SPECIAL ISSUE

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CENTRAL BANK OF KENYA

DEPOSIT PROTECTION FUND BOARD

REPORT AND FINANCIAL STATEMENTS

DIRECTORS AND STATUTORY INFORMATION

DIRECTORS

Prof. Njuguna Ndung'u	Chairman
Dr. Kamau Thugge	Principal Secretary, National Treasury
Mr. Martin S. O. Gumo	Alternate to Principal Secretary, National Treasury
Mrs. Nasim Devji*	Member – Re-appointed 15 March 2014
Dr. Julius K. Kipng'etich	Member – Appointed 31 January 2014
Mr. Jeremy I. Ngunze	Member – Appointed 31 January 2014
Mr. Samuel N. Kimani	Member – Appointed 31 January 2014
Mr. Terence Davidson*	Member – Retired 21 January 2014
Mr. Aggrey. J. K. Bett	DPFB Director – (Ex-officio Appointed 2 April 2014)
Ms. Rose Detho	DPFB Director – (Ex-officio up to 2 April 2014)
Ms. Jane K. Ikunyua	Board Secretary

* British

BOARD AUDIT COMMITTEE

Mrs. Nasim Devji	Chairperson
Dr. Julius K. Kipng'etich	Member
Mr. Jeremy I. Ngunze	Member
Mr. Samuel N. Kimani	Member
Mr. Martin S. O. Gumo	Alternate to Principal Secretary, Treasury
Mr. Terence Davidson	Retired on 21 January 2014
Mrs. Edith M. Kagasi	Board Audit Committee Secretary

SENIOR MANAGEMENT

Mr. Aggrey J. K. Bett	Director
Ms. Rose Detho	Director – Transferred to CBK on 2 April 2014
Mr. Kimani Mwega	Assistant Director – Finance & Administration - Transferred to CBK on 18 February 2014
Mr. Stephen M. Thuo	Assistant Director – Finance & Administration Transferred to DPFB on 18 February 2014
Ms. Jane K. Ikunyua	Assistant Director – Legal
Mr. Mohamud A. Mohamud	Assistant Director – Liquidations
Dr. Walter O. Onyino	Assistant Director – ICT

PRINCIPAL PLACE OF BUSINESS

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

AUDITORS

KPMG Kenya 8th Floor, ABC Towers Waiyaki Way PO Box 40612 - 00100 Nairobi GPO	*On behalf of:*	The Auditor-General Kenya National Audit Office Anniversary Towers University Way PO Box 30084 - 00100 Nairobi GPO

BANKERS

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

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2014

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 30 June 2014, which disclose the state of affairs of the Board.

1. Incorporation

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

2. Principal activities

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

However, the Kenya Deposit Insurance Act, 2012 (“The Act”) signed into law by the president on May 9, 2012, establishes the Kenya Deposit Insurance Corporation (“KDIC”) to replace the Deposit Protection Fund Board. The Act was granted a commencement date of July 1, 2014. The objectives of KDIC 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.

3. Results

The results for the year are set out on page 8.

4. Directors

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

5. Auditors

The Auditor-General is responsible for the statutory audit of the Board’s books of account in accordance with Section 14 and 39(i) of the Public Audit Act. This Act empowers the Auditor-General to appoint other auditors to carry out the audit on his behalf.

KPMG Kenya, who were appointed by the Auditor-General, carried out the audit of the Board’s financial statements for the year ended 30 June 2014.

6. Approval of financial statements

The financial statements were approved at a meeting of the Directors held on 5 September, 2014.

BY ORDER OF THE BOARD

Ms. JANE K. IKUNYUA
BOARD SECRETARY

Date: 5 September 2014

STATEMENT OF DIRECTORS’ RESPONSIBILITIES FOR THE YEAR ENDED 30 JUNE 2014

The Directors are responsible for the preparation and presentation of the financial statements of Deposit Protection Fund Board set out on pages 8 to 32 which comprise the statement of financial position at 30 June 2014, the statement of profit or loss and other comprehensive income, statement of changes in Fund balance and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Banking Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Board and of its operating results.

