

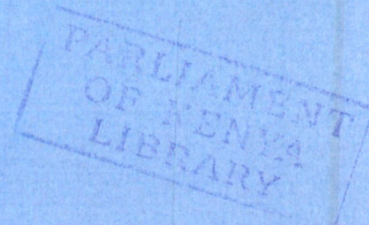
REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



THE NATIONAL ASSEMBLY PAPERS LAID	
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REPORT

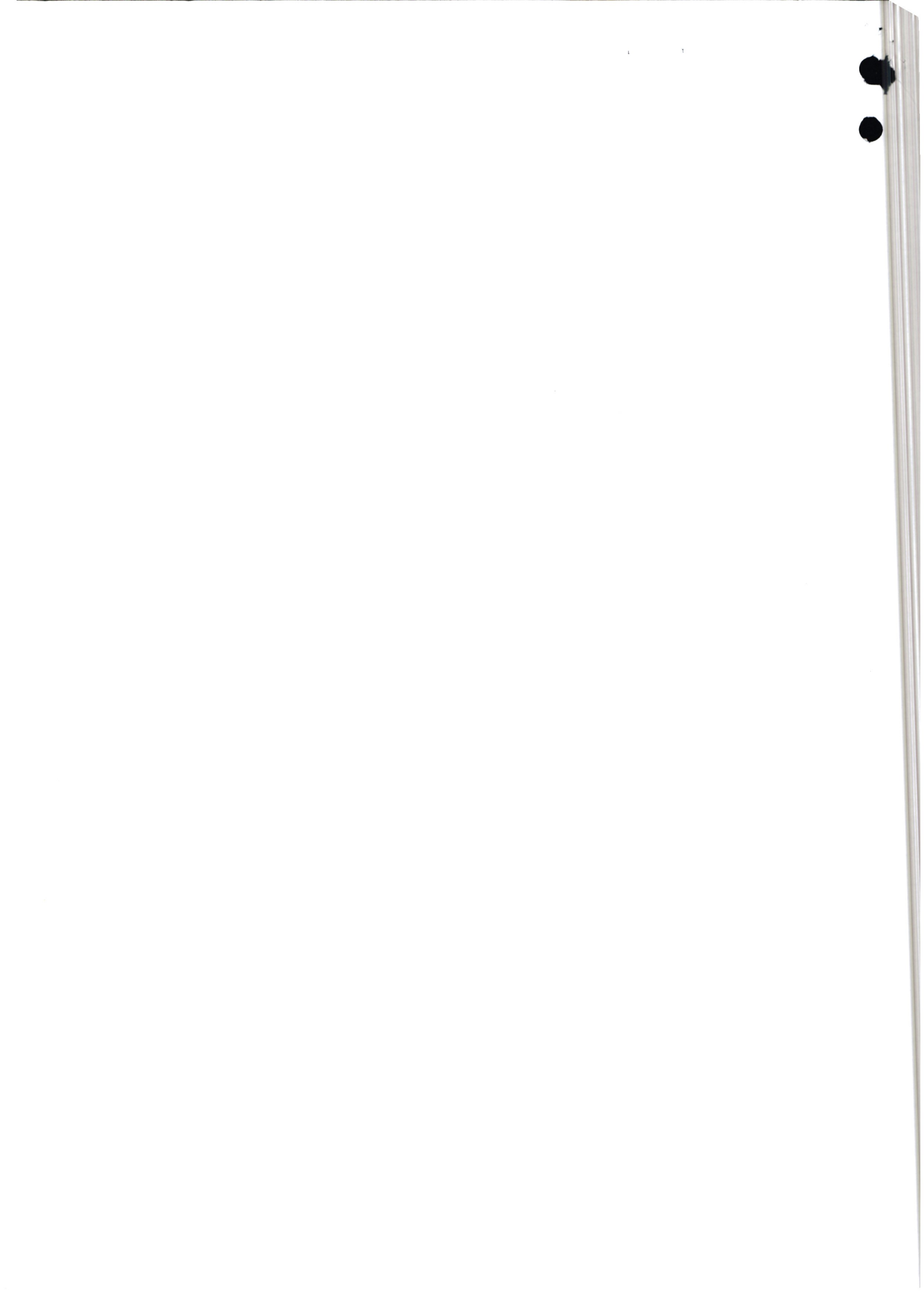
OF

THE AUDITOR-GENERAL

ON

THE FINANCIAL STATEMENTS OF  
IDB CAPITAL LIMITED

FOR THE YEAR ENDED  
30 JUNE 2018



**IDB CAPITAL LIMITED**

**ANNUAL REPORT AND FINANCIAL STATEMENTS**

**AT**

**30 JUNE 2018**

# **IDB CAPITAL LIMITED**

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## **ANNUAL REPORT AND FINANCIAL STATEMENTS** **FOR THE YEAR ENDED 30 JUNE 2018**

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# **IDB CAPITAL LIMITED**

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## **CORPORATE INFORMATION**

### **Background information**

IDB Capital Limited (the “Institution”, “Company” or “IDB”) was incorporated as the Industrial Development Bank Limited under the Kenyan Companies Act on 12 January 1973 as a company limited by shares. The Company changed its name to IDB Capital Limited on 15 March 2006. The Company is domiciled in Kenya.

The shareholders of the Company include the National Treasury, the Industrial and Commercial Development Corporation (ICDC), the Kenya Reinsurance Corporation, National Bank of Kenya and The Kenya National Assurance Company (in liquidation). At cabinet level, IDB is represented by the Cabinet Secretary for Industry, Trade & Cooperatives.

### **Principal activities**

The principal activities of the Company are financing of industrial and other projects in Kenya.

### **Mandate**

The mandate of IDB Capital Limited is to further the economic development of Kenya by assisting in the promotion, establishment, expansion and modernization of medium and large scale industrial enterprises. The Institution’s operations are guided by its vision and mission.

### **Our Vision**

Vision of IDB Capital Limited is:

*“To be the development finance partner of choice for the industrial investor”*

### **Our Mission**

Mission of IDB Capital Limited is:

*“Providing financial solutions to enterprises in Kenya to enable them establish, expand and modernise their operations to foster sustainability and competitiveness in economic development”*

### **Core values**

In an endeavor to realize its vision and mission, IDB Capital upholds the following core values:

- (i) Customer focus: IDB commits itself to meeting customer needs.
- (ii) Innovativeness: IDB is a learning organization that embraces change and continuously innovates its business products and processes.
- (iii) Integrity: IDB is committed to acting in an honest, transparent and responsible manner in discharging its mandate.
- (iv) Professionalism: The Institution upholds the utmost level of excellence and competence in all its operations.
- (v) Teamwork: The staff and the Board of IDB work as a team and nurture a performance driven culture.
- (vi) Respect: IDB values relationships and strives to respect all stakeholders.
- (vii) Recognition: IDB acknowledges and rewards performance at the work place.
- (viii) Training and development: IDB recognizes and supports the desire and ability of staff to grow and improve.

# IDB CAPITAL LIMITED

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## CORPORATE INFORMATION (CONTINUED)

### **Registered office & headquarters**

18<sup>th</sup> Floor, National Bank Building  
Harambee Avenue  
PO Box 44036 - 00100  
Nairobi

### **Corporate contacts**

Telephone: +254 (0)20 2248600; 2247142;  
3202000; 2247112  
Mobile: +254 (0) 733 221 111; 728 970 750  
Fax: +254 (0) 20 318829  
Email: [bizcare@idbkenya.com](mailto:bizcare@idbkenya.com)  
Website: [www.idbkenya.com](http://www.idbkenya.com)

### **Authorised independent auditor**

KPMG Kenya  
Certified Public Accountants  
8<sup>th</sup> Floor, ABC Towers  
ABC Place, Waiyaki Way  
PO Box 40612 – 00100  
Nairobi.

*On behalf of:*

The Auditor-General  
Kenya National Audit Office  
Anniversary Towers  
University Way  
PO Box 30084 - 00100  
Nairobi.

### **Principal bankers**

Commercial Bank of Africa Limited  
PO Box 30437 – 00100  
Nairobi

National Bank of Kenya Limited  
PO Box 72866 – 00200  
Nairobi

### **Legal advisors**

Adera & Company Advocates  
Embassy Hse, 5th Floor Harambee Avenue  
PO Box 54556 – 00200  
Nairobi  
Tel 0712216228

Kibatia & Company Advocates  
Blue Violets Plaza 3r Floor, Kindaruma Rd  
Off Ngong Rd  
PO Box 20631 – 00200  
Nairobi  
Tel 020 2229495

Amolo & Gacoka Advocates  
Cianda Hse 3rd Floor Koinange Street  
PO Box 53319 – 00200  
Nairobi  
Tel 0735356637

Mwaura & Wachira Advocates  
Blue Violets Plaza 5th Floor Kindaruma Rd  
Off Ngong Rd  
PO Box 51667 – 000200  
Nairobi  
Tel 020 2725607

# IDB CAPITAL LIMITED

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## CORPORATE INFORMATION (CONTINUED)

### Legal advisors (Continued)

Kittony Maina Karanja Advocates  
Kim's Court, Theta Lane, Off Lenana Rd  
PO Box 74221 – 00200  
Nairobi  
Tel 0721258263

KN Associates LLP  
Ngong Lane Plaza, 3rd Floor, Ngong Lane  
Off Ngong Rd  
PO Box 27547 – 00100  
Nairobi  
Tel 020 3861305/6/7

Moronge & Company Advocates  
Electricity Hse, 6th Floor  
PO Box 44289 – 00100  
Nairobi  
Tel 020 2664223

Kabaru & Company Advocates  
3<sup>rd</sup> Floor, Wing B Kenya Police Sacco Plaza,  
Ngara Road  
PO Box 16979 – 00620  
Nairobi  
Tel 020 2731468

# **IDB CAPITAL LIMITED**

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## **BOARD OF DIRECTORS**

The Directors who served the Company during the year and up to the date of this report were as follows:

Prof. Michael Bowen	Chairman
Mrs. Karen Kandie	Managing Director
Cabinet Secretary, The National Treasury	Mr. Henry K. Rotich, EGH
	Alternate: Mr. J.K. Oltetia (Appointed on 24 <sup>th</sup> November, 2017)
Permanent Secretary, Ministry of Industry Trade & Cooperatives	Ms Betty Maina, MBS
National Bank of Kenya Limited	Alternate: Mr. John Mwendwa
Industrial and Commercial Development Corporation	Represented by Mr. Wilfred Musau
Kenya National Assurance Company (In liquidation)	Represented by Mr. Edward Gitau
Kenya Reinsurance Corporation Limited	Represented by Mr. Mark Gakuru
Mr. Michael M. Kiswili	Represented by Mr. Jadhah Mwarania
Mr. Hillary Korir	Independent Director (retired on 16 <sup>th</sup> April, 2018)
	Independent Director
Company Secretary	Rebecca Akoth Kinyanjui (Mrs)
	PO Box 44036 – 00100
	Nairobi

# IDB CAPITAL LIMITED

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## CHAIRMAN'S STATEMENT

I am pleased to present the 45<sup>th</sup> Annual Report and Financial Statements of IDB Capital Limited for the year ended June 30<sup>th</sup> 2018.

We have endeavoured over the years to deliver on our mandate of stimulating the growth of our economy in line with the national development agenda. IDB Capital is an important development finance vehicle that has supported the Government to achieve its objectives of achieving a more equitable growth.

Through our product lines, we have created value, with the sole purpose of helping Kenya foster sustainability and competitiveness in economic development through financing of the industrial sector. Our achievements are underpinned by our legacy of more than 45 years of dedicated service to Kenya's industrial transformation.

Our results for 2017 reflect the challenges that prevailed in our core areas of business. Being an election year, political temperatures remained high and disputes persisted throughout. This contributed to short-term volatility and uncertainty in the business environment. The economy contracted and this was exacerbated by a lower credit growth occasioned by the interest rate cap.

As a result, the country's Gross Domestic Product (GDP) dropped from 5.9% in 2016 to 4.9% in during the year under review. Inflation also increased to 8.02% compared to 6.57% in 2016. The challenges affecting the country were also evident in the earnings for 2017 by leading companies listed on the Nairobi Securities Exchange. Despite these adverse effects, yields on government securities and the exchange rate of the Kenyan Shilling against other major foreign currencies remained relatively stable.

The Board continues to implement and evaluate the company's 2016-2021 Strategic Plan. We recognise that future success will depend on an agile and adaptive business model, which re-calibrates itself in a dynamic operating environment. We undertook a mid-term strategic review specifically to ensure that we align our strategic objectives to the Government's Big 4 initiative focused on food security, manufacturing sector, affordable housing and universal healthcare.

