Kenya Deposit Insurance Corporation

protecting your deposits

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR ENDING JUNE 30, 2020

Prepared in accordance with the Accrual Basis of Accounting Method under the International Financial Reporting Standards (IFRS)

Acronyms

IFRS
International Financial Reporting Standards

KDIC
Kenya Deposit Insurance Corporation

IADI
International Association of Deposit Insurers

CBK
Central Bank of Kenya

QMS
Quality Management System

ERM
Enterprise Risk Management

SP
Strategic Plan

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KEY CORPORATE INFORMATION

Background Information

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

The Cabinet Secretary for The National Treasury is the Corporation's representative at the cabinet level. The Cabinet Secretary is tasked with the responsibility of overseeing the general policy and strategic direction of the corporation.

Principal Activities

The Principal role of KDCI is to;

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

Vision

To be a premier deposit insurance scheme.

Mission

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

Our values

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

Strategic themes

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

Directors

The directors who served during the period 2019/2020 were as follows;

Mr. James Teko Lopoyetum, HSC	*Chairman (Appointed on 6th June 2018)*
Dr. Julius Muia	*Principal Secretary, The National Treasury*
Dr. Patrick Njoroge	*Governor, Central Bank of Kenya*
Mr. Mohamud A. Mohamud	*Chief Executive (Ex-officio)*
Dr. Habil Olaka	*Director (Appointed on 1st January 2017)*
Miss. Dorothy Kiprono	*Director (Retired on 8th February 2020)*
Hon. Paul Kariuki	*Attorney General*
Prof. Karuti Kanyinga	*Director (Retired on 8th February 2020)*
Mr. John M. Maina	*Director (Retired on 8th February 2020)*
Mr. Amos Sipoi Ntimama	*Director (Appointed on 6th June 2018)*
Mr. Martin Gumo	*Alternate to Principal Secretary, The National Treasury*
Alex Mbuvi	*Alternate to Attorney General*

Corporation Secretary

Mrs. Eunice Kitche-Odour
P.O. Box 45983,100
Nairobi

Corporate Information

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23rd Floor UAP Old Mutual Towers, Upper Hill
P.O. Box 45983 – 00100
Nairobi, Kenya

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Mobile: 0709 043000
E-mail: customercare@kdic.go.ke
Website: www.kdic.go.ke

Banker:
Central Bank of Kenya
Central Bank of Kenya Building
Haile Selassie Avenue
P.O. Box 60000 – 00200
Nairobi, Kenya

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

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

THE BOARD OF DIRECTORS

MR. JAMES TEKO LOPOYETUM, HSC
BOARD CHAIRMAN

Mr. James Teko Lopoyetum, HSC has acquired extensive experience in management at national government level and central banking, having worked as Principal Secretary in the State Department of Water, Ministry of Environment, Water and Natural Resources. In addition, Mr Lopoyetum worked as the Director of Currency at the Central Bank of Kenya.
Mr. Lopoyetum holds a Master of Arts degree (Economics) majoring in Development Economics and Banking, Bachelor of Arts (Economics) and Post Graduate Diploma in Public Administration from Jabalpur University, India.

DR. JULIUS MUIA
PRINCIPAL SECRETARY,NATIONAL TREASURY

Dr. Muia served as the Secretary, National Economic and Social Council, Office of the President (2008-2016). This is a top advisory government think tank whose flagship project was formulating Vision 2030. An alumnus of the University of Nairobi's School of Business, Dr Julius Muia graduated with a First Class Honours Degree in Accounting; Masters Degree and PhD in Finance from the same university. His professional qualifications include: Certified Public Accountant (CPA-K); Certified Public Secretary (CPS-K), Associate Kenya Institute of Bankers; Associate Chartered Institute of Arbitrators; and Certified Coach.
Dr. Muia has over 25 year's experience in leadership in the private sector in Kenya and UK. He started his career as an auditor with PricewaterhouseCoopers in mid-1980's, and later worked as Head of Finance and Company Secretary in the hotel, manufacturing and banking sector. His other engagements include an adjunct faculty at Strathmore Business School; adviser on strategy and trainer on leadership.
Dr. Julius Muia serves as a non-executive board member in several companies and a number of not-for profit organizations.

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

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

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

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

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

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

DR. PATRICK NJOROGE
THE GOVERNOR, CENTRAL BANK OF KENYA

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

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

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

DR.HABIL OKUNDA OLAKA
DIRECTOR

Dr. Habil Olaka is the Chief Executive Officer of the Kenya Bankers Association, following his appointment in 2010.He previously worked with the East African Development Bank (EADB), serving in different capacities among them; Director of Operations, Resident Manager-Kenya, Manager-Risk and Control, Chief and Internal Auditor. In addition, Dr. Olaka also worked with Banque Indosuez (now Bank of Africa) where he served as the Internal Auditor having started his career at Price Waterhouse Coopers, Nairobi.
He holds a First Class Honours (BSc) degree in Electrical Engineering from the University of Nairobi, MBA in Finance from Manchester Business School in the UK and a Doctorate degree in Business Administration from USIU-A.
Besides the Kenya Deposit Insurance Corporation, Dr. Olaka sits on a number of other boards, among them; the Higher Education Loans Board, Kenya School of Monetary Studies, Federation of Kenya Employers, Centre for Corporate Governance, Boards of Trustees of the National Research Fund and the Butere ACK Diocese.
He is a member of the Institute of the Certified Public Accountants (CPA) Kenya and the Chartered Financial Analyst (CFA) Institute.

MARTIN STEWART GUMO
ALTERNATE TO PRINCIPAL SECRETARY, THE NATIONAL TREASURY

Mr. S.O Gumo, holds a Bachelor of Commerce (Accounting option) Degree and a Master of Science Degree in Finance both from the University of Nairobi. He is a Qualified Accountant with CPA (K) and a member of the institute of Certified Public Accountants of Kenya (ICPAK).
He is a career Civil Servant with vast experience in Management and Public Finance having worked in the Public Service for 40 years.
He is a Senior Deputy Director, Macro and Fiscal Affairs in the National Treasury. Previously, he worked with the Ministry of Finance (Now the National Treasury and Planning) and the Kenya Revenue Authority.

PROF.KARUTI KANYINGA
DIRECTOR (RETIRED ON 8TH FEBRUARY 2020)

Prof. Karuti Kanyinga holds a PhD. in Social Sciences, International Development Studies (IDS) from Roskilde University, Denmark; Master of Arts (Government) and Bachelor of Arts, both from the University of Nairobi.
Prof Karuti Kanyinga has extensive exposure in national and international practice of governance and development and applying academic research to practice and management of development; university teaching and research.

MR. BENSON M. MURAGE
DIRECTOR (RETIRED ON 8TH FEBRUARY 2020)

Mr. John Benson Maina holds a Bachelor of arts (Econ.) Honours and MA (Econ.) degrees, both from the University of Nairobi. He began his career as an economist at then, Ministry of Finance, currently National Treasury. He later joined Central Bank of Kenya, where he worked in Research, Bank Supervision and External Payments and Reserves Management Departments.

Mr. Maina has extensive experience in central banking, particularly, in areas of regulation and restructuring of banks undergoing financial challenges. He coordinated the financial sector study, which formed the basis for reforms in the banking sector, including liquidation of insolvent banking institutions during the first major banking crisis in the country. He was involved in strengthening the onsite supervision system and offsite reporting system to improve surveillance over the banking sector. In addition, Mr. Maina supervised the execution of Central Bank of Kenya foreign exchange reserves, involving investment of surplus foreign exchange reserves offshore.

The onset of the aforementioned banking crisis prompted the establishment of Deposit Protection Fund Board (DPFB)- now Kenya Deposit Insurance Corporation-to revive the waning public confidence in the banking sector. Mr. Maina was one of the officers involved in setting up the DPF, after being attached to the Federal Deposit Insurance Corporation in USA for training in bank resolution.

MS.DOROTHY CHEPKOECH KIPRONO
DIRECTOR (RETIRED ON 8TH FEBRUARY 2020)

Ms. Dorothy Kiprono is the Managing Partner at Kipkenda & Company Advocates. Her current areas of practice are; conveyancing, contract negotiation, sales and purchase of properties, securitization of bank documents, contract negotiation and drafting, insurance and compliance of statutory requirements of state corporations among others.

In her practice, Ms. Kiprono worked as the Governance and legal consultant for the Communications Authority of Kenya (CA), where she analysed and identified the framework of laws, regulations, policies and Governance structures since the year 2016.

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

Previously Ms. Kiprono offered legal services to the Kenya Commercial Bank Limited (KCB) Bank of Africa Limited, Eco Bank Limited and worked as the Legal Officer at National Water Conservation and Pipeline Corporation (NWCPC)

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

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

MR. MOHAMUD A. MOHAMUD
CHIEF EXECUTIVE OFFICER

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

Having been part of the Corporation since 1999, Mr. Mohamud is credited with a number of achievements since his appointment as the CEO. He has proactively been involved in deposit insurance activities, leading to his appointment as one of the international assessors on compliance with the best practices in deposit insurance. He has assessed many jurisdictions including Nigeria, Tanzania, India, Trinidad and Tobago, Poland, Switzerland and Sweden. He is also an expert in resolution of failed banks and has extensively facilitated international conferences on deposit insurance.

As such, Mr. Mohamud has gained a wealth of experience working in various capacities and departments within the Central Bank of Kenya and in particular, the liquidation division as head of the division.

He serves as a member of the Executive Committee of the International Association of Deposit Insurers. Under his leadership, KDIC was voted the best deposit insurance corporation - 2016.

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

SENIOR MANAGEMENT TEAM

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

MR. ROBERT MBARANI INGASIRA
GENERAL MANAGER,CORPORATE SERVICES

Mr. Robert Mbarani heads the Directorate of Corporate Services. With a career spanning over 20 years, Mr Mbarani has gained immense experience in Finance, Accounting, Human Resource and project management, having worked with various organizations in the Public Sector.
As the head of Corporate Services function, Mr. Mbarani offers strategic leadership to the Finance, Human Resource, Communications and Information Technology divisions of the Corporation. He holds an MBA in Finance from Moi University and a Bachelor of Arts (Mathematics and Economics) from the University of Nairobi.
In addition, Mr. Mbarani holds a higher Diploma in Human Resource Management. He is a member of the Institute of Human Resource Management (IHRM) as well as Institute of Certified Accountants of Kenya (ICPAK).
Mr. Mbarani has successfully attended various management courses on Corporate Governance, Risk Management and Strategic Management.

MR. PAUL MANGA
GENERAL MANAGER,RISK & EXAMINATION

Mr. Paul Manga heads the Directorate of Risk and Examination. He has 15 years of experience in the banking sector having worked with both local and international institutions. As a finance and risk professional, Mr. Manga has worked for seven years in the departments of Finance & Accounts, Treasury Operations and Market Risk functions at the Standard Chartered Bank, during which he made significant contribution to the institution's overall growth. In addition, Mr. Manga was a Senior Market Risk Analyst and Regional Business Manager (EA) at the Kenya Commercial Bank – Group Treasury, for a period of 8 years He holds a BSc degree in Agriculture Engineering; MBA (Finance Option); Post Graduate Diploma in Business Management; Certified Investment and Finance Analyst- CIFA (K); ACI Dealing and ACI Operation for Treasury. He is a member of the Institute of Certified Investment and Finance Analyst (ICIFA)

MR. DAVID IRUNGU
GENERAL MANAGER,RESOLUTIONS

Mr Irungu has a wealth of experience in strategy formulation and implementation, fundraising for debt and equity, business growth and development, sales and relationship management, Compliance and risk management, budgeting, financial planning and performance monitoring. He is the former Chief Executive Officer at KEY Micro Finance Bank Ltd. He also served as the Senior Business Growth & Development Manager- Supreme Banking at the Equity Bank (K) Limited – Operations Division. Mr. Irungu holds a Master of Science degree in Finance and Investments from Kenya Methodist University (KEMU), a Bachelor of Commerce (finance option) from the University of Nairobi and is a Certified Public accountant C.P.A (K) and PRINCE 11 practitioner.

MRS. EUNICE KITCHE-ODUOR
DEPUTY GENERAL MANAGER,
BOARD SECRETARY & HEAD OF LEGAL

Eunice Kitche-Oduor (Mrs) is a legal practitioner currently working with KDIC as the Corporation's Secretary and head of legal. She has practiced law for over 18 years, thus gaining hands-on experience and exposure in legal practice, leadership and management.

She has actively practiced litigation and conveyancing for four years. Before joining KDIC, Mrs. Oduor worked for 14 years as company secretary and head of legal in various state corporations. She has served in various capacities within government, boards and CEOs and in the process, accumulated a unique appreciation of government thinking and direction in the boards of State Corporations.

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

STATEMENT FROM THE CHAIRMAN

Mr. James Teko Lopoyetum, HSC
Board Chairman

On behalf of the Board of Directors and Management, I am delighted to present to you the Annual Report and Financial Statements of the Kenya Deposit Insurance Corporation for the year ended June 2020.

The Kenya Deposit Insurance Corporation (KDIC) is a statutory body established under the KDI Act, 2012. As a risk minimizer, the Corporation is mandated to provide a deposit insurance scheme to member institutions, prompt resolution of troubled banks and incentives for sound risk management.

The Corporation's vision and mission, as underpinned in the 2018-2023 Strategic Plan, is KDIC's launching pad upon which the Corporation strategically seeks to inspire and promote confidence as Kenya's premier agency in deposit insurance. Towards this end, the Corporation remains committed to achieving its mandate through the pursuit of its Strategic Themes namely; Risk Management, Deposit Insurance, Prompt Resolution, Stakeholder Management and Organizational Capacity.
During the year under review, the Corporation recorded and celebrated significant sector-related milestones, a true testament to our resolve towards global excellence in deposit insurance.

In this regard, the Corporation recorded a 16% growth in Deposit Insurance Fund, to stand at KES 122 Billion up from KES 105 Billion.
This growth is attributed to a KES. 17 Billion interest income and assessment premiums recorded as at June 30, 2020. In addition, total deposits in the banking sector increased to KES 4.0 trillion, up from KES 3.5 trillion in the period ended June 30, 2020.

In October 2019, the Corporation thus launched the increased coverage limit of KES. 500,000, making it the highest in Sub-Saharan Africa and the second highest on the continent.

This was a significant leap from the previous limit of KES 100,000, which was last revised in 1989.

As such, the increased cover, will see insured deposits rise to KES 680 billion up from KES 304 Billion. Further, KDIC's timely intervention seeks to allay fears from depositors, affirming the stability of the financial system in view of the socio-economic uncertainty posed by the Covid-19 global Pandemic.

As we take stock of our achievements under this period, the Corporation continued to work closely with our strategic partners with a view to promoting confidence in the financial system. Such partnerships continue to set us on a positive and firm trajectory, in line with our vision- *to be a premier deposit insurance scheme.*

The impact of Covid-19 pandemic on the global economy is quite unprecedented. Financial analysts have projected that the global economy will contract sharply by up to 3 per cent by end of 2020.

This could be worse than the downturn experienced as a result of the 2008–09 financial crisis. Understandably, there is uncertainty on the sustainability of healthcare systems and food reserves. This, coupled with the contraction of global financial market conditions, volatile commodity prices and disruption in supply chains without a doubt, have a huge impact on the plans of all players in the financial services sector.

In recognition of the Macro-economic environment, the Corporation assures all stakeholders of the safety of their bank deposits. The mandate of Risk Minimization has been consistently enhanced to ensure that any exposure to depositor's funds is mitigated through early identification and intervention.