The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Approval of the financial statements

The financial statements, as indicated above, were approved by the board of directors on 5 September 2014 and were signed on its behalf by:

NJUGUNA NDUNG'U
Chairman

NASIM DEVJI
Member

STATEMENT OF CORPORATE GOVERNANCE

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

Board of directors

Section 36(4) provides that the Board of directors shall be composed of the Governor of Central Bank of Kenya, as the Chairman, Permanent Secretary to the Treasury and five other members appointed by the Minister for Finance representing the member institutions. The members representing the institutions during the period under review are: Mr. Terence Davidson (Retired on 21 January 2014), Mrs. Nasim Devji, Dr. Julius Kipng'etich, Mr. Jeremy Ngunze and Mr. Samuel Kimani (all the three with effect from 31 January 2014).

Board meetings

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

Audit committee

The members of the Audit Committee are Mr. Terence Davidson (Retired on 21 January 2014), Mrs. Nasim Devji, Mr. Martin Gumo, Dr.Julius Kipng'etich, Mr.Jeremy Ngunze and Mr. Samuel Kimani. They are all non-Executive Directors and have experience in Banking, Finance, Accounting, Administration and Management. The committee meets every quarter, and as necessary, two weeks before the full Board meeting. The committee's responsibilities are to review the efficiency and effectiveness of Internal Controls, Financial Reporting, Internal Audit function, External audit work, and Risk Management policies and procedures. Towards this end, a self-evaluation tool which measures the committee's performance has been developed and implemented.

Management structure

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

Directors emoluments and loans

The remuneration paid to the Directors for services rendered during the financial year 2013/2014 is disclosed in Note 7 of the financial statements. The Directors, who are all non-executive, are paid a monthly retainer fee and a sitting allowance for every meeting attended. There were no loans to Non-Executive Directors during the year.

Code of ethics

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

Internal controls

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

Authorizations

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

Internal audit and risk management

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

Transparency

The Fund publishes an Annual Report which explains the performance of the Banking sector, membership status and other pertinent information. On an annual basis, the Financial Statements are published in the Kenya Gazette and placed in the website of the Fund. DPFB shared its 2012/2015 Strategic Plan with the stakeholders and carried out a mid-term review of the implementation status in the current year.

REPORT OF THE AUDITOR-GENENERAL ON DEPOSIT PROTECTION FUND BOARD FOR THE YEAR ENDED 30 JUNE 2014

REPORT OF THE FINANCIAL STATEMENTS

The accompanying financial statements of Deposit Protection Fund Board set out below which comprise the statement of financial position as at 30th June, 2014, and statement of profit or loss and other comprehensive income, statement of changes in fund balance equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information have been audited on my behalf by KPMG Kenya auditors appointed under section 39 of the Public Audit Act, 2003 and in accordance with the provisions of Article 229 of the Constitution of Kenya. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Director's Responsibility for the Financial Statements

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

The Directors are also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an independent opinion on the financial statements based on the audit and report in accordance with the provisions of section 15(2) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects the financial position of the Deposit Protection Fund Board as at 30 June 2014, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and the requirements of the Banking Act Cap. 488 of the laws of Kenya.

EDWARD R. O. OUKO,
Auditor-General.
Nairobi
29th September, 2014

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2014

	Note	2014 KShs'000	2013 KShs'000
REVENUE			
Assessment income	5(a)	2,675,853	2,340,033
Investment income	5(b)	4,675,863	4,059,415
Other income	6	19,172	31,776
		7,370,888	6,431,224
EXPENSES			
Administration and establishment	7	251,196	250,368
Impairment losses	8(b)	-	1,370
		251,196	251,738

SURPLUS FOR THE YEAR		**7,119,692**	**6,179,486**
Other comprehensive income		-	-
TOTAL COMPREHENSIVE INCOME		**7,119,692**	**6,179,486**