We are also preparing for the proposed merger of IDB Capital and other development finance institutions into Kenya Development Bank. The implementation of the merger is expected to support the overall expansion of the industrial sector through improved lending capacity, modernization of existing operations and creation of new industries.

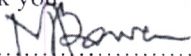
With the prolonged electioneering period behind us, new exciting opportunities are emerging in our markets that will have a positive effect in accelerating the growth of the industrial sector. An optimistic outlook for the financial year 2018/2019 is expected to yield results that will impact on the industrialization programmes in the country.

I thank the Government of Kenya for continued improvement in ease of doing business and for their support in implementing the USD 15 Million line of credit from India for which we are the implementing agency. I am specifically grateful to the National Treasury and our parent ministry for the support accorded to us.

I also thank my fellow Board of Directors for their support, commitment and guidance in serving our stakeholders and our country. My gratitude further goes to the management and members of staff for their continued hard work and commitment to delivery and results, despite the challenges that industry experienced during the year.

Let us continue to work together to turn IDB Capital into a leading vehicle for economic transformation.




Thank you



.....  
**Prof. Michael Bowen, PhD**  
**Chairman - Board of Directors**  
**IDB Capital Limited**



# IDB CAPITAL LIMITED

## BOARD OF DIRECTORS PROFILES

 <p>Prof. Michael Kipyego Bowen Chairman</p>	<p>Prof. Michael Kipyego Bowen is an Associate Professor of Environment and Economics at Daystar University and currently the chairman of IDB Capital Ltd. He is also the Director for Research, Publications and Consultancy at Daystar University. He was a council member of Daystar University between 2012 and 2014. Between 2013 and 2015, he was the deputy director (Quality Assurance) at Daystar University.</p> <p>Previously, he was the head of Department of Business Administration at Kenya Methodist University and has been a member of several school boards in Keiyo South Constituency. He has taught at University level for the last 15 years and supervised several masters and PhD students. He has published several articles and book chapters and has attended several international conferences spanning the globe. He was born in July 1969.</p>
 <p>Mr. Henry K. Rotich, EGH Cabinet Secretary, National Treasury</p>	<p>Mr. Henry K. Rotich, EGH, is the Cabinet Secretary, National Treasury. Prior to his appointment, he was the Head of Macroeconomics at the Treasury, Ministry of Finance for 7 years.</p> <p>Prior to joining the Ministry of Finance, Mr. Rotich worked at the Central Bank of Kenya for 12 years. He was attached to the International Monetary Fund (IMF) local office in Nairobi as an economist between 2001 and 2004. He has been a Director of several Boards of State Corporations including; Kenya Reinsurance Corporation, Insurance Regulatory Board, Communication Commission of Kenya and Kenya National Bureau of Statistics.</p> <p>Mr. Rotich holds a Master's Degree in Public Administration (MPA) from the Harvard Kennedy School, Harvard University. He also holds MA and BA degrees in Economics (University of Nairobi). He was born in 1969.</p>
 <p>Mr. Johnstone K. Oltetia Alternate to the CS National Treasury.</p>	<p>Mr. Johnstone Oltetia is an Alternate Director to the CS National Treasury at IDB Capital Limited. A Senior Financial Sector Adviser at the National Treasury, advising on policy matters relating to capital markets, pensions, insurance, banking and other financial services. Previously was the Head of Market Supervision at the Capital Markets Authority, Kenya responsible for oversight of Exchanges(s), CSDs, Asset Managers, Investment Banks, Stock Brokers and Investment Advisers among others.</p> <p>A Certified Investment and Financial Analyst and holder of MBA and B. Com degrees. Member of Institute of Certified Investment and Financial Analysts (ICIFA), Institute of Directors of Kenya (IOD) and Association of Certified Fraud Examiners (ACFE). He also serves in the Board of FSD Kenya. He was born in 1973.</p>




# IDB CAPITAL LIMITED

## BOARD OF DIRECTORS PROFILES (CONTINUED)

 <p>Ms Betty Maina , MBS Permanent Secretary, Ministry of Industry, Trade &amp; Cooperatives</p>	<p>Ms Betty Maina is the Principal Secretary for Industrialization in the Ministry of Industrialization Trade and Cooperatives (MITC).</p> <p>A seasoned professional with more 20 years' experience in organisational leadership and development and engaged in policy analysis and influence. A proven and capable leader with ability to prepare and implement strategic business plans and mobilise the necessary resources for implementation. Adept at policy analysis, communication and negotiation with decision makers at all levels. She has proven skills and is experienced in economic policy development, private sector development and advocacy, trade policy, regional integration, education and skill development, integrated development, organisational management; public policy research, analysis, communication and advocacy and extensive experience in facilitation and training.</p> <p>Previously, she was the CEO of the Kenya Association of Manufacturers for 11 years until June, 2015; and subsequently the CEO of the Institute of Economic Affairs – an applied policy think tank.</p> <p>Ms. Maina holds an MSc degree in Development Administration from the University College London and a BA degree in Land Economics from the University of Nairobi.</p>
 <p>Mr. John Mwendwa Alternate to the PS Ministry of Industry Trade and Cooperatives</p>	<p>Mr. John Mwendwa is the Alternate Director to Permanent Secretary, Ministry of Industrialization Trade and Cooperatives (MITC). He is the Chief Financial Officer /Personal Assistant to the Permanent Secretary MITC. Previously, he worked in senior management positions in various parts of the Barclays Group. He has experience in areas of strategy, finance, risk management and operations in banking as well as Accounting and Auditing in the Manufacturing Sector.</p> <p>Mr. Mwendwa holds a Master of Commerce degree in Finance and Bachelor of Commerce in Finance. He was born in 1983.</p>
 <p>Mr. Mark Gakuru Representing KNAC (In Liquidation)</p>	<p>Mr. Mark Gakuru an Advocate of the High Court of Kenya with over 15 years of legal and administrative experience obtained in both the Private and Public Sectors. He is the Ag. Official Receiver and as such is regulator Insolvency practice in Kenya. He holds Master's Degree in Laws (LL.M) from the University of Nairobi. He was born in 1975.</p>

# IDB CAPITAL LIMITED

## BOARD OF DIRECTORS PROFILES (CONTINUED)

 <p>Mr. Edward J. G. Gitau Representing Industrial &amp; Commercial Development Corporation (ICDC)</p>	<p>Mr. Edward Gitau is currently a Credit Manager with ICDC where he has worked since 1989. He has over 20 years' experience in project investment analysis, project implementation and investment monitoring. He holds a Bachelor of Arts (Economics &amp; Statistics) and is a Certified Securities &amp; Investment Analyst. He was born on in 1963.</p>
 <p>Mr. Wilfred Musau Representing National Bank of Kenya (NBK)</p>	<p>Mr. Wilfred Musau is the Managing Director &amp; CEO of NBK having joined the Bank in September 2015 as the Director in charge of the Retail &amp; Premium banking division. He has over 18 years of consumer and commercial banking experience coupled with local and international experience and exposure.</p> <p>Mr. Musau is a B.Com holder from Kenyatta University – Major in Banking and Finance, Holds a Masters Class certification in Strategy- USB University of Stellenbosch Business School – SA, UK Euro Money training in – advanced corporate banking, Master class in SME Banking and Master Class in Retail banking. He was born in 1973.</p>
 <p>Mr. Jadhah Mwarania, OGW Representing Kenya Reinsurance Corporation</p>	<p>Mr. Jadhah Mwarania is the Managing Director of the Kenya Reinsurance Corporation. He holds a Bachelor of Commerce (B.com.) (Hons.), and Master of Business Administration (MBA) degree from the University of Nairobi and currently is undertaking a PHD in strategic management. He is a Fellow of the Chartered Insurance Institute of London (FCII) and Insurance Institute of Kenya (FIK) and is a Chartered Insurer (CI) of the Insurance Institute of London. He is a Fellow of the Kenya Institute of Management (FMKIM).</p> <p>Mr Mwarania is a Director on the Board of Directors of Zep Re (PTA Reinsurance Company) and the Chairman of the Association of Kenya Reinsurers (AKR), a Board Member of the Insurance Training and Education Trust (ITET) and member of the Finance and Development Committee of the Board of the College of Insurance of Kenya. He was born in 1964.</p>

# IDB CAPITAL LIMITED


## BOARD OF DIRECTORS PROFILES (CONTINUED)

 <p>Mr. Michael M. Kiswili ,EBS Independent Director</p>	<p>Mr. Michael Kiswili is an independent director at IDB Capital Limited. He has served in the Boards of NGO coordination Board; Kenya School of Government, and currently in the Boards of National Fund for the Disabled of Kenya; Heifer International Inc. Kenya and Comfort Homes International Limited.</p> <p>He is a Certified Public Accountant (Kenya), a Fellow of the Association of Chartered Certified Accountants (UK) and a PhD candidate (Strategic Management) with Jomo Kenyatta University of Agriculture and Technology. He is a senior partner in an Accounting firm in Nairobi. He was born in 1951.</p>
 <p>Mr. Hillary Korir Independent Director</p>	<p>Mr. Hillary Korir is an independent director at IDB Capital Ltd. He has a Notable Work experience- Research Assistant (Nielsen &amp; Millward Brown EA Ltd.) and Lecturer- Mt. Kenya University and Jomo Kenya University of Agriculture &amp; Technology (JKUAT); Nakuru Campuses.</p> <p>He holds a Bachelor of Social Studies (Sociology- Moi University) and is and currently undertaking a Master's in Business Administration-Strategic Management (Mt. Kenya University). He was born in October 1981.</p>
 <p>Mrs. Karen Kandie Managing Director</p>	<p>Mrs. Karen Kandie is the Managing Director of IDB Capital Limited from May 2017. She serves as an Advisor to The Board of Trustees, Micro-Enterprises Support Programme Trust (MESPT) and is a past member of the Capital Markets Tribunal.</p> <p>Previously, she served as the Director of Finance at Shelter Afrique; Head of Finance &amp; Administration at Nairobi Securities Exchange; Manager, Risk Management and Internal Audit at Faulu Kenya Limited; Financial Controller at Co-operative Bank of Kenya; Management Accountant at ABN AMRO Bank and a Senior Auditor at PriceWaterhouseCoopers.</p> <p>She holds a Master of Business Administration from Murdoch University, Western Australia. She is a B.Com holder from the University of Nairobi and is a Certified Public Accountant (CPA-K) and Certified Financial &amp; Investment Analyst (CIFA).</p> <p>Karen is currently pursuing a Doctorate in Business Administration. She was born in 1968.</p>

## IDB CAPITAL LIMITED

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### BOARD OF DIRECTORS PROFILES (CONTINUED)

 <p>Mrs. Rebecca A. Kinyanjui Chief Legal Officer/ Company Secretary</p>	<p>Mrs. Rebecca Kinyanjui is the Chief Legal Officer / Company Secretary in IDB Capital Limited. She joined as a Senior Legal Officer in August 1988. She previously worked as a State Counsel at the Office of the Attorney General. She holds an LLB (Hons) Degree from the University of Nairobi, a Diploma in Legal Practice. She is a Certified Public Secretary (CPS - K). She was born in 1961.</p>
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# IDB CAPITAL LIMITED

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## MANAGING DIRECTORS' STATEMENT

Dear Shareholders,

I am delighted to present the Annual Report and Financial Statements for the year ended 30th June 2018. The year 2017/2018 was undoubtedly a very challenging one not just for IDB Capital but the financial industry as a whole, mainly due to the impact of last year's general election

Despite these challenges we managed to realize commendable gains in our operations. We have a resilient and strong Institution that has navigated a rough terrain in pursuit of its commitment – provision of industrial financing to foster sustainability and competitiveness in economic development.

We have continued to make good progress in our strategic growth aspirations despite the challenging operating environment brought about by the operationalization of the Banking (Amendment) Act 2016 (Interest Rate Cap law) which reduced credit flow in the economy.

### **Financial Performance**

As mentioned earlier, we had arguably one of the toughest years ever but we remained resilient. This is demonstrated in our performance. We posted a loss of KShs 21 million, which was much lower than the loss of KShs 60 million that we recorded in 2016/2017. This significant improvement affirmed our formidable business whose potential is huge with a lot of opportunities in the sector.

The loss reduced our asset base, from KShs 816 million as at the end of 30<sup>th</sup> June 2017 to Moreover, our total KShs 789 Million as at 30th June 2018.

Introduction of the Interest Rate Cap law in 2016 reduced lending to SMEs by commercial banks, leading to a sharp decline in credit growth. Whereas IDB continued to support SMEs, the interest rate cap affected our total income, which decreased from KShs 110 million at the end of June 2017 to KShs 108 million as at 30<sup>th</sup> June 2018.

Despite the prevailing challenges, IDB continued to grow its lending portfolio. Net loans and advances stood at KShs 526 million as at 30th June 2018 compared to KShs 482 million as at 30th June 2017. The increase in the loan book was due to higher disbursements during the financial year under review.

