REPUBLIC OF KENYA

OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

THE NATIONAL ASSEMBLY
PAPERS LAID
DATE: 08 MAR 2023 DAY.
TABLED BY: Hon. Owen Baya, CBS, MP
Deputy Majority Leader
CLERK-AT THE-TABLE: Christine Ndiritu

REPORT

OF

THE AUDITOR-GENERAL

ON

KENYA DEPOSIT INSURANCE CORPORATION

FOR THE YEAR ENDED 30 JUNE, 2021

OFFICE OF THE AUDITOR GENERAL
P. O. Box 30084 - 00100, NAIROBI
REGISTRY

04 JUL 2022

RECEIVED

KENYA DEPOSIT INSURANCE CORPORATION

ANNUAL REPORTS AND FINANCIAL STATEMENTS

FOR THE FINANCIAL YEAR ENDING JUNE 30, 2021

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

ISO 9001 CERTIFIED

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
IR	In Receivership
IL	In Liquidation
EDW	Electronic Data Warehouse
EDW-BI	Electronic Data Warehouse and Business Intelligence
EDRMS	Electronic Data and Records management System
KDI	Kenya Deposit Insurance
DIF	Deposit Insurance Fund
DPS	Differential Premium System
CAMEL	Capital Adequacy, Asset Quality, management, Earnings and Liquidity
FDIC	Federal Deposit Insurance Corporation
WHO	World Health Organization
KES	Kenya Shilling
ERM	Enterprise Risk Management
BCP	Business Continuity Plan
BCM	Business Continuity Management
PICFIT	Professionalism, Integrity, Customer Focus, Fairness, Innovativeness, and Teamwork
QMS	Quality Management System
SCV	Single Customer View
ATM	Automated Teller Machine
COVID	Corona Virus Disease
CSR	Corporate Social Responsibility
ISO	International Standard Organization
PFM Act	Public Finance Management Act
EACC	Ethics and Anti-Corruption Commission
CAJ	Commission on Administration of Justice
ICT	Information, Communication Technology

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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 Board of Directors is tasked with the responsibility of overseeing the general policy and strategic direction of the Corporation.

PRINCIPAL ACTIVITIES

The Principal role of KDIC is to;

- Provide a deposit insurance scheme for customers of member institutions
- Provide incentives for sound risk management and generally promote the stability of the financial system
- Hold, manage and apply funds levied as contributions from member institutions, and compensate insured depositors
- Proactively resolve problem banks and mitigate any failure
- Wind up operations of insolvent institutions in respect to which the Corporation is appointed as the liquidator

VISION AND MISSION

VISION

To be a premier deposit insurance scheme

MISSION

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

STRATEGIC THEMES

OUR VALUES

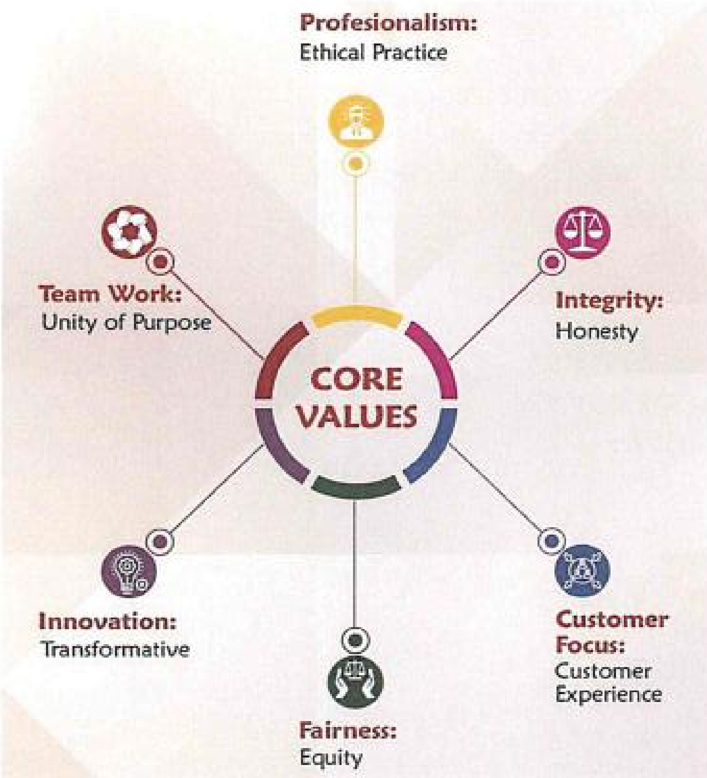

Figure 2: Core Values

DIRECTORS

The directors who served during the period 2020/2021 were as follows;

1.	Mr. James Teko Lopoyetum	- Chairman - (Retired 6th June 2021)
2.	Hon. Amb. Ukur Yatani, EGH	- Cabinet Secretary, The National Treasury & Planning
3.	Dr. Patrick Njoroge	- Governor, Central Bank of Kenya
4.	Dr. Habil Olaka	- Director (Appointed on 1st January 2017)
5.	Hon. Paul Kariuki	- Attorney General
6.	Mr. Amos Sipoi Ntimama	- Director - (Retired 6th June 2021)
7.	Mr. Martin Gumo	- Alternate to Cabinet Secretary, The National Treasury & Planning (Retired)
8.	Mr. John Njera	- Alternate to Cabinet Secretary, The National
9.		Treasury & Planning (Appointed 5th May 2021)
10.	Mr. Alex Mbuvi	-Alternate to Attorney General
11.	Mr. Mohamud A. Mohamud	- Chief Executive Officer (Ex-officio)

Corporation Secretary

Mrs. Eunice Kitche - Odour
P.O. Box 45983-00100
Nairobi

Registered Office and Corporate Headquarters:

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

Corporate Contacts:

Telephone: +254 20 66770000, +254 709 043000
E-mail: customercare@kdic.go.ke
Website: www.kdic.go.ke

Corporate Banker:

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

Independent Auditors:

Auditor General
The 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; BOARD CHAIRMAN (RETIRED 6TH JUNE 2021)	Mr. James Teko Lopoyetum 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.
 CABINET SECRETARY, THE NATIONAL TREASURY,	Hon. Ambassador Ukur Kanacho Yatani is the Cabinet Secretary, National Treasury & Planning Ministry. Prior to the current appointment, Hon. Yatani served as Cabinet Secretary for Labour and Social Protection. CS Yatani has rich experience in public administration, politics, diplomacy and governance, acquired from working in various sectors of the Public Sector since joining the Civil Service in 1992. Between June 2009 and October 2012, he served as Kenya's Ambassador to Austria with Accreditation to Hungary and Slovakia and Permanent Representative to the United Nations in Vienna. In this position, he aggressively pursued and advanced Kenya's foreign interests. He held senior leadership positions at various diplomatic and international agencies such as International Atomic Energy Agency (IAEA), United Nations Organization on Drugs and Crimes (UNODC), United Nations Industrial Development Organization (UNIDO), Vice Chairperson of United Nations Convention Against Transnational Organized Crime (UNTOC), Vice President of Convention on Crime Prevention and Criminal Justice (CCPJ), and, chair of African Group of Ambassadors among others. During the period 2006-2007 while serving Member of Parliament for North Horr constituency, CS Yatani also served as an Assistant minister for Science and Technology. He served as a pioneer Governor of Marsabit County between 2013 and 2018, the largest County in the Republic of Kenya.

	Between 1992—2015, he served in different positions Kenya's Public Administration including a District Commissioner, where he sharpened his management and administrative skills. He has a Master of Arts in Public Administration and Public Policy, University of York, United Kingdom, acquired in 2005; and a Bachelor of Arts in Economics, Egerton University, Kenya, earned in 1991.

 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.

<table>
<tr>
<td>
DR. PATRICK NJOROGE;
THE GOVERNOR
CENTRAL BANK OF KENYA</td>
<td>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.</td>
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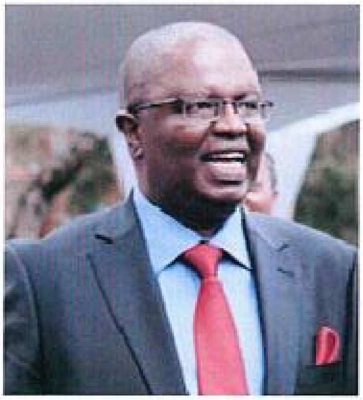
<tr>
<td>
DR.HABIL OKUNDA OLAKA;
DIRECTOR</td>
<td>Dr. Habil Olaka is the Chief Executive Officer of the Kenya Bankers Association, following his appointment in 2010.He previously worked with the East African Development Bank (EADB), serving in different capacities among them; Director of Operations, 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.</td>
</tr>
</table>

 MARTIN STEWART GUMO; ALTERNATE TO CABINET SECRETARY, THE NATIONAL TREASURY & PLANNING	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.
 MR. AMOS SIPOI NTIMAMA; DIRECTOR	Mr. Amos Sipoi Ntimama holds a Bachelor of Science - Business Administration (cum laude) from American University, Washington DC, USA and Masters of Science (MSC)- Accounting from University of Illinois, Urbana-Champaign il, USA. Mr. Ntimama has extensively been involved in the financial sector. He was the manager in charge of bank supervision at the Central Bank of Kenya. He is a past group General Manager of the Governors Group of companies. He is the substantive chairman of the National Co-ordination Board for NGOs and Director at the Consulting Hub. He was previously a Director at Lake Victoria South Water Services Board and Chairman at Private Security Regulatory Authority.

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 risen through the ranks at Central Bank of Kenya, Mr. Mohamud is credited with a number of achievements since his appointment at the helm of the nascent Corporation in 2017. As such, he has proactively been involved in deposit insurance activities that have put his name on the world map thus becoming one of the international assessors on compliance with the best practices in deposit insurance.

In addition, he has locally spearheaded major milestones such as the upward review of deposit coverage limit, implementation of Risk-based Premium model and major public awareness campaigns and stakeholder management, geared towards entrenching the concept of deposit insurance in Kenya.

Mr. Mohamud has thus assessed many jurisdictions including Nigeria, Tanzania, India, Trinidad and Tobago, Poland, Switzerland and Sweden. Further, as an expert in resolution of failed banks, Mr. Mohamud has extensively facilitated international conferences on deposit insurance.
It is perhaps due to this rich grounding, legacy, contribution and recognition that Mr. Mohamud added yet another feather to his cap, when he was unanimously endorsed as the new Chairman and President of the African Regional Committee (ARC) of the International Association of Deposit Insurers (IADI).
The election saw Mr. Mohamud, who also chairs IADI Member Relations Committee, becoming the first Kenyan in history to chair the regional body, ARC-IADI.

Besides his extensive training in leadership as well as deposit insurance, Mr. Mohamud holds a Bachelor's degree in Economics from the University of Nairobi and an MBA in Strategic Management from Moi university, a tremendous achievement for the man with a humble beginning in the County of Samburu.

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, a Certified Public Secretary CPS (K) and a member of Institute of Certified Secretaries in Kenya (ICS) in good standing.

SENIOR MANAGEMENT TEAM

MR. MOHAMUD AHMED MOHAMUD;
CHIEF EXECUTIVE OFFICER

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	compliance with the best practices in deposit insurance. In addition, he has locally spearheaded major milestones such as the upward review of deposit coverage limit, implementation of Risk-based Premium model and major public awareness campaigns and stakeholder management, geared towards entrenching the concept of deposit insurance in Kenya. Mr. Mohamud has thus assessed many jurisdictions including Nigeria, Tanzania, India, Trinidad and Tobago, Poland, Switzerland and Sweden. Further, as an expert in resolution of failed banks, Mr. Mohamud has extensively facilitated international conferences on deposit insurance. It is perhaps due to this rich grounding, legacy, contribution and recognition that Mr. Mohamud added yet another feather to his cap, when he was unanimously endorsed as the new Chairman and President of the African Regional Committee (ARC) of the International Association of Deposit Insurers (IADI). The election saw Mr. Mohamud, who also chairs IADI Member Relations Committee, becoming the first Kenyan in history to chair the regional body, ARC-IADI. Besides his extensive training in leadership as well as deposit insurance, Mr. Mohamud holds a Bachelor's degree in Economics from the University of Nairobi and an MBA in Strategic Management from Moi university, a tremendous achievement for the man with a humble beginning in the County of Samburu.

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. David Irungu heads the Directorate of Resolutions. He oversees the resolution process of the 18 institutions in liquidation and 1 bank in receivership.

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 Publ. accountant C.P.A (K) and PRINCE 11 practitioner.
 MR. ROBERT INGASIRA MBARANI; 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.
 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

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CHAIRMAN'S STATEMENT

Mr. James Teko Lopoyetum:
Board Chairman

On behalf of the Board of Directors and Management, I am pleased to present to you the Annual Report and Financial Statements of the Kenya Deposit Insurance Corporation for the year ended 30th June 2021.

In this regard, I reckon that the last 12 months were extraordinary especially considering the unprecedented global challenges in the financial, social and political system largely brought about by the Covid-19 pandemic. That notwithstanding, Kenya's financial services, alongside other sectors of the economy, continued to recover from the effects of the pandemic occasioned by among others, restricted movement, closure of businesses, and general slowdown in economic activities.

It is against this backdrop that the Corporation, as part of its support to member Institutions, implemented three economic incentives to cushion their earnings and liquidity. These include deferment of the implementation of the Differential Premium System, extension of premium payment period by six months and upward review of the deposit coverage limit. Further, the Corporation continued to offer a safe working environment to its staff and other stakeholders in line with health protocols announced by the World Health Organization and the Government.

Strategic Analysis

In the period under review, the Corporation remained resilient and committed towards its mandate of risk minimization in the country's banking system – despite the challenges posed by the new normal. The Corporation aligned its 2018-2023 Strategic Plan, and key objectives for the year to the Kenya Development Agenda towards economic growth and establishment of a vibrant and globally competitive financial sector.

In line with this strategic focus, the Corporation enhanced its offsite surveillance mechanism to safeguard the deposit insurance fund and promote confidence in the banking system. Further, the Corporation instituted contingency planning and crisis preparedness programs, and enhanced consultations with stakeholders for collaboration in safeguarding depositor interests.

As the custodian of the country's Deposit Insurance Fund, the Corporation continued to manage the Fund. This was done in accordance with the Investment Policy to ensure viability, robustness and adequacy of the Fund in the unlikely event of bank failure. Further, the Corporation made pay-outs of protected deposits to depositors of Chase Bank Ltd (IL) and Charterhouse Bank Ltd (IL), which were placed in liquidation in the period under review. I addition, KDIC, being the country's Resolution Authority, continued to manage institutions in Liquidation, by tracing, preserving and realising assets for the benefit of depositors and creditors of those banks.

In line with our strategic objective of partnering and collaborating with key stakeholders, the Corporation conducted various stakeholder consultative forums in pursuit of common goals. These forums, were the cornerstone of the achievement of critical milestones in the period under review. Such engagements include strengthened partnerships with member institutions on public awareness and information sharing, partnership with banks for prompt payment of deposits to customers of Imperial Bank Ltd (IR), and payment of the protected deposit to customers of Chase Bank Ltd (IL).

In the realisation of our organisational capacity strategic theme, the Corporation recognises that the Kenyan people are the most valuable resource. Consequently, various capacity building programs were implemented in the period under review. Most of these programs were aligned to deposit insurance, prompt resolution and contingency planning. In addition, the Corporation's ICT infrastructure was enhanced to the dynamic operating environment.

Beyond the implementation of our core objectives, we have continuously become aware of our impact on the environment and community. In this regard, the Corporation has implemented various initiatives towards preserving our ecosystem, and also played a part in enhancing the country's healthcare system. We remain devoted to our Corporate Social Responsibility commitments in support of Vision 2030.

The Board

During the period under review, the Board of Directors was not fully constituted.

Future Outlook

Going forward, the Corporation remains steadfast in its resolve to realize its vision: To be a premier deposit insurance scheme. To achieve this dream, we will pursue digitization of our operations and processes, to remain aligned with global changes. Further, we are seeking to review the Deposit Insurance legal framework to enhance the efficacy of the Corporation's mandate. In line with the Risk Minimization objective, we look forward to the roll-out of the Differential Premium System. Additionally, we plan to enhance various capacities within the organisation, and pursue best practice in Deposit Insurance.

Acknowledgements

In conclusion, may I express my sincere gratitude to my fellow Board Members, for their personal commitment and stewardship during this period. Similarly, on my behalf and that of the Board of Directors, I commend the Chief Executive Officer, Management and Staff of the Corporation for their invaluable support and selfless service towards the achievement of great milestones this far.

Lastly, I acknowledge the robust partnership and contribution of our member Institutions. This collaborative partnership, that is guided by our parent ministry, The National Treasury and

Planning, has continued to foster financial stability in Kenya's banking system. We look forward to deepening this engagement for public good.

JAMES TEKO LOPOYETUM
CHAIRMAN

REPORT OF THE CHIEF EXECUTIVE OFFICER

Mr. Mohamud Ahmed Mohamud;
Chief Executive Officer

It is my pleasure to present the Kenya Deposit Insurance Corporation Annual Report and Financial Statements for the period ended 30th June 2021, which includes performance and operational highlights.

Operating Environment

KDIC continued to implement measures to address accruing challenges of Covid-19, not just to ensure it is attuned with the new realities, but also maintain stability and confidence in the banking system. As such, the Corporation moved to cushion the earnings and liquidity of banking institutions by extending payment of premium by six months until 31st December, 2020. This afforded banks higher liquidity to navigate contracted cash inflows following reduced loan repayments and decline in other incomes. Secondly, the implementation of the risk-based premium model was deferred by 12 months until July 2021 further protecting bank earnings. This premium assessment approach more often than not, results to increased contributions. In order to promote public confidence in the banking system, the deposit coverage limit was increased from Kshs.100,000 to Kshs. 500,000 effective 1st July 2020.

Performance

Despite the continued challenges posed by the pandemic, the Corporation prides itself to have achieved critical milestones in line with its Strategic Plan, 2018 – 2023 period. In this regard, the Corporation continued to pursue the five strategic themes, as well as implemented various initiatives with a view to promote public confidence in the financial system through deposit insurance, risk management and timely resolution.