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

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2014

ASSETS	**Note**	**2014 KShs'000**	**2013 KShs'000**
Non-current assets			
Property and equipment	9	59,921	69,695
Prepaid operating lease rentals	10	3,317	3,416
Investment	11	100	100
Government securities	12	26,803,199	27,325,123
		26,866,537	27,398,334
Current assets			
Receivables and prepayments	8(a)	9,563	7,085
Government securities	12	19,766,387	12,046,218
Cash and bank balance		1,025	78,389
		19,776,975	12,131,692
TOTAL ASSETS		**46,643,512**	**39,530,026**
FUND BALANCE AND LIABILITIES			
Fund balance (Page 10)		46,583,759	39,464,067
Current liabilities			
Payables and accruals	13	10,966	6,996
Due to related party	14(a)	18,911	21,276
Deferred income	15	29,876	37,687
		59,753	65,959
TOTAL FUND BALANCE AND LIABILITIES		**46,643,512**	**39,530,026**

The financial statements on pages 8 to 32 were approved by the Board of Directors on 5 September 2014 and were signed on its behalf by:

NJUGUNA NDUNGU
Chairman

NASIM DEVJI
Member

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

STATEMENT OF CHANGES IN FUND BALANCE FOR THE YEAR ENDED 30 JUNE 2014

	Fund balance KShs'000
2014:	
Balance at 1 July 2013	39,464,067
Surplus for the year	7,119,692
Balance at 30 June 2014	**46,583,759**
2013:	
Balance at 1 July 2012	33,284,581
Surplus for the year	6,179,486
Balance at 30 June 2013	**39,464,067**

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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2014

	Note	**2014 KShs'000**	**2013 KShs'000**
Cash flows from operating activities			
Surplus for the year		7,119,692	6,179,486
Adjustment for:			

	Note	2014 KShs'000	2013 KShs'000
Depreciation of property and equipment		11,775	11,333
Amortisation of prepaid operating lease rentals		99	99
Write offs		-	9,466
Gain on disposal		-	(1,568)
Interest income		(4,675,863)	(4,059,415)
Operating surplus before working capital changes		**2,455,703**	**2,139,401**
Change in working capital			
Receivables and prepayments		(2,478)	(1,942)
Payables and accruals		3,970	662
Deferred income		(7,811)	27,516
Due to related party		(2,365)	4,333
Net cash flows generated from operating activities		**2,447,019**	**2,169,970**
Cash flows from investing activities			
Net movement in government securities		(7,489,772)	(5,974,511)
Purchase of property and equipment		(2,001)	(49,165)
Proceeds from disposals		-	2,120
Transfers		-	1,163
Interest received		4,675,863	4,059,415
Net cash flows from investment activities		**(2,815,910)**	**(1,960,978)**
Net decrease in cash and cash equivalents		(368,891)	208,992
Cash and cash equivalents at the beginning of the year		414,852	205,860
Cash and cash equivalents at the end of the year	16	**45,961**	**414,852**

The notes set out on pages 12 to 32 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2014

1. REPORTING ENTITY

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

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

2. BASIS OF PREPARATION

(a) Basis of accounting

The financial statements have been prepared on the historical cost convention.

(b) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and assumptions are based on the Directors' best knowledge of current events, actions, historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about the carrying values of the assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Revenue recognition

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

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

(b) Translation of foreign currencies

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

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

(c) Provisions for payments to depositors

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

(d) Leases

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

(e) Employee entitlements

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

(e) Employee entitlements (continued)

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

The Board also contributes to a statutory defined contribution Pension Scheme, the National Social Security Fund (NSSF). The Board's contributions are charged to the income statement in the year to which they relate. The Board has no further obligation once the contributions have been paid.

(f) Taxation

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

(g) Financial assets and liabilities

(i) Recognition

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

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

(ii) Classification

The Board classifies its financial assets in the held-to-maturity and loans and receivables category. The Board 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 Board's management has the positive intention and ability to hold to maturity. Were the Board 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.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market.

They arise when the Board provides money directly to borrowers, other than those created with the intention of short-term profit taking. They are recognised at the date money is disbursed to the borrower or when they are transferred to the Board from a third party.

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

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

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 Board 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 Board 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 Board is recognized as a separate asset or liability.

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

The Board 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 group of similar transactions such as in the Board's trading activity.

