Term loans	-	96
	Total investment income	674,749	874,348

2. **Other income**

	2004	2003
Bad debts recovery (Note 10)	15,366	-
Recoveries from subrogated claims	8,500	50,378
Recoveries from institutions under liquidation	48,178	46,276
	72,044	96,654

3. **Provision for protected deposits written back**

	2004	2003
Write-back of provisions (Note 15)	331,559	-
Stale cheques written back	13,613	-
(Additional) provisions (Note 15)	-	(18,544)
	345,172	(18,544)

The fund has been making provisions equivalent to the amount of its exposure to protected depositors whenever a bank/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.

Accordingly, provisions amounting to Shs. 331,559,000 which relate to protected deposit claims that have not been claimed by the depositors within the statutory 2 year period have been written back to income.

The fund has also written back cheques that were issued to protected depositors that have not been presented until the balance sheet date and are stale by virtue of being over 6 months old. The directors are of the opinion that no claim will be payable in respect of these cheques.

		2004	2003
4.	**Administration and establishment expenses**	**KShs'000**	**KShs'000**
	Staff costs (Note 5)	107,206	110,090
	Depreciation on property and equipment (Note 6)	1,504	1,631
	Amortisation of prepaid operating lease rentals (Note 7)	99	99
	Auditors' remuneration	395	385
	Directors' emoluments		
	Fees	2,313	2,428
	Legal and professional fees	206	799
	Other operating costs	38,547	26,035
		150,270	141,467

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. **Staff costs**

	2004 KShs'000	2003 KShs'000
Salaries and wages	87,695	89,627
Pension contributions	16,547	10,213
Other staff expenses	2,964	10,250
	107,206	110,090

The number of persons employed by the fund at the year end was: 53 (2003: 65)

6. **Property and equipment**

Cost	Buildings KShs'000	Furniture and fittings KShs'000	Office and kitchen equipment KShs'000	Motor vehicles KShs'000	Computers KShs'000	Total KShs'000
At start of year	16,278	1,920	3,991	3,858	3,756	29,803
Additions	-	-	-	-	127	127
Write offs	-	(508)	(483)	-	-	(991)
At end of year	16,278	1,412	3,508	3,858	3,883	28,939
Depreciation						
At start of year	415	842	3,097	3,359	2,774	10,487
Charge for the year	356	113	166	125	744	1,504
Eliminated on write off	-	(334)	(397)	-	-	(731)
At end of year	771	621	2,866	3,484	3,518	11,260
Net book value						
At 30th June 2004	15,507	791	642	374	365	17,679
At 30th June 2003	15,863	1,078	894	499	982	19,316

7. **Prepaid operating lease rentals**

	2004 KShs'000	2003 KShs'000
Cost		
At start and end of year	4,505	4,505
Amortisation		
At start of year	99	-
Charge for the year	99	99
At end of year	198	99
Net book value	4,307	4,406

8. **Investment in subsidiary**

Investment in Consolidated Bank of Kenya Limited 10,000,000 ordinary shares of KShs. 20 each (51%)	200,000	200,000
Provision for diminution in value	(199,900)	(199,900)
	100	100

The investment in Consolidated Bank of Kenya Limited was last valued in 1998 by Deloitte & Touche Management Consultants Limited. In the opinion of the directors, this value represents the current fair value of the investment.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. **Government Securities**

	2004 KShs	2003 (Restated) KShs
Non-current:		
Treasury bonds	5,356,003	6,489,215
Current:		
Treasury bills	2,285,936	2,065,847
Treasury bonds	3,112,373	1,033,003
	5,398,309	3,098,850
Total investment in government securities	10,754,312	9,588,065
Current - comprising:		
Maturing within 91 days of balance sheet date (Note 12)	3,196,658	1,727,207
Maturing after 91 days of balance sheet date	2,201,651	1,371,643
Total current	5,398,309	3,098,850

The effective interest rates on Treasury Bills as at 30 June was 2.02% (2003: 9.3%). Investment in Treasury Bills and Bonds are initially stated at cost but subsequently earned at amortised cost at year-end using the effective interest rate method.