The Institution's non-performing loans grew from KShs. 71 Million as at 30<sup>th</sup> June 2017 to KShs. 161 Million as at 30<sup>th</sup> June 2018. This attests to the generally challenging operating environment, which saw total nonperforming loans ("NPLs") for the industry rise from KShs 215 billion in 2017 to KShs 259 billion in 2018.

Operating costs decreased from KShs 108 Million in 2016/2017 to KShs 98 million in 2017/2018 financial year, due to stringent cost management.

### **Resource mobilization**

To achieve our mandate, we need to have more resources for lending. Resource mobilization continues to be a core driver of our mandate as well as a major area of focus and continued engagement with the government. Apart from the US\$ 15 million line of credit from the government of India that we are implementing, IDB has been keen on establishing and maintaining strategic partnerships with financial institutions, at both bilateral and multilateral levels, to booster the institutions financial position.

### **Internal processes**

Transparency is a core aspect of our business and we continue to explore technologies that can meet our specific needs. During the year we adopted a public procurement information portal that enhanced public access to our procurement processes. We are also in the final stages of implementing the Enterprise Resource Planning (ERP). We expect to have timelier reporting and improvement on turnaround time when this initiative is completed by the third quarter of the 2018/2019 financial year.

# IDB CAPITAL LIMITED

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## **Procurement disclosure**

IDP Capital has strictly complied with the legal framework governing procurement in Kenya such as Public Procurement and Assets Disposal Act (2015), Supplies Management Practitioners Act (2007) and other government directives.

## **Looking ahead**

Forecasts and performance indicators project a positive macro-economic environment for 2018/2019. We are alive to all the opportunities and the challenges ahead and have inbuilt specific strategies to navigate through emerging challenges and optimize on the opportunities available.

Our business has over the years grown through the support of our customers, shareholders and staff. With its impressive track record of contributing to the development of the Kenyan economy, IDB continuously strives to be a top industrial financier in this country. Customer-centrism remains the key to unlock our full potential and prepare the ground for our future growth.

Top of the business agenda in 2018/2019 is to ensure we are well positioned to operate a viable business that addresses the customers' needs effectively and that is relevance to the government's BIG 4 agenda.

Through our strategic plan, which was reviewed recently, we aim to strengthen the foundation of IDB to compete effectively, grow capacity and deliver on our set targets. On the proposed merger of development finance institutions, we are fully aware and we have already drawn measures and strategies of ensuring the readiness of our staff and customers to ensure their seamless integration into the new structure.

## **Conclusion**

Let me take this opportunity to appreciate the Chairman and the Board members for their continued support.

I also wish to thank the management and staff for their hard work, professionalism and commitment to results. Thanks to our dear customers for their loyalty. I invite and welcome new customers to sample our range of products.

The owners of this great institution have offered a strong pillar of support. We are keen to grow an institution that will serve generations to come and strongly impact on the economy of Kenya.

We seek God's favour as we strive to unlock our potential and grow IDB into a powerful vehicle for stimulating economic transformation.




Thank You and God Bless You



.....  
**Karen N. Kandie**  
Managing Director  
**IDB Capital Limited**





# IDB CAPITAL LIMITED

## MANAGEMENT TEAM

 <p>Mrs. Karen Kandie Managing Director</p>	<p>Mrs. Karen Kandie is the Managing Director of IDB Capital Limited from May 2017. She serves as an Advisor to The Board of Trustees, Micro-Enterprises Support Programme Trust (MESPT) and is a past member of the Capital Markets Tribunal.</p> <p>Previously, she served as the Director of Finance at Shelter Afrique; Head of Finance &amp; Administration at Nairobi Securities Exchange; Manager, Risk Management and Internal Audit at Faulu Kenya Limited; Financial Controller at Co-operative Bank of Kenya; Management Accountant at ABN AMRO Bank and a Senior Auditor at PriceWaterhouseCoopers.</p> <p>She holds a Master of Business Administration from Murdoch University, Western Australia. She is a B.Com holder from the University of Nairobi and is a Certified Public Accountant (CPA-K) and Certified Financial &amp; Investment Analyst (CIFA).</p> <p>Karen is currently pursuing a Doctorate in Business Administration. She was born in 1968.</p>
 <p>Mr. Timothy K. Tiampati Chief of Credit</p>	<p>Mr. Timothy Tiampati is the Chief of Credit. He joined IDB Capital Limited as a Project Officer in April 1985 and rose through the ranks to be the Chief of Credit. He previously worked as an Economist/Statistician at Kerio Valley Development Authority. He holds a Master of Science (Economics) from Odessa Institute of National Economics, former U.S.S.R. He was born in 1959.</p>
 <p>Mrs. Rebecca A. Kinyanjui Chief Legal Officer/Company Secretary</p>	<p>Mrs. Rebecca Kinyanjui is the Chief Legal Officer / Company Secretary in IDB Capital Limited. She joined as a Senior Legal Officer in August 1988. She previously worked as a State Counsel at the Office of the Attorney General. She holds an LLB (Hons) Degree from the University of Nairobi, a Diploma in Legal Practice. She is a Certified Public Secretary (CPS - K). She was born in 1961.</p>

## IDB CAPITAL LIMITED

### MANAGEMENT TEAM (CONTINUED)

 <p>Mrs. Priscilla N. Njuguna Manager, Legal Affairs</p>	<p>Mrs. Priscilla Njuguna is the Legal Affairs Manager and is the legal advisor to the Institution. She joined IDB Capital Limited as a Legal Officer in May 1988. She previously worked as a Registrar in the Ministry of Lands and Housing. She holds a Bachelor of Law degree LLB (Hons) from the University of Nairobi, a Diploma in Legal Practice from The Kenya School of Law and is a Certified Public Secretary, (CPS- K).</p>
 <p>Mrs. Anne N. Gitau Manager, Finance &amp; Accounts</p>	<p>Mrs. Anne Gitau has been the Manager Finance and Accounts since January 2011 and is responsible for overall financial management and accounting functions. She has a wide experience in finance and accounting gained at various levels having joined IDB Capital Limited in May 1991. She is a holder of a Bachelor of Commerce Degree (Accounting Option) from the University of Nairobi and is a Certified Public Accountant and Secretary, (CPA-K, CPS- K) and is a member of ICPAK.</p>
 <p>Mrs. Judith A. Omachar Manager, Credit</p>	<p>Mrs. Judith Omachar is the Manager Credit. She is responsible for overall credit management functions. She has over 20 years' experience in credit management gained at IDB Capital. She holds a Bachelor of Commerce degree (Accounting Option) from the University of Nairobi and is a Certified Public Accountant (CPA-K).</p>
 <p>Mr. John Ouko Manager, ICT</p>	<p>Mr. John Ouko is the ICT Manager. He is responsible for the overall Information Technology infrastructure and systems. He has vast experience in computing systems, networks and databases. He holds a Bachelor of Science degree (Computer Science Option) from Maseno University, ongoing Master of Science (Computer Systems) from JKUAT and is Certified in both Microsoft and Cisco platforms (MCSA &amp; CCNA).</p>

# IDB CAPITAL LIMITED

## CORPORATE GOVERNANCE STATEMENT

The Board of Directors supports the implementation of best practice in Corporate Governance and in this regard, has adopted “Mwongozo” the code of governance for State Corporations and is committed to its full implementation

### **The Board of Directors**

The Board comprises ten members. Six of them represent the institutions that are shareholders of the Company; three are Independent and one executive.

The conduct of the Board is governed by the terms of a Board Charter ensuring that its role is independent from that of management. It covers Board responsibilities, the conduct of meetings, conflict of interest, Board effectiveness and evaluation and information confidentiality among other matters.

The Board meets quarterly or more often if business so dictates. During its meetings it considers reports from the various board committees and matters related to the general strategy of the Company.

### **Board Committees**

There are three committees of the board. Their terms of reference have been set by the board and they make recommendations to the board on various matters delegated to them. The current Board Committee membership details are as follows:

	Director	Status	Committees		
			Audit	Finance & Investment	HR
1	Mr. Johnstone K. Oltetia (Alternate CS Treasury)	Non-Executive	✓		
2	John Mwendwa (Alternate PS MITC)	Non-Executive		✓	✓ (C)
3	Michael M. Kiswili	Non-Executive	✓		
4	Wilfred Musau	Non-Executive	✓ (C)		
5	Mark Gakuru	Non-Executive	✓		✓
6	Jadiah Mwarania	Non-Executive		✓ (C)	
7	Edward J. G. Gitau	Non-Executive		✓	
8	Hillary Korir	Non-Executive			✓
9	Karen Kandie	Managing Director		✓	✓

(C) – Chairman/person of Committee

### **Board Meetings**

The Board has a work plan in place. Meetings of the full Board are held at least once every quarter. The notice agenda and Board papers are circulated in advance of each meeting. The attendance at meetings of the Board and its Committees were as follows:

# IDB CAPITAL LIMITED

## CORPORATE GOVERNANCE STATEMENT (CONTINUED)

### Board Meetings (continued)

	Board	Audit	Finance & Investment	HR
<b>Number of Meetings</b>	8	4	6	4
Prof. Michael Bowen	8			
John Mwendwa (Alternate PS MITC)	7		2	3
Michael M. Kiswili	5	3		
Wilfred Musau	6	4		
Mark Gakuru	8	4		4
Jadiah Mwarania	7		6	
Edward J. G. Gitau	8		6	
Hillary Korir	8			4
Mr. Johnstone K. Oltetia (Alternate CS Treasury)	2	2		
Karen Kandie	8		6	4

### Executive Committees

The Managing Director has established committees to review specific aspects of the Company's operations. These include the Assets and Liabilities Committee, the Management committee and the Credit Committee.

### Board Evaluation

A Board evaluation is conducted by the State Corporation Advisory Committee (SCAC) every year. The evaluation covers the performance of the Chairman, individual directors, the Managing Director and the Company Secretary. The Corporate Board performance score for the last evaluation was 91.9%.

### Internal Controls

The Board of Directors has collective responsibility for the establishment and maintenance of a system of internal controls that provide reasonable assurance of effective and efficient operations. However, it recognizes that any system of internal control can provide only reasonable but not absolute assurance against material misstatement.

### Risk Management

The Company has identified risks that are inherent to the business and continuously reviewing its policies and procedures in order to mitigate against such risks. The risks include strategic risk, interest rate risk, foreign exchange risk and operational risk as are detailed in Note 5 of the financial statements.

# **IDB CAPITAL LIMITED**

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## **CORPORATE GOVERNANCE STATEMENT (CONTINUED)**

### **Compliance with Laws and Regulations**

A legal audit conducted during the year confirmed that the Company complied with all applicable laws and regulations. There were no incidences of fraud or corruption.

As regards the Mwongozo Code, policy papers are under consideration covering, stakeholder relationship management, risk management and corporate reputation & image. A governance audit scheduled to be held during the year was suspended upon instructions received from the State Corporations Advisory Committee.

### **Directors' Benefits and Loans**

The directors are entitled to fees and sitting allowances, the details of which have been disclosed in the financial statements, in Note 28. No loans were advanced to Directors during the financial year.

# IDB CAPITAL LIMITED

## CORPORATE SOCIAL RESPONSIBILITY (CSR) STATEMENT

IDB Capital attaches great importance to Corporate Social Responsibility as a sure way of building sustainable partnerships and relationships with the community.

We have over the years worked closely with different institutions to support initiatives aimed at uplifting the standards of living and focusing on areas that create avenues for sustainable development.

Planting trees helps in the achievement of the 10% forest cover threshold as envisaged in Kenya's vision 2030 blueprint. It is for this reason that IDB, in collaboration with Kenya Water Towers Agency, joined hands and made a green statement by planting trees at Kaptagat – Mau North water tower in June 2018. In this regard, we continually identify and support noble endeavours in areas aligned to our mandate.

In 2017/2018 financial year, we oversaw the initiatives that led to creation of job opportunities and promotion of local entrepreneurship, through concerted efforts by procuring locally made goods and services as an institution.

In this, we are guided by the commitment to make a positive difference in the communities where we work, live and serve.



During tree planting at Kaptagat – Mau North water tower in June 2018

# **IDB CAPITAL LIMITED**

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## **SUSTAINABILITY REPORT**

Over the years, IDB Capital Limited has made considerable progress by redefining its role as a socio-economic stimulator. We have made a concerted effort to build long-term partnerships necessary to offer products which add value to livelihoods and introduce financial solutions that are fit for the industrial investor so as to foster sustainable economic development.

We believe in responsible approaches to developing relationships among the industries we finance and communities we serve as a vital part of delivering on our successful business model. When carrying out our business, we consult our customers for continual improvement. Furthermore, we assess the environmental, social and economic issues during project reviews. We also continually review our policies and business practices to encourage engagement with who would be marginalized parties through special procurement allocation to these parties.