(vi) Fair value of financial assets and liabilities

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

(h) Impairment for non-financial assets

The carrying amounts of the Board'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 group that generates cash flows that largely are independent from other assets and groups. 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 (group of units) on a pro-rata basis.

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

(i) Investment held for sale

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

(j) Cash and cash equivalents

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

(k) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset.

(ii) Subsequent costs

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

(iii) Depreciation

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

Long term leasehold land	Over the lease period
Buildings	2%
Computer equipment	33.33%
ICT Equipment	20%
Office equipment, furniture and fittings	20%
Motor vehicles	25%

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

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

(l) Related parties

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

(m) Grants

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

(n) Comparatives

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

(o) New standards and interpretations

(i) Adoption of new standards or amendments effective for the year ended 30 June 2014

New standard or amendments	Effective for annual periods beginning on or after
• Amendments to IFRS 7-Disclosures-Offsetting Financial Assets and Financial Liabilities.	1 January 2013
• IFRS 13-Fair value measurement	1 January 2013
• IAS 1 Presentation of Financial Statements - Presentation of items of Other Comprehensive Income (OCI)	1 January 2013

Other than IAS 1 and IFRS 13 as detailed below, the adoption of these standards did not have a significant impact on the amounts reported or presented in these financial statements.

(i) ***IAS 1 'Presentation of Items of Other Comprehensive Income'*** has been adopted for the first time for the financial year ended 30 June 2014.
The amendment requires that items presented within Other Comprehensive Income (OCI) be grouped separately into those items that will be recycled into profit or loss at a future point in time, and those items that will never be recycled. The amendment affects presentation only and therefore has no significant impact on the Board's financial position or performance.

(ii) ***IFRS 13 'Fair Value Measurement'*** has been adopted for the first time for the financial year ended 30 June 2014.
IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurement. The standard does not provide a significant departure from the current application of fair value accounting highlighted under note 3 g (vi) and as expounded below.

Determination of fair value

Policy applicable from 1 January 2013

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Board has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Board measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Board uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Policy applicable before 1 January 2013

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date. When available, the Board measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Board establishes fair value using a valuation technique. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Board, incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

(iii) ***Amendments to IFRS 7 Disclosures Transfers of Financial Assets.*** The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions where a financial asset is transferred but the transferor retains some level of continuing exposure in the asset

The application of the amendment had no effect on the Board's financial statements as the Board did not transfer such financial assets during the year

(ii) New standards and amendments not yet effective

New standard or amendments	Effective for annual periods beginning on or after
• IFRS 9 Financial Instruments (2010)	1 January 2018
• Amendments to IAS 32-Offsetting Financial Assets and Financial Liabilities (2011)	1 January 2014
• Amendments to IFRS 10, IFRS 12, and IAS 27 (2012)	1 January 2014
• Amendments to IAS 36-Recoverable Amount Disclosures for Non-Financial Assets (2013)	1 January 2014
• Amendments to IAS 39 titled Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
• IFRIC 21 Levies (2013)	1 January 2014
• Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)	1 July 2014

(i) ***IFRS 9: Financial Instruments (2010)***

It replaces parts of IAS 39 - Financial Instruments, Recognition and Measurement that relates to classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified, at initial recognition as either measured at fair value or at amortised cost. The classification depends on the entity's business model for managing its financial instruments and the characteristics of the contractual cash flows of the instrument. For financial liabilities, the standard retains most of the requirements of IAS 39. The main change is that, in cases where the fair value option is applied for financial liabilities, the part of a fair value change arising from a change in an entity's own credit risk is recorded in other comprehensive income rather than the profit or loss, unless this creates an accounting mismatch.

The standard is effective for periods beginning on or after 1 January 2018 and will have an impact on the Board.

(ii) ***Amendments to IAS 32: Offsetting Financial Assets and Financial Liabilities***

The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32, mainly by clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. These amendments are effective for annual periods beginning on or after 1 January 2014, with retrospective application

(iii) ***Amendments to IFRS 10, IFRS 12 and IAS 27: Investment Entities (2012)***

The amendments define "investment entities" and provide them an exemption from the consolidation of subsidiaries; instead, an investment entity is required to measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 / IAS 39 (the exception does not apply to subsidiaries that provide services relating to the investment entity's investment activities). An investment entity is required to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements, and additional disclosures are introduced. The amendments are effective for annual periods beginning on or after 1 January 2014,

The Directors do not anticipate any effect on the Board's financial statements.