10. **Debtors and prepayments**

	2004 KShs'000	2003 KShs'000
Debtors and prepayments	143,175	199,274
Less:		
Provision for bad debts at start of year	(38,001)	(27,875)
Recovery (Note 2)	15,366	-
Additional provision	(102,345)	(10,126)
Provision for bad debts c/d	(124,980)	(38,001)
	18,195	161,273

The additional provision for bad debts relates to legal fees paid by DPFB on behalf of Postbank Credit Limited in 2001 and 2002 for which recoverability is considered doubtful in view of court judgement in favour of Postbank Credit.

11. **Due (to)/from Central Bank of Kenya**

Amount due (to)/from Central Bank of Kenya (Note 18)	(155)	986

12. **Cash and cash equivalents**

Cash at bank and in hand	8,398	(3,827)

Cash and cash equivalents included in the cash flow statement comprise the following balance sheet amounts:

Government securities maturing within 91 days of the balance sheet date (Note 9)	3,196,658	1,727,207
Cash at bank and in hand	8,398	(3,827)
	3,205,056	1,723,380

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. **Fund balance**	**2004 KShs'000**	**2003 KShs'000**
At start of year	9,407,129	8,109,708
Surplus for the year	1,383,119	1,297,421
At end of year	10,790,248	9,407,129

14. **Creditors and accruals**		
Sundry creditors and accruals	2,416	4,040
Unclaimed stale cheques	6,643	18,542
	9,059	22,582

15. **Provision for protected deposits**		
Balance brought forward	340,608	337,799
Additional protected deposit provision:		
-Euro Bank Limited	-	18,544
-Payments during the year	(5,520)	(15,735)
-Provision written back	(331,559)	-
Balance carried forward	3,529	340,608

16. **Risk management**

Currency risk

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

Interest rate risk

Excess funds held by the fund are invested in Government of Kenya Treasury bills and Treasury bonds. No interest rate risk exposure is envisaged.

Liquidity risk

The fund holds a significant portion of investments in Government securities that are readily convertible. No significant risk is envisaged.

17. **Consolidation**

The fund owns 51% of a subsidiary company, Consolidated Bank of Kenya Limited. The financial statements of the subsidiary have not been consolidated with those of the fund because the Banking Act restricts the organization's investments to government securities only. The fund intends to dispose their investment in the subsidiary once its performance improves, as outright disposal may not be financially viable.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

18. **Related party transactions**

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

(a) The Central Bank pays some operating expenses on behalf of the fund. These are fully reimbursed.
(b) The staff of the fund are contractually employees of Central Bank but seconded to the fund. Salaries of these staff are met by Central Bank and fully reimbursed by the fund.
(c) Central Bank is also the sponsor of the Staff Pension Fund to which the fund contributes on behalf of employees seconded to it from Central Bank.
(d) Central Bank provides the fund with office space and charges the fund rent. In the year, rent charged amounted to Shs. 6 million (2003: Shs. 6 million).

The balance at year-end on transactions with Central Bank is shown in note 6.

19. **Contingent liabilities**

Litigation

Mr. Ajay Shah filed a case claiming general damages and special damages of Shs. 144 million against Trust Bank Limited (In Liquidation) and the fund on allegations for 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.

20. **Incorporation**

The fund is incorporated under the Banking Act, 1985.

21 **Currency**

The financial statements are presented in thousands of Kenya shillings (KShs'000).