KES
4.3 Trillion
Total deposit liability in the banking sector

KES
140 Billion
Fund balance as at June 30, 2021

66 Million
Total accounts in the banking sector

'The Corporation reviewed its deposit insurance coverage limit in the year under review from KES 100,000 to KES 500,000.'

During the period under review, the banking sector remained stable and resilient, due to the gradual economic recovery from the effects of the COVID-19 pandemic. The deposit liability within the banking system increased by 8% in June 2021, to stand at Kshs. 4.37 trillion, up from Kshs. 4 trillion in June 2020. The flipside of this positive performance was the decline in the number of accounts in the system, reported at 66 million in June 2021, compared to 69 million the previous year. This negative development accounted for a 5% decrease, attributed to banks' decision to clean their records and reconcile deposit information. As such, the Corporation continues to encourage the banks to maintain accurate deposit information for the benefit of the banking sector.

The increase in deposits led to the rise in the premium contribution during the year under review, closing at Kshs. 5.6 billion up, from Kshs. 5.2 billion the previous year. The Corporation also prudently invested the Deposit Insurance Fund resulting to a 14.5% growth in investment income growing which stood at Kshs. 14.2 billion compared to Kshs. 12.4 billion recorded in the previous year.

The Corporation's operating expenses increased to Kshs. 2,064 million in 2021, up from Kshs. 555 million the previous year. The sharp increase was occasioned by a Kshs. 1,361 million expenditure towards payment of protected deposits to the depositors of Chase Bank (IR) and Charterhouse Bank – under statutory management. The Corporation recorded a surplus of Kshs. 17 billion, therefore increasing the Fund balance to Kshs. 140 billion in 2021, up from Kshs. 122 billion in 2020.

Risk Management

During the period under review, the Corporation conducted offsite surveillance and risk profiling of all member institutions using the CAMEL Framework. The framework is used as an early warning system to inform risk exposure to the Deposit Insurance Fund and banking system. It also allows for timely intervention in troubled banking institutions. To this end, Corporation continued to receive data and information from the various stakeholders to support in monitoring the soundness of the sector and risk profiling of member institutions.

I am happy to report that the Corporation successfully completed the development of the Differential Premium System in the period under review, and is ready for the roll-out come 1st of July 2021. The implementation of DPS will bring to an end the flat-rate premium assessment regime, ushering in a new dispensation of risk-based premium assessment approach. Consequently, contributions to the Fund will be determined by a bank's risk profile, and the strength of its corporate governance system.

'Implementation of the risk-based premium assessment model will bring to an end the flat-rate premium assessment regime, and usher the banking system into the risk-based premium assessment approach.'

Deposit Insurance

The Corporation reviewed its deposit insurance coverage limit in the year under review from Kshs. 100,000 to Kshs. 500,000 effective 1st July 2020. The implementation of the revised coverage limit saw the total banking industry deposits insured by KDIC jump to 16% up from 7%, which accounted for Kshs. 705 billion in 2021, compared to Kshs. 305 billion in the previous year.

Prompt Resolution

During the period under review, the Corporation was appointed liquidator for two institutions, Chase Bank Ltd (IL) and Charterhouse Bank Ltd (IL). As a result, KDIC disbursed KSHS. 181 million out of KSHS. 1,360 million of protected deposits.

Additionally, the Corporation continues to manage 18 institutions which are in liquidation, through asset tracing, preserving and realizing value for the benefit of depositors and creditors. In view of this, the Corporation collected Kshs. 226.7 million from institutions in liquidation an increase from Kshs. 139 million in the previous year.

Further, the corporation continued to manage one institution, Imperial Bank Ltd (IR), in receivership. In this regard, KDIC closed seven (7) of the remaining sixteen branches and renegotiated stakeholder contracts in an effort to consolidate operations and reduce operating expenses. Depositors of Imperial Bank Ltd (IR) were able to access the first tranche of the deposits amounting to Kshs. 400 million.

KES		KES
710 Billion	**2 Members**	**226.7 Million**
Insured Deposits	Members placed in liquidation	Recoveries in the year

Stakeholder Management

During the year, the Corporation conducted its public awareness campaign. This campaign, was executed through print, electronic and digital media. The objectives of the campaign was to create awareness on deposit insurance as well as promote public confidence in Kenya's banking system.

Similarly, I am glad to report that the Corporation launched the KDIC membership identification stickers in partnership with member institutions – for display in banks to assure customers of our commitment to our mandate of protecting deposits. The Corporation further engaged stakeholders on the risk based premium collaborative framework ahead of its anticipated implementation starting 1st July 2021.

Organization Capacity

The Corporation continues to provide an enabling working environment and support to its staff, who over the years have demonstrated high standards of professionalism, teamwork and innovativeness in line with "PICFIT" core values.

To enhance safety of this critical resource and ensure business continuity, the Corporation, through its Crisis Management Team, continuously assessed the risk exposure and instituted various initiatives. This included continuous sensitization of staff on emerging trends, remote working, implementation of a comprehensive medical cover, and facilitation of testing against Covid-19 to employees and their families.

The Corporation also continued to implement and maintain various management systems to enhance efficiency and business continuity. Key to note was the maintenance of the ISO 9001:2015 Quality Management System (QMS) Certification, and implementation of the Enterprise Risk Management (ERM) and Business Continuity Management (BCM) Framework.

Future Prognosis

Pursuant to the Corporation's Vision-to be a premier deposit insurer, there is need to align to international best practise and ensure that the country's deposit insurance system remains viable and resilient. In this regard, the Corporation looks forward to the implementation of the Risk-Based Premium Assessment Model (Differential Premium System), implementation of Single Customer View (SCV), the development of Resolution Planning (Living Wills) Framework in the banking sector and further capacity building on crisis preparedness and contingency planning.

Additionally, KDIC will seek to review its legal framework and adopt emerging technologies such as implementation of Electronic Data Warehouse and Business Intelligence System (EDW-BI) and Electronic Document and Records Management System (EDRMS) to integrate operations and document management, for increased efficiency.

Appreciation

I am happy to note that all our achievements have been possible through the strategic guidance of the board, stewardship of management and the commitment demonstrated by our staff. Therefore, allow me to express my sincere gratitude to The National Treasury and Planning as well as the Board of Directors, for their commitment and guidance during the year in review. Similarly, may I 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 to achieve great milestones in line with our mandate. I also wish to sincerely appreciate our member institutions and Safety Net Players for the invaluable collaboration in promoting financial stability.

Thank you.

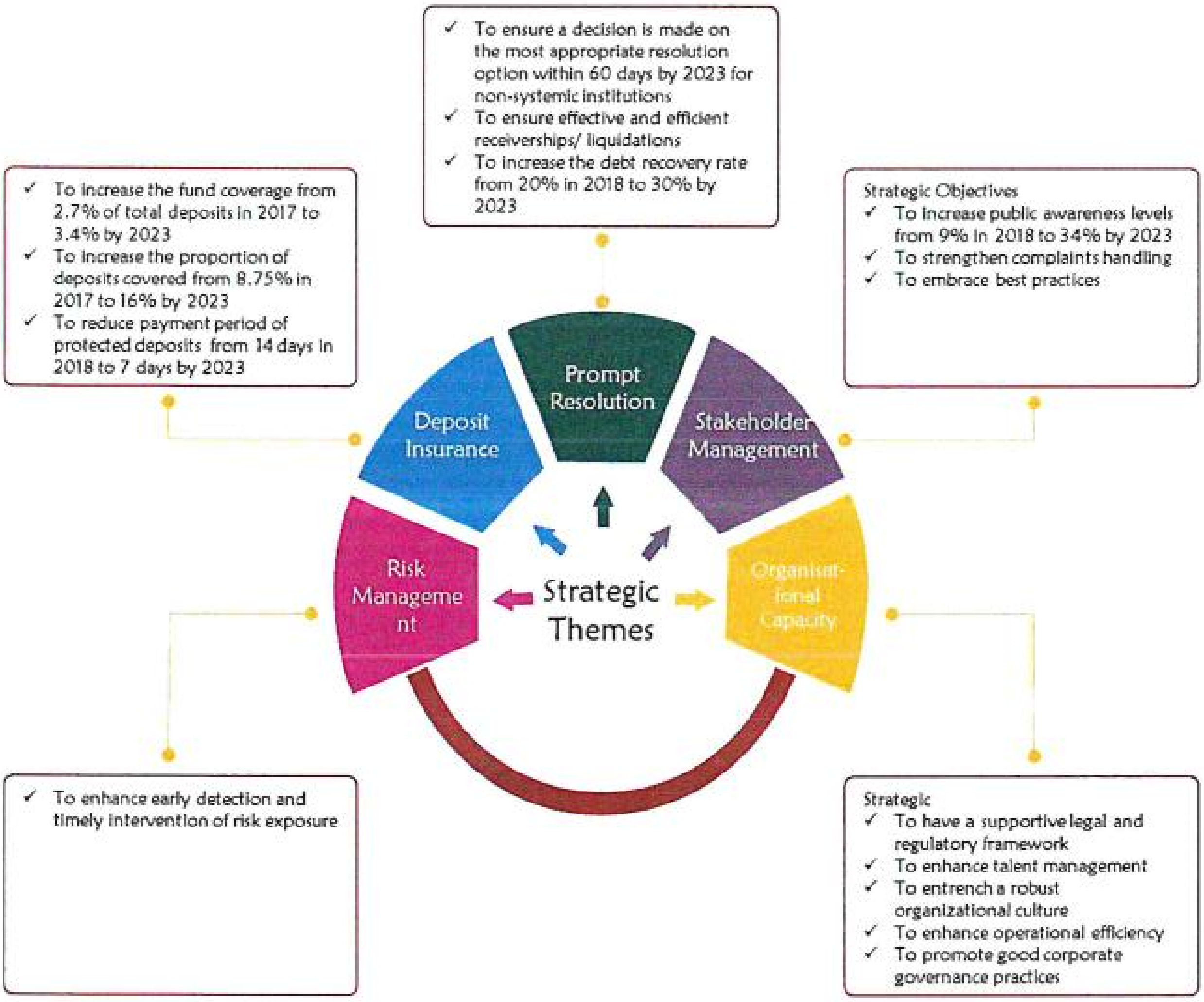
MOHAMUD AHMED MOHAMUD
CHIEF EXECUTIVE OFFICER

STATEMENT OF PERFOMANCE AGAINST PREDETERMINED OBJECTIVES

The Corporation's performance objectives are defined in its five-year Strategic Plan (2018 - 2023) and as a Government agency, KDIC signs annual Performance Contract with the parent ministry, The National Treasury and Planning.

The Strategy currently being implemented has five thematic areas namely; Risk Management, Deposit insurance, Prompt Resolution, Stakeholder management and Organizational capacity. These remained key focus areas during the year under review.

Figure 3: Strategic Pillars and Strategic Objectives



The Corporation's Strategic Plan is broken down to annual work plans that define the initiatives for the plan's coverage period. During the implementation of the strategic plan through the annual work plans, the Corporation further defines its Performance Contract for a year of operation and this contract is signed by the Corporation and The National Treasury and Planning. Throughout the corporate performance management process that starts with strategic planning to performance contracting, the Corporation incorporates the requirements of various government directives issued from time to time.

The highlights of the Corporation's Performance Contracting status are highlighted below.

Table 1: Achievement of Strategic Objectives

#	Strategic pillar	Objective	KPI	Activities	Achievements
1	Risk Management	To enhance early detection and timely interventio n of risk exposure	Implement an early detection and intervention framework	Review and implement a risk assessment framework (CAMEL)	Implemented
				Implement early detection and intervention framework	The Corporation conducted offsite surveillance on 53 member institutions. We also conducted capacity building on Crisis Preparedness and Contingency Planning and prompt resolution.
				Stakeholder engagement on sound risk management	The Corporation conducted 55 stakeholder engagement sessions with our member institutions during the year
2	Deposit insurance	To achieve a coverage ratio of 23.25% by 2023	Increase in coverage ratio	Collect the deposit insurance premium (Kshs.5.2B)	The Corporation assessed and collected Kshs. 5.6B which was 8% above the target
				Prudent investment of Funds - Income (Kshs.8.6B)	The Corporation's prudently invested monies from the fund to maximize return while managing liquidity. This led to a revenue of Kshs.14.5B

#	Strategic pillar	Objective	KPI	Activities	Achievements
					against a target of Kshs.8.6B, 169% performance.
3	Stakeholder management	To increase public awareness levels from 9% in 2018 to 40% in 2023	Increase public awareness index	Conduct a targeted public awareness campaign	The Corporation conducted a public awareness campaign in collaboration with print, electronic and digital media aimed at sensitizing the public on KDIC mandate as well as enhancing confidence on safe-banking
				Develop and disseminate IEC Material	The Corporation distributed IEC material to members of the public during the year. These were KDIC branded merchandise to encourage the public to take up formal banking
4	Prompt resolution	Increase the debt recovery rate from 20% in 2018 to 30% by 2023	Debt recovery growth rate	Adopt alternative dispute resolution methods	The Corporation employed Alternative Dispute Resolution methods in debt recovery for institutions in liquidation.
				Implement convenient loan repayment options	The Corporation is in the process of implementing a mobile

#	Strategic pillar	Objective	KPI	Activities	Achievements
				Increase the number of loan repayment methods	application that shall enable debtors of institutions in liquidation to pay their debts through e-citizen.
5	Organizational capacity	To enhance absorption rate (Allocated funds)	Budget utilization	Implementation of approved establishment	The Corporation's staff compliment is at 31% of its approved staff establishment.
				Implementation and Monitoring of approved procurement plan	The Corporation implemented its approved procurement plan, monitored and reported to The National Treasury and the Public Procurement Regulatory Authority as required.

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*, which is the Code of Governance for State Corporations, the Constitution of Kenya 2010, the KDI Act, 2012 and the State Corporations Act. The Board of Directors have developed the necessary policies, processes, systems and procedures that continue to guide ~~our~~ operations of KDIC. The Corporation regularly reviews and updates these measures with a view to institute and embrace the changes within its sphere of operations and influence. This ensures the 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"*, KDIC 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 Members of the Board are drawn from diverse professional backgrounds of which six are independent members.

KDIC Board Charter sets out the need to have a Board that has the right mix of individuals with relevant attributes skills, knowledge and experience and who jointly have the overall collective competence to deal with current and emerging issues and effectively guide management in ensuring the highest performance for the Corporation. The non-executive Directors are expected to have a clear understanding of the strategy of the Corporation as well as knowledge of deposit insurance.

The aggregate mix of skills and experience of the Board seeks to challenge management, ensure robust and constructive debate, augments and challenges the strategic thinking of the senior management thereby adding value to the Corporation. The Board, through the SCAC is expected to regularly review the skills, knowledge, experience and diversity represented on the Board, against the skills and experience needed to deliver the strategy and continues to make efforts on diversifying the skill set and gender. Having regard to the Corporation's vision, mission, values and purpose, the individual attributes of each Director are as critical as the skills they bring. There is an expectation that each Director should be able to demonstrate sound business judgment, a strategic view, integrity, preparedness to question, challenge and critique and leadership qualities. At a collective level, the Corporation looks for a diversity of skills, knowledge and experience to enable the Board to provide the oversight needed to develop and achieve the overall strategy of the Corporation.

Board Committees

The Board has delegated authority to various Board committees to be able to undertake its mandate effectively and efficiently. In deciding committee memberships, the Board endeavours to make the best use of the range of skills across the Board and share responsibility. Overlapping memberships considers instances where matters raised in one committee may have implications for another. Membership is reviewed periodically by the Chairman in collaboration with the Board.

The Board receives a report from the Chairman of each committee on significant areas of discussion and key decisions at the subsequent Board meeting. Each committee has in place terms of reference that set out the roles and responsibilities and the procedural rules that apply to the committee. Under the procedural rules, each committee must be composed of at least three members, a majority of independent directors and have an independent Chairman.

The Board has created four Committees aimed at establishing and maintaining an efficient Corporate Governance infrastructure, matching global standards. During the previous 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:

i) Board Audit Committee (BAC),
ii) Board Technical Committee (BTC),
iii) Board Finance Committee (BFC) and
iv) Board HR, Strategy & General-Purpose Committee (BHSGPC).

The Board ensures that at least one member of the BAC has a background in accounting or finance expertise and who is a member of good standing with ICPAK.

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.

Board Meetings

The Board has in place an annual work plan that sets out the Board activities in a year. The Board meets at least once every quarter, and additionally, when necessary, to consider all matters relating to the overall control, corporate performance and strategy of the Corporation and succession planning. The Chairman, in conjunction with the Corporation Secretary work closely with the Chief Executive Officer to come up with the annual work plan and to set the agenda for each meeting.

The notice, agenda and detailed board papers are circulated in advance of the meetings. Directors are entitled to request for additional information where they consider further information is necessary to support informed decision-making.

During the year ending 30th June, 2021, the Board did not hold any meeting because it was not fully constituted.

Board Evaluation

The Board has in place a procedure for assessment of its performance and that of the Board Committees and individual directors 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.