(iv) Amendments to IAS 36: Recoverable Amount Disclosures for Non-Financial Assets (2013)

The amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. They are effective for annual periods beginning on or after 1 January 2014.

(v) Amendments to IAS 39 titled Novation of Derivatives and Continuation of Hedge Accounting (June 2013)

The amendments permit the continuation of hedge accounting in a situation where a counterparty to a derivative designated as a hedging instrument is replaced by a new central counterparty (known as 'novation of derivatives'), as a consequence of laws or regulations, if specific conditions are met.

(vi) IFRIC 21: Levies (2013)

The interpretation provides guidance on when to recognise a liability for a levy imposed by a government. The obligating event for the recognition of a liability is the activity that triggers the payment of the levy in accordance with the relevant legislation. It also provides guidance on recognition of a liability to pay levies: the liability is recognised either progressively if the obligating event occurs over a period of time, or when the minimum threshold is reached if an obligation is triggered on reaching that minimum threshold. The interpretation is effective for annual periods beginning on or after 1 January 2014.

(vii) Defined benefit plans – Employee contributions (Amendments to IAS 19)

The amendments clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service. In addition, it permits a practical expedient if the amount of the contributions is independent of the number of years of service.

The amendments are effective for annual periods beginning on or after 1 July 2014, with earlier application being permitted.
The Board's defined benefits scheme does not provide for employee contributions. The adoption of these changes would not affect the amounts and disclosures of the Board's defined benefits obligations.

The Board did not early adopt new or amended Standards during the 2014 financial year and is in the process of assessing the impact.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

(a) Critical accounting estimates and assumptions

(i) Property and equipment

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

(ii) Impairment of receivables

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

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

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

5. INCOME

(a) **Assessment income**	**2014 KShs'000**	**2013 KShs'000**
Total average deposits of institutions assessed as contributors	**1,782,902,148**	**1,559,622,240**
0.15% of total average deposits	2,674,353	2,339,433
Minimum contribution from 5 Deposit Taking Microfinance (DTM) (2013 – 2)	1,500	600
Total assessment income	**2,675,853**	**2,340,033**

(b) Investment income

(i) Interest earned on treasury bills received

Discount on 91 day treasury bills	34,330	91,039
Discount on 182 day treasury bills	33,963	293,130
Discount on 364 day treasury bills	1,207,278	389,016
	1,275,571	773,185

		2014	2013
(ii)	***Interest earned on treasury bonds received***		
	Matured bonds	3,274,391	3,144,349
	Discount on purchase	140,445	160,165
	Amortisation of premium	(14,544)	(18,284)
		3,400,292	3,286,230
	Total investment income	**4,675,863**	**4,059,415**

6. OTHER INCOME

Recoveries from subrogated claims	522	-
Gain on sale/disposal of assets	-	1,568
Penalty charges on late contributions	6,215	285
Impairment losses reversed	-	5
Recoveries from institutions in liquidation	198	1,963
Grant income	12,237	27,955
	19,172	**31,776**

7. ADMINISTRATION AND ESTABLISHMENT EXPENSES

Staff costs	157,710	144,987
Depreciation	11,775	11,333
Lease amortization	99	99
Auditors remuneration	1,100	1,017
Directors' emoluments - fees	5,301	8,046
Legal and professional fees	10	11,158
Occupancy costs	15,947	13,198
Other	59,254	60,530
	251,196	**250,368**

8. RECEIVABLES AND PREPAYMENTS

	2014	**2013**
	KShs'000	**KShs'000**
(a) Receivables and prepayments		
Receivables and prepayments	111,908	109,430
Provision for impairment losses (Note 8(b))	(102,345)	(102,345)
	9,563	**7,085**