Appendix I

Member banking institutions, directors and approved external auditors

	Bank	Branch Network	Directors' Names	Status	Approved Auditors
1	African Banking Corp.	7	N.P. Sheth	Chairman	KLSA Pannell
	P.O Box 46452		Ashraf Savani	Managing Director	Kerr Forster
	Nairobi		Shamaz Savani	Executive	
			R. Abdulla	Non-Executive	
			Richard Omwela	Non-Executive	
2	Akiba Bank Ltd.	4	L.J.Pandit	Chairman	PriceWaterhouse
	P.O Box 49584		Dhruv L Pandit	Managing Director	Coopers
	Nairobi		Raj P. Arora	Executive	
			Hon. Moody Awori	Non-Executive	
			N.P.G. Warren	Non-Executive	
			H. A. Damji	Non-Executive	
3	Bank of Baroda (K) Ltd.	6	M. L. Rathi	Chairman	Grant Thornton
	P.O. Box 30033		G. G. Joshi	Managing Director	(awaiting
	Nairobi		H. K. Arora	Executive	approval by CBK)
			Prof. F.F Ojany	Non-Executive	
			Milan R. Shah	Non-Executive	
4	Bank of India Ltd.	3	Manu P. Chandaria	Chairman	Ernst & Young
	P.O. Box 30246		G.L.N. Sastry	Chief Executive	(Kenya)
	Nairobi		Allan Ngugi	Executive	
			John Kariuki	Non-Executive	
5	Barclays Bank of Kenya	72	S.O.J. Ambundo	Chairman	PriceWaterhouse
	Limited		Adan Mohamed	Managing Director	Coopers
	P.O. Box 30120		C.O. Ongwae	Executive	
	Nairobi		Amin Habib	Executive	
			D. Bruynseels	Non-Executive	
			C. C. Simmonds	Executive	
			P.A. Chemngorem	Non-Executive	
			M.N. Wahome	Non-Executive	
			R.N. Ogega	Non-Executive	
			A.B. Makatiani	Non-Executive	
			J,N. Karuku	Non-Executive	
			Brown M. Ondego	Non-Executive	
			F.O. Okello	Non-Executive	
			Wanjiru Nduati	Secretary	
6	CFC Bank Ltd.	4	P.K. Jani	Chairman	Deloitte & Touche
	P.O. Box 72833		R.J. Barry	Managing Director	
	Nairobi		M. Soundararajan	Executive	
			J.G. Kiereini	Non-Executive	
			C. Njonjo	Non-Executive	
			A.P. Hamilton	Non-Executive	
			U.P. Jani	Non-Executive	
			S.W. Lewis	Non-Executive	

	Bank	Branch Network	Directors' Names	Status	Approved Auditors
7	Charterhouse Bank Ltd. P.O. Box 43252 Nairobi	4	Mehraz Eshani Sanjay Shah M.W. Prabhu H. Eshani Atul Shah Manoj Shah	Chairman Managing Director Executive Non-Executive Non-Executive Non-Executive	Deloitte &Touche
8	Chase Bank (K) Ltd. P.O. Box 28987 Nairobi	1	Osman Murgian Rafiq Sharrif Zafrullah Khan Daniel Mavindu James Gachui David Harding	Chairman Non-Executive Non-Executive Managing Director Non-Executive Non-Executive	Deloitte & Touche
9	Citibank N.A. P.O. Box 30711 Nairobi	3	Sridhar Srinivasan Kellen Kariuki Edwin Ogbogu Sanjiv Sethi Abdoul A. Dia Jamal Hussein Arif Mukhtar Esther Ngaine Hilda Mucuha B. Adeya	General Manager Local Mgt. Comm. Local Mgt. Comm. Local Mgt. Comm. Local Mgt. Comm. Local Mgt. Comm. Local Mgt. Comm. Local Mgt. Comm. Local Mgt. Comm. Local Mgt. Comm.	KPMG Kenya
10	City Finance Bank Limited P.O. Box 22741 Nairobi	1	V.R. Patel S. Venkataramani S.S. Bachheta Julius Mimano Errol King	Chairman Managing Director Non-Executive Non-Executive Non-Executive	Deloitte & Touche
11	Commercial Bank of Africa Kenya Ltd P.O. Box 30437 Nairobi	10	M.H. Da Gama-Rose I.O. Awuondo M. O. Bristow J.A.M. Docherty J.S. Armitage Muhoho Kenyatta Michael A. Turner	Chairman Managing Director Executive Director Non-Executive Non-Executive Non-Executive Non-Executive	PriceWaterhouse Coopers
12	Consolidated Bank of Kenya Ltd. P.O. Box 62299 Nairobi	10	Philip G. Njuki D. N. Wachira A.K. Montet PS-Treasury Naftali Mogere M.G. Kwali	Chairman Managing Director Non-Executive Non-Executive Non-Executive Non-Executive	Deloitte & Touche