The success of IDB as a Development Finance Institution is based on our people. We seek to recruit, retain, reward and develop the best innovative talent in our organization. In the year, apart from the existing Indian line of credit of KShs 1.5 Billion, the Company has been keen on establishing and maintaining strategic partnerships with financial institutions both bilateral and multilateral, with an aim of ensuring financial sustainability that fosters the institutions mandate.

# **IDB CAPITAL LIMITED**

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## **REPORT OF THE DIRECTORS** **FOR THE YEAR ENDED 30 JUNE 2018**

The Directors submit their report together with the audited financial statements for the year ended 30 June 2018, which disclose the state of affairs of IDB Capital Limited (“the Company”).

### **1. Principal activities**

The principal activities of the Company are financing of industrial and other projects in Kenya.

### **2. Results**

The Company recorded a net loss for the year of KShs 21.69 million (2017 – loss of KShs 60.01 million).

### **3. Dividends**

The directors do not propose payment of a dividend (2017 – Nil).

### **4. Directorate**

The directors who held office during the year and up to the date of this report are set out on page 4.

### **5. Business review**

The year ended 30 June 2018 was a challenging year. The Company recorded a net loss of KShs 21.69 million (2017 – net loss of KShs 60.01 million). Net income rose by 59% to KShs 76.08 million in 2018 due to increase loan disbursements compared to 2017 which stood at KShs 47.5 million. Total expenses decreased by 9% to KShs 97.77 million compared to the year ended 30 June 2017 which stood at KShs 107.77 million. The net income was significantly higher in the current year due to the reduction in impairment provisions on loans during the year (2018 – 31.8 million; 2017 – 60.1 million) which was netted off in total operating income.

The Company’s strategy which is elaborated in our Strategic Plan 2016-2021 and is built on the foundation of the corporate values set to drive successful development in the coming years in achieving our long-term vision for IDB Capital Limited which is: “To be the development finance partner of choice for the industrial investor”. In order to steer the focus of the entire organization toward the Company’s strategy and ensure its successful implementation, the Company has three strategic themes: to ensure and sustain IDB institutional relevance, raise funds required to successfully execute its mandate and build the required internal capacity to successfully address the first two themes.

Our review of projections for the next financial year indicates that the total revenue will be KShs 308.9 million while the total expenses will be KShs 243.2 million the projected surplus will therefore be KShs 65.7 million. The projections are based on the assumption that the full drawdown from Line of Credit (LoC) from Exim Bank of India amounting to KShs 1.5 billion will have crystallised. IDB has so far considered and approved funding requests from six companies in excess of KShs 500 million, seven projects whose applications amounts to KShs 205 million are currently undergoing appraisal and a potential pipeline of 10 projects totalling to KShs 381 million.

IDB has obtained approval for the first contract inclusion under the line which is a pre-requisite for disbursement. However various challenges have been experienced that continue to slow down the disbursements on the LoC and the same have been brought to the attention of The National Treasury for resolution.

# IDB CAPITAL LIMITED

## REPORT OF THE DIRECTORS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 5. Business review (continued)

With the increased number of enquiries on the LoC, we will be able to fully disburse the entire line as envisaged.

The Company aspires to leverage on the full potential in product categories in order to gain market share by: actively managing the Company's portfolio; strengthening the Company's top brands; launching powerful innovations; and focusing on customers and consumers.

The principal risks and uncertainties facing the Company as well as the risk management framework as outlined in Note 5 of the financial statements.

### 6. Employees

The Directors are pleased to record their appreciation for the untiring efforts of all employees of the Company.

### 7. Relevant audit information

The Directors in office at the date of this report confirm that:

- (i) There is no relevant audit information of which the Company's Auditor is unaware; and
- (ii) Each Director has taken all the steps that they ought to have taken as a Director so as to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

### 8. Auditor

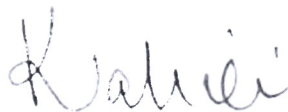
The Auditor-General is responsible for the statutory audit of the Company's financial statements in accordance with Article 229 of the Constitution of Kenya. Section 23(1) of the Public Audit Act 2015, empowers the Auditor-General to nominate other auditors to carry out an audit on their behalf.

KPMG Kenya, who were appointed by the Auditor-General, have carried out the audit for the year ended 30 June 2018.

### 9. Approval of financial statements

The financial statements were approved and authorised for issue by the board of directors on  
20 Sept 2018

**BY ORDER OF THE BOARD**



**DIRECTOR**

Date: 20 Sept 2018

# IDB CAPITAL LIMITED

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the financial statements of IDB Capital Limited ("the Company") set out on pages 26 to 72 which comprise the statement of financial position at 30 June 2018, the statement of profit or loss and other comprehensive income, statement of changes in equity and the statement of cash flows for the year ended, and notes to the financial statements including a summary of significant accounting policies and other explanatory information.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, 2015, the Directors are required to prepare financial statements for each financial year which give a true and fair view of the finance position of the Company as at the end of the financial year and of the profit or loss of the Company for that year. It also requires the Directors to ensure the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company.

The Directors accept responsibility for the financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. The Directors are of the opinion that the financial statements give a true and fair view of the financial position of the Company and of its profit or loss.

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

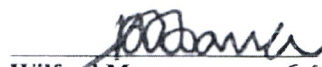
The Directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe the Company will not be a going concern for at least the next twelve months from the date of this statement.

### **Approval of the financial statements**

The financial statements, as indicated above, were approved and authorised for issue by the Board of Directors on 20 sept 2018



**Prof. Michael Bowen**  
*Chairman*



**Wilfred Musau**  
*Director*

**Date:** 20 sept 2018

# REPUBLIC OF KENYA

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Website: www.kenao.go.ke



P.O. Box 30084-00100  
NAIROBI

## OFFICE OF THE AUDITOR-GENERAL

### REPORT OF THE AUDITOR-GENERAL ON IDB CAPITAL LIMITED FOR THE YEAR ENDED 30 JUNE 2018

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#### REPORT ON THE FINANCIAL STATEMENTS

##### **Opinion**

The accompanying financial statements of IDB Capital Limited set out on pages 26 to 73 which comprise the statement of financial position as at 30 June 2018, and the statement of financial performance, statement of changes in net assets, statement of cash flows and statement of comparison of budget and actual amounts for the year then ended, and a summary of significant accounting policies and other explanatory information, have been audited on my behalf by KPMG Kenya, auditors appointed under 23 of the Public Audit Act, 2015. The auditors have duly reported to me the result of their audit and on the basis of their report, I'm satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit have been obtained.

In my opinion, the financial statements present fairly, in all material respects, the financial position of IDB Capital Limited as at 30 June, 2018, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with Kenya Companies Act, 2015

##### **Basis for Opinion**

The audit was conducted in accordance with International Standards of Supreme Audit Institutions (ISSAIs). I am independent of IDB Capital Limited in accordance with ISSAI 30 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.

##### **Emphasis of Matters**

I draw attention to Note 2(c) to the financial statements which indicates that on 15 May 2018, the Kenya Cabinet approved the merger process of IDB Capital Limited with two other development Finance Institutions (DFIs) to commence in the 2018/19 financial year to create the Kenya Development Bank Limited (KDB). The incorporation of KDB will be followed by the dissolution of IDB Capital Limited My opinion is not modified in respect of this matter.

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*Report of the Auditor-General on the Financial Statements of IDB Capital Limited for the year ended 30 June 2018*

## **Key Audit Matters**

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

## **REPORT ON LAWFULNESS AND EFFECTIVENESS IN USE OF PUBLIC RESOURCES**

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.

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**

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

The audit was conducted in accordance with ISSAI 1315 and ISSAI 1330. 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 governance were operating effectively, in all material respects. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my conclusion.

## **Responsibilities of Management and Those Charged with Governance**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standard and for such 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.

In preparing the financial statements, management is responsible for assessing the Company'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 the management either intends to cease operations of the Company, or have no realistic alternative but to do so.

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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **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.

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.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances and for the purpose of giving an assurance on the effectiveness of the Company's 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 Company'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 Company 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 Company to express an opinion on the financial statements.
- Perform such other procedures as I consider necessary in the circumstances.

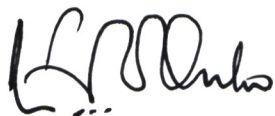
I communicate with the management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that are identified during the audit.

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.

#### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

As required by the Companies Act, I report based on my audit, that:

- i. 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;
- ii. in my opinion, adequate accounting records have been kept by the Company, so far as appears from the examination of those records; and,
- iii. The Company's financial statements are in agreement with the accounting records and returns.



**FCPA Edward R. O. Ouko, CBS**  
**AUDITOR-GENERAL**

**Nairobi**

**24 December 2018**

## IDB CAPITAL LIMITED

### STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 KShs'000	2017 KShs'000
Interest income	6	101,613	107,336
Non-interest income	7	5,785	1,997
Other operating income	8	<u>488</u>	<u>466</u>
<b>Total operating income</b>		<b><u>107,886</u></b>	<b><u>109,799</u></b>
<b>Other loss</b>			
Net impairment loss on loans and advances	9	( 31,619)	( 62,237)
Other (expenses)/income	10	<u>( 193)</u>	<u>191</u>
<b>Total other loss</b>		<b><u>( 31,812)</u></b>	<b><u>( 62,046)</u></b>
<b>Net income</b>		<b><u>76,074</u></b>	<b><u>47,753</u></b>
<b>Operating expenses</b>			
Staff costs	11	( 59,881)	( 57,726)
Administrative expenses	11	( 25,150)	( 37,122)
Operating lease expenses	11	( 9,586)	( 9,587)
Depreciation and amortisation	11	<u>( 3,150)</u>	<u>( 3,337)</u>
<b>Total operating expenses</b>		<b><u>( 97,767)</u></b>	<b><u>(107,772)</u></b>
<b>Loss before tax</b>	12	<b><u>( 21,693)</u></b>	<b><u>( 60,019)</u></b>
Tax expense	13	-	-
<b>Loss for the year</b>		<b><u>( 21,693)</u></b>	<b><u>( 60,019)</u></b>
<b>Other comprehensive income</b>			
Other comprehensive income		-	-
<b>Total comprehensive income for the year</b>		<b><u>( 21,693)</u></b>	<b><u>( 60,019)</u></b>
<b>Basic and diluted earnings per share (KShs)</b>	14	<b><u>( 0.54)</u></b>	<b><u>( 1.48)</u></b>

The notes set out on pages 30 to 72 form an integral part of these financial statements.

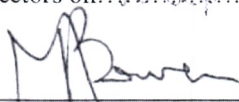


# IDB CAPITAL LIMITED

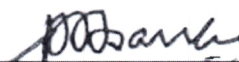
## STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2018

ASSETS	Note	2018 KShs'000	2017 KShs'000
<b>Current assets</b>			
Cash and bank balances	15	6,020	9,929
Deposits with financial institutions	16	188,974	257,257
Loans and advances to customers	17(d)	87,490	75,274
Current tax recoverable	13(b)	28,580	25,689
Other assets	18	<u>4,139</u>	<u>3,766</u>
		<b>315,203</b>	<b>371,915</b>
<b>Non-current assets</b>			
Loans and advances to customers	17(d)	438,947	406,673
Financial assets (unquoted)	19	28,745	28,928
Property and equipment	21	5,627	7,346
Intangible assets	22	<u>1,208</u>	<u>1,873</u>
		<b>474,527</b>	<b>444,820</b>
<b>TOTAL ASSETS</b>		<b><u>789,730</u></b>	<b><u>816,735</u></b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Other liabilities	24	<u>16,302</u>	<u>21,614</u>
<b>Shareholders' funds</b>			
Share capital	25	810,020	810,020
Retained earnings deficit		( 36,592)	( 14,899)
<b>Total equity</b>		<b><u>773,428</u></b>	<b><u>795,121</u></b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b><u>789,730</u></b>	<b><u>816,735</u></b>

The financial statements on pages 26 to 72 were approved and authorised for issue by the board of directors on 30 June 2018 and were signed on its behalf by:

  
 \_\_\_\_\_  
**Prof. Michael Bowen**  
 Chairman

  
 \_\_\_\_\_  
**Mrs. Karen Kandie**  
 Managing Director

  
 \_\_\_\_\_  
**Wilfred Musau**  
 Director

The notes set out on pages 30 to 72 form an integral part of these financial statements.