(b) Provisions for impaired receivables

As at 30 June 2014, receivables amounting to KShs 102 million (2013 - KShs 102 million) were fully impaired and provided for. Movement in the provisions for impairment of receivables were as follows:

	2014	**2013**
	KShs'000	**KShs'000**
At 1 July	102,345	104,126
Additional provision	-	1,370
Write back - impairment losses	-	(3,151)
At 30 June (Note 18(a))	**102,345**	**102,345**

9. PROPERTY AND EQUIPMENT

2014:	**Buildings**	**Furniture & fittings**	**Office and kitchen equipment**	**Motor vehicle**	**Computers**	**Work-in-progress**	**ICT Equipment**	**Total**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
Cost:								
At 1 July 2014	16,740	21,444	10,606	11,659	7,263	-	43,914	111,626
Additions	-	325	545	-	1,131	-	-	2,001
At 30 June 2014	16,740	21,769	11,151	11,659	8,394	-	43,914	113,627
Depreciation								
At 1 July 2013	4,051	10,331	7,717	6,901	6,344	-	6,587	41,931
Charge for the year	367	1,389	622	1,189	743	-	7,465	11,775
At 30 June 2014	4,418	11,720	8,339	8,090	7,087	-	14,052	53,706
Carrying amount								
At 30 June 2014	**12,322**	**10,049**	**2,812**	**3,569**	**1,307**	**-**	**29,862**	**59,921**
2013:								
Cost								
At 1 July 2012	16,740	16,594	10,205	16,479	8,426	9,466	-	77,910
Additions	-	4,850	401	-	-	-	43,914	49,165
Disposals	-	-	-	(4,820)	-	-	-	(4,820)
Write offs	-	-	-	-	-	(9,466)	-	(9,466)
Transfers/write offs	-	-	-	-	(1,163)	-	-	(1,163)
At 30 June 2013	16,740	21,444	10,606	11,659	7,263	-	43,914	111,626

2014:	Buildings KShs'000	Furniture & fittings KShs'000	Office and kitchen equipment KShs'000	Motor vehicle KShs'000	Computers KShs'000	Work-in-progress KShs'000	ICT Equipment KShs'000	Total KShs'000
Depreciation								
At 1 July 2012	3,684	8,860	7,035	9,583	5,704	-	-	34,866
Charge for the year	367	1,471	682	1,586	640		6,587	11,333
Depreciation on disposals		-	-	-	(4,268)	-	-	-(4,268)
At 30 June 2013	4,051	10,331	7,717	6,901	6,344	-	6,587	41,931
Carrying amount								
At 30 June 2013	**12,689**	**11,113**	**2,889**	**4,758**	**919**	**-**	**37,327**	**69,695**

No depreciation has been charged in arriving at the results for the year in respect of certain fully depreciated assets with a cost of KShs 5,836,970 (2013 - KShs 5,341,968) and are still in use. If depreciation had been charged during the year on the cost of these assets at normal rates it would have amounted to a charge to profit or loss of KShs 1,945,637 (2013 - KShs 1,780,638).

10. PREPAID OPERATING LEASE RENTALS	2014 KShs'000	2013 KShs'000
Cost		
At 1 July and 30 June	4,522	4,522
Amortisation		
At 1 July	1,106	1,007
Amortisation for the year	99	99
At 30 June	1,205	1,106
Carrying value at 30 June	**3,317**	**3,416**

11. INVESTMENT

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

The Board owns 10,000,000 Ordinary shares of the Consolidated Bank of Kenya Limited that were acquired using a grant from the National Treasury for DPFB to resolve a banking crisis at the time. At the time of acquisition of the investment, the Banking Act allowed the Board to acquire, hold or dispose shares of an institution that might otherwise result in a loss to the Board. The Banking Act was later amended and now prevents the Board from holding investments other than in government securities. The Government, through the National Treasury plans to privatize Consolidated Bank and has therefore directed the Privatization Commission to explore and advise on how the shares are to be sold. A Consortium has been appointed to guide on the intended Privatization. Due to the above, the requirement for consolidation on IAS 27 does not apply.