	Bank	Branch Network	Directors' Names	Status	Approved Auditors
13	Co-operative Bank of Kenya Ltd. P.O. Box 48231 Nairobi	32	S.C. Muchiri G. Muriuki J. Riungu J. Mackenzi J.B. Nthuku A. Khangati P.K. Githendu S. Wakasiaka R.L. Kimanthi S. Ogamba D. Kiura E.K. Mbogo J. Sitienei G. Mburia M. Owuor(Mrs)	Chairman Managing Director Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	Ernst & Young
14	Credit Agricole Indosuez P.O. Box 69562 Nairobi	2	Jean Marguier Patrick Savignac James Gichuki Jane Kilonzo Peter Maina Phillip Wambua	Chairman Local Committee Local Committee Local Committee Local Committee Local Committee	PriceWaterhouse Coopers
15	Credit Bank Ltd. P.O. Box 61064 Nairobi	4	Hon. Simeon Nyachae N.K. Agarwal G.W. Nyachae(Mrs) M.C. Patel H.K. Shah K.D. Morjaria M.M. Mwendwa	Chairman Managing Director Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	PriceWaterhouse Coopers
16	Daima Bank Ltd. P.O. Box 54319 Nairobi	2	Under Statutory Management	Under Statutory Management	Deloitte & Touche
17	ORIENTAL COMMERCIAL BANK LTD. P.O. Box 44080 Nairobi	5	G.V. Shah Y. M. Shukla V.T. Patel Azim Virjee P.J. Shah	Chairman Managing Director Non-Executive Non-Executive Non-Executive	Ernst & Young
18	Development Bank of Kenya Ltd. P.O. Box 30483 Nairobi	1	Prof. H.K. Mengech Sajal Rakhit David D. Marris K. Gatabaki Karl-Heinz Niessen Paul W. Weise I.C,D.C. Ned Fin-M.V.O. NV PS-Treasury	Chairman Managing Director Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	KPMG Kenya

	Bank	Branch Network	Directors' Names	Status	Approved Auditors
19	**Diamond Trust Bank of Kenya Ltd. P.O. Box 61711 Nairobi**	**5**	**Robert A. Bird**	**Chairman**	**PriceWaterhouse Coopers**
			N.M. Devji(Mrs)	**Managing Director**	
			Iain D. Cheyne (Alt. Fredrick C. Lucien)	**Non-Executive**	
			N.N. Juma	**Non-Executive**	
			J.J. Kisa	**Non-Executive**	
			I.G. Mamdani	**Non-Executive**	
			M.P. Manji	**Non-Executive**	
			A.A. Merali	**Non-Executive**	
			Abdul A. Samji	**Non-Executive**	
			M. N. Thobani	**Non-Executive**	
			Karim H, Kanji	**Non-Executive**	
			John D. Harris	**Non-Executive**	
20	**Dubai Bank (K) Ltd. P.O. Box 11129 Nairobi**	**3**	**A.S. Dahir**	**Chairman**	**Ernst & Young**
			A. Hassan Zubeidi	**Managing Director**	
			A.H. I. Ahmed	**Non-Executive**	
			Prof. A, H. S. Elbysaidy	**Non-Executive**	
			Dr. Kunwar D. Singh	**Non-Executive**	
21	**Equatorial Comm. Bank Ltd. P.O. Box 52467 Nairobi**	**3**	**Edgar I. Manasseh**	**Chairman**	**KPMG Kenya**
			T.N. Khwaja	**Managing Director**	
			M.H. Da Gama-Rose	**Non-Executive**	
			Akif H. Butt	**Non-Executive**	
			Iqbal I. Mandviwalla	**Non-Executive**	
			Ahmed S. Ndope	**Non-Executive**	
22	**Fidelity Commercial Bank Ltd. P.O. Box 34886 Nairobi**	**2**	**Ashok Shah**	**Chairman**	**KLSA Pannell Kerr Forster**
			S.K. Khimji	**Managing Director**	
			A. Abdallah	**Non-Executive**	
			K. Khimji	**Non-Executive**	
			A Khimji	**Non-Executive**	
			Bharat Thakrar	**Non-Executive**	
23	**FINA Bank Ltd. P.O. Box 20613 Nairobi**	**4**	**D.H. Chandaria**	**Chairman**	**KLSA Pannell Kerr Forster**
			J. S. Taylor	**Managing Director**	
			R.M. Patel	**Non-Executive**	
			N.N. Shah	**Non-Executive**	
			M.M. Patel	**Non-Executive**	
			P. F. Hinton	**Non-Executive**	
24	**First American Bank of Kenya Ltd. P.O. Box 30691 Nairobi**	**4**	**D.G.M. Hutchison**	**Chairman**	**KPMG Kenya**
			M. Blasetti	**Managing Director**	
			S.S.H. Rizvi	**Executive**	
			M.B. Da Gama-Rose	**Non-Executive**	
			W. Muriithi	**Non-Executive**	
			A. Butt	**Non-Executive**	
25	**Giro Commercial Bank Ltd P.O. Box 46739 Nairobi**	**6**	**C.J. Gidoomal**	**Chairman**	**Deloitte & Touche**
			R.B. Singh	**Managing Director**	
			P.J. Gidoomal	**Executive**	
			M. De Brouwer	**Non-Executive**	
			D.K. Ngini	**Non-Executive**	
			Carey M. Ngini (alternate to D. K. Ngini)	**Non-Executive**	