**IDB CAPITAL LIMITED**

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE YEAR ENDED 30 JUNE 2018**

	Note	Share capital KShs'000	Retained earnings deficit KShs'000	Proposed dividends KShs'000	Total KShs'000
<b>2018:</b>					
At 1 July 2017		810,020	(14,899)	-	795,121
Loss for the year		-	(21,693)	-	( 21,693)
<b>Total comprehensive income for the year</b>		-	<b>(21,693)</b>	-	<b>( 21,693)</b>
<b>At 30 June 2018</b>		<b>810,020</b>	<b>(36,592)</b>	-	<b>773,428</b>
<b>2017:</b>					
At 1 July 2016		810,020	44,768	352	855,140
Loss for the year		-	(60,019)	-	( 60,019)
<b>Total comprehensive income for the year</b>		-	<b>(60,019)</b>	-	<b>( 60,019)</b>
<b>Transactions with owners recorded directly in equity</b>					
Transfer of undeclared/unpaid proposed dividends for 2017		-	352	(352)	-
<b>At 30 June 2017</b>		<b>810,020</b>	<b>(14,899)</b>	-	<b>795,121</b>

The notes set out on pages 30 to 72 form an integral part of these financial statements.

## IDB CAPITAL LIMITED

### STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 KShs'000	2017 KShs'000
<b>Cash flows from operating activities</b>			
Loss before tax		( 21,693)	( 60,019)
Adjustments for:			
Depreciation of property and equipment	21	2,700	2,502
Amortisation of intangible assets	22	450	827
Write-off of intangible assets and property and equipment	22	215	10
Exchange loss/(gain) on retranslation of investments	19	183	( 23)
Movements in defined benefit asset	20	-	925
Dividend income on financial assets (unquoted)	8	( 488)	( 466)
<b>Operating loss before changes in operating assets and liabilities</b>		<b>( 18,633)</b>	<b>( 56,244)</b>
<b>Changes in operating assets and liabilities</b>			
Other assets		( 373)	1,189
Loans and advances to customers		( 44,490)	89,343
Other liabilities		( 5,312)	9,236
<b>Cash (used in) generated from operating activities</b>		<b>( 68,808)</b>	<b>43,524</b>
Dividends received		488	466
Net taxes (paid)/ refund	13(b)	( 2,891)	6,468
<b>Net cash from operating activities</b>		<b>( 71,211)</b>	<b>50,458</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment and work in progress	21	( 981)	( 1,411)
Purchase of intangible assets and work in progress	22	-	( 358)
<b>Net cash from investing activities</b>		<b>( 981)</b>	<b>( 1,769)</b>
Net (decrease)/increase in cash and cash equivalents		( 72,192)	48,689
Cash and cash equivalents at start of the year		267,186	218,497
<b>Cash and cash equivalents at end of the year</b>	26	<b>194,994</b>	<b>267,186</b>

The notes set out on pages 30 to 72 form an integral part of these financial statements.

# IDB CAPITAL LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### 1. REPORTING

The Company is incorporated as a limited liability company in Kenya under the Kenyan Companies Act, and is domiciled in Kenya. The address of its registered office is as follows: 18<sup>th</sup> Floor, National Bank Building, Harambee Avenue, and P.O. Box 44036 – 00100 Nairobi.

### 2. BASIS OF PREPARATION

#### (a) Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), the Public Finance Management Act and the Kenya Companies Act, 2015.

For the Kenyan Companies Act, 2015, reporting purposes, the balance sheet is represented by the statement of financial position and the profit or loss account by the statement of profit or loss and the statement of other comprehensive income, in these financial statements.

#### (b) Basis of measurement

The financial statements are prepared on a going concern basis under the historical cost basis except where otherwise stated in the accounting policies below:

For those assets and liabilities measured at fair value, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, the Company uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the company using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset/liability that market participants would take into account.

Fair values are categorised into three levels in a fair value hierarchy based on the degree to which the inputs to the measurement are observable and the significance of the inputs to the fair value measurement in its entirety:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the Company at the end of the reporting period during which the change occurred.

# IDB CAPITAL LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 2. BASIS OF PREPARATION (Continued)

#### (c) Going concern

The Company recorded a net loss of KShs 21.69 million for the year ended 30 June 2018 (2017 – KShs 60.01 million) and, as of that date the Company had accumulated losses of KShs 36.59 million (2017 – KShs 14.89 million). The Company's liquidity position is adequate to cover maturing obligations in the foreseeable future.

On 15<sup>th</sup> May 2018, the Kenyan Cabinet approved the merger process of three financial institutions, namely IDB Capital Ltd, the Industrial and Commercial Development Corporation, and the Tourism Finance Corporation to commence in the 2018/19 financial year to create the Kenya Development Bank Ltd (KDB). The purpose of the merger is to create a single cross-sector development finance institution with sufficient scale, scope and resources to play a catalytic role in Kenya's economic development. The incorporation of KDB will be followed by the dissolution of the three institutions.

#### (d) Functional and presentation currency

These financial statements are presented in Kenya shillings (KShs), which is also the Company's functional currency. Except as indicated, financial information is presented in Kenya shillings and has been rounded to the nearest thousand.

#### (e) Use of estimates and judgements

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

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

In particular information about significant areas of estimation and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in Note 4.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements have been consistently applied to all the years presented are set out below:

#### (a) Revenue recognition

Revenue is derived substantially from interest earned from loans and advances to customers and bank deposits. The interest is recognised only when it can be reliably measured and it is probable that the economic benefits associated with the transaction will flow to the Company.

# IDB CAPITAL LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (a) Revenue recognition (continued)

The specific revenue recognition policies for interest income, fee income and dividend income are set out in below:

##### (i) *Net interest income*

Interest income is recognised in the profit and loss account on accrual basis for all interest bearing instrument taking into account the effective yield on the asset. When loans become impaired, they are written down to their recoverable amount and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purposes of measuring the recoverable amount.

##### (ii) *Fee income*

Fee and commission relate mainly to transactions and services, which are earned as the services are rendered.

##### (iii) *Dividend income*

Dividend income is recognised when the shareholder's right to receive payment is established.

#### (b) Translation of foreign currencies

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the Company operates), which is Kenya Shillings.

Transactions in foreign currencies during the year are converted into the functional currency using the exchange rate prevailing at the transaction date. Monetary assets and liabilities at the balance sheet date denominated in foreign currencies are translated into the functional currency using the exchange rate prevailing as at that date. The resulting foreign exchange gains and losses from the settlement of such transactions and from year-end translation are recognised on a net basis in the profit and loss account in the year in which they arise, except for differences arising on translation of non-monetary available-for-sale financial assets, which are recognised in other comprehensive income.

#### (c) Offsetting

Items of assets and liabilities are not offset unless there is a legally enforceable right to set off and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Items of income and expenses are presented on a net basis only for gains and losses arising from a group of similar transactions such as foreign exchange trading activities.

#### (d) Income taxes

The tax expense for the period comprises current and deferred income tax. Tax is recognised in the statement of comprehensive income except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

# IDB CAPITAL LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (d) Income taxes (continued)

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the relevant tax legislation. The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects either accounting or taxable profit/loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

#### (e) Share capital

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity net of tax effects.

#### (f) Dividends

Dividends on ordinary shares are recognised as a liability in the year in which they are declared. Proposed dividends are accounted for as a separate component of equity until they have been declared at an annual general meeting.

#### (g) Earnings per share

Basic earnings per share is calculated by dividing profit or loss attributable to ordinary equity holders of the company (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period.

Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary equity holders of the company and the weighted average number of ordinary shares outstanding for the after-tax effect of all dilutive potential ordinary shares.

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (h) Financial instruments

##### (i) Classification

The Company classifies its financial instruments into the following categories:

- (i) Loans and receivables, which comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and exclude assets which the entity intends to sell immediately or in the near term or those which the entity upon initial recognition designates as at fair value through profit or loss or as available-for-sale financial assets.
- (ii) Available-for-sale financial assets, which comprise non-derivative financial assets that are designated as available-for-sale financial assets, and not classified under any of the other categories of financial assets.
- (iii) Financial liabilities, which comprise all financial liabilities except financial liabilities at fair value through profit or loss.

Financial instruments held during the year were classified as follows:

- Demand and term deposits with banking institutions and trade and other receivables were classified as 'loans and receivables';
- Investments in quoted and non-quoted shares were classified as available-for-sale financial assets; and
- Trade and other liabilities were classified as financial liabilities.

##### (ii) Recognition and measurement

###### *Financial assets*

All financial assets are recognised initially using the trade date accounting which is the date the company commits itself to the purchase or sale. Financial assets carried at fair value through profit or losses are initially recognised at fair value and the transaction costs are expensed in the profit and loss account. All other categories of financial assets are recorded at the fair value of the consideration given plus the transaction cost.

Amortised cost is the amount at which the financial asset or liability is measured on initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or collectability.

The Company assesses at each balance sheet whether there is objective evidence that a financial asset is impaired.

If any such evidence exists, an impairment loss is recognised. Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. In the case of held-to-maturity investments and loans and receivables, the recoverable amount is the present value of the expected future cash flows, discounted using the asset's effective interest rate.

# IDB CAPITAL LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (h) Financial instruments (continued)

##### (ii) *Recognition and measurement – continued*

###### *Financial assets – continued*

Changes in fair value for available-for-sale financial assets are recognised in other comprehensive income, except for impairment losses (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss), which are recognised in the profit and loss account. In the year of sale, the cumulative gain or loss recognised in other comprehensive income is recognised in the profit or loss account as a reclassification adjustment.

###### *Financial liabilities*

All financial liabilities are recognised initially at fair value of the consideration given plus the transaction cost with the exception of financial liabilities carried at fair value through profit or loss, which are initially recognised at fair value and the transaction costs are expensed in the profit and loss account. Subsequently, all financial liabilities are carried at amortised cost using the effective interest method except for financial liabilities through profit or loss which are carried at fair value.

###### *Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or the Company has transferred substantially all risks and rewards of ownership.

Financial liabilities are derecognised only when the obligation specified in the contract is discharged or cancelled or expire.

###### *Offsetting*

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

#### (i) Leases

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

The Company has not entered into any finance leases, either as lessor or lessee.

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (j) Post-employment benefit obligations

##### (i) *Defined benefit scheme*

The asset/liability recognised in the balance sheet in respect of the defined benefit scheme is the present value of the defined benefit obligations at the balance sheet date less the fair value of the plan assets. The defined obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the functional currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

The following components of defined benefit cost are included in profit or loss:

- The service cost of the defined benefit plan (comprising current service costs, past service costs (including curtailment gains or losses) at any gain or loss settlement).
- The net interest on the net defined benefit liability/asset.

Re-measurements of the net defined liability/asset are recognised in other comprehensive income, with no reclassification to profit or loss in a subsequent period. Re-measurements comprise actuarial gain/loss and the return on plan assets, excluding amounts included in net interest on the net defined benefit liability/asset.

With effective 31st December 2011 the scheme closed to new entrants. Member aged below 45 years as at 31 December 2011 ceased accrual in the scheme as at this date. In addition, members above 45 years had the option to continue accruing benefits in the scheme but all active members above 45 years opted to join the new defined contribution arrangement and therefore future accrual in the scheme ceased with effect from 1 January 2012. This change in the arrangement has triggered a curtailment under IAS 19, the impact of which has been determined and reflected in Note 20.

##### (ii) *Statutory defined contribution plan*

The company also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are by the requirements of local statute and are currently limited to KShs 200 per employee per month. The Company's contributions to the above schemes are charged to profit or loss in the year to which they relate.

##### (iii) *Termination benefits*

Termination benefits are recognised as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (j) Post-employment benefit obligations (continued)

##### (iv) Short term employee benefits

Employees' entitlements to annual leave are charged to the profit or loss as they fall due. A liability is recognised for the amount to be paid for the annual leave days outstanding and short term cash bonus plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

##### (v) Gratuity

Employees on contract terms are entitled to a gratuity of 31% of their basic salary and is payable after successful completion of the contract. The gratuity accrual is charged to the profit or loss on a monthly basis.

#### (k) Property and equipment

All categories of property and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure directly attributable to the acquisition of the assets. Computer software, including the operating system, that is an integral part of the related hardware is capitalised as part of the computer equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Repairs and maintenance expenses are charged to the profit and loss account in the year in which they are incurred.

Depreciation is calculated using the straight line method to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

	Rate %
Furniture and fittings	12.50
Computers, copiers and faxes (under office equipment)	25.00
Computers hardware - server (under office equipment)	12.50
Mobile devices	50.00
Office equipment - others	12.50
Furnishings (other assets)	12.50
Motor vehicles	20.00

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Capital work in progress represents assets that are under construction or that are not immediately available for use and are not depreciated but reviewed for impairment.

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

# IDB CAPITAL LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (l) Intangible assets

Software license costs and computer software that is not an integral part of the related hardware are initially recognised at cost, and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Costs that are directly attributable to the production of identifiable computer software products controlled by the Company are recognised as intangible assets. Amortisation is calculated using the straight line method to write down the cost of each license or item of software to its residual value over its estimated useful life of five years. Capital work in progress represents assets that are not immediately available for use and are not amortised but reviewed for impairment.