Role of the Board

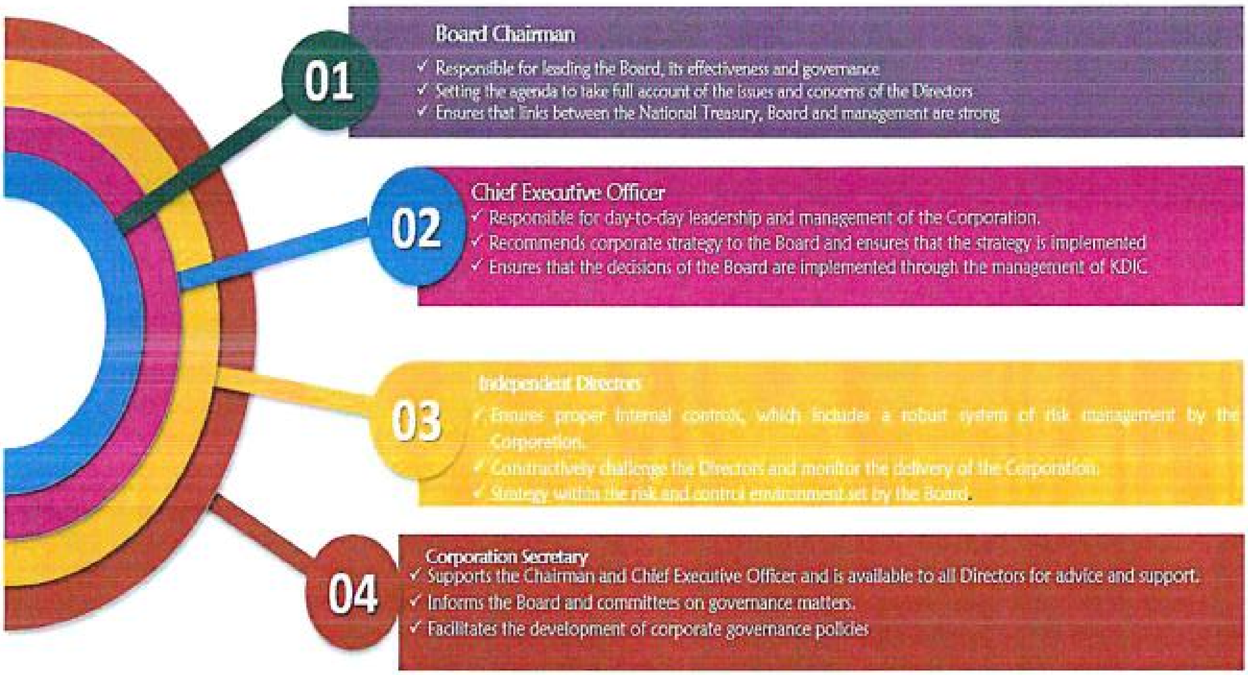
The Board sets the strategic objectives of the Corporation with input from management, and oversees management, performance, remuneration and governance frameworks of the Corporation. In performing this role, the Board: -

Figure 4: Role of the Board

Separation of Roles and Responsibilities

The role of Chairman of the Board is separate from that of the Chief Executive Officer. There is a clear division of responsibilities and this ensures that no single director has unfettered powers in the decision-making process.

Figure 5: Roles and Responsibilities



Authority and Delegation

The Board Charter sets out the authority and matters reserved for determination and approval by the Board. These include decisions concerning strategy and long-term objectives of the Corporation, financial planning and financial budgets, significant contracts and various statutory and regulatory approvals. Matters related to the approval of the remuneration policy, resource management, risk management framework and risk appetite are also Board reserve matters. To assist it in discharging these responsibilities, the Board has established Board committees to give detailed consideration to key issues.

Independence of the Board

The Board recognizes the importance of independent judgement and constructive debate on all issues under consideration. Directors are expected to bring views and judgement to Board deliberations that are independent of management and free of any business relationship or circumstances that would materially interfere with the exercise of objective judgement, having regard to the best interest of the organization and its stakeholders as a whole.

The KDIC Board Charter provides that a majority of its directors should be independent. Accordingly, the Board members are considered to be independent when they are separated from management, and are not conflicted to the extent of interfering with the management of the affairs of KDIC, or any other members capacity to act independently on issues that are in the best interest of the Corporation.

Appointment of the Board of Directors

The Corporation's Board comprises of ten Directors which includes the Chairman and the Chief Executive Officer. The appointment of the six independent directors is overseen by the Cabinet Secretary (National Treasury) in accordance with provisions under Mwongozo and other applicable laws. In addition, the directors must be in good standing with their respective professional bodies.

The KDIC Board membership structure comprises of the Permanent Secretary (National Treasury), the Governor (Central Bank of Kenya), Attorney-General, the Chief Executive Officer (KDIC) and 6 other independent directors. The Board composition is driven by the following principles: -

- The Board must comprise of a majority of independent directors.
- The Board should consist of directors with a broad range of skills, experience and expertise from a diverse range of backgrounds.
- The Chairman of the Board must be an independent director.

Succession Planning

Succession planning is an on-going process, with the Board discussing the same regularly and robustly. The appointment of independent directors is undertaken by the Cabinet Secretary (National Treasury) in line with the KDI Act and other applicable laws. In making the appointment, the Cabinet Secretary considers skills, knowledge and experience of the applicants.

The key terms and conditions of a director's appointment are documented in a letter of appointment. The KDI Act stipulates that independent board members are expected to serve a term of three years, renewable once. To ensure that there is continuity, the appointments of the board members is conducted in a manner which ensures that the terms of the independent board members do not end at the same time. The Corporation promptly notifies the Cabinet Secretary of any vacancy in the Board.

Board Induction and Training

All newly appointed board members participate in an induction program. The induction program includes a series of meetings with other Directors, the Chief Executive Officer and the Senior Management to enable new Directors familiarise themselves with the business. Directors also receive comprehensive guidance from the

Corporation Secretary on Directors' duties and responsibilities. All Directors are expected to maintain the skills required to carry out their obligations.
The Chairman regularly reviews the professional development needs of each Director. The program of continuing education ensures that the Board is kept up to date with developments in deposit insurance both locally and globally. It includes sessions with SCAC in the areas of general corporate governance and also in Corporation's core mandate.

The impact of the COVID-19 pandemic saw certain planned education sessions being put on hold. The Board however embraced online formats and completed targeted education sessions during the 2020/2021 financial year touching on deposit insurance, risk management and corporate governance.

Governance Audit

The Mwongozo Code of Conduct provides that State Corporations are required to undertake periodic governance audits after every two years.

During the period under review, the Corporation has continued to implement the recommendations of the previous governance audit. The next governance audit is scheduled to be carried out in the year 2021/2022. The Corporation undertakes an annual self-assessment of its level of compliance with the Mwongozo Code of Conduct. The results are reviewed and corrective action is taken.

Conflict of Interest

The Board of Directors of the Corporation must avoid any situation which might give rise to a conflict between their personal interest and that of the Corporation. The Directors are each responsible to notify the Chairman and the Corporation Secretary of any actual or potential conflict of interest situations as soon as they arise. Any Director who considers that they may have a conflict of interest or a material personal interest in any matter concerning the Corporation is immediately required to declare the potential conflict of interest for the Board to review. The Corporation maintains a conflict-of-interest register that is regularly reviewed by the Board.

Any Director with a material personal interest in any matter being considered during any Board or committee meeting will not vote on the matter or be present when the matter is being discussed and considered. During the year 2020/2021, except for the directorship held by the Permanent Secretary, National Treasury, the Attorney General and the Governor Central Bank of Kenya all other directors of the Corporation were considered independent. No incidences of material conflict of interest were identified for any of the independent Directors.

Access to Information and Independent Advice

The Board is entitled to seek any information it requires from any employee or from any other source. Procedures are in place, through the Board Chairman and the

Corporation Secretary, enabling the Directors to have access, at reasonable times, to all relevant corporate information and to senior management, to assist them in the discharge of their duties and responsibilities and to enable them to take informed decisions.

The Directors are also entitled to obtain independent legal, accounting or other professional advice at the Corporation's expense. The Board may conduct or direct any investigation to fulfil its responsibilities and can retain, at the Corporation's expense, any legal, accounting or other services that it considers necessary from time to time to fulfil its duties. Directors are expected to strictly observe the provisions of the statutes applicable to the use and confidentiality of information.

Risk Management Governance

Risk is an inherent part of the KDIC's business and the effective management of risk is a fundamental enabler of our strategic plan. The strategy for managing risk is aimed towards depositor protection and enabling sustained performance.

This is achieved through the Risk Management Framework of the Corporation. The Corporation is exposed to both financial and non-financial risks and is committed to having risk management policies, processes and practices that support a high standard of governance. This enables management to undertake prudent risk-taking activities. The Board oversees the risk management strategy and framework taking into account the risk appetite, requirements of the KDI Act 2012 and strategic and mandate of the Corporation.
This includes setting and reviewing the risk appetite, monitoring the effectiveness of the risk management framework and making changes to it.

Risk Management Framework

KDIC's risk management function oversees a Risk Management Framework to allow KDIC identify, measure and manage risks within a Board-approved risk appetite. The KDIC's risk management is based on the 'three lines of defense' model. The overarching principle of the model is that risk management capability must be embedded within the business to be effective. These act as the foundation for effective risk management across KDIC. The Risk Management Framework covers all systems, structures, policies, processes and people that identify, measure, evaluate, monitor, report and control or mitigate both internal and external sources of material risk. The Risk Management Framework is regularly reviewed in light of emerging risks arising from the changing business environment, better practice approaches and regulatory expectations.

Policies and Codes of Conduct

KDIC maintains and has in place policies and codes of conduct that capture not only our legal obligations, but also the reasonable expectations of our stakeholders, including customers. These policies apply to all employees and Directors of KDIC, and to anyone working on the Corporation's behalf, including contractors and consultants. The Corporation adopts zero tolerance to all forms of corruption, bribery and unethical business practices.

Ethical Conduct

Our Code of Ethical Conduct covers a range of areas including personal conduct, integrity, honesty, transparency, accountability, fairness and prevention of corruption. It emphasizes the importance of making the right decisions and behaving in a manner that builds respect and trust in the organization. The Code sets out clear behavioral requirements and consequences where these are not met. The Corporation has in place a number of policies and practices to promote a culture of compliance, honesty and ethical behavior.

Board Remuneration

The remuneration of the Board is guided by SCAC and the applicable laws. The Chairman is paid a monthly honorarium as stipulated in his letter of appointment. Board members are paid a sitting allowance that is based on the number of meetings attended.

Compliance with IADI Core Principles for Effective Deposit Insurance Systems

The International Associational of Deposit Insurers is the umbrella body that promotes guidance and international cooperation on deposit insurance, globally. KDIC is one of the inaugural members of the association which was founded in 2002, and has a current membership of 86 deposit insurers. The IADI Core principles *(16 in number)* for effective deposit insurers are developed for adoption by jurisdictions considering the adoption or reform of their deposit insurance systems.

The Corporation continuously aligns its operations and legal framework to the guidance of these principles, and was voted the best deposit insurer in the world, in 2016.

Figure 6: Core Principles for Effective Deposit Insurance Systems

1) Public policy objectives
2) Mandate and powers
3) Governance
4) Relationship with other safety net participants
5) Cross-border issues
6) Deposit Insurer's role in contingency planning and crisis management
7) Membership
8) Coverage
9) Sources and uses of funds
10) Public awareness
11) Legal protection
12) Dealing with parties at fault in a bank failure
13) Early detection and timely intervention
14) Failure resolution
15) Reimbursing depositors
16) Recoveries

MANAGEMENT DISCUSSION AND ANALYSIS

1.1 Risk and Examination

Overview

During the period under review, the Corporation continued to fulfill its mandate of providing a deposit insurance scheme, risk minimization and prompt resolution. The period presented unprecedented challenges on account of the Covid 19 pandemic. Despite these challenges, the Corporation achieved critical milestones including review of the coverage limit, implementation of the risk-based premium assessment system (DPS), and capacity building on contingency planning and crisis management, enhanced engagement with stakeholders and implemented various public awareness initiatives.

Key Milestones

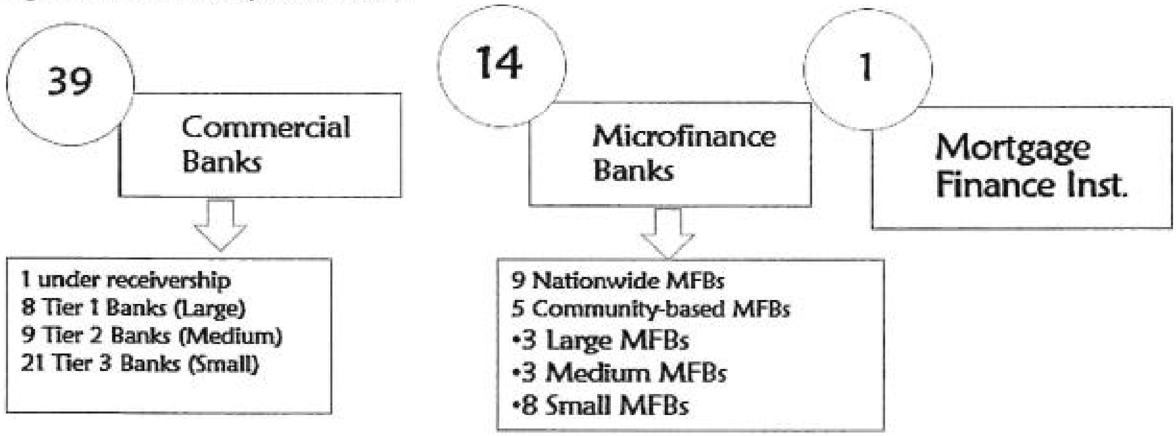
Deposit Insurance

Deposit insurance is a system established to protect depositors against the loss of their insured deposits in the event that a bank is unable to meet its obligations to the depositors. A key mandate of the Corporation is to provide deposit insurance to customers of member institution. In providing a deposit insurance scheme, KDIC, constantly monitors changes in the economy and banking system, and their impact on the viability of the Deposit Insurance Fund.

Deposit Insurance Fund Membership

As at 30th June, 2021, the membership of the deposit insurance scheme in Kenya consists of 39 commercial banks[1], 14 microfinance banks and one (1) mortgage finance institution.

Figure 7: Membership of the Fund



In the period under review, the total deposit liability was Kshs. 4.3 trillion, an increase from Kshs. 4.04 trillion in 2020. Deposits have been growing at an average rate of 10% but the 2020-2021 growth was dampened by the COVID-19 Pandemic which saw a decline to 8%. In the period under review, the banking system had a total of 66 million bank accounts.

Table 2: List of Membership of Deposit Insurance Fund

COMMERCIAL BANKS			
1	ABSA Bank of Kenya Ltd	23	Gulf African Bank Limited
2	Access Bank (Kenya) Public Limited Company	24	Habib Bank A.G Zurich
3	African Banking Corporation Limited	25	I & M Bank Limited
4	Bank of Africa Kenya Limited	26	Imperial Bank Limited (In Receivership)
5	Bank of Baroda (K) Limited	27	KCB Bank Kenya Limited
6	Bank of India	22	Kingdom Bank Limited
7	Charterhouse Bank Limited (Under - Statutory Management) – placed in Liquidation on May 7, 2021	28	Mayfair Bank Limited
8	Chase Bank Limited (In Receivership) - Placed in liquidation on April 7, 2021	29	Middle East Bank (K) Limited
9	Citibank N.A Kenya	30	M-Oriental Bank Limited
10	Consolidated Bank of Kenya Limited	31	National Bank of Kenya Limited
11	Co-operative Bank of Kenya Limited	32	NCBA Bank Kenya Plc
12	Credit Bank Limited	33	Paramount Bank Limited

[1] One bank is currently under receivership.

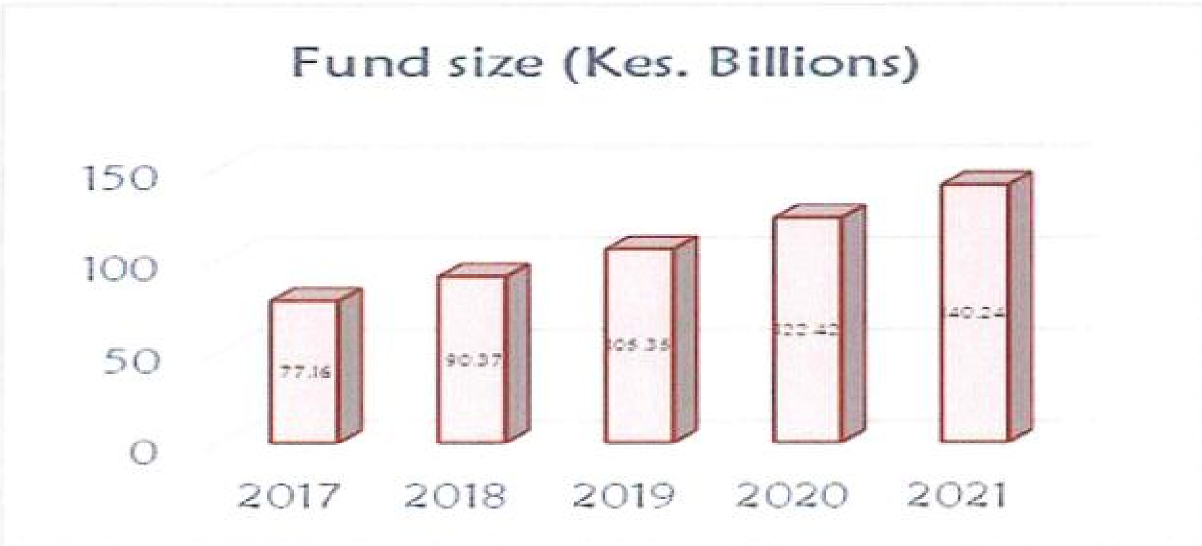
13	Development Bank of Kenya Limited	34	Prime Bank Limited
14	Diamond Trust Bank Kenya Limited	35	SBM Bank Kenya Limited
15	DIB Bank Kenya Limited	36	Sidian Bank Limited
16	Ecobank Kenya Limited	37	Spire Bank Ltd
17	Equity Bank Kenya Limited	38	Stanbic Bank Kenya Limited
18	Family Bank Limited	39	Standard Chartered Bank Kenya Limited
19	First Community Bank Limited	40	UBA Kenya Bank Limited
20	Guaranty Trust Bank (K) Ltd	41	Victoria Commercial Bank Limited
21	Guardian Bank Limited		
	MORTGAGE FINANCE INSTITUTIONS		
1	HFC Limited		
	MICROFINANCE BANKS		
1	Caritas Microfinance Bank Limited	8	Maisha Microfinance Bank Ltd
2	Century Microfinance Bank Limited	9	Muungano Microfinance Bank Limited
3	Choice Microfinance Bank Limited	10	Rafiki Microfinance Bank Limited
4	Daraja Microfinance Bank Limited	11	SMEP Microfinance Bank Limited
5	Faulu Microfinance Bank Limited	12	Sumac Microfinance Bank Limited
6	Kenya Women Microfinance Bank Limited	13	U & I Microfinance Bank Limited
7	KEY Microfinance Bank Limited	14	Uwezo Microfinance Bank Limited

Fund Management

As at 30th June 2021 the Deposit Insurance Fund balance stood at Kshs. 140 billion, an increase from Kshs. 122 billion recorded in the previous year.