	Bank	Branch Network	Directors' Names	Status	Approved Auditors
26	**Guardian Bank.** **P.O. Box 46983** **Nairobi**	**5**	**Moganlal M. Chandaria** **Gopinath H. Bhatt** **M.M. Chandaria** **Raghbir S. Saini** **Raj Sahi**	**Chairman Executive** **Executive** **Non-Executive** **Non-Executive** **Non-Executive**	**KPMG Kenya**
27	**Habib A.G. Zurich** **P.O. Box 30584** **Nairobi**	**4**	**I.A. Allawala** **N.A. Mohammed** **M.A. Hussain** **Zarir Somjee** **Mr. Arif** **Mr. Somani(Alternate Mr.Arif)**	**Chairman/CEO** **Local Committee** **Local Committee** **Local Committee** **Local Committee** **Local Committee**	**KPMG Kenya**
28	**Habib Bank Ltd.** **P.O. Box 6906** **Nairobi**	**5**	**H. Mukarram Baig** **M. Niaz Syed** **Ajmal M. Ansari** **Abdul Rashid Khatri** **Bilal A. Qureshi** **M. H. Ali** **M. H. Jilani**	Regional G/Manager **Non-Executive** **Non-Executive** **Non-Executive** **Non-Executive** **Non-Executive** **Non-Executive**	**KPMG Kenya**
29	**Imperial Bank Ltd.** **P.O. Box 44905** **Nairobi**	**4**	**Alnashir Popat** **A. Janmohamed** **Anwar Hajee** **Jinit Shah** **Mukesh Patel** **Vishnu Dhutia** **Hanif Somji**	**Chairman** **Managing Director** **Non-Executive** **Non-Executive** **Non-Executive** **Non-Executive** **Non-Executive**	**KLSA Pannell Kerr Forster**
30	**Industrial Dev. Bank Ltd** **P.O. Box 44036** **Nairobi**	**1**	**O. Mbaya** **L.A. Masaviru** **PS-Treasury** **PS-Trade & Industry** **NBK-Director** **ICDC-Director** **KNAC(I-L) –Director** Kenya Re Corp- Director **David W. Situma**	**Chairman** **Managing Director** **Non-Executive** **Non-Executive** **Non-Executive** **Non-Executive** **Non-Executive** **Non-Executive** **Non-Executive**	**Ernst & Young**
31	**Investments & Mort. Bank Ltd.** **P.O. Box 30238** **Nairobi**	**7**	**S.B.R. Shah** **Sarit Shah** **M.J. Karanja** **Brian Rogers** **Sachit Shah**	**Chairman** **Executive** **Non-Executive** **Non-Executive** **Non-Executive**	**KPMG Kenya**