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

It is to be noted that enactment of the KDI Act, 2012, Section 6 allows the Deposit Insurer to acquire, hold shares, and make loans and advances for purposes of reducing or averting a risk to an institution or the financial system or a threatened loss to the Corporation.

12. GOVERNMENT SECURITIES	2014 KShs'000	2013 KShs'000
Treasury bills maturing within 91 days of placement (Note 16)	44,936	336,463
Treasury bills maturing after 91 days from date of placement	14,179,524	7,583,316
Treasury bonds maturing within 1 year	5,541,927	4,126,439
Treasury bonds maturing after 1 year	26,803,199	27,325,123
	46,569,586	**39,371,341**
Comprising:		
Maturing within 1 year of the Statement of Financial Position date	19,766,387	12,046,218
Maturing after 1 year of the Statement of Financial Position date	26,803,199	27,325,123
	46,569,586	**39,371,341**

The weighted average effective interest rate on held to maturity investments as at 30 June 2014 was 10.88% (2013 – 11.04%).

13. PAYABLES AND ACCRUALS	2014 KShs'000	2013 KShs'000
Sundry payables and accruals	**10,966**	**6,996**

14. RELATED PARTY TRANSACTIONS

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

		2014 KShs'000	2013 KShs'000
(a)	**Due to Central Bank of Kenya**	**18,911**	**21,276**
(b)	**Directors' emoluments and senior management remuneration**		
	Fees to directors	5,301	8,046
	Remuneration to senior management	54,947	57,087
(c)	**Cash and balances held with Central Bank of Kenya**	**1,025**	**78,389**

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

(e) The staff of the Board are contractually employees of the Central Bank but seconded to the Board. Salaries of these staff are met by the Central Bank and fully reimbursed by the Board. In the year, salaries paid to staff by the Central Bank amounted to KShs 146.04 million (2013 - KShs 135.9 million).

(f) The Central Bank is also the sponsor of the CBK Staff Pension Fund to which the Board contributes on behalf of employees seconded to it from the Central Bank. In the year, the Board's contribution to the Fund amounted to KShs 10.98 million (2013 - KShs 9.1 million).

(g) The Central Bank provides the Board with office space and charges it rent. The Board also reimburses maintenance costs incurred by the Central Bank on its behalf. In the year, rent and maintenance costs charged amounted to KShs 15.95 million. (2013 - KShs 13.2 million).

15. DEFERRED INCOME	2014 KShs'000	2013 KShs'000
Unamortized grant income	**29,876**	**37,687**

16. CASH AND CASH EQUIVALENTS

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

	2014 KShs'000	2013 KShs'000
Treasury bills maturing within 91 days from the date of placement (Note 12)	44,936	336,463
Cash and bank balance	1,025	78,389
	45,961	**414,852**

17. COMMITMENTS

	2014 KShs'000	2013 KShs'000
(a) Capital commitments		
Authorised but not contracted for	**184,010**	**29,180**

Capital commitments authorised relates mainly to office furniture, office equipment, ICT project infrastructure costs, motor vehicle, godown sentry house and CCTV network connections.

(b) Operating lease commitments:	2014 KShs'000	2013 KShs'000
Falling due within one year	16,515	15,780
Falling due between one and five years	16,515	15,780
	33,030	**31,560**

18. RISK MANAGEMENT

Structure and reporting

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

Audit Committee of the Board

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

Deposit Insurance and Risk Management Section

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

Internal Audit and Risk Management Unit

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

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

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

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

(a) Credit risk

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

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

The Board 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 groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

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

	2014 KShs'000	**2013 KShs'000**
Receivable	111,908	109,430
Impairment losses recognised in the year (Note 8(b)	(102,345)	(102,345)
	9,563	**7,085**

The aging of receivables at the reporting date was:

Not past due	9,556	5,342
Past due 0 – 30 days	2	446
Past due 31 – 90 days	-	442
Past due above 90 days	102,350	103,141
	111,908	**109,371**

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

	2014 KShs'000	**2013 KShs'000**
Balance at 1 July	102,345	104,126
Made in the year	-	1,370
Write backs	-	(3,151)
Balance at 30 June	**102,345**	**102,345**