#### (m) Impairment of non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash inflows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

#### (n) Cash and cash equivalents

Cash and cash equivalents for the purposes of the statement of cash flows comprise cash in hand, balances with maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, treasury bills and other eligible bills, amounts due from banks.

#### (o) Provisions

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

#### (p) Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are accounted for as off balance sheet transactions and disclosed as contingent liabilities. Estimates of the outcome and of the financial effect of contingent liabilities is made by the management based on the information available up to the date the financial statements are approved for issue by the directors. Any expected loss is charged to the profit and loss account in the year in which it is determined.

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (q) Comparatives

Where necessary, the comparative figures have been adjusted, regrouped or reclassified to conform to current year presentation.

#### (r) New standards, amendments and interpretations

##### (i) *New standards, amendments and interpretations effective and adopted during the year*

The Company has adopted the following new standards and amendments during the year ended 30 June 2018, including consequential amendments to other standards with the date of initial application by the Company being 1 January 2017.

The nature and effects of the changes are as explained here in.

New standard or amendments	Effective for annual periods beginning on or after
— Disclosure Initiative (Amendments to IAS 7)	1 January 2017
— Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)	1 January 2017

##### — *Disclosure Initiative (Amendments to IAS 7)*

The amendments in *Disclosure Initiative (Amendments to IAS 7)* come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The International Accounting Standards Board (IASB) requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The amendments in *Disclosure Initiative (Amendments to IAS 7)* come with the objective that entities shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.

The International Accounting Standards Board (IASB) requires that the following changes in liabilities arising from financing activities are disclosed (to the extent necessary): (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The IASB defines liabilities arising from financing activities as liabilities "for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities". It also stresses that the new disclosure requirements also relate to changes in financial assets if they meet the same definition.

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (r) New standards, amendments and interpretations (continued)

##### (i) *New standards, amendments and interpretations effective and adopted during the year – continued*

###### — *Disclosure Initiative (Amendments to IAS 7) – continued*

The amendments state that one way to fulfil the new disclosure requirement is to provide a reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities.

Finally, the amendments state that changes in liabilities arising from financing activities must be disclosed separately from changes in other assets and liabilities.

The amendments apply for annual periods beginning on or after 1 January 2017 and early application is permitted.

The adoption of these changes did not have a significant impact on the financial statements of the Company.

###### — *Recognition of Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12)*

The amendments in Recognition of Deferred Tax Assets for Unrealised Losses clarify the following aspects:

- Unrealised losses on debt instruments measured at fair value and measured at cost for tax purposes give rise to a deductible temporary difference regardless of whether the debt instrument's holder expects to recover the carrying amount of the debt instrument by sale or by use.
- The carrying amount of an asset does not limit the estimation of probable future taxable profits.
- Estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.
- An entity assesses a deferred tax asset in combination with other deferred tax assets. Where tax law restricts the utilisation of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

The standard was effective for annual periods beginning on or after 1 January 2017 with early application permitted. As transition relief, an entity may recognise the change in the opening equity of the earliest comparative period in opening retained earnings on initial application without allocating the change between opening retained earnings and other components of equity. The Board has not added additional transition relief for first-time adopters.

The adoption of these changes did not have a significant impact on the financial statements of the Company.

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (r) New standards, amendments and interpretations (continued)

##### (i) *New standards, amendments and interpretations effective and adopted during the year – continued*

— *Annual improvements cycle (2014 - 2016)*

Standard	Amendments
IFRS 12	<b>Disclosure of Interests in Other Entities</b> Clarifies that the disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution.

The adoption of these changes did not have a significant impact on the financial statements of the Company.

##### (ii) *New standards, amendments and interpretations in issue but not yet effective for the year ended 30 June 2018*

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 30 June 2018, and have not been applied in preparing these financial statements.

The Company does not plan to adopt these standards early. These are summarised below:

New standard or amendments	Effective for annual periods beginning on or after
— IFRS 15 Revenue from Contracts with Customers	1 January 2018
— IFRS 9 Financial Instruments (2014)	1 January 2018
— Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)	1 January 2018
— Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)	1 January 2018
— IFRIC 22 Foreign Currency Transactions and Advance Consideration	1 January 2018
— IAS 40 Transfers of Investment Property	1 January 2018
— IFRS 16 Leases	1 January 2019
— IFRIC 23 Income tax exposures	1 January 2019
— IFRS 9 Prepayment Features with Negative Compensation	1 January 2019
— IAS 28 Long-term Interests in Associates and Joint Ventures	1 January 2019
— IFRS 17 Insurance contracts	1 January 2021
— Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28).	To be determined
— Annual improvements cycle (2014 – 2016) – various standards	1 January 2018
— Annual improvements cycle (2015 – 2017) – various standards	1 January 2019

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (r) New standards, amendments and interpretations (continued)

##### (ii) *New standards, amendments and interpretations in issue but not yet effective for the year ended 30 June 2018 – continued*

###### — *IFRS 15 Revenue from Contracts with Customers*

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures.

The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being: Identify the contract(s) with a customer; identify the performance obligations in the contract; determine the transaction price; Allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted. Management is currently evaluating the impact of the new standard to the Company's financial statements.

###### — *IFRS 9: Financial Instruments (2014)*

On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*.

This standard introduces changes in the measurement bases of the financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss.

Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model. The standard is effective for annual period beginning on or after 1 January 2018 with retrospective application, early adoption permitted.

In response to this management has discussed and agreed on a number of interventions to respond to the likely impact of IFRS 9 Implementation. These interventions include strengthening loan origination to ensure that only quality loans are granted, revamping the securitization process to ensure adequacy of securities taken and boosting recovery efforts for current non-performing loans.

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (r) New standards, amendments and interpretations (continued)

##### (ii) *New standards, amendments and interpretations in issue but not yet effective for the year ended 30 June 2018 – continued*

###### — *IFRS 9: Financial Instruments (2014) – continued*

The institution has reorganised the credit function with the credit administration and back office functions being undertaken by the accounts and finance department, the receiverships being handled by legal department, which has released the credit department to deal with the core credit function pertaining to loan appraisal and monitoring.

The directors have estimated that the impact of IFRS 9 could be up to 40% increase in impairment of loans and advances.

###### — *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2)*

The following clarifications and amendments are contained in the pronouncement:

###### ▪ *Accounting for cash-settled share-based payment transactions that include a performance condition*

Up until this point, IFRS 2 contained no guidance on how vesting conditions affect the fair value of liabilities for cash-settled share-based payments. IASB has now added guidance that introduces accounting requirements for cash-settled share-based payments that follows the same approach as used for equity-settled share-based payments.

###### ▪ *Classification of share-based payment transactions with net settlement features*

IASB has introduced an exception into IFRS 2 so that a share-based payment where the entity settles the share-based payment arrangement net is classified as equity-settled in its entirety provided the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

###### ▪ *Accounting for modifications of share-based payment transactions from cash-settled to equity-settled*

Up until this point, IFRS 2 did not specifically address situations where a cash-settled share-based payment changes to an equity-settled share-based payment because of modifications of the terms and conditions. The IASB has introduced the following clarifications:

- On such modifications, the original liability recognised in respect of the cash-settled share-based payment is derecognised and the equity-settled share-based payment is recognised at the modification date fair value to the extent services have been rendered up to the modification date.
- Any difference between the carrying amount of the liability as at the modification date and the amount recognised in equity at the same date would be recognised in profit and loss immediately.

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (r) New standards, amendments and interpretations (continued)

##### (ii) *New standards, amendments and interpretations in issue but not yet effective for the year ended 30 June 2018 – continued*

##### — *Classification and Measurement of Share-based Payment Transactions (Amendments to IFRS 2) – continued*

The amendments are effective for annual periods beginning on or after 1 January 2018. Earlier application is permitted. The amendments are to be applied prospectively. However, retrospective application is allowed if this is possible without the use of hindsight. If an entity applies the amendments retrospectively, it must do so for all of the amendments described above.

The adoption of these changes will not affect the amounts and disclosures of the Company's financial statements.

##### — *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts (Amendments to IFRS 4)*

The amendments in Applying IFRS 9 'Financial Instruments' with IFRS 4 'Insurance Contracts' (Amendments to IFRS 4) provide two options for entities that issue insurance contracts within the scope of IFRS 4:

- an option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income or expenses arising from designated financial assets; this is the so-called overlay approach;
- an optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4; this is the so-called deferral approach.

The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied. An entity applies the overlay approach retrospectively to qualifying financial assets when it first applies IFRS 9. Application of the overlay approach requires disclosure of sufficient information to enable users of financial statements to understand how the amount reclassified in the reporting period is calculated and the effect of that reclassification on the financial statements. An entity applies the deferral approach for annual periods beginning on or after 1 January 2018. Predominance is assessed at the reporting entity level at the annual reporting date that immediately precedes 1 April 2016. Application of the deferral approach needs to be disclosed together with information that enables users of financial statements to understand how the insurer qualified for the temporary exemption and to compare insurers applying the temporary exemption with entities applying IFRS 9. The deferral can only be made use of for the three years following 1 January 2018. Predominance is only reassessed if there is a change in the entity's activities. The adoption of these changes will not affect the amounts and disclosures of the Company's financial statements.

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (r) New standards, amendments and interpretations (continued)

##### (ii) *New standards, amendments and interpretations in issue but not yet effective for the year ended 30 June 2018 – continued*

##### — *IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration*

This Interpretation applies to a foreign currency transaction (or part of it) when an entity recognises a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration before the entity recognises the related asset, expense or income (or part of it). This Interpretation stipulates that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

This Interpretation does not apply to income taxes, insurance contracts and circumstances when an entity measures the related asset, expense or income on initial recognition:

- (a) at fair value; or
- (b) at the fair value of the consideration paid or received at a date other than the date of initial recognition of the non-monetary asset or non-monetary liability arising from advance consideration (for example, the measurement of goodwill applying IFRS 3 Business Combinations).

The amendments apply retrospectively for annual periods beginning on or after 1 January 2018, with early application permitted.

The adoption of these changes will not affect the amounts and disclosures of the Company's financial statements.

##### — *Transfers of Investment property (Amendments to IAS 40)*

The IASB has amended the requirements in IAS 40 Investment property on when a company should transfer a property asset to, or from, investment property.

The adoption of these changes will not affect the amounts and disclosures of the Company's financial statements.

##### — *IFRS 16: Leases*

On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor').

The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration.

An entity assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (r) New standards, amendments and interpretations (continued)

##### (ii) *New standards, amendments and interpretations in issue but not yet effective for the year ended 30 June 2018 – continued*

###### — *IFRS 16: Leases – continued*

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases.

Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

- (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. An entity recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, an entity also recognises a financial liability representing its obligation to make future lease payments.
- (b) depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and
- (c) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require an entity to recognise assets and liabilities for:

- (a) short-term leases (i.e. leases of 12 months or less) and;
- (b) leases of low-value assets

The new Standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied.

Management is currently evaluating the impact of the new standard to the Company's financial statements.

###### — *IFRIC 23 Clarification on accounting for Income tax exposures*

IFRIC 23 clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency.

IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment.

# IDB CAPITAL LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (r) New standards, amendments and interpretations (continued)

##### (ii) *New standards, amendments and interpretations in issue but not yet effective for the year ended 30 June 2018 – continued*

###### — *IFRIC 23 Clarification on accounting for Income tax exposures – continued*

An uncertain tax treatment is any tax treatment applied by an entity where there is uncertainty over whether that treatment will be accepted by the tax authority.

If an entity concludes that it is probable that the tax authority will accept an uncertain tax treatment that has been taken or is expected to be taken on a tax return, it should determine its accounting for income taxes consistently with that tax treatment. If an entity concludes that it is not probable that the treatment will be accepted, it should reflect the effect of the uncertainty in its income tax accounting in the period in which that determination is made. Uncertainty is reflected in the overall measurement of tax and separate provision is not allowed.

The entity is required to measure the impact of the uncertainty using the method that best predicts the resolution of the uncertainty (that is, the entity should use either the most likely amount method or the expected value method when measuring an uncertainty).

The entity will also need to provide disclosures, under existing disclosure requirements, about;

- (a) judgments made;
- (b) assumptions and other estimates used; and
- (c) potential impact of uncertainties not reflected.

###### — *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*

The amendments clarify that financial assets containing prepayment features with negative compensation can now be measured at amortised cost or at fair value through other comprehensive income (FVOCI) if they meet the other relevant requirements of IFRS 9.

Management is currently evaluating the impact of the new standard to the Company's financial statements.

The amendments apply for annual periods beginning on or after 1 January 2019 with retrospective application, early adoption is permitted.