	Bank	Branch Network	Directors' Names	Status	Approved Auditors
32	Kenya Commercial Bank Ltd. P.O. Box 48400 Nairobi	114	Susan O. Mudhune	Chairman	Ernst & Young
			Terence M. Davidson	Chief Executive	
			Albert K. Ruturi	Chief Oper.Officer	
			Joseph M. Magari	Non-Executive	
			Catherine N. Kimura	Non-Executive	
			Prof F.F.Ojany	Non-Executive	
			William R. Gitobu	Non-Executive	
			P. W. Muthoka	Non-Executive	
			S. N. Shah	Non-Executive	
			Eng. J. M. Ndetto	Non-Executive	
			Mrs. S. N. Omanga	Non-Executive	
33	K-Rep Bank Ltd P.O. Box 25363 Nairobi	3	Bethuel Kiplagat	Chairman	Deloitte & Touche
			Kimanthi Mutua	Managing Director	
			Mary Hougton	Non-Executive	
			R. Zimmermann	Non-Executive	
			Alfredo Abad	Non-Executive	
			Ross C. Croulet	Non-Executive	
			Tony Wainaina	Non-Executive	
			S. Karimjee	Non-Executive	
			F, Streppel	Non-Executive	
			M. V. Golstein	Non-Executive	
34	Middle East Bank Ltd. P.O. Box 47387 Nairobi	2	A.A.K. Esmail	Chairman	PriceWaterhouse Coopers
			D. Ghosh	Managing Director	
			A.D. Raja	Non-Executive	
			R. Thibaut	Non-Executive	
35	National Bank of Kenya Ltd. P.O. Box 72866 Nairobi	24	M.E.G. Muhindi	Chairman	Deloitte & Touche
			R.M. Marambii	Managing Director	
			A.C. Juma	Non Executive	
			PS-Treasury	Non Executive	
			NSSF	Non Executive	
			Dr Jeniffer N. Riria	Non Executive	
			E. I. Mannasseh	Non Executive	
			F.L. Atwoli	Non Executive	
36	NIC Bank Ltd P.O. Box 44599 Nairobi	3	N.M. Mugwandia	Chairman	Deloitte & Touche
			M.N. Davidson	Managing Director	
			S.J. Caley	Executive	
			G.A. Maina	Non-Executive	
			F.M. Mbiru	Non-Executive	
			F.N. Mwanzia	Non-Executive	
			A.S.M. Ndegwa	Non-Executive	
			I. Ochola-Wilson(Mrs)	Non-Executive	
			M.L. Somen	Non-Executive	
			J.M. Ndegwa	Non-Executive	
37	Paramount Universal Bank Limited P.O. Box 14001 Nairobi	4	Manilal Dodhia	Chairman	Deoitte
			A.A. Merali	Managing Director	
			Noorez Padamshi	Executive	
			A.N. Merali	Non-Executive	
			Bahadur Alibhai	Non-Executive	
			B.A. Kiplagat	Non-Executive	