The Corporation continued to levy premium to member institutions at a rate of 0.15% of the average total deposit liabilities held. During the period under review, members of the fund contributed Kshs. 5.6 billion in annual premium compared to Kshs. 5.2 billion recorded in the previous year. This increase is on account of the growth of total deposits held by banks.

Graph 1: Growth of the Fund



The Corporation has a comprehensive investment policy that outlines the parameters for fund management, risk appetite and overall investment objectives. Investment income grew from Kshs. 12.4 billion as at 30th June 2020 to Kshs. 14.1 billion in the period under review.

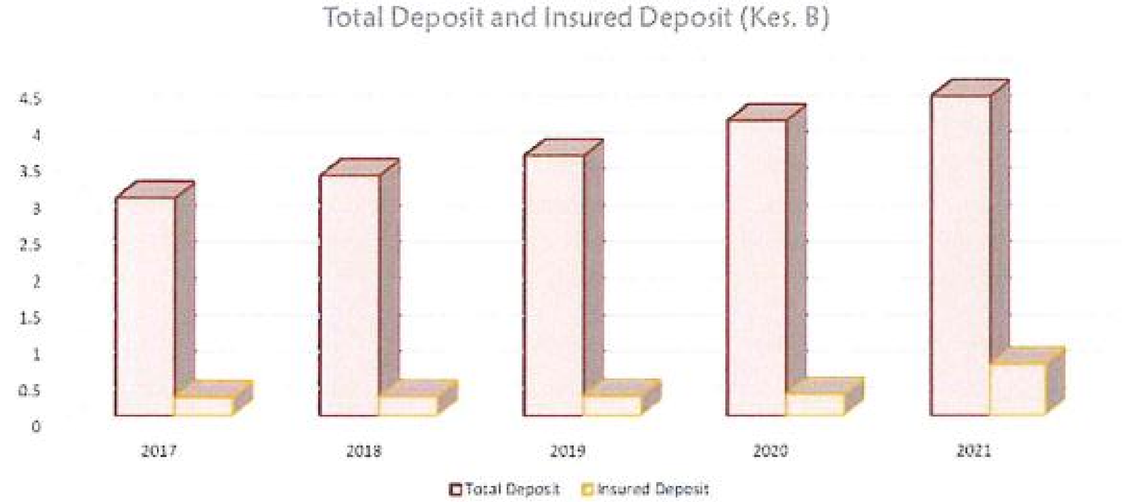
Graph 2: Growth of Investment Income

Revised Deposit Coverage Limit

In July 2020, the Corporation increased the deposit coverage limit from Kshs. 100,000 to Kshs. 500,000. This saw the full protection of 65 million accounts out of the 66 million accounts in the banking system. This translates to an account coverage ratio of 99%.

Consequently, the insured deposits increased from Kshs. 305 billion to Kshs. 710 billion. This translates to a protected value of 16%, an increase from 8% in the previous year.

Graph 3: Total Deposit Vs Insured Deposit



Payment of Protected Deposits

Pay-out of protected deposits is done after a bank has been placed in liquidation. In the period under review, Chase Bank Ltd (IR) and Charterhouse Bank Ltd (in Statutory Management) were placed under liquidation by the Central bank of Kenya on 16th April 2021 and 7th May 2021 respectively.

The bank depositors were advised through gazette notice to submit claim forms for their deposit balances in line with the provisions of the law. The Corporation has since paid over Kshs. 181 million as protected deposits, accounting for 13% of protected deposits in the two institutions, and is still receiving claims from depositors.

Bank Examination and Surveillance

Risk minimization is the cornerstone of the Corporation's efforts towards promoting stability in the financial system, and incentivising banks for sound risk management practices.

Risk Profiling and Examination

During the period under review, the Corporation conducted offsite surveillance and risk profiling of all member institutions using the CAMEL Framework[2]. The CAMEL Framework provides parameters for the Corporation to assess the safety and soundness of member institutions. The rating classifies members into 5 categories namely very strong, strong, good, fair and weak.

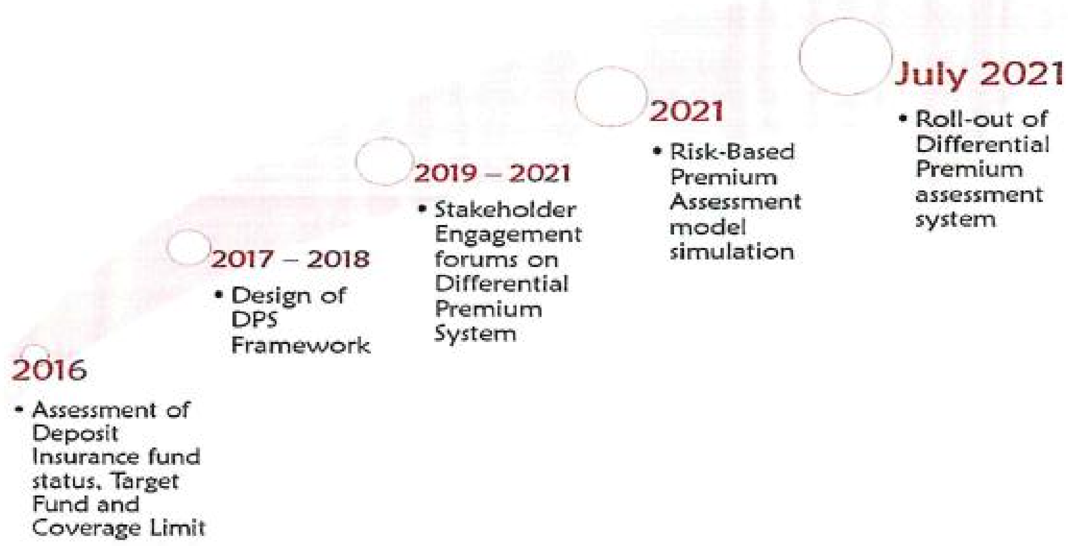
[2] The CAMEL rating system is a global rating system used by bank supervisory authorities and deposit insurers to assess performance and financial condition of banking institutions. CAMEL is an acronym for Capital Adequacy, Asset Quality, Management, Earning and Liquidity

This risk profiling will provide the basis of the implementation of the risk-based premium assessment model (Differential Premium System) in 2021/2022 financial year.

Implementation of the Differential Premium System

The Corporation is in the final stages of preparing for the roll out of the risk-based premium assessment model. The model, designed in line with best practice, has been benchmarked against leading global deposit insurers. The implementation journey began in 2016, and as at 30th June 2021, the Corporation had developed the framework, successfully conducted stakeholder engagements, conducted simulations and was ready for the roll out in July 2021.

Figure 8: Differential Premium Journey



Contingency planning and Crisis management

KDIC continuously reviews the effectiveness of its contingency planning and crisis management policy to ensure that it is able to effectively respond to the risk of, and actual bank failures and other events. In the period under review, the Corporation's management team undertook capacity building on contingency planning and crisis management.

> 'The deposit insurer should have in place effective contingency planning and crisis management policies and procedures, to ensure that it is able to effectively respond to the risk of, and actual, bank failures and other events.'
>
> *Core Principle 6 of Effective Deposit Insurance Systems*

Additionally, during the year, the Corporation partnered with the Federal Deposit Insurance Corporation (FDIC) to offer a virtual seminar on Resolution Planning. These trainings and seminars are expected to pave way for a comprehensive end-to-end bank resolution simulation exercise for the Corporation's staff in the next financial year.

Stakeholder Management

The Corporation continues to strengthen partnerships and collaborations with key stakeholders for information sharing, capacity building, awareness and enhanced adoption of best practice.

Member Institution Engagement

While the COVID-19 pandemic presented various challenges in the mode of stakeholder engagements, the Corporation adopted use of virtual meetings as a safe and effective platform for consultations.

During the period under review, the Corporation held a virtual meeting with representatives of all member institutions to discuss information sharing - as financial data is critical for early detection and timely intervention of distress in banks. Further, the Corporation held virtual meetings with individual member institutions as the last milestone ahead of the implementation of the risk-based premium assessment model. The forums enabled gathering of feedback on the model in fulfilment of the public participation Constitutional requirement.

The Fund Membership Sticker

Additionally, the Corporation held a virtual engagement with member institutions to discuss partnership in public awareness. This forum proposed use of stickers to signify their membership to the deposit insurance scheme. The stickers were thereafter distributed to member institutions, for display at customer service and touch points including teller booths and ATM lobbies.

Public Awareness

The Corporation rolled out a public awareness campaign through national television, radio and social media platforms. The objective of the campaign was to increase public awareness on the existence of KDIC as a Resolution Authority and its role in deposit protection.

Response to Covid-19 Pandemic

The COVID-19 outbreak was declared a pandemic by the World Health Organization (WHO) on March 11, 2020. The rapid spread of the disease globally, disrupted economies and resulted to volatility in financial markets.

The pandemic affected Kenya's banking sector in various ways including; closure of branches as banking services moved to digital platforms, and restructure of up to 54% of the loans in the banking sector.

Figure 9: Covid -19 Interventions

KDIC implemented various strategies to ensure continued financial stability amidst the challenges posed by the pandemic in the Kenyan banking sector.

In view of this, the Corporation responded by rolling out three (3) economic incentives with a view to cushion banks and depositors against the effects of the pandemic. The initiatives, tailored to protect bank cashflows in light of reduced earnings included; extension of premium payment period by six months to help banks with their liquidity. Secondly, the Corporation deferred implementation of the risk-based premium model by one year as it would have led to an increase in premium charged to banks subject to their risk profile. Lastly, KDIC revised the deposit coverage limit from Kshs. 100,000 to Kshs. 500,000. This new limit gives more protection to depositors in the unlikely event of bank failure.

1.2 PROMPT RESOLUTION OF FAILED BANKS AND MICROFINANCE BANKS

The Kenya Deposit Insurance Corporation is the country's sole resolution authority, in accordance with the KDI Act, 2012. To effectively discharge this mandate, KDIC closely collaborates with other safety-net players. During the year under review the Corporation continued executing its mandate of receiving, liquidating and winding up of institutions. Below is a summary of institutions in receivership, liquidation and those that have been wound up.

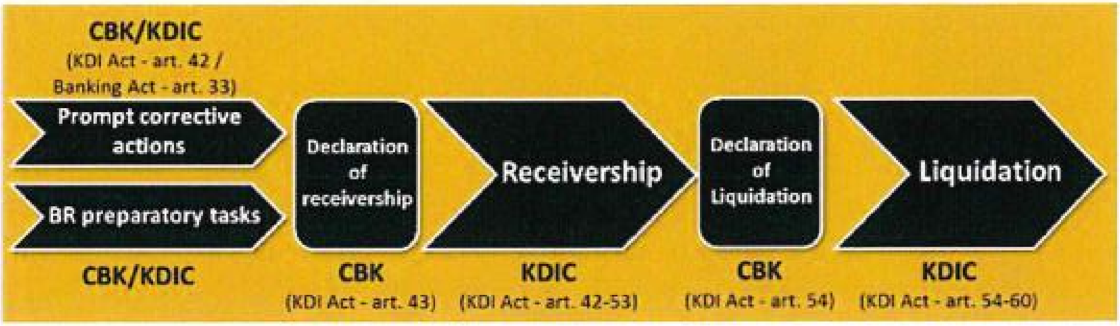
Figure 10: Institutions in receivership, liquidation or wound up

Resolution Process

The Corporation is appointed by the Central Bank of Kenya, as the sole and exclusive receiver of any banking institution that has been put under receivership. Consequently, the Corporation in line with the KDI Act, 2012, undertakes the receivership process, using resolution tools. Should CBK agree with KDIC's recommendation that the residual institution be liquidated as provided for in Section 53(2) of KDI Act 2012, the Corporation is then appointed liquidator of the institution. However, should the process prove to be unviable economically, KDIC will then apply to the High Court for an order to terminate the liquidation thus winding up the institution in accordance with Section 60 of the KDI Act 2012.

The diagram below illustrates the liquidation process of a banking institution;

Figure 11: The resolution process

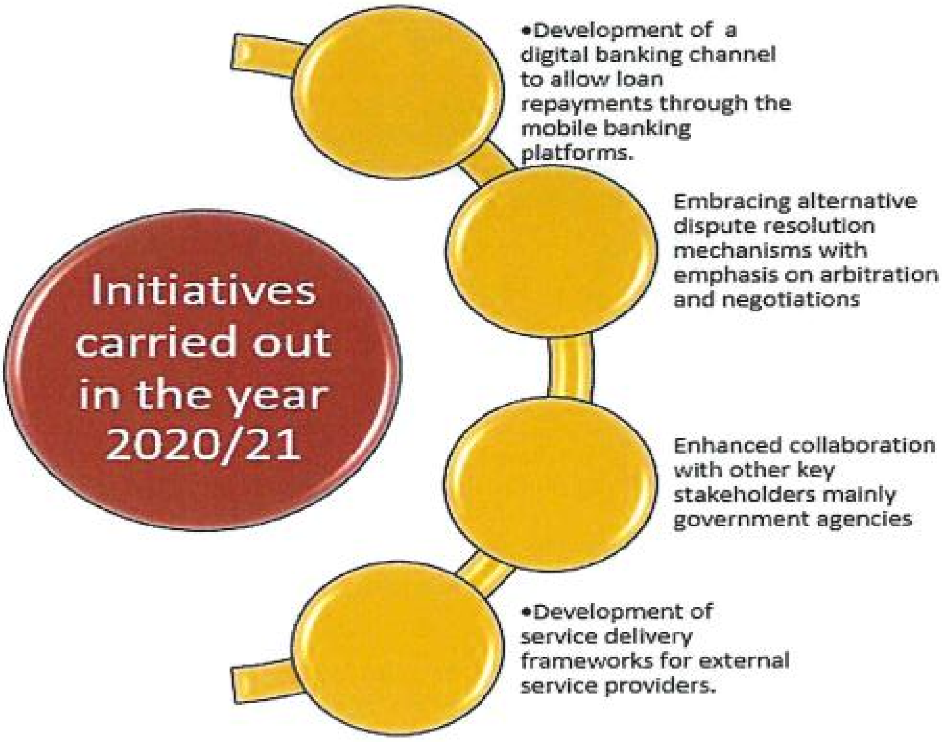


In executing this mandate, the Corporation seeks to ensure that the resolution process is carried out in an effective and efficient manner.

Initiatives implemented during the year in review

To ensure timely resolution of the troubled financial institutions, the Corporation implemented several initiatives as illustrated in the diagram below.

Figure 12: Initiatives implemented during the year 2020/21



Key Milestones

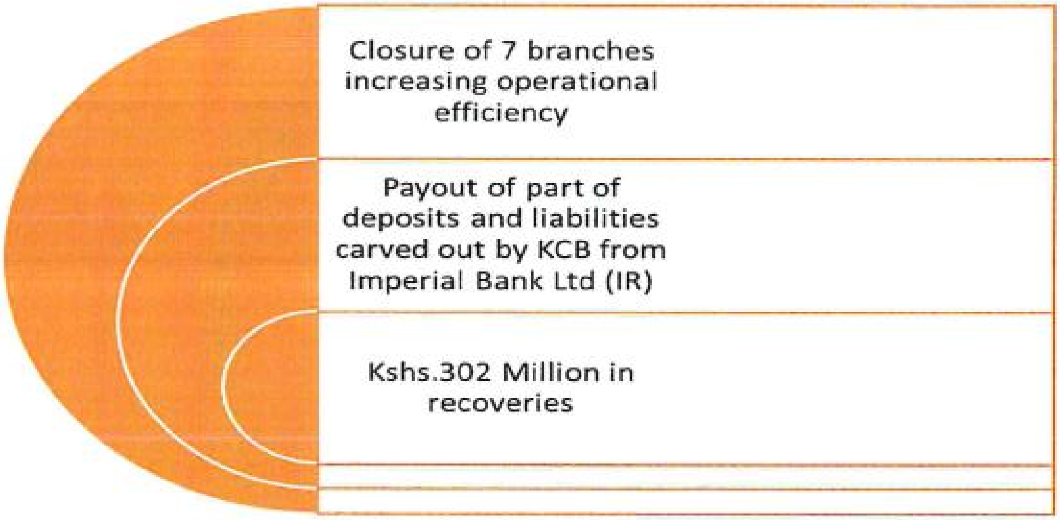
During the year under review, the Corporation achieved the following milestones, which included managing one (1) institution in Receivership and Liquidation of two (2) institutions as highlighted below.

1. Receivership of Imperial Bank Ltd (IR)

Receivership is a process through which the appointed Receiver manages the assets and liabilities of the banking institution placed in receivership, with the aim of resolving it to preserve its value for the benefit of depositors, creditors and other stakeholders.

During the 2020/2021 financial year, KDIC, continued to manage Imperial Bank Ltd (IR). Below are milestones achieved during the year in review.

Figure 13: Milestones for Imperial Bank Ltd (IR)



a) Closure of branches and staff rationalization

The Corporation continued to prudently consolidate the operations of Imperial Bank Ltd (IR) with a view to achieve efficiency and preserve the bank's value for the benefit of depositors and creditors. Towards this end, KDIC undertook staff rationalization and closed a total of seven (7) out of the remaining sixteen (16) branches.

b) Payment to depositors

In exercising its powers under the KDI Act the Corporation transferred part of Imperial Bank Ltd (IL) assets and liabilities to KCB Kenya Ltd. The move enabled depositors of Imperial Bank Ltd (IR) to access the first tranche of the deposits taken over by KCB Kenya Ltd, which amounted to Kshs. 400 million, an equivalent to 12.5% of the total expected payments to be paid out within a period of 4 years.

c) Management of the Assets

In order to effectively asses the most appropriate disposal method and ensure maximum disposal value, the Receiver continued to periodically undertake re-evaluation of the fixed assets under its management to determine their market value. Similarly, a total of Kshs. 302 million was collected during the year in review, following sustained loan recovery efforts

2. Liquidation

Liquidation-the last option in the resolution of a problem bank- refers to the process through which depositors are promptly paid their insured deposits following the closure of a bank and thereafter receive pay-outs from assets that have been realised to cash based on recoveries made overtime as assets are realized.