Statement From The Chairman (Continued)

Going forward, the Corporation will remain steadfast in its resolve to ensure safety of deposits and stability of the banking system. To achieve this, the Corporation's key priority areas will include implementation of the Differential Premium System (DPS), public awareness and financial literacy initiatives, upgrade of the Enterprise Risk Management (ERM) Framework, and the implementation of the Data Warehouse as well as the Electronic Document and Records Management System. The Corporation is also committed to continue working towards the prompt payment of deposits to depositors of institutions in liquidation, as well as winding up of institutions under liquidation.

As I conclude, allow me to acknowledge and thank my fellow Board Members, for their personal commitment and expertise rendered during this period. On behalf of the Board of Directors, I wish to express my sincere gratitude to the Chief Executive Officer, Management and Staff of the Corporation for their dedication and selfless service towards the achievement of the Corporation's strategic objectives.

Similarly, allow me to acknowledge the robust partnership and contribution of our key stakeholders led by our parent ministry-the National Treasury-that continues to foster stability within the banking system.

JAMES TEKO LOPOYETUM, HSC
CHAIRMAN

REPORT OF THE CHIEF EXECUTIVE OFFICER

Mr. Mohamud Ahmed Mohamud
Chief Executive Officer

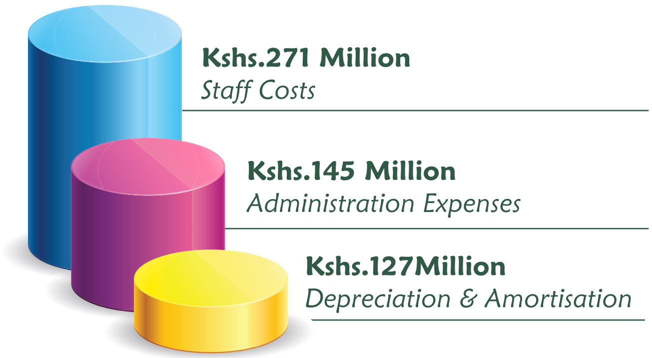
The Kenya Deposit Insurance Corporation (KDIC) continues to enhance its service delivery within the financial sector. Through the provision of deposit insurance services, provision of incentives for sound risk management and prompt resolution of problem banks, the Corporation has continued to foster financial stability in the country. KDIC has thus concluded the second year of the implementation of its strategic plan and presents the Annual Report and the Financial Statements for the financial year ended June 30, 2020. Towards this end, the Corporation has continued to manage its activities in the five strategic thematic areas namely; Deposit insurance, Risk management, Prompt resolution, stakeholder management and organizational capacity.

Financial Performance

The banking sector has been stable during the 2019 – 2020 period. The number of accounts in the system increased to 69.3 million in 2019 – 2020, compared to 63.3 million the previous year. This accounted for a 9% increase. Consequently, in June 2020, the deposits within the banking system increased by 13%, to stand at Ksh4 trillion, up from KES 3.6 trillion the previous year.

The increase in deposit thus saw the premium collected rise to KES 5.2 billion in 2019 - 2020, compared to KES 4.7 billion in 2018 – 2019. The Corporation, through the robust investment in government securities, has generated revenue of KES 12 billion, an increase from KES 10.7 billion in 2019. The Corporation's operating expenses increased from KES 555 million in 2019 to KES 571 million in 2020. Out of the costs incurred, staff costs amounted to KES 271 Million, administrative expenses KES 145 million and depreciation & amortization of KES 127 million.

Fig 1: The figure below shows the Corporation's 2019-2020 operating expenses in summary



Risk Minimization

The Corporation has continued to support the banking sector through the provision of deposit insurance. The deposits have continued to increase from KES 3.6 trillion in 2019 to KES 4 trillion in June 2020. The number of accounts has increased from 57 million to 89 million in June 2020. The increase has enabled the Corporation to revise the covered deposit which now stands at KES 305 billion, up from KES 285 billion the previous financial year. We project that the amount will increase to over KES 650 billion as the Corporation implements the new approved revised deposit coverage limit. The Corporation has consistently insured 7% of total banking industry deposits, which is expected to increase to 17%, given the new deposit coverage limit.

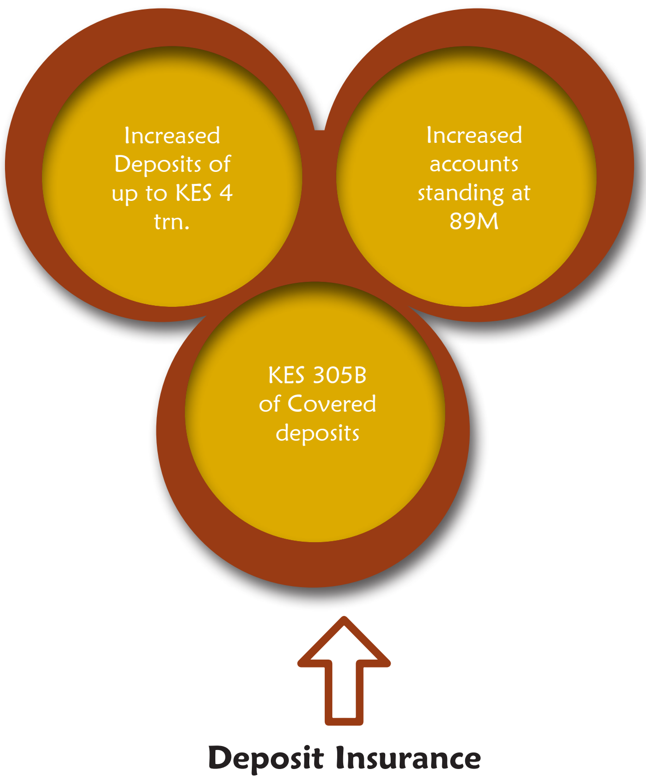
As the Corporation provides the deposit insurance, it takes cognizance of the risk appetite by banks in their daily business operations.

This has necessitated the development of the risk based premium assessment model, aimed at supporting the contribution by the banks based on their risk exposure. The Corporation therefore is developing an early warning system to inform the risk exposure and allow for timely interventions of institutions that seems to be failing.

The early warning and intervention systems, will support the implementation of the risk-based premium. Further, the Corporation continues to receive data and information from various stakeholders to support in the execution of its mandate. The Corporation has therefore continued to strategically engage the various stakeholder with a view to developing and implementing a framework for information sharing within the confines of the law and best practice.

As the Corporation implements data and information sharing mechanism, we are working on a secure data storage and analysis platform that upon completion, will ensure seamless engagement with stakeholders including banks, financial sector players and media.

Fig 2: The figure below is an illustration of KDIC's Deposit Insurance and its impact on the banking sector during the year ending 2019-2020



Resolution Of Banks

The Corporation is undertaking its resolution mandate by resolving institutions in receivership and liquidation. In this regard, there are 18 institutions in resolution, two in receivership while sixteen (18) are in liquidation.

During the period, the Corporation collected KES169M from institutions in liquidation.
This was an increase from KES 93M collected by June 2019. During the period under review, the corporation declared and made payments to depositors and creditors of two institution in liquidation (Meridien Biao Bank ltd (IL) and Reliance Bank ltd (IL). The Corporation is innovatively collecting debts and loans of institutions in resolution. As such, KDIC has reviewed the debt collection policies and procedures to ensure that the platform of payment of debts by debtors of failed institution is user-friendly.This has seen KDIC embrace alternative dispute resolution mechanisms and leverage technology to collect the debts.

KDIC is managing the assets, liabilities, businesses and affairs of these institutions in resolution with the ultimate benefit to the depositors and creditors. As at 30th June 2020, the balances for assets, other liabilities and deposits for the institutions in Liquidation amounted to KES 79.2B, KES 37.2B and KES 13.4B respectively.

As part of resolution process, KDIC has continued to pursue some of the parties at fault through the legal process.For this reason, there are several active court cases related to the institutions in receivership and liquidation respectively. To ensure ongoing protection of depositors and creditors interests, the Corporation continued to amicably engage with all stakeholders including the judicial system.

Target Fund, Coverage Limit and Risk based premium assessment

Since 1986, the Corporation has been operating under the coverage limit of KES 100,000. In view of this, the Corporation reviewed the coverage limit and determined that the new Deposit Insurance Coverage Limit be KES 500,000, effective July 1st 2020.

The upward review was in appreciation of increased productivity and inflation changes within the economy.

The increased coverage limit will support the banks in the mobilization of deposits for lending to the productive sectors.

As the Corporation implements the revised coverage limit, and in recognition of moral hazards arising from the investment decision of banks, KDIC in compliance with the law developed a risk-based contribution model. This is to ensure that banks contribute to the Deposit Insurance Fund (DIF) based on their risk percentage to the banking system. The model aims at rewarding the banks that have investment in risk management frameworks and system, who will proportionately pay less than those who have not. The model which was to be implemented from July 2020, has been deferred to July 20221 owing to the effects of COVID – 19 global pandemic to the sector.

The risk-based model will use the composite of CAMEL rating as the measure for risk exposure of the banks. The methodology introduces equity in contributions to the Fund, enhances sound risk management practices and minimizes moral hazard. As such, the Corporation has developed the framework and will continue to undertake public awareness and sensitization to banks before implementation.

With the support of development partners, KDIC engaged a consultant in the establishment of the target Fund of 4%. So far, the Corporation has achieved 3% of the recommended target Fund even as we strive towards the attainment of the set target.

Public Awareness and Stakeholder engagement

KDIC continues to collaborate with stakeholders to execute its mandate in line with IADI Core principle 6. Towards this end, the Corporation continuously engages stakeholders with a view to update them on the development in the deposit insurance system. During the year in review, the Corporation organized various fora, where our member institutions, financial sector regulators and learning institutions were sensitized on our mandate, and areas of possible collaboration for effective execution of the same.

The Corporation developed a five-year Integrated Communication and Marketing strategy, as part of our endeavour to not only streamline our public awareness and messaging initiatives, but also ensure its sustainability. In addition, the strategy will inform our stakeholder engagement going forward. This exercise will pave way for public awareness and financial literacy programs that we expect to roll out soon.

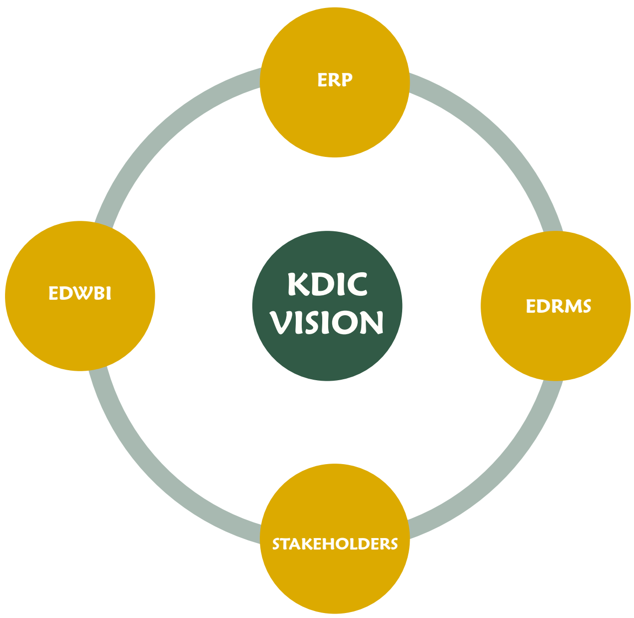
Capacity building and technological infrastructure

Capacity remains central to the operations of the Corporation. During the year, KDIC recruited 38 new staff aimed at enhancing the staff complement. This effectively enabled KDIC to release 27 seconded staff back CBK. Consequently, 27 CBK staff were retained to continue supporting the Corporation.

The Corporation has invested in technology in our quest to fully embrace innovation even as we discharge our mandate. Specifically, we have invested in Enterprise Resource Planning (ERP) solution which integrates our functions

With the support of a consultant, the Corporation evaluated IT operations and established that we were not optimally using the ERP system. Further, there was need to implement the Electronic Datawarehouse and business intelligence system (EDWBI), as well as Electronic document and records management system (EDRMS). In view of this, the Corporation has since developed the functional and technical specifications that will be used for procurement of the requisite service provider to implement the two solutions. The EDWBI and EDRMS are solutions that will ensure the data is received in a secure manner, stored and analyzed so as to inform the decisions. Further, from the recommendations, the Corporation has continued to align and upscale the ERP including customization and alignment of processes for efficient and effective service delivery.

The chart below (Fig 3) highlights the Corporation's technological interventions



Report Of The Chief Executive Officer (Continued)

In accordance with the Corporation's strategic vision of being a premier Corporation in deposit insurance globally, KDIC will continue to collaborate closely with Central Bank of Kenya which is the industry regulator and safety net participant.

Benchmarking with international standards.

KDIC is a member of International Association of Deposit Insurers (IADI)- the body that sets global standards - and the regional body, African Regional Committee. In this regard, the Corporation continues to play a critical role in the development of standards. This is done by offering support as well as participating in activities organized by these partners. Such activities include conferences, executive committees, research, and survey which are the cornerstone of new standards.

Through such collaboration, the Corporation benefited from technical Assistance from some of the Deposit Insurance Systems from other jurisdictions including USA, Taiwan and Canada. The partners supported the capacity of our staff in implementation of the Datawarehouse, early warning system, risk based premium assessment and resolution.

Implementation of Quality management systems, Enterprise Risk Management (ERM) and Busines Continuity Planning (BCP)

The Corporation is ISO 9001:2015 certified. Thus, KDIC endevours to offer excellent services through implementation of processes and procedures that ensure efficient and effective delivery. KDIC has continued to implement ERM and BCP as part of the quality management systems in line with our contingency planning. . As such, the Corporation continued to review and strengthen the frameworks, policies, and procedures to enhance service delivery. Some of the documents that were revised included the Citizens Service Delivery Charter, directorate procedures and the ERM and BCP procedures to ensure quality service delivery to our customers and the public.

Corporate Social Investment and Transparency in Procurement

The Corporation recognizes the role played by the society and the required support for the government development agenda.

In support of implementation of SDG 6 on health and BIG FOUR AGENDA, the Corporation supported Mbagathi Hospital and the Spinal Injury for their critical role in the society and Nairobi county in particular. The Corporation has supported them with assorted equipment worth KES 9.5 million. This is aimed at strengthening the hospitals' capacity in the delivery of their mandate within the health sector.

The Corporation also planted 10,000 trees as part of its contribution to the government's initiative towards increasing the country's forest cover and environmental conservation. On the other hand, the Corporation has implemented its procurement plan in an efficient and transparent manner, ensuring that critical information pertaining such procurements is relayed to all agencies as required. In this foregoing, KDIC has supported the preferential interest groups under AGPO. KDIC will continue to provide the requisite budgetary allocations to special interest groups, publishing and submitting reports of the awarded tenders as well as prompt payments to the groups, as part of the affirmative action.

Appreciation

All these achievements have been possible with the strategic guidance of the Board, accountable and responsible senior management and a dedicated staff. Allow me therefore, to extend my sincere gratitude to the Board Chairman and his entire team for their commitment and guidance during the year in review.

Similarly, I wish to appreciate the management and the entire staff of the Corporation for their unwavering support, teamwork and zeal that saw us surmount our challenges during this period and achieve great milestones in line with our mandate.

May the Almighty guide us we serve our beloved country.

MOHAMUD AHMED MOHAMUD
CHIEF EXECUTIVE OFFICER

CORPORATE GOVERNANCE STATEMENT

Corporate Governance defines the process and structure used to direct and manage the business of the Corporation with the aim of ensuring and enhancing efficiency and accountability in the use and deployment of scarce public resources to increase shareholders long-term value while taking into account the interests of other stakeholders.