	Bank	Branch Network	Directors' Names	Status	Approved Auditors
38	Prime Bank Ltd. P.O. Box 43825 Nairobi	8	R.C. Kantaria V.K. Shetty R.N. Kantaria N.P. Thaker J.N. Mungai V.N. Ponda A. Abdalla S.K. Shah	Chairman Chief Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive	Ernst & Young
39	Sourthern Credit Banking Corp. Ltd. P.O. Box 1166 Nairobi	7	P.C. Chandarana D.A. Shah A.K. Kurji A. Yousuf C.M. Kuria(Mrs) S.W. Karanja Hitesh C. Haria	Chairman Managing Director Executive Executive Executive Non-Executive Non-Executive	KLSA Pannell Kerr Forster
40	Stanbic Bank Kenya Ltd. P.O Box 30550 Nairobi	3	J.B. Wanjui P.S. Odera J.Y. Kerrets E.A.W. Njoroge M.L Du Toit O.M. Tidbury PS-Treasury	Chairman Managing Director Non-Executive Non-Executive Executive Non-Executive Non-Executive	KPMG Kenya
41	Standard Chartered Bank (K) Ltd. P.O Box 30003 Nairobi	29	Hannington O. Awori Michael C. Hart Alan J. Dodd S. M`Mbijjiwe R. M. Etemesi R. Chowdhury D.G. Njoroge Denis D. Afande Peter N. Simpson Harris Mule Kaushik Shah Ravneet Chowdhury	Chairman Managing Director Executive Executive Executive Executive Non-Executive Non-Executive Non-Executive Non-Executive Non-Executive Executive	KPMG Kenya
42	Transnational Bank Ltd. P.O. Box 34353 Nairobi	6	Mwakai K. Sio Charles F. Marsham J,K.Kendiuwo Peter Kemei Charles Nyachae Ben K. Chepkoit	Chairman Chief Executive Non-Executive Non-Executive Non-Executive Non-Executive	Deloitte & Touche
43	Victoria Commercial Bank Ltd. P.O. Box 41114 Nairobi	1	K.D. Pattni Y.K. Pattni Silvano O. Kola K.P. Jani Ketaki Sheth (Mrs)	Chairman Managing Director Vice Chairman Non-Executive Non-Executive	PriceWaterhouse Coopers

Appendix II

Member Non-Banking Financial institutions, directors and approved external auditors

	Bank	Branch Network	Directors' Names	Status	Approved Auditors
1	Devna Finance Ltd. P.O. Box 1299 Nakuru, Kenya	1	J. Devchand Nanji Shamil J. Nanji Shileen J. Nanji K.D. Khagram Dilip Mahida	Chairman Executive Executive Non-Executive Non-Executive	Arisi & Co.
2	Prime Capital & Credit Ltd. P.O. Box 46559 Nairobi	1	A.C. Kantaria R.C. Kantaria R.N. Kantaria J.Z. Onduko B.S. Rihal	Chairman Executive Non-Executive Non-Executive Non-Executive	Ernst & Young
3	Savings & Loan Kenya Ltd. P.O. Box 45129 Nairobi	8	S. Mudhune T. Davidson Prof. F.F. Ojany Prof. G.K. Misoi Prof. N.D. Nzomo PS Treasury	Chairman Chief Executive Non-Executive Non-Executive Non-Executive Non-Executive	Ernst & Young
4	Housing Finance Company of (K) Ltd. P.O. Box 30088 Nairobi	10	Kungu Gatabaki P. Lewis-Jones David Ansell Anne Ammissabour(Mrs) PS-Treasury	Chairman Managing Director Non-Executive Non-Executive Non-Executive	KPMG Kenya

Appendix III

Member Building Societies, directors and approved external auditors

	Bank	Branch Network	Directors' Names	Status	Approved Auditors
1	East Africa Build.Soc. P. O.Box 47499 Nairobi	8	L.J. Pandit R.L. Pandit D. L. Pandit Hon A.A.M. Awori N.P.G. Warren H.A. Damji	Chairman Managing Director Non-Executive Non-Executive Non-Executive Non-Executive	PriceWaterhouse Coopers
2	Equity Building Soc. P.O. Box 75104 Nairobi	18	P.K. Munga J.N. Mwangi Prof. S. Kimenyi B.I. Wairegi F.M. Muchoki Stefan Harpre Prof.Mario Otero (Alternate to Stefan Harpe)	Chairman Managing Director Nun-Executive Non-Executive Non-Executive Non-Executive Non-Executive	Mungai & Associates
3	Family Finance P.O. Box 74145 Nairobi	16	T.K. Muya C.N. Muchai L.W. Muya Prof. Kabiru Kinyanjui Dr, James M. Njau	Chairman/CEO Non-Executive Non-Executive Non-Executive Non-Executive	Wachira Irungu & Associates
4	Prudential Building Society P.O. Box 28759 Nairobi.	1	Under Statutory Management	Under Statutory Management	Chege,Muchuguzi Mwangi & Co.