The law allows KDIC, as Liquidator, to trace, preserve, and realize assets of the institution at the best market value for the benefit of depositors and creditors. The Liquidator therefore engages in the process of realizing assets of the institution placed in liquidation with a view to distributing the realizations to depositors and creditors as and when sufficient funds are available.

During the financial year, the Corporation was appointed Liquidator of two (2) commercial banks -Chase Bank Ltd (IL) on 16th April 2021 & Charter House Bank Ltd (IL) on 7th May 2021- by CBK. This increased to eighteen, the total number of Institutions liquidation.

The following milestones were achieved during the year in review.

a. Payment of protected deposits

With KDIC having been appointed liquidator of two (2) banking institutions, payment of protected deposits- deposits insured by KDIC as a resultant of the premiums levied on member institutions-commenced in line with section 33 of the KDI Act, 2012.

As such, depositors of the two institutions became the first beneficiaries of the enhanced protected payment of Kshs. 500,000 per depositor.
By end of the financial year 2020/2021, Kshs. 181 million had been paid to 467 depositors of Chase bank Ltd (IL) in protected deposits out of a projected payment of

Kshs. 1.04 billion for 3,102 depositors. This represents 17.4% of the total protected depositors of Chase Bank Ltd (IL).

The table below highlights the total protected deposits so far paid to depositors of the eighteen (18) institutions in liquidation since they were placed in liquidation;

Table 3: Payment of protected Deposits as of June 30, 2021. (Kshs. Millions)

	Name of Institution	Liquidation Date	Total Deposits as at Liquidation	Total Protected Deposits	Total protected deposits paid as at 30th June 2021	% of protected deposits paid as at 30th June 2021
				Kshs'000		%
1	Postbank Credit Ltd.	20-May-93	3,834	30	30	100%
2	Trade Bank Ltd.	18-Aug-93	4,767	280	248	89%
3	Middle Africa Finance Ltd.	20-Aug-93	242	17	13	76%
4	Pan-African Bank Ltd.	18-Aug-94	615	107	90	84%
5	Pan-African Credit & Finance Lt	18-Aug-94	139	8	6	75%
6	Thabiti Finance Co. Ltd.	19-Dec-94	850	54	33	61%
7	Meridien BIAO Bank Ltd.	15-Apr-96	781	45	38	84%
8	Kenya Finance Bank Ltd.	29-Oct-96	1,782	381	323	85%
9	Ari Bank Corporation Ltd	05-Dec-97	287	11	6	55%
10	Prudential Bank Ltd.	05-May-00	600	16	12	75%
11	Reliance Bank Ltd.	12-Sep-00	969	88	50	57%
12	Trust Bank Ltd.	15-Aug-01	159	111	20	18%
13	Euro Bank Ltd.	21-Feb-03	2,040	19	8	42%
14	Prudential Building Society	18-Jan-05	2,025	8	3	38%
15	Daima Bank Ltd.	13-Jun-05	669	93	76	82%
16	Dubai Bank Ltd	24-Aug-15	1,355	123	57	46%
17	Chase Bank Ltd	17-Apr-21	19,465	1,043	229	22%
18	Charterhouse bank Ltd	07-May-21	3,939	317	-	0%
	TOTAL		44,517	2,751	1,242	45.14%

b. Payments to depositors and creditors:

This refers to the payments done by the Corporation both to creditors and uninsured depositors. The payments are derived from collections accrued by loanees and realization of securities for delinquent debtors that were to be charged to the bank .

In the financial year 2020/2021, three institutions in liquidation i.e. Dubai Bank Ltd, Kenya Finance Bank Ltd and Euro Bank Ltd (IL) had been scheduled to make payments to depositors upon board approval. Chase Bank Ltd (IL) and Charterhouse Bank Ltd (IL) are still in the process of paying protected deposits and thus have not commenced the process of paying depositors and creditors.

KDIC has over the years paid uninsured depositors and other creditors of the banks in liquidation as highlighted in the table below:

Table 4: Payment of depositors and creditors

	Institution	Liquidation Date	Number of dividends declared and paid from Liquidation Date	Total amount paid out as at 30th June 2021 Kshs.Million
1	Postbank Credit Ltd.	20-May-93	15	1,511
2	Trade Bank Ltd.	18-Aug-93	1	578
3	Middle Africa Finance Ltd.	20-Aug-93	1	15
4	Pan-African Bank Ltd.	18-Aug-94	3	279
5	Pan-African Credit & Finance Ltd.	18-Aug-94	2	136
6	Thabiti Finance Co. Ltd.	19-Dec-94	3	71
7	Meridien BIAO Bank Ltd.	15-Apr-96	3	328
8	Kenya Finance Bank Ltd.	29-Oct-96	4	221
9	Ari Bank Corporation Ltd	5-Dec-97	2	45
10	Prudential Bank Ltd.	5-May-00	5	192
11	Reliance Bank Ltd.	12-Sep-00	4	142
12	Trust Bank Ltd.	15-Aug-01	7	2,263
13	Euro Bank Ltd.	21-Feb-03	2	64
14	Prudential Building Society	18-Jan-05	2	216
15	Daima Bank Ltd.	13-Jun-05	5	230
16	Dubai Bank Ltd	15-Aug-15	1	91
17	Chase Bank Ltd	16-Apr-21	-	-
18	Charter House Ltd	7-May-21	-	-
	TOTAL		60	6,382

c. Investment in the ICT Infrastructure

To ensure timely payment to depositors and creditors of the institutions in liquidation, the Corporation invested in a modern data storage facility that guarantees both safety of customer data and timely retrieval of the data for prompt decision making.

In addition, the Liquidator invested in a digital banking platform that enables debtors of the failed banks to make loan repayments from their mobile phones and access their loan balances. This innovation will not only boost the loan recovery efforts by offering a convenient repayment method but also make KDIC the global pioneer deposit Insurer that has fully integrated mobile banking services with its liquidation processes.

The robust ICT infrastructure enabled KDIC to reimburse most insured depositors within seven working days as committed in the Citizens Service Delivery Charter of the Corporation.

d. Management of the Assets

The Corporation, while carrying out its mandate of tracing, preserving and realizing assets of institutions under liquidation employed various strategies in its debt recovery efforts during the year under review.

These strategies included:

- Alternative Dispute Resolution mechanisms (ADRs)
- Direct recoveries from debtors by engagement of KDIC staff
- Use of debt recovery agents that have signed MOUs with the Corporation
- Use of the legal process to do recoveries on insider related debts and litigations on contentious debts.
- Collaboration with other state agencies in the realization process.
- Engagement of other professionals i.e., valuers, auctioneers, surveyors to guide in the disposal of the assets.

The Liquidator, in undertaking asset realization continued to undertake valuation of the physical assets to determine their market value before disposal to ensure maximum recovery.

Use of "phased recovery process" and "non-conventional debt collection" methods increased to Kshs. 228 million, the annual loan collections for institutions in liquidation up from Kshs.139 million the previous year. This represented a 63% growth. Below is a highlight of collections and realizations done during the year:

Table 5: Debt recovery & Asset realization as at June 30, 2021

	Institution	Liquidation Date	Total Loans as at Liquidation Kshs.'000	Total Loans recovered in 2019/2020 Kshs.'000	Total Loans Recovered in 2020/2021 Kshs.'000
1	Postbank Credit Ltd.	20-May-93	3,605,000	90	5,480
2	Trade Bank Ltd.	18-Aug-93	3,955,000	-	-
3	Middle Africa Finance Ltd.	20-Aug-93	656,000	-	3,925
4	Pan-African Bank Ltd.	18-Aug-94	1,433,000	-	-
5	Pan-African Credit & Finance Ltd.	18-Aug-94	445,000	-	-
6	Thabiti Finance Co. Ltd.	19-Dec-94	1,217,000	5,851	640
7	Meridien BIAO Bank Ltd.	15-Apr-96	224,000	180	-
8	Kenya Finance Bank Ltd.	29-Oct-96	2,329,000	5,986	12,923
9	Ari Bank Corporation Ltd	5-Dec-97	453,000	-	1,840
10	Prudential Bank Ltd.	5-May-00	633,000	-	-
11	Reliance Bank Ltd.	12-Sep-00	1,591,000	-	46
12	Trust Bank Ltd.	15-Aug-01	13,808,000	6,093	2,037
13	Euro Bank Ltd.	21-Feb-03	3,861,000	12,145	8,215
14	Prudential Building Society	18-Jan-05	3,283,000	1,050	27,941
15	Daima Bank Ltd.	13-Jun-05	802,000	-	25
16	Dubai Bank Ltd	15-Aug-15	4,403,000	107,480	910
17	Chase Bank Ltd	16-Apr-21	25,913,000	-	163,513
18	Charter House Ltd	7-May-21	-	-	-
	TOTAL		68,611,000	138,875	227,495

3. Winding up

Winding up is the last stage of the resolution process and involves dissolution of the Institution in liquidation. As at 30th June 2021 KDIC has successfully wound up 9 institutions. At this point the liquidator demonstrates to the court that recoveries are not feasible and hence liquidation is deemed complete. The winding up process is guided by Section 60 of the KDI Act 2012.The liquidator applies to the High Court for an order to terminate the liquidation and commence winding up the institution.

Table 6: List of wound-up Institutions.

	Institution	Liquidation Date	Date Wound Up
1	Allied Credit Ltd.	20-Aug-93	06-Nov-07
2	International Finance Ltd	16-Apr-93	06-Nov-07
3	Trade Finance Ltd.	18-Aug-93	23-Sep-08
4	Diners Finance Co. Ltd.	20-Aug-93	07-Nov-08
5	Nairobi Finance Ltd.	20-Aug-93	16-Aug-10
6	Inter-Africa Credit Finance Ltd.	31-Jan-93	07-Sep-12
7	Central Finance Ltd.	19-May-93	07-Sep-12
8	Heritage Bank Ltd.	13-Sep-96	22-Nov-14
9	Fortune Finance Co. Ltd.	14-Sept- 2000	15-Feb-19

Challenges faced in asset management

Despite achievements in the resolution process, the Corporation faced various challenges which included;

- COVID 19 pandemic that resulted in economic slowdown. However, the Liquidator continued to employ a debt restructuring system which considered the financial status and debt repayment capabilities of debtors who owe delinquent debt to the Institutions in liquidation.
- Continued delays in determination of ongoing court cases.
- Interference with the ownership of the assets held by the institutions in liquidation by interested third parties which included attempted fraudulent transfers of ownership.
- Inadequate documentation of borrowers' information
- Debtors with capability but unwillingness to repay their debts
- Loans which were unsecured / uncollateralized
- Difficulty in tracing judgement debtors' properties for realization

Despite this, the Corporation continued to amicably engage stakeholders and judicial system to ensure that outstanding issues are resolved in the interest of depositors and creditor. The Corporation encourages the various stakeholders to reach out as we continue to resolve these institutions.

1.3 Automation: Use of Information, Communication and Technology in Service Delivery

During the Financial Year 2020/21 the Corporation embarked on ambitious digital transformation projects aimed at automating business processes to enhance efficiency. These projects, are now different levels of implementation as summarized below.

Modular Data Center

The Corporation implemented tier II modular data center that guarantees 99.8 % availability of systems at the headquarters. The implemented data center solution is smart and compact, integrating Power Distribution Unit (PDU), Uninterruptible Power Supply (UPS), monitoring, cooling, and rack systems into a converged rack to save space and ensure all round support for business systems.

Within the same period the Corporation invested in Cisco Hyper converged Infrastructure (HCI): Hyper Flex servers to support in hosting business systems & applications. The implemented servers are designed to support & power mission critical business applications as well as flexibility to support cloud applications. To ensure business continuity because Covid-19 pandemic disruptions, The Corporation implemented Virtual Private Network (VPN) to ensure integrity, security and availability of systems working from home.

The ICT systems & operations of the data center and ICT security is supported by various adopted ICT Governance frameworks among them being ISO 27001:2013 Information Security Management Systems (ISMS. The Corporation is keen to ensure that all information assets are secured by value, importance, confidentiality, accuracy and are authentic.

Enterprise Data Warehouse - (EDW)

The Corporation is undertaking the Enterprise Data Warehouse project that will guarantee authenticity and quality of data from member institutions. Once complete, it is expected that the system will support data transmission from member institutions which will help in analyzing market trends to foster financial stability. This will enable the Corporation to make informed decision in line with its mandate.

Enterprise document & Records Management System (EDRMS)

The Corporation embarked on the implementation of Enterprise Document & Records Management system to provide a comprehensive solution for managing the creation, capturing, indexing, storage, retrieval of current & historical records. This will transform KDIC's management of records currently being undertaken manually, thus ensuring efficiency and protection of high-value as well as critical information. Once commissioned, the system will contribute immensely to the automation journey as outlined in the strategic plan.

Mobile Application

During the financial year, the Corporation embarked on the development of Mobile application as an alternative tool of recovering debts for institutions under liquidation/Receivership. Once completed and launched, the Corporation hopes to increase debt recovery by 30%, since the application will allow customers of collapsed institutions to pay their loans from whichever location. The app will also be used for disbursement of pay-outs to members of the institutions, an innovative way of embracing technological advancement in mobile banking.

1.4 Enterprise Risk Management

Appreciating the role that the Enterprise Risk Management plays in the achievement of its mandate, the Corporation developed an Enterprise Risk Management (ERM), Business Continuity Planning (BCP) and Disaster Recovery (DR) Framework. The Corporation developed a policy and procedure manual to guide on the best approach on managing matters of ERM, BCP and DR. Further, it conducted a Table-Top Testing exercise which was a simulation of the various risks materializing and how they can be managed.

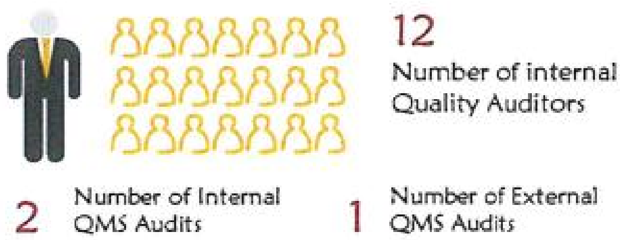
The Corporation leveraged the BCP framework to navigate the Covid-19 pandemic by strengthening its Crisis Management Team. The team applied the principles of the BCP framework to ensure business continuity The Corporation continues to periodically assess, monitor, evaluate, mitigate and report risk management activities to ensure that the execution of its mandate is not affected.

1.5 Quality Management System (QMS)

As a strategic tool for continual improvement of customer satisfaction, service consistency and statutory compliance, Kenya Deposit Insurance Corporation (KDIC) is ISO certified and maintains a Quality Management System (QMS) based on ISO 9001:2015 standard

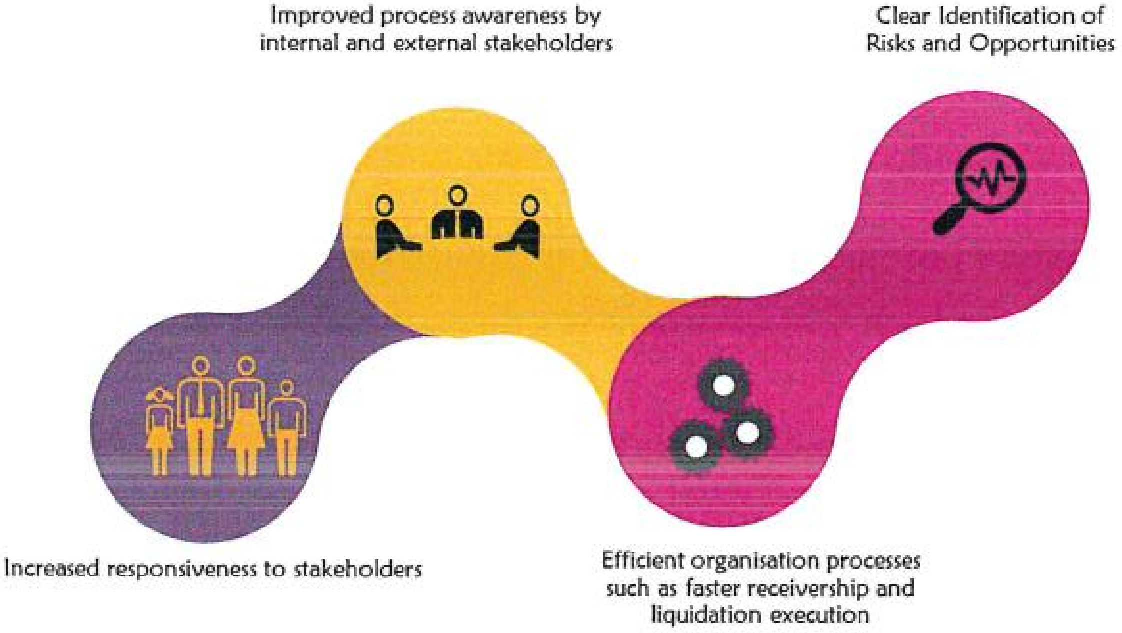
Figure 14: Quality policy Committments

The Corporation carried out one external audit and two internal audits in line with QMS requirements. These audits,identified gaps which were corrected. The Corporation has realized enhanced staff output from the implementation of QMS and consequently improved operations.



The implementation of QMS has derived several benefits to the Corporation and its stakeholders

Figure 15: Benefits of Quality Management System



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.

ENVIRONMENTAL AND SUSTAINABILITY REPORTING STATEMENT

a) Sustainability Strategy & Profile

The Corporation has endeavoured to prioritise sustainability initiatives as a public policy objective. This is aimed at ensuring that KDIC sustains its business development agenda as well as growth, despite the fluid and challenging socio-economic and political environment. In an effort to uphold industry practices, environmental and social standards, the Corporation, guided by its vision and Strategic Plan 2018-2023, has established clear-cut strategic objectives that not only mirror government public policies and statutes on sustainable development, but are also in tandem with United Nations Millennium Development goals and Global Reporting Initiatives.