The Corporation adheres to and complies with Mwongozo, the Code of Governance for State Corporations, provisions of the Constitution of Kenya 2010, The KDI Act, 2012 and the State Corporations Act. The Board of Directors has developed the necessary policies, processes, systems and procedures that continue to guide our operations. The Corporation regularly reviews and updates the measures with a view to institute and embrace the changes in the operating environment and to ensure adoption of best practice. The Board therefore confirms that the Corporation complies with all relevant legislations, government guidelines and directives.

Governance Structure

According to the Corporation's charter and the requirements set forth by "Mwongozo", the corporation has adopted the following governance structure:
(a) Board of Directors
(b) Board Committees:
(c) Management

Board of Directors

The Board comprises ten members including the Chairman and Chief Executive Officer. The board members are drawn from different professional backgrounds out of which, six are independent members. The Corporation thus continues to maintain a highly skilled, competent and diversified board.

To fulfil its fiduciary responsibility to the stakeholders, the Board has continued to maintain control and guide the strategy and compliance issues of the Corporation. Whilst the Board provides oversight and remains responsible for establishing and maintaining overall internal controls over financial, operational and compliance issues, it has delegated authority to the Chief Executive Officer who oversees daily operations of the Corporation. In execution of its duties, the Board is well facilitated and holds quarterly meetings to ensure that they perform their fiduciary duties. The board performed its functions by holding statutory meetings. The performance of members is as summarised below.

Corporate Governance Statement

Table 1: Attendance Board meetings

Name	Position	Scheduled Board Meeting		
		No of meetings	No of meetings attended	% of meetings attended
James Teko Lopoyetum, HSC	Chairman	12	12	100%
Dr.Patrick Njoroge	Directors	12	3	25%
Mr. Mohamud Ahmed	Directors	12	11	92%
Dr. Habil Olaka	Directors	12	10	83%
Ms.Dorothy Kiprono	Directors	12	9	75%
Alex Mbuvi	Directors	12	6	50%
Pro. Karuti Kanyinga	Directors	12	6	50%
Mr. John Maina	Directors	12	11	92%
Mr. Amos Sipoi Ntimama	Directors	12	8	67%
Martin Gumo	Directors	12	7	58%

Board Committees

The Board has created four Committees aimed at establishing and maintaining an efficient Corporate Governance infrastructure, marching global standards. During the year, the Board re-constituted its committees and re-defined their Terms of Reference. The four committees established in line with the Board's charter are: Board Audit Committee (BAC), Board Technical Committee (BTC), Board Finance Committee (BFC) and Board HR, Strategy & General-Purpose Committee (BHSGPC). The BHSGPC is a new committee created during the Financial Year to deal with staff related issues, matters touching on the Corporation's strategy, enterprise risk management and any other matter that may not squarely fall within the ambit of the other three committees.

Through the committees, the Board has been able to deal with any ad-hoc matters needing focused attention. These include the recruitment of the Chief Executive Officer and other critical issues that if not addressed, could have hampered KDIC's service delivery both internally and externally. The board reviewed and approved its Charter and committees' Terms of Reference to guide their deliberations and operations. The Committees have always submitted their recommendations to the Board for consideration and decision making.

Table 2: The membership of the board members in committees is summarised below

Name	Technical Committee	Finance Committee	Audit Committee	Hr, Strategy And Gp Committee
Dr.Patrick Njoroge	√	√		
Mr. Mohamud Ahmed	√	√		√
Dr. Habil Olaka	√	√	√	
Ms.Dorothy Kiprono		√	√	√
Alex Mbuvi	√		√	√
Pro. Karuti Kanyinga		√		√
Mr. John Maina	√		√	
Mr. Amos Sipoi Ntimama	√	√	√	
Mr Martin Gumo		√	√	√

During the year under review, the Board committees held meetings and the performance of each board members is as follows: -

Table 3: Technical Board Committee

Name	Position	Scheduled Committee Meeting		
		No of meetings	No of meetings attended	No of meetings
Dr.Patrick Njoroge	Directors	4	1	25%
Mr. Mohamud Ahmed	Directors	4	3	75%
Dr. Habil Olaka	Directors	4	2	50%
Alex Mbuvi	Directors	4	2	50%
Mr. John Maina	Directors	4	3	75%
Mr. Amos Sipoi Ntimama	Directors	4	3	75%

Table 4: Finance Committee

Name	**Position**	**Scheduled Committee Meeting**		
		No of meetings	No of meetings attended	No of meetings
Dr.Patrick Njoroge	Directors	4	2	50%
Mr. Mohamud Ahmed	Directors	4	4	100%
Dr. Habil Olaka	Directors	4	1	25%
Ms.Dorothy Kiprono	Directors	4	1	25%
Pro. Karuti Kanyinga	Directors	4	4	100%
Mr. Amos Sipoi Ntimama	Directors	4	4	100%
Martin Gumo	Directors	4	4	100%

Table 5: Audit Committee

Name	**Position**	**Scheduled Committee Meeting**		
		No of meetings	No of meetings attended	% attended meetings
Dr. Habil Olaka	Directors	3	2	67%
Ms.Dorothy Kiprono	Directors	3	3	100%
Alex Mbuvi	Directors	3	1	33%
Mr. John Maina	Directors	3	3	100%
Mr. Amos Sipoi Ntimama	Directors	3	1	33%
Martin Gumo	Directors	3	3	100%

Table 6: HR, Strategy and GP Committee

NAME	Position	Scheduled Committee Meeting		
		No of meetings	No of meetings attended	% of meetings attended
Mohamud Mohamud	Directors	5	3	60%
Ms.Dorothy Kiprono	Directors	5	5	100%
Alex Mbuvi	Directors	5	4	80%
Pro. Karuti Kanyinga	Directors	5	3	60%
Martin Gumo	Directors	5	4	80%

BOARD EVALUATION

The Board has always assessed its performance annually not only as a measure of their performance, but also to comply with the Mwongozo code of corporate governance. The State Corporations Advisory Committee (SCAC) evaluated the Board's performance and documented areas of improvement for implementation in the Financial Year 2019/2020.

The overall Board performance was 95.71% in 2019/2020, which was an improvement from previous evaluated performance of 80.28% in 2018/2019.
The Board has continued to implement the recommendation from the report, thus improving service delivery.

MANAGEMENT DISCUSSION AND ANALYSIS

1 Deposit Insurance Operations.

1.1 Background

Deposit insurance systems are designed to protect small-scale depositors who are not able to monitor and evaluate the strength of a bank against the incentives for greater risk taking by banks. The role of deposit insurance is therefore to protect depositors, particularly small and less financially sophisticated ones, against losses they may face as a result of the failure of banks. At the same time, the availability of deposit insurance serves to protect banks against the risk of 'runs' and thus contributes to financial stability.

In order to have a credible and effective deposit insurance system, the public should be informed in advance on coverage limits (the level and scope of coverage) and how those limits will be applied.

In 1986, Kenya established the Deposit Protection Fund Board (DPFB), with an aim of supporting in the resolution of banks. One of the critical functions of the Board was the provision of the Deposit Protection Fund, which would provide resources for the payout to depositors for their protected funds, in case of a failure of a bank. In 2012, the Kenya Deposit Insurance Act (KDI Act) was enacted. Essentially the Act established a Deposit Insurance Fund -which replaced the Deposit Protection Fund- and the Kenya Deposit Insurance Corporation (KDIC)- to replace the Deposit Protection Fund Board (DPFB).

KDIC continues to protect the deposits of the account holders within the banks who are members of the Fund. The classes of deposits protected include current accounts deposits, savings accounts deposits, call deposits, fixed term deposits and foreign currency deposits.

The Corporation defines deposit to mean the 'unpaid balance of the aggregate of deposits received or held by a member institution from or on behalf of a person in the usual course of the business of deposit taking.' The definition includes a bank draft, certified cheque or other similar instrument or payment instruction, drawn or made against a deposit account for which the member institution is primarily liable; and; a cheque entered into a payment system notwithstanding any delay or failure by the member institution in crediting the payee's account. However, deposit excludes a deposit that is not payable in Kenya, bearer negotiable instruments of deposit, any sum of money payable under a repurchase agreements and interbank transactions. The Corporation has the discretion within the law and deposit insurance agency framework to designate a liability instrument as a deposit.

In the definition of deposits, the Corporation focuses on the ultimate beneficiary, who may be a natural or legal person. The property in the deposit may be held by the person himself or herself or better still, held in trust by another person. Thus, the credit balance constituting a deposit should be linked to the beneficial owner for compensation. The existence of trust relationship creates a 'derived protection' whereby the deposit is held by a trustee, as a custodian, to each and every beneficiary of the funds held in trust accounts in member institutions.

Arising from the 'derived protection', it becomes important to understand the trust and joint accounts, and how they operate.

1.2 Trust and Joint Accounts

In the context of our law (KDI Act 2012):

i. "TRUST" means the legal relationship created when trust property is held in the name of or under the control of a trustee for the benefit of the beneficiary or for a special purpose and includes the instrument setting up such trust;
ii. A "trustee" is therefore a person who holds property, authority and responsibility, under express or implied agreement, for the benefit of a trust or beneficiaries;

iii. A "Trust property" includes monies, assets or any other property held separate from a trustee's own estate, but over which the trustee has the duty and power to account for, manage, employ or dispose of, in accordance with the terms of the instrument setting up the trust or the special duties imposed upon the trustee by any applicable law;

iv. A "beneficiary" means a natural or legal person in whose name a property is held in trust by an other, or for whose benefit property is held in a trust;

v. A "derived protection" means the insurance cover that passes through a trustee, as a custodian, to each and every beneficiary of the funds held in trust accounts in institutions (banks) licensed by the Central Bank and are members of the Corporation;

KDI Act 2012, section 29 (1) provides that all trust accounts held in member institutions are covered and sets the conditions for covering these accounts. The law protects deposits held in trust and jointly by other people in a separate account as separate from the banks accounts of individuals holding such deposits in the same bank. Where an institution is under a lawful obligation to repay monies to a depositor who is acting as a trustee for another or as joint owner with another, and the trusteeship or joint ownership is disclosed on the records of the institution:

(a) The deposit of the depositor as trustee shall be deemed to be a deposit separate from any deposit of that depositor acting on his own behalf or acting in another trust with the institution;

(b) The deposit held in trust by the trustee for each beneficiary, shall be deemed to be a separate deposit where the trustee is acting for two or more beneficiaries; and

(c) The deposit held in trust by a trustee for a beneficiary in an institution shall be deemed to be a deposit separate from a deposit of that beneficiary with the institution on his own behalf and shall also be deemed to be separate from any deposit held in trust by another trustee for the beneficiary in the institution.

Section 10. of KDIC regulations clarifies that insured deposits in trust accounts includes co-mingled or pooled balances in such CUSTODIAL accounts holding funds underlying mobile money transfer services provided that such funds are placed with an institution which is licensed by the Central Bank and is a member of the Deposit Insurance Scheme.

In such a case, trustees of a trust account shall obtain protection or insurance for the named beneficiary of the account. This derived protection for any deposit held in a trust account is limited to protection against the failure of an institution where such funds have been placed.

The protection does not extend insurance cover in circumstances where an agent or custodian of the customer or beneficiary fails to deposit funds on behalf of the customer or beneficiary in a bank. Further, the derived protection or insurance cover is limited to the beneficiaries of the trust account and does not extend insurance cover to the trustees in their personal capacity. This means that if the account has not been designated as 'trust accounts', it will be treated as a 'normal account' during compensation of depositors in case of a failure and the refund will be given to the recognized account holder rather than the beneficial owner.

The law further provides that those institutions which open a 'trust account' MUST:

a) Designate the account in such a manner as to indicate the nature of the trust;
b) Obtain and keep a certified copy of an irrevocable trust deed or an agreement which governs the relationship of the trustee and the beneficiary;
c) Satisfy themselves that the trust deed or agreement defines the rights and obligations of the par ties and reflects the agency or fiduciary duties of the trustee for purposes of opening and operating the trust account and;
d) Ensure that the trust account is operated in accordance with the trust deed.

It is therefore important to note that any trustee operating a 'trust account'(s), who intends to derive protection from the deposit insurance scheme for the beneficial owner, should comply with the above requirements.

The Corporation has observed that most trustees have NOT been complying with the requirements of KDI Act, leaving their beneficiaries exposed. In fact, trustees have been protected in their individual capacity rather than as trustee with the interest of the beneficial owner. The Corporation therefore has made compensation to the trustee as the account holder rather than the beneficial owners. This has occasioned a loss on the said owners during compensation.

Where an institution holding a trust account (Derived protection) becomes insolvent or goes into liquidation, KDIC may promptly pay out the insured deposits to the relevant trustees, for the beneficial owners, in order to avert any contagion effects. Institutions and trustees shall ensure compliance with other relevant laws and regulations governing the operations and maintenance of trust accounts in order to benefit from the derived protection.

Just like in the 'trust accounts,' the deposit of the depositor as a joint owner, shall be deemed to be a deposit separate from any deposit of that depositor acting on his own behalf or acting in another joint capacity with the bank. The institution shall indicate on its records the names of the individual joint owners.

1.3 Coverage Limit of Deposit Insurance

'Coverage limit' refers to the maximum amount of deposits that is insured by the Deposit Insurance. According to the International Association of Deposit Insurers (IADI)- a body that sets standards for Deposit Insurance- the predominant function of coverage is to promote public confidence, financial stability and prevent chaotic depositor runs during bank failure. Deposit insurance coverage limits should therefore be set, so that most individual retail depositors in insured institutions that are at risk of being resolved are fully protected, while leaving a significant portion of the high value deposits unprotected – to encourage market discipline and discourage moral hazard.

For the last 32 years, KDIC maintained a constant coverage limit of shilling of 100,000 which was developed by its predecessor DPFB; this is despite the value of the shilling declining over time due to inflation which has now left the real value of the protection offered to depositors highly eroded with majority of depositors being exposed. The growth of the economy has also rebirthed a new vulnerable group - Micro, Small and Medium Enterprises (MSME) whose working capital is significantly above old limit.

According to IADI Core Principle 8, Coverage limits should be reviewed on a regular basis. In adjusting coverage limits, it is an effective practice for the deposit insurer to take into account inflation, changes in real income, the composition and size of deposits, stakeholder expectations, the development of new deposit products, additional funding requirements, and other factors that could affect the public-policy objectives of the deposit insurance system. In 2018, KDIC commissioned a consultant to review its coverage limit. Arising from this consultation, the Corporation has, effective from 1st July 2020, revised the coverage limit to KES,500,000 up from KES 100,000. This limit is consistent with the changes in the real income and the economic growth of the country. The new limit has effectively increased the proportion of protected accounts to above 98% and the insured value to above 16% of the total deposits. The limit has also increased the exposure of the Fund from KES 280 Billion to above KES 680 Billion.

National Treasury Cabinet Secretary Hon. Amb. Ukur Yatani is joined by KDIC Board led by Chairman Mr. James Lopoyetum, during the official launch of the revised Deposit Insurance Coverage Limit on Oct. 1st 2019.

The deposit protection under KDIC has greatly addressed the weaknesses of the DPFB including extending protected deposit payment to cover per depositor accounts held in a fiduciary capacity (TRUST Accounts).