###### — *Long-term Interests in Associates and Joint Ventures (Amendment to IAS 28)*

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate and joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (r) New standards, amendments and interpretations (continued)

##### (ii) *New standards, amendments and interpretations in issue but not yet effective for the year ended 30 June 2018 – continued*

##### — *Long-term Interests in Associates and Joint Ventures (Amendment to IAS 28) – continued*

The adoption of these changes will not affect the amounts and disclosures of the Company's financial statements.

The amendments apply for annual periods beginning on or after 1 January 2019. Early adoption is permitted.

##### — *IFRS 17 Insurance Contracts*

IFRS 17 Insurance Contracts sets out the requirements that an entity should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. An entity shall apply IFRS 17 Insurance Contracts to:

- (a) insurance contracts, including reinsurance contracts, it issues;
- (b) reinsurance contracts it holds; and
- (c) investment contracts with discretionary participation features it issues, provided the entity also issues insurance contracts

IFRS 17 requires an entity that issues insurance contracts to report them on the statement of financial position as the total of:

- (a) the fulfilment cash flows—the current estimates of amounts that the entity expects to collect from premiums and pay out for claims, benefits and expenses, including an adjustment for the timing and risk of those amounts; and
- (b) the contractual service margin—the expected profit for providing insurance coverage. The expected profit for providing insurance coverage is recognised in profit or loss over time as the insurance coverage is provided.

IFRS 17 requires an entity to recognise profits as it delivers insurance services, rather than when it receives premiums, as well as to provide information about insurance contract profits that the company expects to recognise in the future. IFRS 17 requires an entity to distinguish between groups of contracts expected to be profit making and groups of contracts expected to be loss making. Any expected losses arising from loss-making, or onerous, contracts are accounted for in profit or loss as soon as the company determines that losses are expected. IFRS 17 requires the entity to update the fulfilment cash flows at each reporting date, using current estimates of the amount, timing and uncertainty of cash flows and of discount rates. The entity:

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (r) New standards, amendments and interpretations (continued)

##### (ii) *New standards, amendments and interpretations in issue but not yet effective for the year ended 30 June 2018 – continued*

###### — *IFRS 17 Insurance Contracts*

- (a) accounts for changes to estimates of future cash flows from one reporting date to another either as an amount in profit or loss or as an adjustment to the expected profit for providing insurance coverage, depending on the type of change and the reason for it; and
- (b) chooses where to present the effects of some changes in discount rates—either in profit or loss or in other comprehensive income.

IFRS 17 also requires disclosures to enable users of financial statements to understand the amounts recognised in the entity's statement of financial position and statement of profit or loss and other comprehensive income, and to assess the risks the company faces from issuing insurance contracts.

IFRS 17 replaces IFRS 4 Insurance Contracts. IFRS 17 is effective for financial periods commencing on or after 1 January 2021. An entity shall apply the standard retrospectively unless impracticable. A company can choose to apply IFRS 17 before that date, but only if it also applies IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers.

The adoption of these changes will not affect the amounts and disclosures of the Company's financial statements.

###### — *Sale or Contribution of Assets between an Investor and its Associate or Company (Amendments to IFRS 10 and IAS 28)*

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or company meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or company is recognised. The definition of a business is key to determining the extent of the gain to be recognised.

The effective date for these changes has now been postponed until the completion of a broader review.

The adoption of these changes will not affect the amounts and disclosures of the Company's financial statements.

###### — *Annual improvements cycle (2014 - 2016) – various standards*

Standard	Amendments
<b>IFRS 1 First-time Adoption of IFRS</b>	Outdated exemptions for first-time adopters of IFRS are removed. The amendments apply prospectively for annual periods beginning on or after 1 January 2018.

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (r) New standards, amendments and interpretations (continued)

##### (ii) *New standards, amendments and interpretations in issue but not yet effective for the year ended 30 June 2018 – continued*

— *Annual improvements cycle (2014 - 2016) – various standards – continued*

Standard	Amendments
<b>IAS 28 Investments in Associates and Joint Ventures</b>	A venture capital organisation, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis. A non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture. The amendments apply retrospectively for annual periods beginning on or after 1 January 2018; early application is permitted.

The adoption of these amendments is not expected to affect the amounts and disclosures of the Company's financial statements.

— *Annual improvements cycle (2015 - 2017) – various standards*

Standard	Amendments
<b>IFRS 3 Business Combinations and IFRS 11 Joint Arrangements</b>	Clarifies how a company accounts for increasing its interest in a joint operation that meets the definition of a business: <ul style="list-style-type: none"> <li>– If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.</li> <li>– If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.</li> </ul>
<b>IAS 12 Income taxes</b>	Clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, OCI or equity.
<b>IAS 23 Borrowing costs</b>	Clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any non-qualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

The amendments are effective for annual reporting periods beginning on or after 1 January 2019 with earlier application permitted. Management is assessing the impact of the adoption of these amendments in the amounts and disclosures of the Company's financial statements.

# IDB CAPITAL LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 4. SIGNIFICANT JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Directors are responsible for selecting and disclosure of the Company's critical accounting policies and estimates and the application of these policies and estimates.

#### (a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

##### (i) Allowance for credit losses

Assets accounted for at amortised costs are evaluated for impairment on a basis described in accounting policy. The specific component of total allowances for impairment applies to loans and advances evaluated individually for impairment and are based upon management's best estimate of the present value of cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realizable value of any underlying collateral. Estimate of cash flows considered recoverable are independently approved by the Credit Risk committee.

Collectively assessed impaired allowances cover credit losses inherent in portfolios of loans and advances with similar economic characteristics when there is objective evidence to suggest that they contain impaired loans and advances but the individual impaired items cannot yet be identified. In considering the collective loan loss allowances, management considers the historical loan loss rate and the emergence period. The accuracy of the allowance depends on how well these estimate future cash flows for specific debtor's allowances and the model assumptions and parameters used in determining collective allowances.

##### (ii) Carrying value of unquoted equity investments

Unquoted equity investments, are stated at cost in accordance with the Company's accounting policy, and where the carrying amount (cost) is less than the fair value, the unquoted investments are impaired.

##### (iii) Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

##### (iv) Useful lives and residual values of property and equipment

The Company tests annually whether the useful life and residual value estimates were appropriate and in accordance with its accounting policy. Useful lives and residual values of property and equipment have been determined based on previous experience and anticipated disposal values when the assets are disposed.

# IDB CAPITAL LIMITED

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## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 5. RISK MANAGEMENT OBJECTIVES AND POLICIES

#### **Financial risk management**

The Company's activities expose it to a variety of financial risks including credit, liquidity and market risks. The Company's overall risk management policies are set out by the board and implemented by the management and involve analysis, evaluation, acceptance and management of some degree of risk or a combination of risks. Taking risk is core to the lending business, operational risks and reputational risks are a normal consequence of such a business undertaking. The Company's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects of such risks on the Company's financial performance.

#### **Risk management framework**

The board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The board has established the Asset and Liability (ALCO), Credit and Operational Risk committees, which are responsible for developing and monitoring Company risk management policies in their specified areas. All board committees have both executive and non-executive members and report regularly to the board of directors on their activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Company's Audit Committee is responsible for monitoring compliance with the Company's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Company. The Company's Audit Committee is assisted in these functions by internal audit. Internal audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

#### **(a) Credit risk**

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from Company's loans and advances to customers and investment securities. For risk management reporting purposes, the Company considers and consolidates all elements of credit risk exposure.

The board of directors has delegated responsibility of the management of credit risk to its Board Credit Committee. A separate entity credit management committee reporting to the Board Credit Committee is responsible for oversight of the Company's credit risk. The Company's credit exposure at the reporting date from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the statement of financial position.

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### Risk management framework (continued)

##### (a) Credit risk – continued

The risk that the counter-parties to trading instruments might default on their obligation is monitored on an ongoing basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments over their remaining life.

To manage the level of credit risk, the Company deals with counter parties of good credit standing and when appropriate obtains collateral.

The Company also monitors concentrations of credit risk that arise by industry and type of customer in relation to the entity's loans and advances to customers by carrying a balanced portfolio. The Company has no significant exposure to any individual customer or counter-party.

To determine impairment of loans and advances, the Company assesses whether it is probable that it will be unable to collect all principal and interest according to the contractual terms of the loans and advances.

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

<i>Carrying amount:</i>	<b>2018</b> KShs'000	<b>2017</b> KShs'000
Loans and advances to customers - net (Note 17(a))	526,437	481,947
Deposits with financial institution (Note 16)	188,974	257,257
Interest receivable on deposits (Note 18)	2,147	819
Cash at bank (Note 15)	<u>5,971</u>	<u>9,920</u>
<b>Total</b>	<b><u>723,529</u></b>	<b><u>749,943</u></b>

#### Loans and advances to customers

The maximum exposure to credit risk from loans and advances to customers is KShs 526 million (2017 – KShs 481 million), which is 73% of total financial assets (2017 – 64%).

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral against loans and advances in the form of mortgage interests over property, other registered securities over assets and guarantees. The following factors are considered when assessing credit risk of loans and advances to customers:

- Not limited to the client registered information;
- Business plan and feasibility study; and
- Cash flow projections.

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### (a) Credit risk (continued)

##### Loans and advances to customers – continued

The Company structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector are approved as and when required by the credit committee.

The Company monitors default of individual borrowers by using internal rating methods. Loans and advances are graded into the following categories:

- Normal
- Watch
- Substandard
- Doubtful
- Loss

	<b>2018</b>	<b>2017</b>
	<b>KShs'000</b>	<b>KShs'000</b>
<b><i>Individually impaired:</i></b>		
Grade 3: Impaired – Substandard	12,973	2,133
Grade 4: Impaired – Doubtful	91,649	58,132
Grade 5: Impaired – Loss	<u>161,174</u>	<u>92,166</u>
	265,796	152,431
Allowance for impairment	(104,886)	( 75,480)
<b>Carrying amount</b>	<b><u>160,910</u></b>	<b><u>76,951</u></b>
<b><i>Collectively impaired:</i></b>		
Grade 2: Watch	115,602	-
Grade 1: Normal	<u>254,162</u>	<u>406,770</u>
	369,764	406,770
Portfolio impairment provision	( 4,237)	( 1,774)
<b>Carrying amount</b>	<b><u>365,527</u></b>	<b><u>404,996</u></b>
<b>Total carrying amount</b>	<b><u>526,437</u></b>	<b><u>481,947</u></b>

##### *Impaired loans and securities*

Impaired loans and securities are loans for which the entity determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement(s). These loans are graded 3 (substandard) to 5 (loss) in the Company's internal credit risk and grading system.

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### (a) Credit risk (continued)

##### *Past due but not impaired loans*

These are loans where contractual interest of principal payments are past due but the Company believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to it.

##### *Loans with renegotiated terms*

Loans with renegotiated terms are loans that have been restructured due to the deterioration in the borrower's financial position and where the Company has made concession that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

##### *Allowances for impairment*

The Company establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main component of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

##### *Write off policy*

The Company writes off a loan balance (and any related allowances for impairment losses) when the Credit Committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

<i>Loans and advances</i>	<b>Gross KShs'000</b>	<b>Net KShs'000</b>
<b>30 June 2018:</b>		
Grade 3: Individually impaired	12,973	12,973
Grade 4: Individually impaired	91,649	91,649
Grade 5: Individually impaired	<u>161,174</u>	<u>56,288</u>
	<b><u>265,796</u></b>	<b><u>160,910</u></b>
<b>30 June 2017:</b>		
Grade 3: Individually impaired	2,133	-
Grade 4: Individually impaired	58,132	-
Grade 5: Individually impaired	<u>92,166</u>	<u>76,951</u>
	<b><u>152,431</u></b>	<b><u>76,951</u></b>

The Company holds collaterals against loans and advances to customers in the form of a mortgage interests over property, other registered securities over assets, and guarantees. The fair value of collateral held against impaired loans is KShs 160.9 million at 30 June 2018.

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### (b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company'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 Company's reputation.

The Company continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Company strategy. In addition, the Company holds a portfolio of liquid assets as part of its liquidity risk management strategy.

The liquidity ratios at the reporting date and during the reporting period (based on month end ratios) were as follows:

The liquidity ratio at the balance sheet date was:	2018	2017
At 30 June	1,196%	1,216%
Average for the year	1,208%	1,231%
Highest for the year	1,365%	1,624%
Lowest for the year	999%	727%

The table below analyses financial liabilities into the relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

	Up to 1 month KShs'00	1 - 3 months KShs'000	3 - 12 months KShs'000	1 - 5 years KShs'000	Total KShs'000
<b>At 30 June 2018</b>	<b>0</b>				
<b>Financial liabilities</b>					
Other liabilities	2,872	9,568	3,862	-	16,302
<b>Total financial liabilities</b>	<u>2,872</u>	<u>9,568</u>	<u>3,862</u>	<u>-</u>	<u>16,302</u>
<b>At 30 June 2017</b>					
<b>Financial liabilities</b>					
Other liabilities	18,529	512	2,573	-	21,614
<b>Total financial liabilities</b>	<u>18,529</u>	<u>512</u>	<u>2,573</u>	<u>-</u>	<u>21,614</u>

#### (c) Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price and arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility.