As such, KDIC exists to positively impact and transform lives while discharging its mandate. Towards this end, the Corporation strategically made various policy decisions with a view to impact the country's financial sector. Such decisions touched on its core mandate that are highlighted in the diagram below.

Figure 16: KDIC Mandate

b) Sustainability Initiatives

i) Deferment of Risk-Based Premium & Payment of protected deposits

As part of its business re-engineering on sustainable development, the Corporation deferred by one year, the implementation of the Risk-Based Premium model. The move was necessitated by the Corporation's desire to cushion the membership of the Deposit Insurance Fund against the adverse effects of Covid-19 pandemic on Kenya's banking sector. The deferment of the model, saw banks save approximately Ksh.147m in a year that witnessed massive job losses and reduced business activities.

Similarly, in line with the increased coverage limit of Ksh.500,000, the Corporation continued to promptly pay protected deposits for customers of Chase Bank Ltd (in liquidation) and Charter House Bank (in liquidation). This essentially helped the customers of the failed financial institutions, access their deposits, thus enhancing confidence in the country's banking sector.

ii) **Social initiatives**

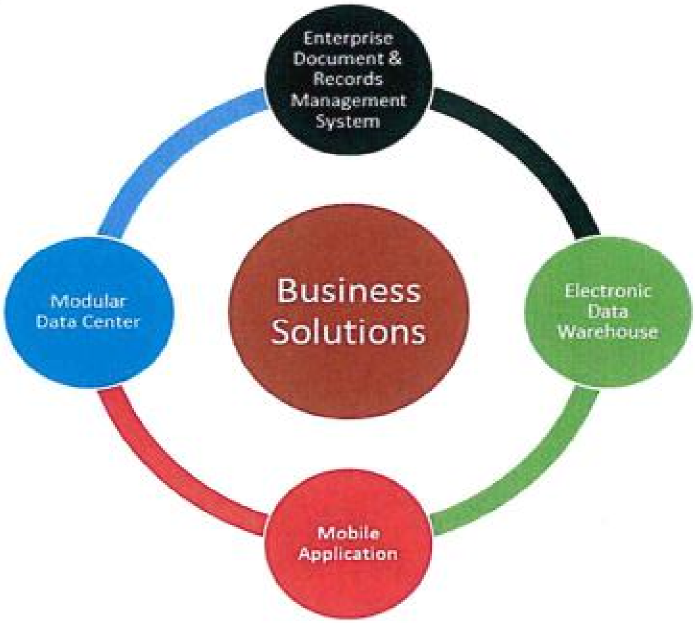
To enhance public confidence in the banking sector and grow deposits, the Corporation implemented its public awareness campaign, with a view to create awareness on safe-banking as well as Deposit Insurance. The campaign was undertaken on electronic and print media as well as digital platforms. As such, depositors were enlightened on the mandate of the Corporation on protecting their bank-balance and fostering financial stability. Other initiatives undertaken by the Corporation to boost sustainability, was stakeholder engagement with its membership, which helped them appreciate KDIC's mandate in protecting bank deposits.

iii) **Intellectual Initiatives**

Internally, KDIC initiated various digital-related business solutions that helped to enhance its efficiency. Such milestones included reduction in printing of office documents, translating to financial and environmental savings. Similarly, KDIC adhered to government directives on the decongestion of the working environment aimed at mitigating the spread of Covid-19. To this end, staff were allowed to deliver on their assignments remotely.

The figure below, highlights some of the ICT-related initiatives that were initiated during the year in review.

Figure 17: ICT initiatives



Upon completion, it is expected that the initiatives will transform KDIC's operations and enhance service delivery to the public.

iv) **Natural Capital**

Another critical activity undertaken by the Corporation during the year in review, was the historic launch of the 10,000 tree planting exercise as part of its contribution to environmental sustainability. To fulfil this objective, KDIC procured tree seedlings from the Kenya Forest Research Institute (KEFRI) and identified various sites on which they were planted. The exercise was launched by the Chief Executive Officer

The sites included Kanjeru and Gitutha Primary schools in Kiambu and Mbagathi hospital in Nairobi. To mitigate the would-be challenges especially those associated with erratic rainfall during the year under review, the Corporation entered into partnerships with various stakeholders who under KDIC's guidance, committed to nurture the seedlings to maturity.

KDIC's tree planting exercise was undertaken in line with the government's 10% increase in forest cover. It was also meant to enhance mitigation measures against climate change and environmental degradation.

The exercise was however impacted negatively by the ongoing Covid-19 pandemic. Due to health protocols announced by the government, the Corporation was unable to involve all its staff in the exercise. In addition, the planting of trees was affected by the erratic weather patterns that saw the Corporation postpone subsequent activities until the onset of the next rainy season.

All these policy decisions and business solution innovations not only tied with KDIC's aspirations of being a premier deposit insurance scheme, but also ensured that the Corporation fulfilled the principles of effective deposit insurance.

c) Responsible Supply Chain and Supplier Practices

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 thus implemented a fair and equitable procurement framework that ensures that suppliers get a chance to favorably compete for procurement opportunities.

Guided by the Public Procurement and Asset Disposal Act, 2015 KDIC applies the following principles highlighted in the diagram below:

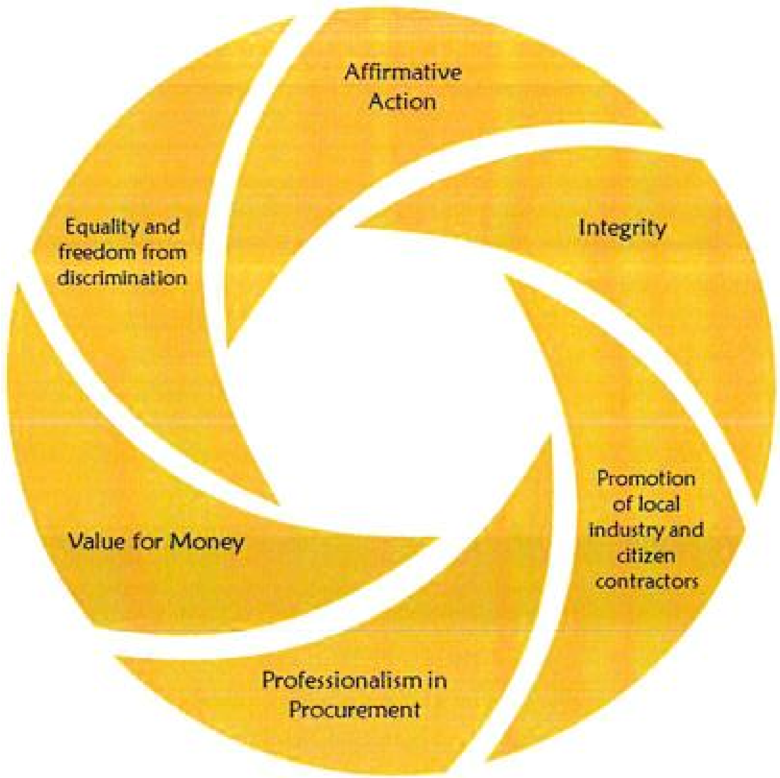


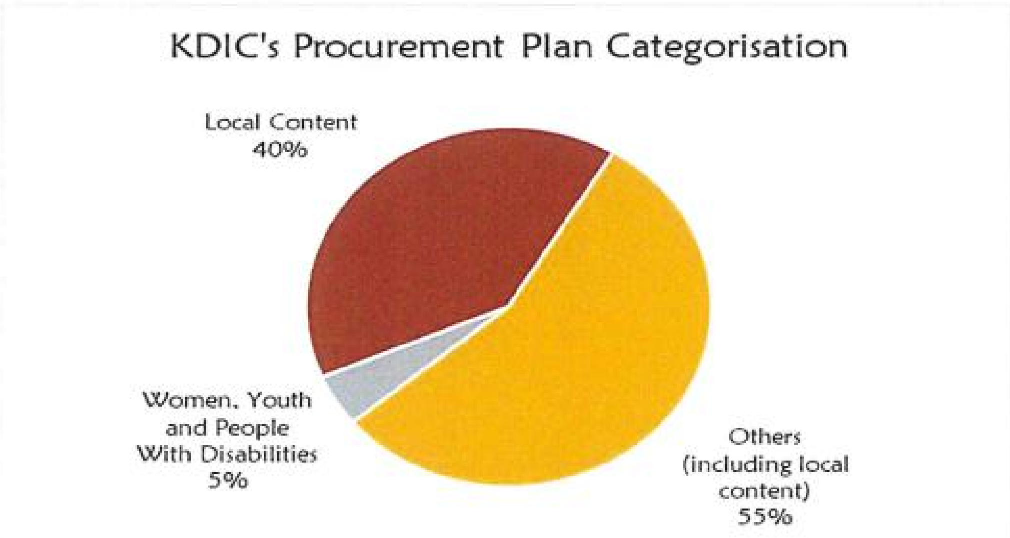
Figure 18: Public Procurement and Asset Disposal Act 2015 principles

As such, the Corporation has dutifully prepared and periodically submitted procurement reports to The National Treasury and the Public Procurement and Regulatory Authority to foster accountability. This commitment, is evidenced by an audit by the Public Procurement and Regulatory Authority on KDIC's procurement undertakings, during which no adverse findings were reported.

Going forward, the Corporation undertakes to strictly continue abiding by all laws and regulations governing public procurement. This will include continual allocation of the requisite budgets, honouring supplier contracts and prompt payment for work done.

To cushion the vulnerable and disadvantaged groups against unfair competition, the Corporation applied in its procurement plan, the principles of equality and freedom from discrimination, affirmative action and promotion of local industry and citizen contractors. For details, see the illustration below.

Figure 19: KDIC'S Procurement Categorized



d) Employee Welfare

i) Human Capital

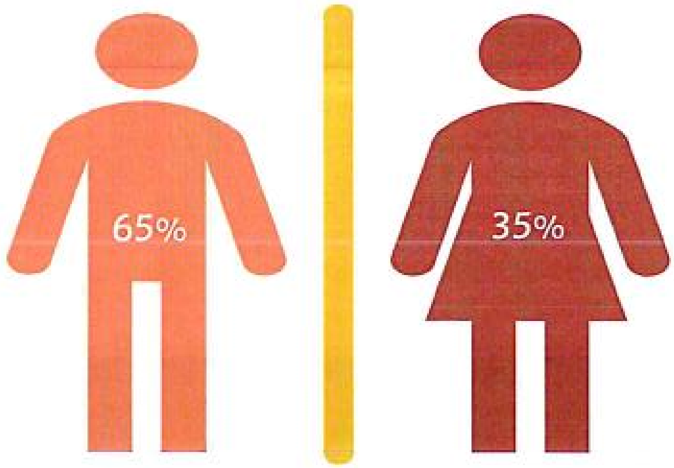
The Kenya Deposit Insurance Corporation considers its human capital as an important and integral part of all its operations. The Corporation thus, is committed to being an equal opportunity employer by attracting, recruiting, and retaining skilled employees aimed at ensuring it achieves its strategic objectives. Further, KDIC is committed to promote equity and foster equality at the place of work.

To achieve this objective, the Corporation maintains comprehensive Human Resource Policies that are aligned to the Public Service Commission.

ii) Staff Statistics and Diversity

During the year under review, KDIC's staff compliment was 60, out of which 11 are on secondment from the Central Bank of Kenya. In addition, 5% of the entire workforce represent a category of the differently abled persons while the gender parity of men and women stands at 65% and 35% respectively. This means that the Corporation has fulfilled the one third Constitutional gender principle.

Figure 20: KDIC Gender Parity



iii) Gender Issues and Youth Empowerment

The Corporation has operationalized and domesticated the Health Government Guidelines of 2018, for securing a breastfeeding- friendly working environment. This has been effected through internal policies and measures. Areas of focus include provision of at least 3 months paid maternity leave for female employees and 2 weeks paternity leave for male employees, work life balance through flexible working arrangements such as flexi time and working from home.

Further, KDIC has put in place measures that support youth development and empowerment which is in line with government's policies on internships and industrial attachment of youth.

iv) Learning and Development

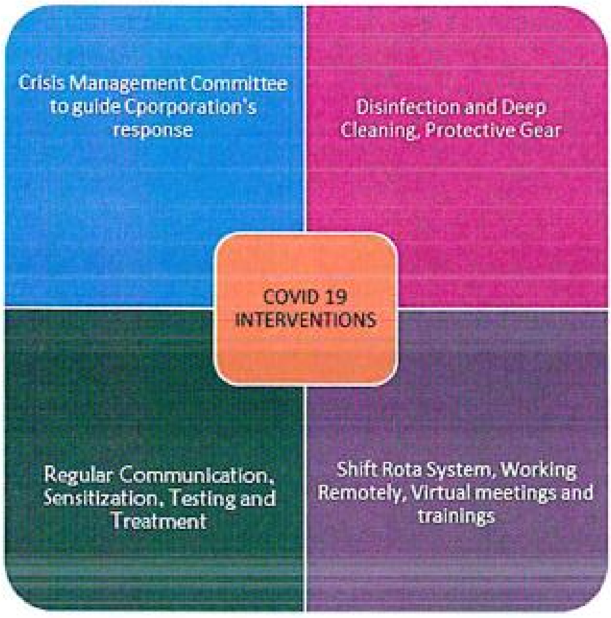
During the year all the 60 employees of the Corporation were trained with a view to equipping them with skills and enhancing their productivity. This was in line with the 40 hours minimum requirement contained in the Kenya Human Resource Development Policy and Guidelines in programs of the Public Service Commission. The skills development program by the Corporation is based on a training need analysis conducted at the beginning of the financial year and skills/performance gap assessment based on employee feedback from annual performance assessment.

v) Workplace Safety and Health

KDIC endeavors to ensure that safety is promoted in all its operational and work environments, which is in with the provisions of the Occupational Safety and Health Act (2007). To improve safety culture, KDIC has put in place an Occupational Safety and Health Committee which conducted relevant safety training and staff sensitization. The Corporation also maintains a robust staff medical scheme and Group life and Group Personal Accident Insurance Schemes.

During the financial year 2020/2021, enhanced safety measures were introduced to support and protect staff and ensure they are equipped with the information and resources needed as a result of the COVID-19 pandemic.

Figure 21: Covid - 19 Intervention Strategies



Towards this end, 13 staff were trained and appointed champions for Risk Management

vi) Work Environment (Ergonomics)

The Corporation completed the partitioning and equipping of its offices at UAP/Old Mutual Tower to ensure adequate office space for all employees. This has ensured that the employees have adequate work space, furniture, tools and equipment's to facilitate effective and efficient service delivery.

vii) Performance Management

The Corporation has implemented a culture of high performance where talent is well managed and rewarded and has put in place a robust performance management system by which quarterly Staff Performance Appraisals are conducted.

The Quarterly appraisals were used to identify skills gaps and thus inform training areas to be undertaken.

viii) Industrial Relations

KDIC is committed to upholding Labour relations and its fundamental principles and rights at work as enshrined in the Kenya Constitution 2010 including, but not limited to;

- Right to fair labour practices,
- Right to fair remuneration,
- Right to reasonable working conditions,
- Right to form, join or participate in the activities and programmes of a trade union.

ix) Staff Welfare

The Corporation believes that the health and wellness of its employees is of paramount importance not only for optimum performance but also the individual employee wellbeing. KDIC endeavors to create an environment where the organization cares for its employees and individual employees care for each other and work towards achieving the success of the organization. This has been facilitated through various initiatives including;

- Work life balance,
- In house counselling for employee support and intervention,
- Comprehensive medical scheme and ambulance service,
- Paid membership to clubs, gymnasiums and associations and
- The establishment and implementation of a staff welfare association that is managed by the employees.

e) Corporate Social Responsibility

The Corporation continues to allocate funds towards initiatives aligned to the government's Big Four agenda. As such, under the year in review, KDIC through its Corporate Social Responsibility programme, specifically supported Mbagathi and the Spinal Injury hospitals-both of which are public facilities- with an assortment of medical equipment.

These comprised patients' monitors, special and ordinary beds and attendant linen. Further, the Corporation constructed two large patients waiting bays at Mbagathi hospital to cater for those visiting their loved ones.

KDIC's decision to support the two facilities was informed by the fact that both Mbagathi and the Spinal injury hospitals serve hundreds of patients mainly from the low and middle-class families. The needs of the facilities were identified following a consultative process spearheaded by KDIC's Philanthropic Committee in partnership with the facilities' management.

The Corporation's contribution was a major boost for both Mbagathi and the Spinal Injuries hospitals' patient-handling capacity and efficiency.

REPORT OF THE INDEPENDENT AUDITORS ON KENYA DEPOSIT INSURANCE CORPORATION

REPUBLIC OF KENYA

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OFFICE OF THE AUDITOR-GENERAL

Enhancing Accountability

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Anniversary Towers
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NAIROBI

REPORT OF THE AUDITOR-GENERAL ON KENYA DEPOSIT INSURANCE CORPORATION FOR THE YEAR ENDED 30 JUNE, 2021

PREAMBLE

I draw your attention to the contents of my report which is in three parts:

A. Report on the Financial Statements that considers whether the financial statements are fairly presented in accordance with the applicable financial reporting framework, accounting standards and the relevant laws and regulations that have a direct effect on the financial statements.

B. Report on Lawfulness and Effectiveness in Use of Public Resources which considers compliance with applicable laws, regulations, policies, gazette notices, circulars, guidelines and manuals and whether public resources are applied in a prudent, efficient, economic, transparent and accountable manner to ensure Government achieves value for money and that such funds are applied for intended purpose.

C. Report on Effectiveness of Internal Controls, Risk Management and Governance which considers how the entity has instituted checks and balances to guide internal operations. This responds to the effectiveness of the governance structure, the risk management environment, and the internal controls developed and implemented by those charged with governance for orderly, efficient and effective operations of the entity.