2.0 Deposit Insurance Fund (DIF)

Sound funding arrangements are crucial to the effectiveness of a Deposit Insurance System (DIS). A deposit insurance system should have all available funding mechanisms necessary to ensure the prompt reimbursement of depositors' claims. There must be a high degree of confidence that the resources available to the DIS are sufficient to address the risks to which it is exposed.

a) Funding Sources of the DI Fund

The KDI Act 2012 and KDI Regulations 2015, established the Deposit Insurance Fund (DIF) which vests in the Corporation. The DIF is devoted to insuring customers' deposits placed in Commercial banks, Mortgage Finance Institutions and Micro Finance banks licensed and regulated by CBK are protected to the established coverage limit. This Fund, protects depositors from losing their deposits up to a stated maximum amount (gazetted coverage limit), should

the institution run into trouble. Therefore, this Fund is set up to pay back or compensate the depositors their money lost due to the failure of an insured financial institution. The legal framework for the DIF is anchored in Part IV of KDI Act 2012. According to the law, the main sources of the Fund are:

- (i) Monies that existed in the Deposit Protection Fund established under the Banking Act;
- (ii) Monies contributed to the Fund by institutions and any interest or penalties levied in respect of such contributions;
- (iii) Monies borrowed from the Central Bank of Kenya or any other person;
- (iv) Monies Appropriated to the Fund by parliament for resolution purpose as provided under KDI Act, 2012 (20(4));
- (v) Monies transferred from the funds of the Corporation;
- (vi) Income that is accruing to the Fund from robust investments;
- (vii) Monies received as subventions, grants or donations to the Fund; and
- (viii) All other monies or assets which may in any manner become lawfully payable to, received by or vested in the Corporation relating to any matter incidental to its powers, duties and functions under this Act.

The growth of the Fund has mainly relied on:

- (i) Annual Premiums contributed to the Fund by member institutions together with any penalties levied in respect of such contributions; and;
- (ii) Income earned through prudent and robust investments of the Fund.

b) Investment Activities of the Deposit Insurance Fund

The investment activities of the Deposit Insurance Fund are managed by an Investment Committee comprising senior management team of the Corporation. The committee makes all the investment decisions guided by investment objectives of ensuring safety, liquidity and returns, as discussed in detail below.

For avoidance of conflict of interest and safety of the Fund, the monies constituting the Fund is banked in a designated account with the Central Bank of Kenya. This money can only be invested in government securities comprising Treasury Bills and Treasury Bonds.
The prudent investment of the DIF has grown the Fund over time, increasing from KES 47 billion in June 2014 to KES 122 billion in June 2020.
The performance of the Fund is summarised in table 1.

Table 7: Growth of the Fund

FINANCIAL YEAR	FUND BALANCE (KES BILLION)	GROWTH (YoY)
2013 – 2014	47	
2014 – 2015	55	17.88%
2015 – 2016	65	18.88%
2016 – 2017	77	18.19%
2017 – 2018	90	17.13%
2018 – 2019	105	16.57%
2019 – 2020	122	16.20%

From the table above, the growth of the Fund has averaged at 17.5% over the years. The Corporation continues to prudently invest the Funds to meet the set investment objectives.

c) Investment Objectives of the Deposit Insurance Fund

The investment of the fund is generally guided by the following investment objectives:

i. **Safety of the Fund:** To meet this investment objective, funds are invested in risk free assets. Mainly these are government securities with the portfolio balanced between Treasury bills and Treasury Bonds. Further, the portfolio is managed in a manner that minimizes the key risks including operational risk, market risk, liquidity risk and other related risks.

ii. **Liquidity objective:** The primary mandate as to why KDIC exists is to provide public confidence through protection of depositors. To achieve this mandate, the Corporation must remain sufficiently liquid to finance its cash flow requirements. For this reason, the investment of the funds is informed by the flexibility of turning the investment assets of

iii. The portfolio into cash for purposes of meeting its liquidity obligations of pay out of protected depos its in case of a bank failure within 30 days, without incurring an extra cost. The Investment made by the Corporation are therefore largely in liquid financial instruments, easily discounted in legally established structure.

iv. **Return objective:** As a source of funding, the investments made must generate the best possible return that will be sufficient to support the growth of the fund as well as meet the Corporation's operational needs. In pursuit of this objective, the investment committee always evaluates investment options that meets liquidity objectives based on the returns.

3.0 Risk Minimization and Offsite Surveillance

Risk minimization is a forward-looking strategy of the Corporation which is implemented under the Risk and Examination Directorate. The strategy focuses on early detection and timely intervention for troubled institutions. The focus of risk minimization is on early warning signs that may signal trends of a failing bank. The Corporation delivers this mandate under three Strategic Pillars namely Risk management, Deposit Insurance and Stakeholder Management.

To achieve this mandate, the Corporation has designed a risk-based surveillance model that combines data analysis and risk profiling of member institutions which culminate into the early warning system. As anchored in the law, the Corporation implements both the onsite and offsite surveillance, as part of the model of early Warning System (EWS).

Off-site Surveillance is the continuous assessment of the risk condition of a member institution. This assessment is conducted through the analysis of periodic data submitted to the Corporation, mainly on monthly and quarterly basis.

Management Discussion And Analysis (Continued)

It includes periodic and recurrent analysis of financial information of institutions, as well as its future prospects (economic and financial viability), including antecedents related to administration and management, and all relevant aspects of their situation regarding Asset Quality, Profitability, Capital Adequacy and Liquidity. This facet of Surveillance also includes the consideration of information from other reliable sources such as press statements by member institutions, reports and sanctions by the Central Bank of Kenya, media reports and whistleblowing reports. The offsite surveillance supports in the risk profiling of the banks in line with the developed framework. The risk profiling framework for banks enhances the early warning signs detection and timely intervention.

As part of the strategies for risk minimization, the Corporation is implementing the risk based premium assessment, which will ensure that the risk profile of the member institution is priced in computation of the contribution of the member institutions to the Fund. The risk based premium assessment model is also designed to offer incentives for sound risk management by member institutions.

Within the provisions of the law, the Corporation will carry out verification of information that informs its mandate especially the confirmation that proper and adequate deposit records are maintained, submitted reports and returns are accurate, banks comply with the terms and conditions of membership, and, any other information that will be necessary to support the execution of the Deposit Insurance, provision of sound risk management and prompt resolution.

The ultimate objective of the risk minimization initiatives is therefore to ensure the stability of the banking system as well as to safeguard the Deposit Insurance Fund from depletion as a result of payouts due to bank failures.

Effective stakeholder relations remain critical for the success of risk minimization and early intervention initiatives. As a result, the Corporation continues to foster strong linkages and collaborations with other safety net players, member institutions and depositors for sharing of information. The Corporation has further developed the Whistleblowing Framework that will encourage a safe disclosure mechanism to holders of pertinent information so as to safeguard depositor interests and stability of the banking sector.

The Corporation intends to implement Resolution Planning mechanisms for its member institutions in line with best practice, and to entrench prudent management of banks for risk minimization and sustainability. Resolution planning means that the banks will anticipate failure and put in place mechanisms of resolution in case of such risk crystalizing.

4.0 Development in the Banking Sector

4.1 Growth in Deposit

The Corporation has continued to support and monitor the financial soundness and stability of member institutions. The deposit grew from KES 1.885 trillion in 2013 to KES 4 trillion in 2020, accounting for 212% growth. Further, the insured deposits grew from 193 billion in 2013 to KES 304 billion in June 2020 at a coverage limit of KES 100,000 as summarized in table 2.

Year	Fund (KES Billion)	Insured Deposit (KES Billion)	Total Deposit (KES Billion)	Exposure (Fund / Insured Deposit)
Jun-13	**39.00**	**192.88**	**1,884.77**	**20%**
Jun-14	**47.00**	**213.71**	**2,188.06**	**22%**
Jun-15	**55.00**	**246.77**	**2,630.91**	**22%**
Jun-16	**65.00**	**252.50**	**2,762.39**	**26%**
Jun-17	**77.00**	**261.05**	**2,984.91**	**29%**
Jun-18	**90.00**	**271.48**	**3,290.90**	**33%**
Jun-19	**105.00**	**281.34**	**3,559.08**	**37%**
Jun-20	**122.00**	**304.62**	**4,035.28**	**40%**

The banking sector has continued to be stable in the financial year 2019 - 2020 and this together with the growth of the economy has seen continuous growth of deposits. The Corporation on the other hand has supported the sector in confidence building by increasing the amount of insured deposits, payable to the account holder in the unfortunate case of a failure of the institution. Effective 1St July 2020, KDIC implemented the new coverage limit of KES 500,000, which saw insured deposits increase from KES 304 Billion to KES 680 billion as per the June 2020 deposit distribution.

Notwithstanding the increased exposure of the Fund, the Corporation continues to implement initiatives to ensure that more deposits are insured and more account holders are protected.

4.2 Admission of new members

During the year, the Corporation admitted one more member that is ‘Muungano Microfinance Bank’ that was licensed on 28th November 2019 in the category of a community microfinance institutions. The admission increased the membership of the Corporation to stand at 56 up, from 55 previously.

The membership is grouped into three categories namely: Commercial bank, Mortgage Finance institutions and Microfinance Banks. The Fund membership comprises 42 banks, a mortgage finance institution, and 14 microfinance banks. The list of members in each of the categories is as follows:

1.0	**BANKS**	31	NCBA Bank Kenya Plc
1	ABSA Bank Kenya PLC	32	NIC Bank Ltd.
2	African Banking Corporation Limited	33	Paramount Bank Limited
3	Bank of Africa Kenya Limited	34	Prime Bank Limited
4	Bank of Baroda (KENYA) Limited	35	SBM Bank Kenya Limited
5	Bank of India Ltd.	36	Sidian Bank Limited
6	Charterhouse Bank Ltd.	37	Spire Bank Limited
7	Chase Bank (IR) Ltd	38	Stanbic Bank Kenya Limited
8	Citibank N.A Kenya	39	Standard Chartered Bank Kenya Limited
9	Consolidated Bank of Kenya Ltd.	40	Transnational Bank PLC
10	Co-operative Bank of Kenya Limited	41	UBA Kenya Bank Limited
11	Credit Bank Limited	42	Victoria Commercial Bank Limited
12	Development Bank of Kenya Limited		
13	Diamond Trust Bank (K) Limited	**2.0**	**MORTGAGE FINANCE INSTITUTION**
14	DIB Bank Kenya Limited	1	HFC Limited
15	Ecobank Kenya Limited		
16	Equity Bank Kenya Limited	**3.0**	**MICROFINNACE BANKS**
17	Family Bank Limited	1	Caritas Microfinance Bank Limited
18	First Community Bank Limited	2	Century Microfinance Bank Limited
19	Guaranty Trust Bank (Kenya) Ltd	3	Choice Microfinance Bank Limited
20	Guardian Bank Limited	4	Daraja Microfinance Bank Limited
21	Gulf African Bank Limited	5	Faulu Microfinance Bank Limited
22	Habib Bank A.G. Zurich	6	Kenya Women Microfinance Bank
23	I & M Bank Limited	7	KEY Microfinance Bank Limited
24	IMPERIAL BANK (IR) LIMITED	8	Maisha Microfinance Bank Ltd
25	Jamii Bora Bank Limited	9	Muungano Microfinance Bank Plc
26	KCB Bank Kenya Limited	10	Rafiki Microfinance Bank Limited
27	Mayfair Bank Limited	11	SMEP Microfinance Bank Limited
28	Middle East Bank Kenya Limited	12	Sumac Microfinance Bank Limited
29	M-Oriental Bank Limited	13	U & I Microfinance Bank Limited
30	National Bank of Kenya Limited	14	Uwezo Microfinance Bank Limited

Management Discussion And Analysis
4.3 Mergers and acquisition

Banks have continued to restructure and re-organize as part of the business strategies to diversify and strengthen the resilience of the Kenyan banking sector. During the year, NIC bank and CBA Bank concluded their merger and adopted the NCBA bank name effective from October 2019 when the institution began operating under the new name. Further, the acquisition of National Bank of Kenya (NBK) by KCB Bank was concluded. NBK therefore continues its banking operations but as a subsidiary of KCB Bank.

4.4 Covid-19 Global Pandemic: Economic Stimulus

Hon. Amb. Ukur Yatani, C.S, National Treasury delivers his keynote address when he presided over the launch of the revised limit on Oct.1st 2019.

On March 13th 2020 the Kenya confirmed its first case of Covid-19. This was immediately followed by a raft of containment measures including partial lockdowns and suspension of air travels amongst others. The lock down of the operations within the economy especially transport and hospitality sectors affected the horticultural, tourism, hospitality sectors amongst others. Micro, Small and Medium Enterprises were the most hit. The economy took a hit since the reporting of the first case with various sectors projecting a decline in terms of projected growth. To support the economy, the government and its Agencies rolled out economic stimuli packages to various sectors. In line with these government initiatives, KDIC in June 2020 rolled out three economic stimuli packages aimed at supporting the banking sector. The support was meant to cushion member institutions and give a breather as they align their businesses to the new challenges of Covid-19 pandemic.

The three economic stimuli implemented include:

4.4.1 Implementation of Increased Coverage Limit

On October 1st, 2019, the Corporation revised the coverage limit Ksh.500,000 up, from the previous Kshs. 100,000.00, but deferred its implementation.
To enhance public confidence in the banking system, the limit has now been implemented effective 1st July 2020. The new limit gives more protection to depositors in the most unfortunate event of a bank failure. At the same time, this higher limit protects banks against
the risk of deposit 'runs' and thus assuring their safety amid the Covid-19 pandemic which further contributes to the financial.

C.S, National Treasury Amb. Hon. Yatani poses for a group photo with KDIC Board led by Chairman Mr. J.Teko Lopoyetum, Mr. Mohamud Ahmed Mohamud and Dr. Patrick Njoroge

A section of delegates follow proceedings during the launch of the revised coverage limit

CBK Governor Dr. Patrick Njoroge and other delegates follow proceedings during the launch of the revised deposit coverage limit in Oct.2019

4.4.2 Extension of Premium payment period

KDIC normally assesses banks' premium payable in July annually. To support banks (member institutions) during this period of COVID-19, the Corporation extended the payment of annual premium for a period of 6 months. The annual premium will be due at the end of December
2020. This intervention is meant to give a breather for banks who may be experiencing cash-flow disruptions due to economic shocks.

4.4.3 Deferment of Risk Based Premium Model.

In 2019, KDIC rolled out a risk-based premium model to be used in assessing the annual premium payable by banks. This model was scheduled to be implemented in July 2020. The model computes premium assessed for a bank based on its perceived risk to the Corporation's Deposit Insurance Fund (DIF). The model assesses the perceived risk by evaluating the key parameters of a sound financial institution which includes Capital adequacy, Asset quality, Management, Earnings and Liquidity.

The model is meant to incentivize sound risk management by rewarding institutions that have invested in sound risk management practices and removing subsidies to institutions with higher risk appetite.

With the COVID-19 pandemic, parameters for assessing the risk worsened, such that if implemented, the model would have seen many banks paying higher premiums, due to

economic shocks from the COVID-19 global pandemic. As part of our market intervention strategy, the Corporation deferred the implementation of this model to the next financial year (2021 – 2022). At the same time, the premium assessment for the same period (2020 - 2021 was computed at 0.15% flat rate. The stimulus gives banks a one-year moratorium they organize their business in response to the economic shocks.

5.0 Public Awareness Initiatives.

KDIC has continued to discharge its mandate of deposit insurance, providing incentives for sound risk management and undertaking prompt resolution of failed institutions. The activities are aimed at protecting depositors and contributing to financial stability in the country. However, for effective execution of its mandate, it is essential that the public is informed on an ongoing basis about the benefits and limitations of the deposit insurance system, and KDIC specifically, to ensure that the public and member institutions understand the role of the Corporation. Further, KDIC will engage members institutions- who are members of the Fund- with a view to understand the risks facing these institutions even as we proactively enhance early detection and intervention mechanisms.