(b) Market Risk

(i) Interest rate risk management

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

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

2014:	**Effective interest rate**	**Upto 1 year KShs'000**	**1 – 5 years KShs'000**	**6 – 10 years KShs'000**	**Over 10 years KShs'000**	**Total KShs'000**
Investments held to maturity	10.88%	19,766,387	10,785,237	11,317,539	4,700,423	46,569,586
Interest sensitivity gap At 30 June 2014		**19,766,387**	**10,785,237**	**11,317,539**	**4,700,423**	**46,569,586**

2014:	Effective interest rate	Upto 1 year KShs'000	1 – 5 years KShs'000	6 – 10 years KShs'000	Over 10 years KShs'000	Total KShs'000
2013:						
Investments held to maturity	11.04%	12,046,218	7,877,825	13,756,000	5,691,298	39,371,341
Interest sensitivity gap At 30 June 2013		**12,046,218**	**7,877,825**	**13,756,000**	**5,691,298**	**39,371,341**

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

	2014 KShs'000	2013 KShs'000
Effect on surplus for the year of a +5% change in interest rates	2,328,479	1,968,567
Effect on surplus for the year of a -5% change in interest rates	(2,328,479)	(1,968,567)

(ii) ***Currency risk***

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

(c) Liquidity risk management

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

The Board's financial liabilities amount to KShs 29,877,000 (2013 - KShs 28,272,000) 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:

2014:	Other financial liability KShs '000	Loans and receivables KShs '000	Held to maturity KShs '000	Total carrying value KShs '000	Fair Value KShs '000
Financial assets					
Government securities	-	-	46,569,586	46,569,586	46,569,586
Investment held for sale	-	-	-	100	100
Cash and bank balances	-	-	-	1,025	1,025
Receivables	-	-	-	9,563	9,563
	-	-	46,569,586	46,580,274	46,580,274
Financial liabilities					
Amounts due to group companies	18,911	-	-	18,911	18,911
Payables and accruals	10,966	-	-	10,966	10,966
	29,877	-	-	**29,877**	**29,877**
2013:					
Financial assets					
Government securities	-	-	39,371,341	39,371,341	39,371,341
Investment held for sale	-	-	-	100	100
Cash and bank balances	-	-	-	78,389	78,389
	-	-	**39,371,341**	**39,449,830**	**39,449,830**
Financial liabilities					
Amounts due to group companies	21,276	-	-	21,276	21,276
Payables and accruals	6,996	-	-	6,996	6,996
	28,272	-	-	**28,272**	**28,272**

(e) Capital management

The primary objectives of the Board's capital management are to ensure that the Board maintains healthy capital ratios in order to support its business and to maximize the value for the insured depositors in member institutions. The Board manages its Fund and makes adjustments to it, as per the requirements of the Banking Act. The total accumulated Fund as at 30 June 2014 was KShs 46,584 million (2013 - KShs 39,464 million).

19. CONTIGENT LIABILITIES

Litigation

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

20. AMOUNTS HELD ON BEHALF OF THIRD PARTIES

As at the year end, the Board in its role as a liquidator, held an amount of KShs 69.5 million in an escrow account on behalf of third parties, pending the completion of the transactions in accordance with contractual agreements.

21. SUBSEQUENT EVENTS

The Kenya Deposit Insurance Act, 2012 ("The Act") signed into law by the president on May 9th 2012, establishes the Kenya Deposit Insurance Corporation ("KDIC") to replace the Deposit Protection Fund Board. The Act was granted a commencement date of July 1, 2014. The objectives of KDIC 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.

APPENDIX

COMMERCIAL BANKS AND OTHER FINANCIAL INSTITUTIONS ASSESSED CONTRIBUTORS FOR THE YEAR ENDED 30 JUNE 2014

COMMERCIAL BANKS

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

MICRO FINANCE INSTITUTIONS

1. Faulu Kenya
2. Kenya Women Finance Trust
3. SMEP DTM
4. REMU DTM
5. Uwezo DTM
6. Rafiki DTM
7. Sumac DTM
8. Century DTM
9. U & I DTM

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