An unmodified opinion does not necessarily mean that an entity has complied with all relevant laws and regulations, and that its internal controls, risk management and governance systems are properly designed and were working effectively in the financial year under review.

The three parts of the report are aimed at addressing the statutory roles and responsibilities of the Auditor-General as provided by Article 229 of the Constitution, the Public Finance Management Act, 2012 and the Public Audit Act, 2015. The three parts of the report, when read together constitute the report of the Auditor-General.

REPORT ON THE FINANCIAL STATEMENTS

Opinion

I have audited the accompanying financial statements of Kenya Deposit Insurance Corporation set out on pages 77 to 116, which comprise of the statement of financial position as at 30 June, 2021, the statement of profit or loss and other comprehensive income, statement of changes in fund balance, statement of cash flows, 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, 2021, and of its financial performance and its cash flows for the year then ended, in accordance with the International Financial Reporting Standards (IFRS), and comply with the Kenya Deposit Insurance Act, 2012 (Revised, 2013) and the Public Finance Management Act, 2012.

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.

Other Matter

Budgetary Control and Performance

The statement of comparative budget and actual amounts reflects final receipts budget and actual on comparable basis of Kshs.17,019,740,755 and Kshs.19,865,533,769 respectively, resulting to an over-funding of Kshs.2,845,793,014 or 16% of the budget. Similarly, the Corporation expended Kshs.2,344,294,631 against an approved budget of Kshs.1,548,316,775 resulting to an over-expenditure of Kshs.795,977,856 or 51.4% of the budget. Management has attributed the over-funding to improved portfolio balancing and prudent investment while the over-expenditure is attributed to deposit payoffs provision of Kshs.1,360,963,730 towards payment of protected deposits for two (2) banking institutions that were placed under liquidation vide Kenya Gazette notices dated 16 April, 2021 and 7 May, 2021 respectively, pursuant to the Kenya Deposit Insurance Regulations, 2015 and which had not been budgeted for.

The over-funding and over-expenditure are indications of a poor budgeting process and the Corporation ought to design a realistic budget based on its core business and the industry environment so that its activities are approved and authorized in line with the achievement of the envisaged service delivery to the public.

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, except for the matter discussed in Basis for Conclusion on Effectiveness of Internal Controls, Risk Management and Governance section of my report, based on the audit procedures performed, I confirm that, nothing else has come to my attention to cause me to believe that internal controls, risk management and overall governance were not effective.

Basis for Conclusion

Lack of a Functional Board

During the period under review, the Corporation did not have a functional Board of Directors. This is contrary to Section 7(1) of the Kenya Deposit Insurance Act, 2012 which requires the Corporation to have nine (9) Members of the Board of Directors who include six (6) independent Members. However, the term of three (3) independent Members of the Board expired in February, 2020 while the Chairman of the Board and one other Member terms expired in June, 2021.

Consequently, in absence of a functional Board, it has not been possible to confirm the Corporation's effectiveness in executing its oversight role as it could not constitute the requisite independent and distinct Board Committees to enhance overall governance over its operations.

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 the Board of Directors

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 Corporation's financial reporting process, reviewing the effectiveness of how Management 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.

CPA Nancy Gathungu, CBS
AUDITOR-GENERAL

Nairobi

31 May, 2022

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30TH JUNE 2021

	Note	2021 KShs'000	2020 KShs'000
REVENUE			
Assessment income	6	5,621,133	5,164,035
Investment income	7	14,175,969	12,411,477
Other income	8	68,432	21,702
		19,865,534	17,597,214
EXPENSES			
Staff costs	9(a)	277,949	270,513
Administration and establishment expenses	9(b)	218,355	144,980
Deposit Pay-Offs	9(c)	1,360,964	-
Board Expenses	9(d)	3,239	9,714
Finance Costs	9(e)	5,289	1,937
Depreciation and Amortisation	10, 11, 12	198,466	127,428
		2,064,262	554,572
SURPLUS FOR THE YEAR BEFORE TAXATION		17,801,271	17,042,641
Taxation	1(e)	0	0
SURPLUS FOR THE YEAR AFTER TAXATION		17,801,271	17,042,641
Other comprehensive income		0	0
TOTAL COMPREHENSIVE INCOME		17,801,271	17,042,641

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2021

	Note	2021 KShs'000	2020 KShs'000
ASSETS			
Non-current assets			
Property and equipment	10	702,571	609,124
Intangible assets	11	23,299	35,200
Prepaid operating lease rentals	12	2,627	2,726
Government securities	13	90,991,373	71,186,846
Loans Receivable	14	86,151	5,279
		91,806,022	71,839,175
Current assets			
Government securities	13	49,197,665	50,910,979
Receivables and prepayments	15	60,426	32,681
Inventories	16	3,954	2,011
Cash and bank balances	17	943,799	141,195
		50,205,843	51,086,865
TOTAL ASSETS		142,011,865	122,926,040
FUND BALANCE AND LIABILITIES			
Fund balance		140,284,019	122,422,198
Current liabilities			
Payables and accruals	18	1,581,449	234,631
Lease Liability	19	53,854	56,688
Deferred income	20	-	66,849
		1,635,303	358,168
Non Current Liabilities			
Lease Liability	19	92,542	145,674
		92,542	145,674
TOTAL FUND BALANCE AND LIABILITIES		142,011,865	122,926,040

The financial statements were approved on 27th September 2021 and signed on its behalf by:

Chief Executive Officer	Head of Finance	Chairperson of the Board of Directors
Mohamud A. Mohamud	Mogeni Ong'era ICPAK M/NO: 19116	Carol Musyoka

STATEMENT OF CHANGES IN FUND BALANCE FOR THE YEAR ENDED 30 JUNE 2021

	Fund balance KShs'000	Fund balance KShs'000
	2021	2020
As at 1st July	122,422,197	105,350,248
Prior year Adjustment	60,551	29,308
Surplus for the year	17,801,271	17,042,641
As at 30 June	140,284,019	122,422,197

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2021

	Note	2021 KShs'000	2020 KShs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Surplus for the year		17,801,271	17,042,641
Adjustment for:			
Depreciation of property and equipment	10	166,779	98,406
Amortisation of software	11	31,588	28,924
Amortisation of prepaid operating lease rentals	12	98	98
Interest income		-14,175,969	-12,411,477
Interest Expense		5,289	1,937
Changes in working capital;			
Receivables and prepayments		-27,745	-8,424
Inventory		-2,606	1,200
Payables and accruals		1,347,482	-45,493
Deferred income		-66,849	-20,925
Due to related party		0	-10,556
Lease Liability		-55,966	145,674
Net cash generated from operating activities		5,023,373	4,822,005
CASH FLOWS FROM FINANCING ACTIVITIES			
Principal on lease	19	-55,966	-59,671
Interest paid on lease	19	-5,289	-1,937
Net cash generated from financing activities		-61,255	-61,609
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of government securities		-65,036,242	-72,681,720
Disposal of government securities		50,389,089	71,113,148
Purchase of intangible assets	11	-19,687	-6,971.60
Purchase of property and equipment	10	-260,345	-348,073
Staff loans disbursed	15	-95,407	-7,303
Interest received		10,908,853	10,576,795
Net cash (used in)/generated from investment activities		-4,113,740	9,007,861
Net (decrease)/increase in cash and cash equivalents		848,379	13,768,258
CASH AND CASH EQUIVALENTS AT 1 JULY 2020		14,233,196	464,938
CASH AND CASH EQUIVALENTS AT 30 JUNE 2021	17	15,081,575	14,233,196

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS FOR THE PERIOD ENDED 30 JUNE 2021

NOTE		2020/2021 BUDGET	ADJST	FINAL BUDGET	ACTUAL INCOME/ EXPENDITURE	PERFORMANCE DIFFERENCE IN KSHS.	% UTILIZATION
	Revenue						
23(I)	Assessed Contributions	5,232,257,100	-	5,232,257,100	5,621,133,393	388,876,293	107.43%
23(II)	Grants Received	-	-	-	-	-	-
23(III)	Government Securities	11,787,483,655	-	11,787,483,655	14,175,968,756	2,388,485,101	120.26%
23(IV)	Other Income	-	-	-	68,431,619	68,431,619	100.00%
Total Revenues		17,019,740,755		17,019,740,755	19,865,533,769	2,845,793,014	
	Expenditure						
23(V)	Compensation of Employees	427,029,543	-	427,029,543	277,949,296	149,080,247	65.09%
23(VI)	Goods and Services	494,407,000	-	494,407,000	143,597,913	350,809,087	29.04%
23(VII)	Deposit Pay off	-	-	-	1,360,963,730	-1,360,963,730	0.00%
23(VIII)	Finance Cost	-	-	-	5,288,727	-5,288,727	0.00%
23(IX)	Office Rent and Parking fees	86,038,614	-	86,038,614	77,996,824	8,041,791	90.65%
23(X)	Depreciation/Amortisation	175,341,618	-	175,341,618	198,465,940	-23,124,323	113.19%
23(XI)	Capital Budget	365,500,000	-	365,500,000	280,032,201	85,467,799	76.62%
Total expenditures		1,548,316,775	-	1,548,316,775	2,344,294,631	-795,977,856	-
Net Surplus		15,471,423,980		15,471,423,980	17,521,239,138	2,049,815,158	

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 (KDI) 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 the measurement at re-valued amounts of certain items of property, plant and equipment, marketable securities and financial instruments at fair value, impaired assets at their estimated recoverable amounts and actuarially determined liabilities at their present value. 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 (Cap.446) 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 2021

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Continued)

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 recognized 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 re measurement 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 and subsequent periods for the year 2020/2021 with respect to the leasing of office and parking space. Based on the Directors' assessment, a right of use of the asset of KSHS. 262M and a lease liability of KSHS. 262M amortized to KSHS. 146M as at 30th June 2021 has been recognized. Subsequently, the lease has been recognized as per the requirements of the standard.

IFRS 4 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Continued)

IAS 39-Financial Instruments:

IAS 39 outlines the requirements for the recognition and measurement of financial assets, financial liabilities, and some contracts to buy or sell non-financial items. Financial instruments are initially recognized when an entity becomes a party to the contractual provisions of the instrument and are classified into various categories depending upon the type of instrument, which then determines the subsequent measurement of the instrument (typically amortized cost or fair value).
The amendments are effective for annual periods beginning on or after January 1, 2020.Earlier application is permitted.

The Corporation's financial statements have applied the standard by measuring the financial instruments at amortized cost.

IFRS 7- Financial Instrument Disclosures

IFRS 7 "Financial Instruments: Disclosures" requires disclosure of information about the significance of financial instruments to an entity, and the nature and extent of risks arising from those financial instruments, both in qualitative and quantitative terms. Specific disclosures are required in relation to transferred financial assets and a number of other matters.
The amendments are effective for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

IFRS 7 has been adopted in the reporting financial instruments and the qualitative and quantitative impact assed

ii) Relevant New and amended standards and interpretations in issue but not yet effective in the year ended 30 June 2021

IAS 1 — Presentation of Financial Statements

The standard sets out the overall requirements for financial statements, including how they should be structured, the minimum requirements for their content and overriding concepts such as going concern, the accrual basis of accounting and the

NOTES TO THE FINANCIAL STATEMENTS (continued)

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Continued)

Current/non-current distinction. The standard requires a complete set of financial statements to comprise a statement of financial position, a statement of profit or loss and other comprehensive income, a statement of changes in equity and a statement of cash flows.
The amendments are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.

IAS 16 — Property, Plant and Equipment

The standard outlines the accounting treatment for most types of property, plant and equipment. Property, plant and equipment is initially measured at its cost, subsequently measured either using a cost or revaluation model, or depreciated so that its depreciable amount is allocated on a systematic basis over its useful life.
The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted

IAS 37 — Provisions, Contingent Liabilities and Contingent Assets

The standard outlines the accounting for provisions (liabilities of uncertain timing or amount), together with contingent assets (possible assets) and contingent liabilities (possible obligations and present obligations that are not probable or not reliably measurable).
The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted.

IFRS 1 — First-time Adoption of International Financial Reporting Standards

IFRS 1 "First-time Adoption of International Financial Reporting Standards" sets out the procedures that an entity must follow when it adopts IFRS for the first time as the basis for preparing its general purpose financial statements. The IFRS grants limited exemptions from the general requirement to comply with each IFRS effective at the end of its first IFRS reporting period
The amendments are effective for annual periods beginning on or after January 1, 2022. Early application is permitted

NOTES TO THE FINANCIAL STATEMENTS (continued)

APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS) (Continued)

IFRS 17 — Insurance Contracts

IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts within the scope of the standard. The objective of IFRS 17 is to ensure that an entity provides relevant information that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that insurance contracts have on the entity's financial position, financial performance and cash flows.
The IASB tentatively decided to defer the effective date of IFRS 17, Insurance Contracts to annual periods beginning on or after January 1, 2022. [The IASB has also published 'Extension of the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)' to defer the fixed expiry date of the amendment also to annual periods beginning

iii) **Early adoption of standards**
The Corporation did not early – adopt any new or amended standards in year 2020/2021.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 based on an institution's total deposit liabilities during the period of 12 months prior to the date of levy notice and its risk profile and premium payable will be computed through a system known as Differential Premium System (DPS).

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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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(Section 72 of KDI Act). Therefore, no provision for current tax or deferred tax is made in the financial statements.

f) Rounding off Difference

The Corporation in preparation of the financial statements has rounded off its figures to the nearest thousand.

NOTES TO THE FINANCIAL STATEMENTS (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) 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.

(iii) 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.

(iv) Other financial liabilities

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

(v) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(vi) 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.

(vii) 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.

(viii) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) 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.

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

k) Property ,Plant and equipment

(i) Recognition and measurement

All categories of property, plant and equipment are initially recorded at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

NOTES TO THE FINANCIAL STATEMENTS (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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.

l) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The Corporation does not have any internally generated intangible assets.

NOTES TO THE FINANCIAL STATEMENTS (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Amortisation and impairment of intangible assets

Amortisation is calculated on the straight-line basis over the estimated useful life of the intangible asset. All intangible assets are reviewed annually for impairment. Where the carrying amount of an intangible asset is assessed as greater than its estimated recoverable amount, an impairment loss is recognised so that the asset is written down immediately to its estimated recoverable amount.

n) 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.

o) Grants

Other grants are recognized 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. In the year under reporting the Corporation amortized the entire balance of grant.

p) Inventory

Inventory comprises of stationery and other consumables. Inventories are stated at the lower of cost or net realizable value. Cost is calculated using the weighted average cost method. Net realizable value represents the estimated selling price less all estimated total costs.

q) Right of Use Asset

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Whenever the entity incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under IAS 37. To the extent that the costs relate to a right-of-use asset, the costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories. Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. The depreciation starts at the commencement date of the

NOTES TO THE FINANCIAL STATEMENTS (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

lease. The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The Corporation has leased office space and the right of use of the asset have recognized an asset with subsequent deprecation over the period of the lease.

r) Fixed interest investments (bonds)

Fixed interest investments refer to investment funds placed under Central Bank of Kenya (CBK) long-term infrastructure bonds and other corporate bonds with the intention of earning interest income upon the bond's disposal or maturity. Fixed interest investments are freely traded at the Nairobi Securities Exchange. The bonds are measured at fair value through profit or loss.

The Corporation has investments held at the Central Bank of Kenya in fixed interest bonds and are carried at amortized cost.

s) Trade and other receivables

Trade and other receivables are recognized at fair values less allowances for any uncollectible amounts. These are assessed for impairment on a continuing basis. An estimate is made of doubtful receivables based on a review of all outstanding amounts at the year end. Bad debts are written off after all efforts at recovery have been exhausted.

t) 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, 2021.

u) Provisions

Provisions were raised and management determined an estimate based on the information available. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the reporting date.
(include provisions applicable for your organization e.g. provision for bad debts, provisions of obsolete stocks and how management estimates these provisions)

v) Budget information

The rationalized budget for FY 2020-2021 was approved on 30th June 2020. No subsequent revisions or additional appropriations were made to the approved budget.

NOTES TO THE FINANCIAL STATEMENTS (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

w) Comparative figures

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

x) 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, 2021.

5. 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;

Board Audit Committee

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

RISK MANAGEMENT (Continued)

and works closely with Central Bank of Kenya to monitor the performance of the Banking industry.

Internal Audit and Risk Management Unit

Internal audit department provides objective assurance and insight on the effectiveness and efficiency of risk management, internal control and governance processes in the Corporation. This is achieved by assessing the governance structures/practices in place, implementation of the Enterprise risk management framework and the level of compliance with the Kenya Deposit Insurance Act,

documented policies and procedures and government guidelines issued from time to time.

Functionally, Internal Audit reports to the Board of Directors through the Board Audit Committee and administratively to the Chief Executive Officer. This dual reporting structure ensures that the independence and objectivity of the function is guaranteed.

The corporation conducts risk assessment on regular basis which informs the internal audit plan. The identification and management of risk is a continuous process linked to the achievement of the corporation's objectives. Risk based audits are carried out by the Internal audit department and reports on internal control and risk forwarded to the Board of Directors through the Board Audit Committee.

To enhance efficiency in internal audit process, the Corporation rolled out the use of Team Mate to align all documentation and tracking of issues on one platform in November 2020.

(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

NOTES TO THE FINANCIAL STATEMENTS (continued)

RISK MANAGEMENT (Continued)

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:

	2021 Shs'000	2020 Shs'000
Bank and cash balances	943,799	141,195
Receivables	60,426	30,472
Government securities	140,189,038	122,097,825
	141,193,263	122,269,491

The aging of receivables at the reporting date was:

	2021	2020
Not past due	-	-
Past due 0 – 30 days	0	8,547
Past due 31 – 90 days	0	3,571
Past due above 90 days	46,598	17,101
	46,598	29,219

NOTES TO THE FINANCIAL STATEMENTS (continued)

RISK MANAGEMENT (Continued)

(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 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	Upto 1 year	1 – 5 years	6 – 10 years	10 years	Total
		Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000	Kshs.'000
2021						
Investments held to maturity		47,402,680	26,058,425	35,528,673	31,341,471	140,331,248
Interest sensitivity gap at 30 June 2021	10.97%	47,402,680	26,058,425	35,528,673	31,341,471	140,331,248
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

NOTES TO THE FINANCIAL STATEMENTS (continued)

RISK MANAGEMENT (Continued)

Market Risk – continued

(i) Interest rate risk management (continued)

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.