The Corporation has developed the Integrated Communication and Marketing Strategy that will guide the public awareness activities and programs. The strategy maps out the public awareness activities to be implemented under the 2018-2023 Strategic Plan. The Corporation will thus rely on the strategy in the engagement of various stakeholders, public messaging and communication.

Management Discussion And Analysis

KDIC has continued to effectively communicate with the public informing them of the members of the Fund, deposit coverage limits, institutions in resolution and how depositors of failed institutions can claim their deposits.

Mr. Mohamud, CEO, confers with Mr. Paul Manga, GM, Risk & Examination during one of the Corporation's stakeholder engagements in 2019

As part of our risk minimization mandate, the Corporation has continued to engage stakeholders especially safety net players, commercial banks and financial sector players. Towards this end, the Corporation conducted meetings, one on one visits and scheduled thematic forums with respective stakeholders, based on the information to be shared.

Further, the Corporation held meetings with CEOs of and Senior Management of member institutions on the 10th and 16th January 2019 and 9th May 2019 respectively. to the meetings were aimed at sensitizing the stakeholders on the concept of risk based premium assessment model, to obtain feedback from member institutions as well as discuss areas of mutual collaboration. The engagements also brought together representatives from the National Treasury, and Central Bank of Kenya, both who are part of the safety net players and play a critical role in banks resolution.

The agenda of the Differential Premium System (DPS), facilitated by Bruno Lund-an invited consultant from IADI-was extensively discussed during the engagement in May 2019. The stakeholders gained knowledge and international perspectives on the risk-based contributions and operations of Deposit Insurance system during such a regime. The Corporation will continue to engage member institutions on emerging issues to deposit insurance, risk minimization and prompt resolution, as well as enhanced public awareness activities.

6.0 Stakeholder Engagement

The Corporation continuously seeks to enhance partnerships with key stakeholders, in line with international best practice that calls for close coordination between financial safety net players in fostering financial stability, through regular consultative meetings. In view of this, KDIC and Central Bank of Kenya continue to deliberate on how best to implement a framework on information sharing, and resolution of banks including those in receivership.

As a member of IADI and Africa Regional Committee, KDIC continues to participate in global activities. For instance, the Corporation participated in executive committee activities of the IADI and various research initiatives.

Thus, KDIC remains a critical player in the international arena of deposit insurance, resolution (receivership, liquidation and winding up of institutions), and will continue to participate in such events.

Board Chairman Mr. James Lopoyetum and CEO Mr. Mohamud Ahmed Mohamud pose for a group photo shortly after signing an MoU with Taiwanese Central Deposit Insurance Corporation, in December 2019, Taipei, Taiwan.

Part of the Corporation's publicity campaign on the revised coverage limit launched on Oct. 1st 2019.

7.0 Capacity Building

To effectively deliver on its mandate of risk minimization, deposit insurance and prompt resolution, the Corporation continuously enhances the technical skills and capacity of its human capital. This has been achieved through various exposure visits of staff and board to various institutions through partnerships.

Risk and Examination has built capacity of staff through trainings in Financial Analysis (London Corporate Training), Crisis Preparedness and management, Bank Examination and Fraud (Toronto Centre) and Forgeries Prevention from the Kenya School of Monetary Studies (KSMS). Further, staff took basic courses in Deposit Insurance in partnership with the Korea Deposit Insurance Corporation (KDIC). Capacity building was achieved through the financial support from the Financial Sector Support Program (FSSP), and Kenya Deposit Insurance Corporation.

Prompt Resolution Of Failed Banks And Microfinance Banks

The Corporation established a directorate that facilitates the resolution process specifically, receiving, liquidating and winding up of any institution in which the Corporation is appointed as receiver or liquidator in accordance with the Act.

In order to achieve the above objectives, the Corporation is implementing various strategies including employment of alternative debt collection methods, embracing alternative dispute resolution mechanisms, collaboration with other stakeholders and the implementation of the already developed resolution framework. These measures, have ensured that the Corporation meets its objectives in a more efficient and timely manner. To this end, the directorate ensures smooth payment of deposit insurance to insured depositors with a view to minimize the impact on the Deposit Insurance fund, and prompt payments to uninsured depositors and other creditors of failed institutions.
As such, the Corporation achieved the following milestones during the year under review.

Receivership

- Successful Partial transfer of assets and liabilities of Imperial Bank Ltd (In Receivership) to KCB Kenya Ltd through purchase and assumption method. This will ensure the depositors have a guaranteed recovery rate of 37% before payment of the insured deposit amount.

- In embracing best deposit Insurance Practice Worldwide, the Corporation undertook the first indepen dent review of Chase Bank Ltd (IR) receivership process as part of knowledge management. This was undertaken through documentation of the receivership experience. The knowledge acquired, is expected to not only impact KDIC's efficiency, but also help in identifying any legal gaps that may require amendment of the Act.

Liquidation

The Corporation is the liquidator of 16 financial institutions. During this period, key strategic focus was on improved debts collection through alternative dispute resolution methods, engagements with international stakeholders- mainly other deposit insurances- to share on best practices of resolution and deployment of technology to enhance interactions with all the stakeholders, debtors and depositors of the failed financial institutions. The above strategic initiatives enabled the corporation to register impressive results in the following areas:

- 100% growth on debt collections for the financial year 2019 - 2020, compared to the previous year.

- Conclusion of major court cases facing different financial institutions through Arbitration and negotiat ed settlements.

- Successful hosting of webinars with two deposit Insurance Corporations. This focused on effective transfer of data for failed institutions and documentation of resolution experiences for the failed financial Institutions.

- Successful disbursements of declared payments to depositors and creditors of two failed financial institutions, with an average payout of 70% of the eligible claimants. This was made possible through online lodging of claims.

Handling of Depositors and Creditors Claims and inquiries

KDIC has continued to increase engagement with depositors and creditors of the failed Institutions by receiving, investigating, and responding to their inquiries and complaints on; resolution status of the respective Institutions in receivership and liquidation, and the respective laws and regulations and other related areas.

Depositors gather outside the former Chase Bank shortly after it was put in receivership

The Corporation recognizes that such engagements play an important role in increasing the level of public awareness on the resolution process of failed financial institutions.

Assessing and resolving these matters has helps the agency to identify trends or problems affecting depositors that aid in formulation of prompt resolution policies, and to foster confidence in Kenya's banking system. Despite various achievements, the Corporation encountered some challenges key among them; the outbreak of COVID-19 global pandemic, which greatly affected debt collection due to economic slowdown.

In addition, the continued delays in determination of court matters has slowed down the resolution process.

Kdic Strategic Implementation, Mornitoring And Reporting

The Corporation was in the second of its five-year Strategic Plan (2018 - 2023). The five (5) Thematic areas namely; Risk Management, Deposit insurance, Prompt Resolution, Stakeholder management and Organizational capacity remained the areas of focus. The Corporation has developed a clear implementation Plan with clear responsibility and accountability.

The Corporation has annually endeavored to ensure that the Performance Contract and directorate work plans are aligned with the Strategic Plan. The annual budget of the Corporation is based on the implementation of activities in the strategic plan as indicated in the implementation matrix.

To effectively implement the strategic plan, the Corporation has continued to develop its human capital and allocate resources to the various areas to address the identified have gaps. The Corporation to recruit more staff, train and support them with culture change programs to support the capacity required for implementation of the plan. The Corporation assess and reports on Strategic plan implementation on quarterly basis. The quarter 4 report for the period ended June 2020 indicated that implementation is on track.

Enterprise Risk Management And Business Continuity Planning

Appreciating the role that the enterprise Risk Management plays in the achievement of its mandate, the Corporation has retained the services of KPMG to help in the development of a sound Enterprise Risk Management (ERM), Business Continuity Planning (BCP) and Disaster Recovery (DR) Framework including developing a policy and procedure manual to guide on the best approach on managing matters of ERM, BCP and DR.

With support of the consultant, the Corporation will review, adopt and implement modern management tools and templates, including the revised Risk Tolerance and Appetite statements.

The Corporation will continue assessment, monitor, evaluate and report risk management activities periodically to ensure that mandate execution is not affected. KDIC will implement BCP recovery and restoration of activities in case of disaster.

Management Discussion And Analysis
Implementation Of Quality Management System (Qms)

The Corporation is implementing Quality Management system using the ISO 9001:2015 Standard, therefore implementing the activities that strive to maintain the certification.
The quality management system is built on the Balance Score Card model.

The Corporations strategic focus is on the excellent customer services from its various products and services through well-defined processes. Therefore, we continue to review and reengineer our processes and procedures to respond satisfactorily to the needs and expectations of our customers and stakeholders.

As part of tracking the implementation of quality systems, the Corporation carried out one external audit and two internal audit that identified gaps that the Corporation implemented. Further, the Implementation of the system has continued to enhance staff output, thus easing

their operations. This in effect has resulted in benefits of engaged and satisfied employees and excited customers owing to the benefits they receive from the products and services offered.

The system has led to an effective management system that can now guarantee quality out.
The impact can now be felt by other interested parties and perceived value and benefit to the customer increased. The Corporation will henceforth continue to implement and maintain the quality management system even as it adopts other relevant mechanisms that are geared towards improving the dimensions of quality products and services.

Automation: Use Of Information, Communication And Technology In Service Delivery.

The Corporation is leveraging on technology to offer its services. The Corporation has rolled out its ICT systems involving the deployment of new network infrastructure, audio visual systems, upgrade of software and network security systems. In addition, the Corporation enhanced its disaster recovery sites by upgrading the database software for robust and quick recovery of critical systems in the event a disaster occurs.

Given the significance of data in the Corporation's operations, KDIC is in the initial stages of constructing a data centre. Upon its completion, the data centre will be critical in fulfilling KDIC's mandate as a risk minimizer, through real-time transmission of data from member institutions, thus informing prompt action where necessary. In addition, it will support cooling, ensuring high availability and scalability of data, as well as high performance.

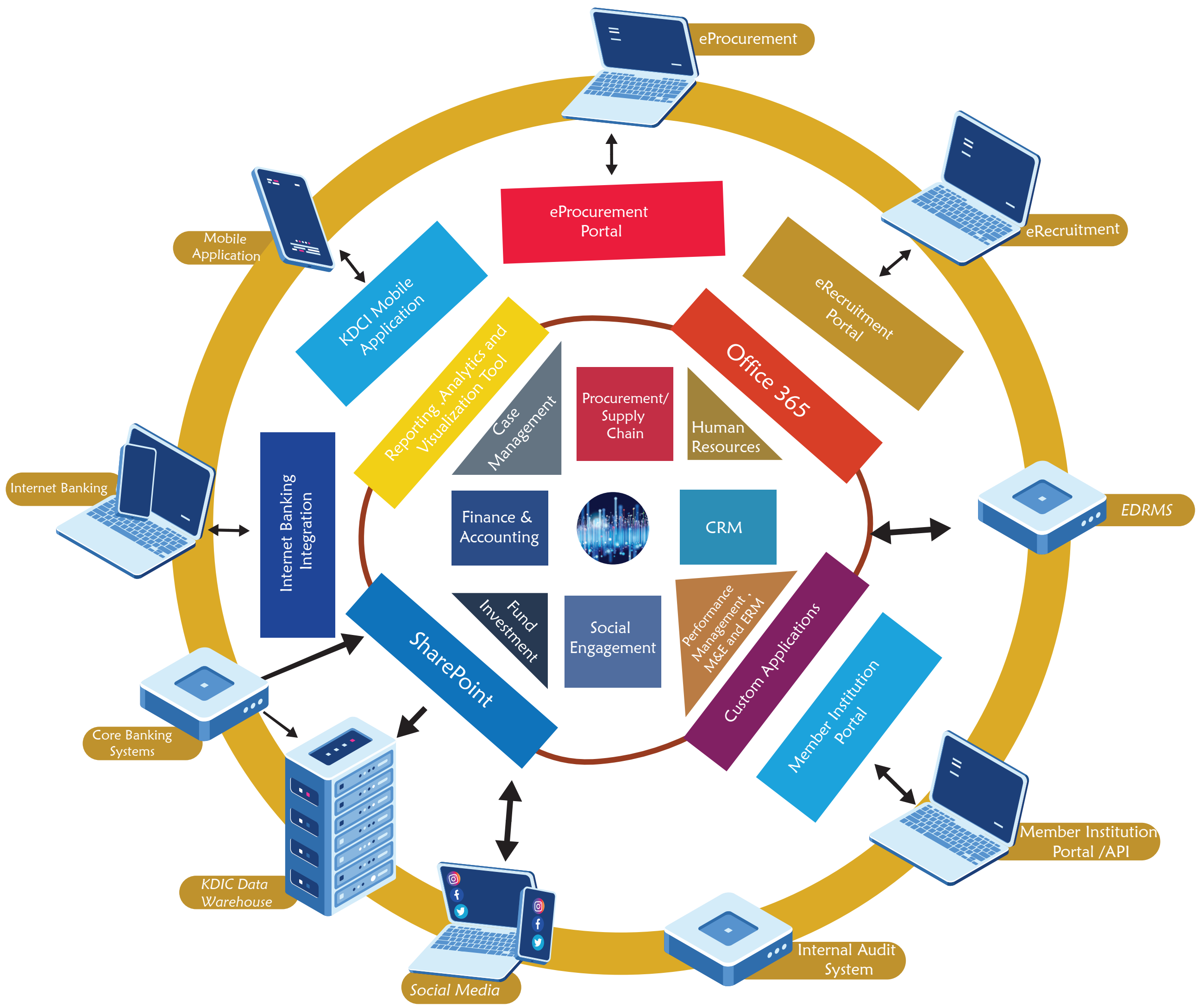
It is envisioned that the centre will not only enhance data integrity during data mining, but also support integration of all ICT systems and business intelligence. The operations of the data centre and ICT security will be supported by the Information Security Management Systems (ISMS), currently being implemented.

By implementing ISMS, the Corporation is keen to ensure that all information assets are identified and secured based on its value, importance, confidentiality, accuracy and are authentic.

Automation of key processes will continue supported by module customization and training of staff on the Enterprise Resource Planning Systems (ERP), is currently ongoing. Automation is aimed at ensuring the Corporation fully maximizes on the existing systems to support business processes and operations through optimally utilizing it.

The Corporation is developing a mobile application system that will enhance the collection of debts for institutions under resolution (receivership and liquidation). It is expected that once implemented the mobile application will significantly transform transactions of debt collections and disbursements of declared dividends, hence cut down on the tribulations encountered by debtors.

KDIC ICT ECOSYSTEM



Capacity Building And Workplace Mainstreaming

Capacity Development

The Corporation requires skilled and competent manpower to execute its mandate. KDIC build the capacity by recruiting additional staff to increase the complement, organized exposure to trainings and development opportunities and organized the team building initiatives for more management and interaction. The Corporation recruited thirty-seven (37) staff members increasing the complement to 49. This also allowed the Corporation to release 27 staff members back to Central Bank of Kenya, who had been secondment.
To effectively deliver on its mandate of risk minimization, deposit insurance and prompt resolution, the Corporation enhanced the technical skills and capacity of its human capital. This was achieved through various exposure visits of staff and board to various institutions through partnerships. This included trainings of seventy-two (72) staff trainings, both local and international. Some of the trainings attended includes Financial Analysis (London Corporate Training), Crisis Preparedness and management, Bank Examination and Fraud (Toronto Centre) and Forgeries Prevention from the Kenya School of Monetary Studies (KSMS). Further, staff took basic courses in Deposit Insurance in partnership with the Korea Deposit Insurance Corporation (KDIC). Capacity building was achieved through the financial support from the Financial Sector Support Program (FSSP), and Kenya Deposit Insurance Corporation.

Management Discussion And Analysis (Continued)

The Corporation has continued implement the welfare activities including implementation of the staff pension, Staff Mortgage, Staff Car Loan Schemes and an attractive medical scheme. Other staff welfare programs include Group Personal Accident (GPA), Work, Injury and Benefits (WIBA) cover, Group Life Assurance (GLA) with a view to invest and better the lives of staff. The Corporation will continue to hold team building sessions and other staff events for more bonding.

As part of the Government's initiatives to empower the youth and build their capacity, the Corporation offered the youth internship and attachment opportunities to ten (10) students.

CEO Mr. Mohamud Ahmed Mohamud poses for a group photo with new staff that joined the Corporation in late 2019, following a weeklong induction exercise in Naivasha.

The youth were exposed to practical work experience through the program in our various functions including finance, Corporation secretary and legal, human resource and administration, procurement, resolution, ICT and Risk and Examination. The Corporation has continued to receive positive comments from the students after the training period, and willingness to continue except for the capacity to accommodate them.

The Corporation continued and completed the office partitioning works on 23rd, 24th and 25th floors offering more space to be occupied by the staff members. The staff members have since relocated to the respective spaces and offices.

The Corporation has continued to implement the various human resources policies developed to enhance Human Capital. The Corporation will be reviewing and aligning the policies further to effectively support the implementation of the strategic plan 2018 – 2023.

Workplace Mainstreaming: Compliance With Government Policy

The Corporation has supported the staff as they discharge their duties even as it continues to comply with government rules, regulations, policies and laws. As such, the Corporation has constituted several committees to support the welfare aspect of staff and mainstream the work place in compliance with government requirements. The committees constituted are aimed at the staff on alcohol drug and substance abuse, campaign against HIAV and AIDS; disability mainstreaming; complaints handling; occupational, health and safety; and national cohesion.

COMMITTEE NAME	TERMS OF REFERENCE	ACTIVITIES IMPLEMENTED
CAMPAIGN AGAINST HIV/AIDS AND ALCOHOL DRUG AND SUBSTANCE ABUSE	Implement planned activities with respect to: • HIV/AIDS, • alcohol, drug and substance abuse.	• Implemented the HIV/AIDS with Maisha one guidelines issued by the National Aids Control Council (NACC). • Trained committee members on the reporting tools and how to sensitize the Corporation's staff and their families on the prevention of HIV/Aids. • Developed HIV/Aids policy in consultation with NACC. • Conducted four (4) staff sensitization sessions • Distributed up to 1,500 condoms in partnership with NACC, • The committee facilitated HIV/AIDS testing and counselling to staff.
GENDER AND DISABILITY MAINSTREAMING COMMITTEE	Ensures that concerns and experiences of differently abled persons are an integral dimension of the design, implementation, monitoring, and evaluation of policies and programs in the corporation resulting to accessibility and usability to all.	• Trained 2 staff as Accessibility Auditors by the National Council for persons with Disabilities (NCPWD). • Trained two members in sign language at the Kenya Institute of Special Education, • Sensitized staff on disability mainstreaming facilitated by NCPWD. • NCPWD conducted an accessibility audit, as part of our endeavour to continually improve and ensure that our internal environment is habitable and accessible to people with unique needs. • The Corporation has reviewed its Citizens Service Delivery Charter and translated it into Braille and sign language. • Revised the disability policy.
COMPLAINTS HANDLING COMMITTEE	• Enhance service delivery, through prompt resolution of public complaints. • Line with the access to information act of 2016, make official information more freely available, accessible, to protect official information to the extent consistent with the public interest. • Prepare regular reports to management on complaints handling, where appropriate refer complaints to the appropriate authorities	• Received, documented, and coordinated the resolution of public complaints in compliance with the Standard Operating Procedure on handling public complaints. • Submitted to CAJ quarterly reports in the provided format especially providing number of complaints received, the source, status and action taken on each of them. • KDIC received a compliance certification with an average score of 97% in the financial year 2019/2020.

COMMITTEE NAME	TERMS OF REFERENCE	ACTIVITIES IMPLEMENTED
CORRUPTION PREVENTION COMMITTEE (CPC)	• Meet to deliberate on anti-corruption and other integrity issues on a quarterly basis. • Plan, coordinate and integrate corruption prevention strategies within the organization • Receive and review reports on corruption prevention initiatives and take appropriate action. • Prioritize activities in the implementation of Corruption Prevention Plan (CPP) • Receive complaints and information on alleged corruption related activities and evaluate analyze and recommend appropriate action • Communicate effectively to staff and other stakeholders on all decision guidelines on corruption prevention • Monitoring and evaluating the impact of corruption prevention initiatives and other recommended actions. • Prepare and submit to EACC quarterly reports on implementation of the CPP	• Senior Management trained on corruption prevention by during a training facilitated by EACC
NATIONAL COHESION, NATIONAL VALUES AND VISION 2030	• Promote and Implement good governance including Implementation of national cohesion and values and principles of Governance • Implement measures to promotes the realization of national cohesion and values including implementing commitments in the annual President report on National Values and Principles of Governance • Implement Vision 2030 projects and Sustainable development goals • Submit the relevant reports to Vision 2030 delivering Secretariat of various Government policies on 2030 flagship projects and Directorate of National Cohesion and Values.	Sensitised staff on: • National cohesion in kenya, indicators of a cohesive society, challenges to national cohesion and integration, interventions for promoting national cohesion and benefits of a cohesive society • The constitutional provisions on national values and principles of governance, and application of national values and principles of governance. • Performance contracting commitments and reporting thereof including templates • The corporation implemented 100% of the pc commitments in the financial year 2019 - 2020

COMMITTEE NAME	TERMS OF REFERENCE	ACTIVITIES IMPLEMENTED
ENVIRONMENTAL SUSTAINABILITY & OCCUPATIONAL SAFETY AND HEALTH COMMITTTEE	• Identity relevant issues affecting the work environment and recommend the mitigations including monitoring the implementation of the corrective measures thereof • Carry out internal work environmental survey and sensitization of staff on the occupation, health and safety at workplace • Prepare annual work plans for the committee activities • Prepare and submit relevant reports to National Environmental Management Authority (NEMA) and Occupational Safety and Health Act Board (OSHA). • Disposing of hazardous waste	• Sensitized staff on National Environmental Management Authority (NEMA) and Occupational Safety and Health Act Board (OSHA).

Kdic Embraces Transparency In Procurement Function

Kenya Deposit Insurance Corporation being a public entity, has established a procurement function in compliance with section 45 of the Public Procurement and Asset Disposal Act, 2015. The Corporation has implemented accountability and internal controls framework including reporting to relevant Authorities.

KDIC team consults with Dr. Soren Otieno (Spinal Injury hospital) during their inspection tour of the facility.

The Corporation has maintained and continually updated list of registered suppliers; prepared procurement and asset disposal documents to facilitate fair competition; published all tender awards on e-procurement platforms and our website; submitted the relevant and periodic reports on procurement to The National Treasury and Planning, and the Public Procurement Regulatory Authority on matters related to procurement and asset disposal; and continued to liaise with The National Treasury and Planning, and the Public Procurement Regulatory Authority on matters procurement and assets disposal in line with the provisions of the law.

During the period under review, the Corporations procurement budget including ongoing projects was KES 693,120,000. Taking cognizant of the Government of Kenya policy to promote local manufacturing and to make public procurement opportunities accessible to the youth, women and people living with disability (PWD) through the AGPO program, the Corporation set aside a budget of KES 47,142,573 for the AGPO, which was 30% of the total procurement budget after excluding the ongoing projects. The Corporation managed to award tenders valued at KES 37,520,556 to AGPO which was 80% of the target, notwithstanding the Covid-19 disruption.

Management Discussion And Analysis
Corporate Social Responsibility Statement

The Corporation recognises its role in support of the community that we offer services to. The Corporation has continued to contribute to the government's BIG FOUR AGENDA, by supporting institutions in the health sector and environment, through the protection of vegetation coverage as part of our social responsibility activities. KDIC identified the need to support Mbagathi Hospital and Spinal Injury Hospital which are both public hospitals within Nairobi County.

Mbagathi hospital is a level 4 government-owned hospital established in 1960's, to offer specialized treatment for Tuberculosis patients. However, overtime, the facility has expanded its operations and now offers treatment to a myriad of diseases, translating to about 1000 outpatients daily with approximately 300 inpatients among them children.

Similarly, the Spinal Injury Hospital is a level 6 government facility and is the only one in East and Central Africa dealing with the spine, having started as a home in 1968. The facility has since undergone renovations.

As part of its core mandate, the Spinal Injury mainly rehabilitates patients who sustain injuries through road accidents or construction sites.
They conduct paraplegic and knee replacement surgeries. There are about 10 doctors who visit the facility, with 34 nurses to take care of about 50 patients when the 32 bed-facility is full to capacity.

The Corporation identified the two hospitals based on the critical services they offer in healthcare. Towards this end, we supported our community with an assortment of medical equipment for the facilities and facelift to two identified wards at the Mbagathi hospital at and the Spinal Injury. The two projects cost KES 9.5 million.
Further, the Corporation donated 10,000 seedlings towards environmental conservation and improvement of Kenya's forest cover.

The support of the projects was in line with the implementation of the Universal Healthcare, which is one of the Government's economic pillars under the 'Big Four' agenda and environmental protection.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Section 81 of the Public Finance Management Act, 2012 and Section 19 of Kenya Deposit Insurance Act, 2012 require the Directors to prepare financial statements in respect of the Corporation, which give a true and fair view of the state of affairs of the Corporation at the end of the financial year/period and the operating results of the Corporation for that year/period.
The Directors are also required to ensure that the Corporation keeps proper accounting records which disclose with reasonable accuracy the financial position of the Corporation. The Directors are also responsible for safe-guarding the assets of the Corporation.
The Directors are responsible for the preparation and presentation of the Corporation's financial statements, which give a true and fair view of the state of affairs of the Corporation for and as at the end of the financial year (period) ended on June 30, 2020.

This responsibility includes:

(i) Maintaining adequate financial management arrangements and ensuring that these continue to be effective throughout the reporting period; (ii) maintaining proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Corporation; (iii) designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the financial statements, and ensuring that they are free from material misstatements, whether due to error or fraud; (iv) safeguarding the assets of the Corporation; (v) selecting and applying appropriate accounting policies; and (vi) making accounting estimates that are reasonable in the circumstances.

The Directors accept responsibility for the Corporation's financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent Justicements and estimates, in conformity with International Financial Reporting Standards (IFRS), and in the manner required by the PFM Act, 2012 and Kenya Deposit Insurance Act, 2012.

The Directors are of the opinion that the Corporation's financial statements give a true and fair view of the state of Corporation's transactions during the financial year ended June 30, 2020, and of the Corporation's financial position as at that date. The Directors further confirm the completeness of the accounting records maintained for the Corporation, which have been relied upon in the preparation of the Corporation's financial statements as well as the adequacy of the systems of internal financial control.
Nothing has come to the attention of the Directors to indicate that the Corporation will not remain a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The Corporation's financial statements were approved on 24th September 2020 and signed on it's the Board's behalf by:

Mr. James Teko Lopoyetum, HSC
Chairman of the Board

REPORT OF THE DIRECTORS

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

Principal Activities

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

Results

The financial results of the Corporation for the year ended June 30, 2020 are set out in the Statement of Profit and Loss and Other Comprehensive Income on page 63.

Directors

The members of the Board of Directors who served during the year were appointed as guided by Section 7 (1) of the Kenya Deposit Insurance Act, 2012. The Directors who served during the period are shown on page 3 of this report.

Auditors

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

Approval of Financial Statements

The financial statements were approved on 24th September 2020.

By Order of the Board

Eunice Kitche -Oduor
Corporation Secretary
Nairobi
Date:

REPUBLIC OF KENYA

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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA DEPOSIT INSURANCE CORPORATION FOR THE YEAR ENDED 30 JUNE, 2020

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Kenya Deposit Insurance Corporation set out on pages 61 to 98, which comprise the statement of financial position as at 30 June, 2020, and the statement of profit or loss and other comprehensive income, statement of changes in fund balance, statement of cash flows and the statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information in accordance with the provisions of Article 229 of the Constitution of Kenya and Section 35 of the Public Audit Act, 2015. I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit.

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Kenya Deposit Insurance Corporation as at 30 June, 2020, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRS), and comply with the Public Finance Management Act, 2012 and the Kenya Deposit Insurance Act, 2012 amended in 2013.

Basis for Opinion

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

Key Audit Matters

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

REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES

Conclusion

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

Basis for Conclusion

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

REPORT ON EFFECTIVENESS OF INTERNAL CONTROLS, RISK MANAGEMENT AND GOVERNANCE

Conclusion

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

Basis for Conclusion

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

Responsibilities of Management and those Charged with Governance

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

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

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

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

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

Auditor-General's Responsibilities for the Audit

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management.

- Conclude on the appropriateness of the Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in the auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my audit report. However, future events or conditions may cause the Corporation to cease to continue as a going concern

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information and business activities of the Corporation to express an opinion on the financial statements.

- Perform such other procedures as I consider necessary in the circumstances.

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

I also provide Management with a statement that I have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on my independence, and where applicable, related safeguards.