	2021 Shs'000	2020 Shs'000
Effect on surplus for the year of a +5% change in interest rates	708,798	620,574
Effect on surplus for the year of a -5% change in interest rates	-708,798	-620,574

(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.

The Corporation's financial liabilities amount to Kshs. 1.67 Bn (2020 - Kshs. 437 million) and are all short term.

NOTES TO THE FINANCIAL STATEMENTS (continued)

RISK MANAGEMENT (Continued)

c. 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	Loans and receivables	Held to maturity	Total carrying value	Fair value
	KShs '000	KShs '000	KShs '000	KShs '000	KShs '000
2021					
Financial assets					
Government securities	-	-	140,189,038	140,189,038	140,189,038
Cash and bank balances	-	943,799	-	943,799	943,799
Receivables	-	60,426	-	60,426	60,426
	-	1,004,224	140,189,038	141,193,263	141,193,263
Financial liabilities					
Amounts due to related parties	0	-	-	0	0
Lease Liability	146,396	-	-	-	146,396
Payables and accruals	1,641,533	-	-	1,641,533	1,641,533
	1,787,929	-	-	1,641,533	1,787,929
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	-	32,681	-	32,681	32,681
		173,876	122,097,825	122,271,700	122,271,700
Financial liabilities					
Amounts due to related parties	13,393	-	-	13,393	13,393
Lease Liability	202,362	-	-	-	202,362
Payables and accruals	221,238	-	-	221,238	221,238
	436,994	-	-	234,631	436,994

NOTES TO THE FINANCIAL STATEMENTS (continued)

RISK MANAGEMENT (Continued)

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 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.

(b) 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

6 ASSESMENT INCOME

Towards the mandate of Deposit Insurance, the Corporation charges a premium to insured member institutions. The assessed premium is calculated at 0.15% of total average deposits with implementation of risk based model in progress. During the year all member institutions minimum premium payable is Kshs.300,000.

	2021 Kshs.'000	2020 Kshs.'000
Total average deposits of institutions assessed as contributors	3,740,408,548	3,442,524,496
0.15% of total average deposits Contributions from Commercial Banks	5,497,785	5,050,022
Contribution from Deposit Taking Microfinance	123,347	114,012
Minimum Contribution from Deposit Taking Microfinance at Minimum premium	1,500	1,200
Total assessment income	5,621,133	5,164,035

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

7 INVESTMENT INCOME

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

	2021 Kshs.'000	2020 Kshs.'000
(i) Interest earned on treasury bills		
Discount on 91 day treasury bills	-	80,633
Discount on 182 day treasury bills	9,898	27,105
Discount on 364 day treasury bills	3,716,284	3,898,863
	3,726,181	4,006,601

NOTES TO THE FINANCIAL STATEMENTS (continued)

(ii) Interest earned on treasury bonds

Matured bonds	10,390,341	8,351,202
Discount on purchase	722	24,270
Amortisation of premium	58,724	29,404
	10,449,787	8,404,876
Total investment income	14,175,969	12,411,476,748

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.

8 OTHER INCOME

	2021 Kshs.'000	2020 Kshs.'000
Penalty charges on late contributions	195	698
Miscellaneous income	1,387	78
Grant income	66,849	20,925
	68,432	21,702

Grant income relates to grants received from Financial Sector Support Programme for the development of Disaster Recovery Centre. The growth in grant income is due to the Corporation amortising the balance of grant income in full during the year under reporting.

Miscellaneous income includes mainly interest on staff loans and processing fee for the staff loans. The growth in miscellaneous income is due to increase in staff loans disbursed during the year as per approved staff loans policy.

9 ADMINISTRATION COSTS

	2021 Kshs.'000	2020 Kshs.'000
a. Staff Costs		
Staff salaries	241,174	236,879
Gratuity	20,951	14,680
Medical Expenses	13,807	16,416
Subscriptions	2,017	2,537
	277,949	270,513

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

Medical expenses decreased due to Covid-19 pandemic that affected the frequency of hospital visits.

Gratuity expenses increased due to annual increments which were effected on basic pay as per provisions on the contracts for annual increments.

b. Administration and establishment expenses

	KShs'000	KShs'000
Auditor's remuneration	2,050	1,500
Occupancy costs	16,742	16,921
Training Expenses	37,335	33,356
Workplace committees	479	413
Internship program	-	1,131
Consultancy expenses	22,126	11,379
Telephone and Postage	1,289	1,222
Printing costs	4,470	5,976
Provision for debts	396	357
Staff Welfare	8,844	5,893
General Office maintenance	5,226	3,873
Utilities-Electricity, Water &Security Services	5,216	2,144
Motor vehicle running expenses	2,104	1,489
International Association of Deposit Insurers	2,199	7,429
Assets insurance expenses	2,747	1,058
Publicity Expenses	35,617	8,983
Treasury Bonds Premium Amortisation	58,724	29,404
ICT Maintenance expenses	11,791	12,809
Research Expenses	1,000	-
	218,355	144,980

Consultancy expenses are largely Corporation's engagement of services of recruitment consultancy (Ksh.9.2M), Legal consultancy for review of KDI Act (Kshs.6.6M) and ISO Quality Management consultancy for re-certification (Kshs.1.2M).

Public awareness is among the key pillars of the Corporation's strategic plan (2018-2023). During the year the Corporation embarked on activities geared towards promoting public confidence through print and electronic media. The resultant increase in cost of publicity expenses is due to Kshs.14M incurred on electronic media during public awareness campaign and print media.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Treasury Bonds premium includes a cost incurred by the Corporation in acquisition of reopened Treasury Bonds. In line with the investment policy, during the year the Corporation invested in the reopened bonds that offered higher returns thus resulting in increased premiums.

Research Expenses relates to sponsorship by the Corporation for Financial Access Survey conducted by Central Bank of Kenya.

c. Deposit Pay-offs

	2021 KShs'000	2020 KShs'000
Chase Bank(In Liquidation)	1,043,751	-
Charter House Bank(In Liquidation)	317,213	-
	1,360,964	-

Deposits Pay-Offs expense is the total protected deposits that were payable to the depositors of Chase Bank (IL) and Charterhouse Bank (IL) at their respective dates of liquidation. As at 30th June 2021, the Corporation had disbursed Kshs. 181M to depositors.

d. Board expenses

	2021 KShs'000	2020 KShs'000
Fees to Directors	660	5,894
Other Directors' Expenses	2,579	3,821
	3,239	9,714

Board expenses reduced following the lapse of the terms of three independent members of the board in February 2020, Chairman of the Board and one other independent Director in June 2021. This continued to affect 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.

e. Finance Costs

	2021 Kshs.'000	2020 Kshs.'000
Principal on lease payments	55,966	59,671
Interest expense	5,289	1,937
	61,255	61,609

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

10 PROPERTY, PLANT AND EQUIPMENT

	Buildings*	Buildings - Office Lease	Motor vehicles	Furniture & Fittings	Computers	ICT Equipment	Office & Kitchen Equipment	Work in Progress	Total
COST	Kshs.'000'								
At 1st July 2019	19,224	-	41,603	26,153	19,584	163,517	23,307	195188	488,576
Additions	-	262,034	-	177,575	12,301	12,934	6,036	(122,807)	348,073
At 30th June 2020	19,224	262,034	41,603	203,728	31,885	176,451	29,343	72,381	836,649
At 1st July 2020	19,224	262,034	41,603	203,728	31,885	176,451	29,343	72,381	836,649
Additions	-	-	-	12,342	37,260	16,928	147	193,668	260,345
At 30th June 2021	19,224	262,034	41,603	216,070	69,146	193,379	29,490	266,049	1,096,995
DEPRECIATION									
At 1st July 2019	6,476	-	14,952	18,030	16,218	57,292	16,151	-	129,119
Charge for the year	359	54,214	8,651	3,097	2,022	27,370	2,693	-	98,406
Disposals	-		-	-	-	-	-		-
At 30th June 2020	6,835	54,214	23,603	21,127	18,240	84,662	18,844	-	227,525
At 1st July 2020	6,835	54,214	23,603	21,127	18,240	84,662	18,844	-	227,525
Charge for the year	359	54,152	7,007	53,284	11,311	35,491	5,175	-	166,779
Adjustment	-	-	-	118	-	-	-	-	118
Disposals	-		-	-	-	-	-		-
At 30th June 2021	7,194	108,366	30,610	74,529	29,551	120,153	24,019	-	394,422
NET BOOK VALUES									
At 30th June 2020	12,389	207,820	18,000	182,601	13,646	91,789	10,499	72,381	609,124
At 30th June 2021	12,030	153,668	10,993	141,541	39,595	73,226	5,471	266,049	702,572

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The additions during the year of Kshs. 260M mainly comprises of the capitalization of completion of capital works for structured cabling (Kshs.37M) and closure of final accounts for partitioning works (Kshs.11M).

The work in progress balance of Kshs.194M is largely comprised of Data Warehouse and Business Intelligent System that the Corporation is in the progress towards implementing. The systems will support the achievement of the risk minimization mandate through timely receipt of data and analysis.

11 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 2019	115,656
Additions	6,972
At 30th June 2020	122,628
At 1st July 2020	122,628
Additions	19,687
At 30th June 2021	**142,315**
AMORTIZATION	
At 1st July 2019	58,504
Charge for the Year	28,924
At 30th June 2020	87,428
At 1st July 2020	87,428
Charge for the Year	31,588
At 30th June 2021	**119,016**
Net Book Value	
At 30th June 2020	**35,200**
At 30th June 2021	**23,298**

The addition for the year is comprised of; Teammate Audit Software and Ms Dynamics software enhancement for optimum utilization. The Corporation does not have internally generated intangible assets.
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.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

12 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 2019	4,522
Additions	-
At 30th June 2020	4,522
At 1st July 2020	4,522
Additions	-
At 30th June 2021	4,522
AMORTIZATION	
At 1st July 2019	1,697
Charge for the Year	98
At 30th June 2020	1,795
At 1st July 2020	1,795
Charge for the Year	98
At 30th June 2021	1,895
NET BOOK VALUES	
At 30th June 2020	2,727
At 30th June 2021	2,627

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 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:

	2021 Shs'000	2020 Shs'000
Treasury bills maturing within 90 days (note 17)	14,137,776	14,092,000
Treasury bills maturing after 91 days from date of placement	33,897,442	30,507,805
Treasury bonds maturing within 1 year	1,162,447	6,311,174
Treasury bonds maturing after 1 year	90,991,373	71,186,846
	140,189,038	122,097,825
Comprising:		
Maturing within 1 year	49,197,665	50,910,979
Maturing after 1 year	90,991,373	71,186,846
	140,189,038	122,097,825

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.

14 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.

	2021 Shs'000	2020 Shs'000
Staff Loans Receivable as at 1st July 2020	6,979	-
Staff Car loans advanced	95,407	7,303
Less: Repayments	(5,473)	(324)
Staff Loans Receivable as at 30th June 2021	96,913	6,979

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Comprised of:		
Receivable within 1 year	10,762	1,700
Receivable after 1 year	86,151	5,279
Total staff Loans Receivable	96,913	6,979

15 RECEIVABLES & PREPAYMENTS

	2021 Shs'000	2020 Shs'000
Prepayments & Deposits	2,619	2,089
Other Receivables	47,045	28,892
Staff Loans receivable within 1 year	10,762	1,700
	60,426	32,681

Prepayments & Deposits in 2020/2021 are payments/deposits made for credit facilities to facilitate access to services by the Corporation particularly fuel and motor vehicle maintenance.

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.

16 INVENTORIES

Inventories comprise of stationery and other general office consumables

	2021 Shs'000	2020 Shs'000
Inventories	3,954	2,011

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 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:

	2021 Shs'000	2020 Shs'000
Government Securities Maturing within 90 days	14,137,776	14,092,000
Cash and bank balance	943,799	141,195
	15,081,575	14,233,195

The Cash & Bank balance is made up of		
Cash in Hand	-	-
KDIC's Corporation Current Account	55,898	8,331
KDIC's Fund Current Account	518,509	-
KDIC'S Fund Investment Account	369,392	132,864
	943,799	141,195

18 TRADE PAYABLES & ACCRUALS

	2021 Shs'000	2020 Shs'000
Retention fees payable to contractors	10,988	18,739
Provision for deposit payoffs	1,179,473	59,419
Provision for Staff Leave Days	5,971	4,010
Provision for Gratuity	47,780	26,826
Provision for bad debts	753	823
Provision for audit fees	3,000	3,000
Sundry payables and accruals	333,484	121,814
	1,581,449	234,631

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 Chase Bank and Charterhouse 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 gratuity increased during the year due to additional recognition of gratuity payable for the year 2020/2021, additional annual increments of basic pay effected as per the contract terms for contracted staff contributed to growth in gratuity provision.

Sundry payables and accruals are trade payables that were outstanding as at the reporting date. The increase is due to accrual of commitments for services and goods of high value works that had not been paid by year end 2020/2021.

19 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.

	2021 Kshs.'000	2020 Kshs.'000
Total lease commitments	202,362	262,034
Less: Lease Liability	(55,966)	(59,671)
Total Lease Liability	146,396	202,362
Payable within one year	53,854	145,674
Payable after one year	92,542	56,688
	146,396	202,362

NOTES TO THE FINANCIAL STATEMENTS (Continued)

20 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 contracted a vendor to supply, install and commission of the ICT server's hardware firewalls and management software in Kisumu for KDIC. The ICT servers are currently in use by the Corporation in the ICT project commissioned in 2015/2016. The balance of grant has been fully amortized during the year ending 3oth June 2021.

	2021 Shs'000	2020 Shs'000
Amortization of grant income		
As at 1st July 2020	66,849	87,774
Additional grant	-	0
Amortization charge for the year	-66,849	-20,925
As at 30th June 2021	0	66,849

21 RETIREMENT BENEFIT OBLIGATION

	2021 Shs'000	2020 Shs'000
Employee Contribution (Defined Contribution)	6,213	1,617
Employer Contribution (Defined Contribution)	12,426	3,233
NSSF-Statutory Deduction	240	222
	18,880	5,072

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 at a rate of 20% and employee 10% of basic pay. 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)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22 RELATED PARTY TRANSACTIONS

	2021 Shs'000	2020 Shs'000
Directors' emoluments and senior management remuneration		
Fees to Directors	660	5,894
Other Directors' Expenses	2,579	3,821
Remuneration to senior management	48,622	47,472
Cash and balances held with Central Bank of Kenya	943,799	141,195
Investments in Government Securities through the Central Bank of Kenya	140,189,038	122,097,825
Staff loans(Note 15)	96,913	5,279
	141,281,611	122,301,485

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. Thus, all investments in Government securities and Cash and bank balances have been classified as related party transactions.

Staff loans relates to mortgage and car loans advanced to staff.

23 EXPLANATION OF PERFOMANCE ON THE STATEMENT OF BUDGET & ACTUAL COMPARISON

The total approved corporate budget for the year under review was Kshs. 1,548M; being Kshs. 1,183M for recurrent budget and Kshs. 365.5M for capital expenditure. The gross budget utilization was Kshs. 982M or 63%.

I. The assessed contributions from member Institutions was Kshs.5.6B against a budget of Kshs.5.2B. This represents a growth of Kshs. 400M or 8%. The increase is attributed to the increase of total deposits by member institutions.

NOTES TO THE FINANCIAL STATEMENTS (continued)

II. The Corporation received a grant from the Financial Sector Support Project (FSSP). This grant relates to deferred grant income received from FSSP who supported the purchase of ICT servers for KDIC. The servers are currently in use by the Corporation. The associated grant was recognized as deferred income. This deferred income has been fully amortized within the reporting period.

III. Returns on investments in Government Securities were higher than the budget at Kshs. 14,175M as compared to a budgeted Kshs. 11,787M this represents a growth of Kshs. 2,388M or 20%. This was attributable to the management's improved portfolio balancing and prudent investment. Further, investable funds from increase in premium received led to the growth of the total funds available for investments.

IV. Other income received amounted to Kshs.. 68.4M. Out of the total, Kshs. 66.8 M relates to accrual of grant income for the grant received from FSSP. Other income also includes, interest income on staff loans and penalty for late payment of premium assessed.

V. The Corporation had a budget provision of Kshs. 427M for compensation to employees. Some of the employees planned for were to be recruited during the financial year. Due to Covid-19 restrictions, the recruitment process to on board the new staff had not been concluded by 30th June 2021 hence the Corporation spent Kshs. 289M which led to a utilization level of 68%.

VI. The Corporation budgeted for Kshs. 494M for goods and services of which Kshs. 142M or 29% was utilized. The low utilization is attributed to Covid19 disruptions and delayed population of the staff establishment.

VII. Pay offs are protected deposits payable from the Deposit Insurance Fund to depositors of institutions that have been put in liquidation. This is usually not a budgeted item as liquidation is determined by factors external to KDIC. During the financial year, Chase Bank and Charterhouse bank were put in liquidation and the total payable deposit insurance amount has been estimated at Kshs. 1,361M. This was provided for in full during the financial year.

VIII. The finance cost of Kshs. 5.3M relates to interest expense for the operating lease of office space as required by IFRS 16; Leases.

IX. The Rent and Parking fees was budgeted at Kshs. 86M compared to the actual of Kshs.78M. This is a utilization of 90%. The variance is due to provision for review of rent as provided for in the lease agreement that was not effected during the year.

X. The Depreciation & amortization increased during the year by 13% due to depreciation and amortization costs relating to the accounting for office lease of Kshs. 54Million as a result of adoption and application of IFRS 16; Leases.

XI. Capital expenditure for the year was Kshs. 280M against a budget of Kshs.365.5M. This is a utilization of 77%. The Corporation was not able to commence the works for refurbishment of the Go down.

APPENDICES

APPENDIX 1: 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.

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