Nancy Gathungu
AUDITOR-GENERAL

Nairobi

13 July, 2021

STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2020

	Note	2020 Kshs '000	2019 Kshs '000
REVENUE			
Assessment income	4	5,164,035	4,745,812
Investment income	5	12,411,477	10,775,201
Other income	6	21,702	24,967
Total Revenue		17,597,214	15,545,980
		=======	=======
EXPENSES			
Staff costs	7	270,513	269,112
Administration and establishment expenses	7	144,980	218,840
Board Expenses	7	9,714	24,400
Finance Costs	8	1,937	-
Depreciation and Amortisation	9, 10, 11	127,428	58,858
Total Expenses		554,572	571,210
SURPLUS FOR THE YEAR BEFORE TAXATION		17,042,642	14,974,770
Taxation	1(f)	0	0
SURPLUS FOR THE YEAR AFTER TAXATION		17,042,642	14,974,770
Other comprehensive income		0	0
TOTAL COMPREHENSIVE INCOME		17,042,642	14,974,770
		=======	=======

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2020

	Note	2020 Kshs '000	2019 Kshs '000
ASSETS			
Non-current assets			
Property and equipment	9	609,124	359,457
Intangible assets	10	35,200	57,153
Prepaid operating lease rentals	11	2,726	2,824
Government securities	12	71,186,846	55,403,347
Loans Receivable	13	5,279	-
Total Non-Current Assets		71,839,175	55,822,781
CURRENT ASSETS			
Government securities	12	50,910,979	49,814,222
Receivables and prepayments	13	32,680	24,257
Inventories	14	2,011	3,211
Cash and bank balances	15	141,195	64,232
Total Current Assets		51,086,865	49,905,923
TOTAL ASSETS		122,926,040	105,728,703
FUND BALANCE AND LIABILITIES			
Fund balance		122,422,198	105,350,248
CURRENT LIABILITIES			
Payables and accruals	16	221,238	266,732
Lease Liability	17	56,688	-
Due to related party	18	13,393	23,949
Deferred income	19	66,849	87,774
Total Current Liabilities		358,168	378,455
NON-CURRENT LIABILITIES			
Lease Liability	17	145,674	-
Total Non-Current Liabilities		145,674	-
TOTAL LIABILITIES		503,842	378,455
TOTAL FUND BALANCE AND LIABILITIES		122,926,040	105,728,703

The financial statements were approved on 24th September 2020 and signed on its behalf by:

Chief Executive Officer	Head of Finance	Chairman of the Board
Mohamud A. Mohamud	Robert Mbarani ICPAK M/NO: 3594	James Teko Lopoyetum, HSC

STATEMENT OF CHANGES IN FUND BALANCE FOR THE YEAR ENDED 30 JUNE 2020

	Fund balance Kshs '000
30 June 2018	90,374,763
At 1 July 2018	90,374,763
Adjustment on 2017/2018 transaction	715
Surplus for the year	14,974,770
At 30 June 2019	105,350,248
	=======
30 June 2020	
At 1 July 2019	105,350,248
Adjustment on 2018/2019 transaction	29,308
Surplus for the year	17,042,642
At 30 June 2020	122,422,198

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2020

	Note	2020 Kshs '000	2019 Kshs '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the year		17,042,642	14,974,770
Adjustment for:			
Depreciation of property and equipment	9	98,406	29,846
Amortisation of software	10	28,924	28,914
Amortisation of prepaid operating lease rentals	11	98	98
Interest income		-12,411,477	-10,775,201
Interest Expense		1,937	0
Changes in working capital;			
Increase in Receivables and prepayments		-8,424	45,570
Decrease in Inventory		1,200	3,318
Increase in Payables and accruals		-45,493	164,474
Decrease in Deferred income		-20,925	26,508
Decrease in Due to related party		-10,556	16,206
Decrease in Lease Liability		145,674	0
Net cash generated from operating activities		4,822,006	4,514,504
		=======	=======
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal on lease	19	-59,671	0
Interest paid on lease	19	-1,937	0
Net cash generated from financing activities		-61,609	0
		=======	=======
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of government securities		-72,681,720	-80,206,068
Disposal of government securities		71,475,133	65,275,721
Purchase of intangible assets	10	-6,972	-
Purchase of property and equipment	9	-348,073	-315,936
Staff Car loans disbursed	13	-7,303	0
Interest received		10,576,795	10,512,340
Net cash (used in)/generated from investment activities		9,007,860	-4,733,944
Net (decrease)/increase in cash and cash equivalents		13,768,257	-219,439
CASH AND CASH EQUIVALENTS AT 1 JULY 2019		464,938	684,377
CASH AND CASH EQUIVALENTS AT 30 JUNE 2020	16	14,233,195	464,938

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2020

NOTE	Revenue	2019/2020 BUDGET	ADJST	FINAL BUDGET	ACTUAL INCOME/ EXPENDITURE	PERFORMANCE DIFFERENCE IN KSHS.	PERFO-MANCE DIFFERENCE IN %
20(I)	Assessed Contributions	4,983,102,000	-	4,983,102,000	5,164,035,029	180,933,029	3.63%
20(II)	Grants Received	-	-	-	-	-	-
20(III)	Government Securities	10,800,000,000	-	10,800,000,000	12,411,476,748	1,611,476,748	14.92%
20(IV)	Other Income	-	-	-	21,701,854	21,701,854	100.00%
Total Revenues	15,783,102,000		15,783,102,000	17,597,213,631	1,814,111,631		
	Expenditure						
20(V)	Compensation of Employees	496,395,000	-	496,395,000	270,512,852	225,882,148	45.50%
20(VI)	Goods and Services	627,341,100	-	627,341,100	137,773,155	493,567,945	78.18%
20(VII)	Finance Cost	-	-	-	1,937,386	-1,937,386	100.00%
20(VIII)	Office Rent and Parking fees	86,544,000	-	86,544,000	16,921,097	65,622,903	79.50%
20(IX)	Depreciation/Amortisation	55,406,000	-	55,406,000	127,427,935	-72,021,935	-129.99%
20(X)	Capital Budget	386,080,000	-	386,080,000	151,463,069	234,616,931	60.77%
Total expenditures	1,651,766,100	-	1,651,766,100	706,035,493	945,730,607		-
Net Surplus	14,131,335,900		14,131,335,900	16,891,178,138	-868,381,024		

NOTES TO THE FINANCIAL STATEMENTS

1. General Information

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

2. Statement Of Compliance And Basis Of Preparation

The financial statements have been prepared on a historical cost basis except for except for the marketable securities and financial instruments at fair value and impaired assets at their estimated recoverable. The preparation of financial statements in conformity with International Financial Reporting Standards (IFRS) allows the use of estimates and assumptions. It also requires management to exercise judgement in the process of applying the entity's accounting policies.
The financial statements have been prepared and presented in Kenya Shillings, which is the functional and reporting currency of the Corporation.
The financial statements have been prepared in accordance with the Public Finance Management Act,2012, the Kenya Deposit Insurance Act,2012, the State Corporation's Act and International Financial Reporting Standards (IFRS). The accounting policies adopted have been consistently applied to all the years presented.

3. Application Of New And Revised International Financial Reporting Standards (Ifrs)

i) Relevant new standards and amendments to published standards effective for the year ended 30 June 2020

IFRS 16 Leases

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

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

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows; whereas under the IFRS 16 model, the lease payments will be split into a principal and an interest portion, which will be presented as financing and operating cash flows respectively.
In contrast to lessee accounting, IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17, and continues to require a lessor to classify a lease as either an operating lease or a finance lease.

IFRS 16 has been adopted and applied in the financial year 2019/2020 with respect to the leasing of office and parking space. Based on the Directors' assessment, a right of use of the asset of KES 262M and a lease liability of KES 262M amortized to KES 202M as at 30th June 2020 has been recognised.

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2020

IFRS 17 Insurance Contracts (Issued 18 May 2017)

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

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

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

IFRIC 23: Uncertainty Over income tax treatments

The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

Amendments to IFRS 9 titled Prepayment Features with Negative Compensation (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1 January 2020, allow entities to measure prepayable financial assets with negative compensation at amortised cost or fair value through other comprehensive income if a specified condition is met.

Amendments to IAS 28 titled Long-term Interests in Associates and Joint Ventures (issued in October 2017)

The amendments, applicable to annual periods beginning on or after 1st January 2020, clarify that an entity applies IFRS 9, rather than IAS 28, in accounting for long-term interests in associates and joint ventures.

Amendments to IFRS 3 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017.

The amendments, applicable to annual periods beginning on or after 1st January 2020, provide additional guidance on applying the acquisition method to particular types of business combination.

Amendments to IFRS 11 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2020, clarify that when an entity obtains joint control of a business that is a joint operation, it does not re-measure its previously held interests

Amendments to IAS 12 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2020, clarify that all income tax consequences of dividends should be recognised when a liability to pay a dividend is recognised, and that these income tax consequences should be recognised in profit or loss, other comprehensive income or equity according to where the entity originally recognised the transactions to which they are linked.

Amendments to IAS 23 - Annual Improvements to IFRSs 2015–2017 Cycle, issued in December 2017

The amendments, applicable to annual periods beginning on or after 1st January 2020, clarify that the costs of borrowings made specifically for the purpose of obtaining a qualifying asset that is substantially completed can be included in the determination of the weighted average of borrowing costs for other qualifying assets.

Amendments to IAS 19 titled Plan Amendment, Curtailment or Settlement (issued in February 2019)

The amendments, applicable to plan amendments, curtailments or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1st January 2020, requires an entity to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after the plan amendment, curtailment or settlement when the entity re-measures its net defined benefit liability (asset) in the manner specified in the amended standard.

Amendments to IAS 1 and IAS 8 Definition of material

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of material or refer to the term 'material' to ensure consistency. The amendments are applied prospectively for annual periods beginning on or after 1 January 2020, with earlier application permitted.

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

iii) Early adoption of standards

The entity did not early – adopt any new or amended standards in year 2019/2020.
The principle accounting policies adopted in the preparation of these financial statements are set out below:

a) Revenue recognition

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

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

b) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the exchange rate ruling at the reporting date. Resulting exchange differences are recognized 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) Retirement Benefit Obligation

Employee entitlements are recognized when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the reporting date. The Corporation's employees are eligible for retirement benefits under a defined contribution plan.The defined contribution plan is funded by the Corporation as the sponsor. The Corporation recognizes contributions to the fund in the profit and loss account in the year to which they relate. The Corporation also contributes to a statutory defined contribution Pension Scheme, the National Social Security Fund (NSSF). The Corporation's contributions are also charged to the profit or loss in the year to which they relate. The Corporation has no obligation once the contributions have been paid.

e) Taxation

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

f) Financial assets and liabilities

(i) Recognition

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

(ii) Classification

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

Held-to-maturity

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

Other financial liabilities

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

(iii) Identification and measurement of impairment of financial assets

At each reporting date the Corporation assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the carrying amount.

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

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

(iv) Derecognition

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

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

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

(v) Offsetting of financial assets and financial liabilities
Financial assets and financial liabilities are offset and the net amount reported on the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.
Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a Corporation of similar transactions such as in the Corporation's trading activity.

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

g) Impairment for non-financial assets

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

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

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

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

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

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

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

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

k) Related parties

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

l) Grants

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

m) Inventory

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

3. Risk Management

Structure and reporting

The Board of Directors are responsible for the overall risk management approach and for approving the risk management policy and strategies. There are other organs that monitor the assessment and management of risks within the Corporation including;

Audit Committee of the Board

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

Deposit Insurance and Risk Management Section

The Corporation has an established Deposit Insurance & Risk Management Section that receives off-site information on deposits from member institutions for analysis and works closely with Central Bank of Kenya to monitor the performance of the Banking industry.

Internal Audit and Risk Management Unit

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

Controls that are designed to reduce these risks to acceptable levels are assessed in terms of sufficiency and effectiveness; additional controls are recommended in order to increase effectiveness.

The main risks faced by the Corporation in respect of its principal non-derivative financial instruments are interest rate risk and liquidity risk. The Directors review and agree on policies for managing these risks. The Corporation maintains a conservative policy regarding interest rate and liquidity risks. The Corporation does not engage in speculation in the markets. In addition, the Corporation does not speculate or trade in derivative financial instruments.

The Corporation's principal financial instruments comprise investments held to maturity; cash and cash equivalents; receivables; payables and accruals and amounts due to related parties.

(a) Credit risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's receivables, government securities and cash and bank balances. The Corporation's exposure to credit risk is influenced mainly by the individual characteristics of each customer and investment.

The Corporation establishes an allowance for impairment that represents its estimate of incurred losses in respect of receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for Corporations of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.
The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	2020 KShs'000	2019 KShs'000
Bank and cash balances	141,195	64,232
Receivables	29,219	24,256
Government securities	122,097,825	105,217,569
	122,268,239	105,306,057
	=======	=======
The aging of receivables at the reporting date was:		
Not past due	-	-
Past due 0 – 30 days	8,547	7,450
Past due 31 – 90 days	3,571	9612
Past due above 90 days	17,101	7195
	29,219	24,257

(b) Market Risk

(i) Interest rate risk management

Interest rate risk is the risk that the value and cashflows of a financial instrument will fluctuate due to changes in market interest rates. Excess funds held by the Corporation are invested in Treasury bills and Treasury bonds.

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

	Effective Interest Rate	Up to 1 year KShs'000	1 – 5 years KShs'000	6 – 10 years KShs'000	10 years KShs'000	Total KShs'000
2020						
Investments held to maturity		44,674,357	22,669,787	35,245,844	19,507,837	122,097,825
Interest sensitivity gap at 30 June 2020	10.95%	44,674,357	22,669,787	35,245,844	19,507,837	122,097,825
2019						
Investments held to maturity		48,429,856	23,366,138	22,049,570	11,372,005	105,217,569
Interest sensitivity gap at 30 June 2019	10.97%	48,429,856	23,366,138	22,049,570	11,372,005	105,217,569

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

	2020 Shs'000	2019 Shs'000
Effect on surplus for the year of a +5% change in interest rates	620,574	538,760
Effect on surplus for the year of a -5% change in interest rates	-620,574	-538,760

(ii) Currency risk

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

(c) Liquidity risk management

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations from its financial liabilities. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Corporation's reputation. In the course of its operations, the Corporation invests its capital in forms that vary in liquidity ranging from government securities that are readily convertible and sundry receivables. Simultaneously it carries current liabilities in form of provisions for protected deposits, sundry payables and related party liabilities. The entity matches its current assets to the current liabilities falling due to mitigate the risk of low liquidity.

Notes To The Financial Statements

The Corporation's financial liabilities amount to Kshs 502.18 million (2019 - Kshs 290.68 million) and are all short term.

(d) Fair Value

The fair value of financial assets and liabilities is the same as the carrying amounts as shown in the statement of financial position:

	Other financial liability Kshs '000	Loans and receivables Kshs '000	Held to maturity Kshs '000	Total carrying value KShs '000	Fair value KShs '000
2020					
Financial assets					
Government securities	-	-	122,097,825	122,097,825	122,097,825
Cash and bank balances	-	141,195	-	141,195	141,195
Receivables	-	29,219	-	29,219	29,219
	-	170,414	122,097,825	122,268,239	122,268,239
Financial liabilities					
Amounts due to related parties	18,881	-	-	18,881	18,881
Lease Liability	202,362	-	-	-	202,362
Payables and accruals	280,938	-	-	280,938	280,938
	502,181	-	-	299,819	502,181
2019					
Financial assets		-	-		
				-	-
Government securities	-	-	105,217,569	105,217,569	105,217,569
Cash and bank balances	-	64,232	-	64,232	64,232
Receivables	-	24,257	-	24,257	24,257
		88,489	105,217,569	105,306,059	105,306,059
Financial liabilities					
Amounts due to related parties	23,949	-	-	23,949	23,949
Payables and accruals	266,732	-	-	266,732	266,732
	290,681	-	-	290,681	290,681

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.

(e) Critical accounting estimates and assumptions

(i) Property and equipment

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

(ii) Impairment of receivables

The Corporation reviews its receivables' portfolio regularly to assess the likelihood of impairment. This requires an estimation of the amounts that are irrecoverable especially debts incurred by institutions under liquidation.

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

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

(g) Budget information

The rationalized budget for FY 2019-2020 was approved on 9th October 2019. Subsequent revisions or additional appropriations were made to the approved budget in accordance with specific approvals from the appropriate authorities. The additional appropriations are added to the original budget by the Corporation upon receiving the respective approvals in order to conclude the final budget.

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

(h) Comparative figures

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

(o) Subsequent events

There have been no events subsequent to the financial year end with a significant impact on the financial statements for the year ended June 30, 2020.

4. Assesment Income

Towards the mandate of Deposit Insurance, the Corporation charges a premium to insured institutions. The assessed premium is calculated at 0.15% of total average deposits within the year in review.

	2020 KShs'000	2019 KShs'000
Total average deposits of institutions assessed as contributors	3,442,524,496	3,163,417,482
0.15% of total average deposits		
Contributions from Commercial Banks	5,050,022	4,686,032
Contribution from Deposit Taking Microfinance	112,813	58,580
Minimum Contribution from Deposit Taking Microfinance at Minimum premium	1,200	1,200
Total assessment income	5,164,035	4,745,812

The growth in premium is attributable to the growth in customer deposits held by insured institutions.

5. Investment Income

KDIC's manages the Deposit Insurance fund and grows it through investment in government securities issued by the Central Bank of Kenya.

	2020 KShs'000	2019 KShs'000
(i) Interest earned on treasury bills		
Discount on 91-day treasury bills	80,633	49,349
Discount on 182-day treasury bills	27,105	361,025
Discount on 364-day treasury bills	3,898,863	5,006,196
	4,006,601	5,416,570
(ii) Interest earned on treasury bonds		
Matured bonds	8,351,202	5,277,648
Discount on purchase	24,270	61,593
Amortisation of premium	29,404	19,389
	8,404,876	5,358,631
Total investment income	12,411,477	10,775,201

The growth in investment income is attributable to growth of the fund and an improved return on investment through management's prudent investment in Government securities.

6. Other Income

	2020 KShs'000	2019 KShs'000
Recoveries from subrogated claims	-	91
Penalty charges on late contributions	698	8,957
Grant income	20,925	15,823
Loan interest income	32	-
Miscellaneous income	46	96
	21,702	24,967

Grant income relates to grants received from Financial Sector Support Programme for the development of Disaster recovery centre.

7. Administration Costs

A. Staff costs

	2020 Shs'000	2019 Shs'000
Staff salaries	236,879	215,668
Gratuity	14,680	25,210
Medical Expenses	16,416	23,598
Subscriptions	2,537	4,636
	270,513	269,112

Staff costs have remained relatively stable as the Corporation has retained its staff complement within the same levels.

The reduction of gratuity is as a result of the terms of 25 contractual staff ending in June 2019. Most of the positions that they held were taken up on a permanent and pensionable terms and these have no gratuity entitlement.
Medical expenses reduced due to the Corporation taking up a self-funded medical scheme as opposed to a risk premium scheme. The covid-19 pandemic further reduced medical claims as people avoided hospital visits during the pandemic period.

The reduction is subscription expenses is attributable to a higher number of joiners in 2018/2019 which had initial joining fees expenses.
Philanthropic donations had a significant drop that was as a result of operational disruptions brought about by the covid-19 pandemic. By the end of the financial year, the Corporation had commitments towards philanthropic donations to Mbagathi Hospital and the National Spinal Injury Referral Hospital of Kshs. 4.9M. This expense will be reflected this year because of timing differences.

The Kshs 1.5M is provision for audit fees payable to KENAO; same amount was paid last year. The reduction in audit fees was as a result of an additional audit expense in 2018/2019 of Kshs. 0.6M that has not been provisioned for in the year under review.

The reduction in occupancy expenses is as a result of the application of IFRS 16 Leases which requires the recognition of contractual lease payments as an asset that is depreciated over the lease term. The depreciation charge for the year has therefore increased and the periodic payments (rent) are used to amortize the lease liability.

Notes To The Financial Statements

b. Administration and establishment expenses

	2020 Kshs'000	2019 Kshs'000
Auditors remuneration	1,500	2,050
Occupancy costs	16,921	54,377
Training Expenses	33,356	59,998
Workplace committees	413	1,387
Internship program	1,131	2,555
Consultancy expenses	11,379	909
Telephone and Postage	1,222	1,240
Printing costs	5,976	4,121
Staff Welfare	5,893	4,696
General Office maintenance	3,873	3,641
Godown maintenance expenses	2,144	2,276
Motor vehicle running expenses	1,489	1,116
International Association of Deposit Insurers Expenses	7,429	13,110
Assets insurance expenses	1,058	293
Publicity Expenses	8,983	24,215
Treasury Bonds Premium Amortisation	29,404	19,389
ICT Maintenance expenses	12,809	23,467
	144,980	218,840

c. Board expenses

Fees to Directors	5,894	8,669
Other Directors' Expenses	3,821	15,731
	9,714	24,400

Board expenses reduced following the lapse of the terms of three independent members of the board in February 2020. This affected the raising of quorum for board committee and full board meetings. The Corporation's activities were also affected by the implementation of government directives towards the management of Covid 19.

d. Finance Costs

Principal on lease	59,671	0
Interest expense	1,937	0
Total payments	61,609	0

The finance cost arises from the application of IFRS 16 Leases which requires that payments towards the servicing of a lease that has been recognized as an asset be apportioned into principal and interest.

8. Property, Plant And Equipment

	Buildings	Motor vehicles	Furniture & Fittings	Computers	ICT Equipment	Office & Kitchen Equipment	Buildings -Office Lease	Work in Progress	Total
COST	Kshs.'000'								
At 1st July 2018	19,224	25,168	26,153	18,039	61,465	22,591	-	-	172,640
Additions	-	16,435		1,545	102,052	716	-	195,188	315,936
At 30th June 2019	19,224	41,603	26,153	19,584	163,517	23,307	-	195,188	488,576
At 1st July 2019	19,224	41,603	26,153	19,584	163,517	23,307	-	195,188	488,576
Additions	-	-	177,575	12,301	12,934	6,036	262,034	(122,807)	348,073
At 30th June 2020	19,224	41,603	203,728	31,885	176,451	29,343	262,034	72,381	836,649
DEPRECIATION									
At 1st July 2018	6,055	11,547	16,870	13,282	37,114	14,406	-	-	99,274
Charge for the year	421	3,405	1,160	2,936	20,178	1,745	-	-	29,845
Disposals	-	-	-	-	-	-	-		-
At 30th June 2019	6,476	14,952	18,030	16,218	57,292	16,151	-	-	129,119
At 1st July 2019	6,476	14,952	18,030	16,218	57,292	16,151	-	-	129,119
Charge for the year	359	8,651	3,097	2,022	27,370	2,693	54,214	-	98,406
Disposals	-	-	-	-	-	-			-
At 30th June 2020	6,835	23,603	21,127	18,240	84,662	18,844	54,214	-	227,525
NET BOOK VALUES									
At 30th June 2019	12,748	26,651	8,123	3,366	106,225	7,156	-	195,188	359,457
At 30th June 2020	12,389	18,000	182,601	13,646	91,789	10,499	207,820	72,381	609,124

Notes To The Financial Statements

The net additions of Kshs. 348M are highly driven by the recognition of the Corporation's office premises as per the requirements of IFRS 16 Leases. This also accounted for Kshs. 54M of the Kshs. 98M of the year's depreciation charge. Also significantly affecting depreciation is ICT equipment largely being data center equipment.

The work in progress balance is largely comprised of a component of partitioning works that remained not commissioned at year end.

9. Intangible Assets

Intangible assets held by the Corporation are Computer Software with the major ones being the ERP system, e-Board system and server software.

COST	Kshs'000
At 1st July 2018	115,656
Additions	-
At 30th June 2019	115,656
At 1st July 2019	115,656
Additions	6,972
At 30th June 2020	122,628
AMORTIZATION	
At 1st July 2018	29,590
Charge for the Year	28,914
At 30th June 2019	58,504
At 1st July 2019	58,504
Charge for the Year	28,924
At 30th June 2020	87,428
NET BOOK VALUES	
At 30th June 2019	57,152
At 30th June 2020	35,200

The addition for the year is server operating system software.

A key component of depreciation is the Corporation's ERP software that is depreciated at Kshs. 27M per year. The system shall have been fully depreciated by the end of the financial year 2020/2021.

10. Prepaid Operating Lease Rentals

The Corporation owns a parcel of land on which there is a go down. The land is leasehold and is depreciated over the term of the 75-year lease that lapses in 2047.

COST	Kshs'000
At 1st July 2018	4,522
Additions	-
At 30th June 2019	4,522
At 1st July 2019	4,522
Additions	-
At 30th June 2020	4,522

AMORTIZATION	
At 1st July 2018	1,599
Charge for the Year	98
At 30th June 2019	1,697
At 1st July 2019	1,697
Charge for the Year	98
At 30th June 2020	1,795

NET BOOK VALUES	
At 30th June 2019	2,825
At 30th June 2020	2,726

11 GOVERNMENT SECURITIES

The Corporation's investment in Government Securities is spread across short-term and long-term securities being treasury bills and treasury bonds respectively as follows:

	2020 KShs'000	2019 KShs'000
Treasury bills maturing within 91 days of placement (note 15)	-	400,706
Treasury bills maturing after 91 days from date of placement	44,599,805	48,788,513
Treasury bonds maturing within 1 year	6,311,174	625,003
Treasury bonds maturing after 1 year	71,186,846	55,403,347
	122,097,825	105,217,569
Comprising:		
Maturing within 1 year	50,910,979	49,814,222
Maturing after 1 year	71,186,846	55,403,347
	122,097,825	105,217,569

The investment is in in line with our Investment Policy that requires that the investment portfolio mix for Government securities shall be balanced at 50% each between Treasury Bonds and Treasury Bills term securities with an allowable deviation of 20% on either side.

Notes To The Financial Statements

12. Loans Receivable

The Corporation established a Car Loan and Mortgage scheme for its staff during the financial year 2018/2019. During the year under review, the following were the movements within the scheme.

	2020 KShs'000	2019 KShs'000
Staff Car loans advanced	7,303	-
Less: Repayments	(324)	-
Total Loans Receivable	6,979	-
Comprised of:		
Receivable within 1 year	1,700	-
Receivable after 1 year	5,279	-
Receivable after 1 year	6,979	

-

13. Receivables & Prepayments

	2020 KShs'000	2019 KShs'000
Prepayments	2,089	1,303
Grant Receivable	-	498
Other Receivables	30,591	22,456
	32,681	24,257

Prepayments are payments made for services that were not yet incurred as at year end. The Corporation has since recovered the prepayments through consumption of the services and refunds.

Grant receivable in 2018/2019 was a refund of training expenses for programs that were supported by the government through the Financial Sector Support Program (FSSP). The amount was received and as at 30th June 2020, the Corporation had no grant receivable.
Other Receivables largely comprise of billings to institutions in receivership which are under the management of KDIC. These relate to the reimbursement of expenses that KDIC incurs on behalf of the institutions such as staff costs and operational expenses.

14 Inventories

Inventories comprise of stationery and other general office consumables

	2020 KShs'000	2019 KShs'000
Inventories	2,011	3,211

15. Cash And Cash Equivalents

Cash and cash equivalents comprise of cash in hand, cash at bank and marketable securities with maturities within 90 days from reporting date as follows:

	2020 KShs'000	2019 KShs'000
Government Securities maturing within 90 days	14,092,000	400,706
Cash and bank balance	141,195	64,232
	14,233,195	464,938

The Cash & Bank balance is made up of:		
Cash in hand	-	16
KDIC's Corporation Current Account	8,331	17,448
KDIC's Fund Current Account	-	667
KDIC'S Fund Investment Account	132,864	46,101
	141,195	64,232

16. Trade Payables & Accruals

	2020 KShs'000	2019 KShs'000
Retention fees payable to contractors	18,739	11,821
Provision for deposit payoffs	59,419	59,419
Provision for Staff Leave Days	4,010	4,101
Provision for Gratuity	26,826	17,166
Provision for bad debts	823	357
Provision for audit fees	3,000	1,500
Sundry payables and accruals	108,420	172,367
	221,238	266,732

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

The provision for deposit payoffs is attributable to insured deposits payoff to the depositors of Dubai Bank (In Liquidation).

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

The provision for audit fees has increased by Kshs 1.5M which is the estimated audit fee for the year under review. The Kshs. 1.5M provision made for the 2018/2019 financial year audit is still being carried as the audit of that period had not been concluded by 30th June 2020.

Sundry payables and accruals are trade payables that were outstanding as at the reporting date. The reduction was due to a high value of works that had not been paid by year end 2018/2019.

Notes To The Financial Statements

17. Lease (Office Space)

The Corporation has a 5.5 years lease for its office premises at the UAP Old-Mutual Tower. The lease lapses in lapses in April 2024. In line with the newly adopted IFRS 16 Leases, we have recognised the leased office space as a non-current asset and made corresponding commitments on the lease as liabilities.

	2020 Kshs'000
Total lease commitments as at 1st July 2019	262,034
Less: Principal on Lease Payments	(59,671)
Total Lease Liability as at 30th June 2020	202,362
Payable after one year	145,674
Payable within one year	56,688
	202,362

18. Due To Related Party

	2020 KShs'000	2019 KShs'000
Central Bank of Kenya	13,393	22,728
Kenya School of Monetary Studies	-	1221
	13,393	23,949

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. Until 2014, the Deposit Insurance mandate of the Corporation was being performed by the Deposit Protection Fund, a department of the Central Bank of Kenya.

The Central Bank of Kenya continues to support the Corporation and part of the staff establishment of the Corporation are employees seconded to the Corporation by the Bank. The salaries of these staff are paid by the Central Bank of Kenya and fully reimbursed by the Corporation. The balance of Kshs. 13.4M (2019 Kshs. 22.7M) is the salaries reimbursement outstanding.

19. Deffered Income

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

	2020 KShs'000	2019 KShs'000
Unamortized grant income		
At 1 July 2019	87,774	61,266
Additional grant	0	42,331
Amortisation charge	-20,925	-15,823
At 30 June 2020	66,849	87,774

20 Explanation Of Perfomance On The Statement Of Budget & Actual Comparison

I. The assessed contributions from member Institutions was Kshs.5.2B against a budget of Kshs.4.98B. The increase is attributed to the increase of total deposits by member institutions.

II. The Corporation received a grant from FSSP for a Disaster Recovery site in Kisumu and installation was completed and commissioned. The equipment has been recognized in the financials. The grant income is accrued over five years. Kshs.20.9M has been accrued during the financial year.

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

IV. Other miscellaneous incomes received amounted to Kshs. 21.8M. Out of the total, Kshs.20.9 M relates to accrual of grant income for the grant received from FSSP. Other income also includes, interest in come on staff loans and penalty for late payment of premium assessed.

V. The Corporation had a budget provision for additional staff complement within the various Director ates, in line with KDIC's 2015-2018 Strategic Plan, to meet its new mandate. The recruitment process had not been concluded to on board the new staff by 30th June 2020 hence the below budget per formance.

VI. The Corporation was absorption of the budget on goods and services vote was low compared to budget due to curtailed planned activities in the second half of the year due to implementation of government guidelines for Covid 19

VII. The finance cost of Kshs. 1.9M relates to interest expense for the operating lease of office space.

VIII. The Rent and Parking fees was budgeted at Kshs. 82.5M compared to the actual of Kshs.16.9M. The variance is due to adoption of IFRS 16 in the financial year that requires treatment of rent paid as a depreciation expense and interest cost. Kshs.16.9M relates to service charge and parking fees.

IX. The Depreciation & amortization increased during the year due to depreciation and amortization costs relating to the acquisition of furniture & Fittings, computer equipment and laptops and other software. Increase in depreciation is also due to additional depreciation for operating lease of Kshs. 54Million due to adoption and application of IFRS 16 on accounting for leases in the financial year.

X. Capital expenditure for the year was Kshs.151M compared to Kshs.386 Million. The low budget utilization was attributed to ICT projects that have not been completed. Other budgeted capital ex penditure relates to capital works at the go down which delayed due to Covid 19 pandemic.

Progress On Follow Up Of Auditor Recommendations

The following is the summary of issues raised by the external auditor, and management comments that were provided to the auditor. We have nominated focal persons to resolve the various issues as shown below with the associated time frame within which we expect the issues to be resolved.

Reference No. on the external audit Report	Issue / Observations from Auditor	Management comments	Focal Point person to resolve the issue (Name and designation)	Status: (Resolved / Not Resolved)	Timeframe: (Put a date when you expect the issue to be resolved)
Nil	Nil	Nil	Nil	Nil	Nil

Chief Executive Officer
Mohamud A. Mohamud

Head of Finance
Robert Mbarani
ICPAK M/NO: 3594

Chairman of the Board
James Teko Lopoyetum, HSC

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