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### (c) Market risk (continued)

All trading instruments are subject to market risk, the risk that the future changes in market conditions may make an instrument less valuable or more onerous. The Company manages its use of trading instruments in response to changing market conditions. Exposure to market risk is formally managed in accordance with risk limits set by senior management and the asset liability committee. The authority for market risk is vested in the Investment Committee. The Company is primarily exposed to interest rate risk and currency risk.

#### (i) Interest rate risk

This is the risk of loss from fluctuations in the future cash flows of fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the Company's interest rate gap position reflecting assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates is shown below:

	Effective interest rate	Interest bearing KShs'000	Non-interest bearing KShs'000	Total KShs'000
<b>At 30 June 2018</b>				
<b>Assets</b>				
Cash in hand		-	49	49
Bank deposits and balances	9.0%	188,974	5,971	194,945
Loans and advances to customers	13.0%	438,947	87,490	526,437
Equity investments (unquoted)		-	28,745	28,745
Other assets		-	4,139	4,139
At 30 June 2018		627,921	126,394	754,315
<b>Equity and liabilities</b>				
Other liabilities		-	16,302	16,302
At 30 June 2018		-	16,302	16,302
<b>Interest rate sensitivity – 2018</b>		<b>627,921</b>	<b>110,092</b>	<b>738,013</b>
<b>At 30 June 2017</b>				
<b>Assets</b>				
Cash in hand		-	9	9
Bank deposits and balances	9.10%	257,257	9,920	267,177
Loans and advances to customers	17.0%	406,673	75,274	481,947
Equity investments (unquoted)		-	28,928	28,928
Current tax recoverable		-	3,766	3,766
Other assets		-	-	-
At 30 June 2017		663,930	117,897	781,827
<b>Equity and liability</b>				
Other liabilities		-	21,614	21,614
At 30 June 2017		-	21,614	21,614
<b>Interest rate sensitivity – 2017</b>		<b>663,930</b>	<b>96,283</b>	<b>760,213</b>

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### (c) Market risk (continued)

##### (i) Interest rate risk – continued

A change of 1 % in interest rates would have increased or decreased profit or loss by KShs 7,154,102 (2017 – KShs 5,867,730). The Company's operations are subject to the risks of interest rate fluctuations to the extent that the interest earning assets (including investments) and interest bearing liabilities mature or re-price at different times or in differing amounts. Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Company's business strategies.

The Company does not have any significant interest rate risk exposures. An analysis of the Company's sensitivity to an increase or decrease in market interest rates on interest bearing assets and liabilities, assuming no asymmetrical movement in yield curves and a constant financial position is as follows on profit or loss:

Assets	2018			2017		
	Carrying amount KShs'000	1% Increase KShs'000	1% Decrease KShs'000	Carrying amount KShs'000	1% Increase KShs'000	1% Decrease KShs'000
Cash in hand	-	-	-	-	-	-
Bank deposits and balances	188,974	(1,890)	1,890	257,257	(2,572)	2,572
Loans and advances to customers	526,437	(5,264)	5,264	329,516	(3,295)	3,295
Equity investments (unquoted)	28,745	-	-	28,928	-	-
Other assets	4,139	-	-	3,766	-	-
	<b>748,295</b>	<b>(7,154)</b>	<b>7,154</b>	<b>619,467</b>	<b>(5,867)</b>	<b>5,867</b>
<b>Equity and liabilities</b>						
Other liabilities	16,302	-	-	21,614	-	-
	<b>16,302</b>	<b>-</b>	<b>-</b>	<b>21,614</b>	<b>-</b>	<b>-</b>
<b>Net interest income increase/(decrease)</b>	-	(7,154)	7,154	-	(5,867)	5,867
Tax charge at 30%	-	2,146	(2,146)	-	1,760	(1,760)
<b>Impact on profit or loss after tax</b>	<b>-</b>	<b>(5,008)</b>	<b>5,008</b>	<b>-</b>	<b>(4,107)</b>	<b>4,107</b>

##### (ii) Currency risk

The Company is exposed to currency risk through transactions in foreign currencies. The entity's transactional exposure gives rise to foreign currency gains and losses that are recognised in the profit and loss account. In respect of monetary assets and liabilities in foreign currencies, the company ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. The table below analyses the currencies to which the Company is exposed to as at 30 June 2018 and 30 June 2017.

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### (c) Market risk (continued)

##### (ii) Currency risk – continued

The significant currency positions are detailed below:

At 30 June 2018	USD KShs'000	Euros KShs'000	Total KShs'000
<b>Assets</b>			
Cash and balances with banks	216	8	224
Equity investment (Afrexim)	7,101	-	7,101
<b>Total assets</b>	<b>7,317</b>	<b>8</b>	<b>7,325</b>
<b>Liabilities</b>			
Other liabilities	-	-	-
<b>Net balance sheet position</b>	<b>7,317</b>	<b>8</b>	<b>7,325</b>
<b>At 30 June 2017</b>			
<b>Assets</b>			
Cash and balances with banks	292	9	301
Equity investment (Afrexim)	7,287	-	7,287
<b>Total assets</b>	<b>7,579</b>	<b>9</b>	<b>7,588</b>
<b>Liabilities</b>			
Other liabilities	-	-	-
<b>Net balance sheet position</b>	<b>7,579</b>	<b>9</b>	<b>7,588</b>

Had the Kenya Shilling weakened by 10% against each currency, with all other variables held constant, profit or loss before tax would have decreased by KShs 732,500 (2017 – KShs 758,800). If the Kenya Shilling strengthened against each currency, the effect would have been the opposite.

#### (d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the entity's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the entity's operations and are faced by all business entities.

The Company's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to its reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit.

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### (d) Operational risk (continued)

This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and
- procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with the entity's standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Company.

#### (e) Capital management

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The board of directors monitors the return on capital, which is defined as the net operating income divided by total shareholders' equity. The board of directors also monitors the level of dividends to ordinary shareholders. The Company has no externally imposed capital requirements.

#### (f) Compliance and regulatory risk

Compliance and regulatory risk includes the risk of non-compliance with regulatory requirements. The compliance function is responsible for establishing and maintaining an appropriate framework of the entity's compliance policies and procedures. Compliance with such policies and procedures is the responsibility of all managers.

	2018	2017
6. INTEREST INCOME	KShs'000	KShs'000
Interest income on loans	78,871	89,680
Interest income on staff loans	2,090	592
Interest income on fixed deposits	20,652	17,060
Interest income on nostro accounts	—	4
	<u>101,613</u>	<u>107,336</u>

## IDB CAPITAL LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

		2018	2017
		KShs'000	KShs'000
<b>7.</b>	<b>NON-INTEREST INCOME</b>		
	Appraisal fees	<u>5,785</u>	<u>1,997</u>
<b>8.</b>	<b>OTHER OPERATING INCOME</b>		
	Dividend income	<u>488</u>	<u>466</u>
<b>9.</b>	<b>NET IMPAIRMENT LOSSES ON LOANS AND ADVANCES</b>		
	Net increase in provision charged to profit and loss account (Note 17(b))	<u>31,619</u>	<u>62,237</u>
<b>10.</b>	<b>OTHER INCOME</b>		
	Exchange (loss)/gain	( 195)	189
	Miscellaneous income receipt	<u>2</u>	<u>2</u>
		<u>( 193)</u>	<u>191</u>
<b>11.</b>	<b>OPERATING EXPENSES</b>		
	<b>Employee benefits expense:</b>		
	Employment:		
	Salaries and wages	37,864	40,214
	Staff and other expenses	13,641	6,764
	Staff medical	4,190	6,185
	Staff training	1,820	1,506
	Gratuity	2,050	1,391
	Pension fund	316	741
	Movement in defined benefit assets through profit or loss	<u>-</u>	<u>925</u>
	<b>Total employment costs</b>	<u>59,881</u>	<u>57,726</u>

The average number of persons employed by the Company during the financial year was 21 (2017 – 21). 6 employees were management (2017 – 6) and 15 employees were non-management (2017 – 15).

	2018	2017
	KShs'000	KShs'000
<b>Administrative expenses:</b>		
Non-executive directors' remuneration:		
– Fees and allowances	5,190	5,662
Security expenses	674	574
Office cleaning and maintenance	675	728
Subscriptions	1,269	1,130
Advertising, publicity and donations	2,040	1,574
Insurance	360	362
Audit fees – Auditor-General	221	220
Audit fees – KPMG	2,212	2,200
Overprovision in prior year audit fees	( 808)	-
Professional services	4,728	7,387
Vehicle running and maintenance	452	296
Telephone, internet and postage expenses	2,014	1,986
Travelling and entertainment	6,086	4,586

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

<b>11.</b>	<b>OPERATING EXPENSES (Continued)</b>	<b>2018</b>	<b>2017</b>
	<b>Administrative expenses: (continued)</b>	<b>KShs'000</b>	<b>KShs'000</b>
	Printing and stationery	349	695
	Licenses	162	1,154
	Bank charges	150	166
	Repairs and maintenance	1,037	2,411
	Other expenses	( 1,661)	<u>4,218</u>
	<b>Total administrative expenses</b>	<b><u>25,150</u></b>	<b><u>35,349</u></b>
	<b>Operating lease expense:</b>		
	Rent and service charge	8,333	8,334
	Parking fees	<u>1,253</u>	<u>1,253</u>
	<b>Total operating lease expenses</b>	<b><u>9,586</u></b>	<b><u>9,587</u></b>
	<b>Depreciation and amortisation:</b>		
	Amortisation of intangible assets	450	827
	Depreciation and write offs of property and equipment	<u>2,700</u>	<u>2,510</u>
	<b>Total depreciation and amortisation expenses</b>	<b><u>3,150</u></b>	<b><u>3,337</u></b>
<b>12.</b>	<b>LOSS BEFORE TAX</b>		
	<b>(a) Items charged</b>		
	The following items have been charged in arriving at loss before tax:		
		<b>2018</b>	<b>2017</b>
		<b>KShs'000</b>	<b>KShs'000</b>
	Directors' remuneration:		
	- Salary	9,758	1,773
	- Fees and allowances	5,190	5,662
	Employee benefits expense (Note 12(b))	3,763	3,811
	Depreciation of property and equipment (Note 21)	2,700	2,502
	Amortisation of intangible assets (Note 22)	450	827
	Operating lease expenses	9,586	9,587
	Net foreign exchange gain	( 196)	189
	Auditor's remuneration (Auditor-General and KPMG)	<u>2,433</u>	<u>2,420</u>
	<b>(b) Employee benefits expenses</b>		
	The following items are included in employee benefits expense:		
	Defined contribution scheme	3,707	3,758
	National Social Security Fund	<u>56</u>	<u>53</u>
		<b><u>3,763</u></b>	<b><u>3,811</u></b>
<b>13.</b>	<b>INCOME TAX</b>		
	<b>(a) Income tax expense</b>		
	Deferred income tax	-	-
	Current income tax	<u>-</u>	<u>-</u>
	<b>Tax expense</b>	<b><u>-</u></b>	<b><u>-</u></b>

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 13. INCOME TAX (Continued)

#### (a) Income tax expense (continued)

The tax on the Company's loss before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2018 KShs'000	2017 KShs'000
Loss before income tax	(21,693)	(60,019)
Tax calculated at a rate of 30%	( 6,508)	(18,005)
Tax effect of:		
Expenses not deductible for tax purposes	954	1,055
Income not deductible for tax purposes	( 146)	( 140)
Movement in deferred income tax through profit or loss not recognised (note 23)	<u>5,700</u>	<u>17,090</u>
<b>Tax expense</b>	<u>-----</u> -	<u>-----</u> -

#### (b) Current tax recoverable

Balance at 1 July	25,689	32,157
Withholding tax credit	2,891	2,421
Tax paid in the year	<u>-----</u> -	<u>( 8,889)</u>
<b>Balance at 30 June</b>	<b><u>28,580</u></b>	<b><u>25,689</u></b>

### 14. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net loss attributable to shareholders by the weighted average number of shares in issue during the year.

	2018 KShs'000	2017 KShs'000
Net loss attributable to shareholders (KShs'000)	<u>(21,693)</u>	<u>(60,019)</u>
Weighted average number of ordinary shares in issue during the year ('000)	<u>40,501</u>	<u>40,501</u>
Basic earnings per share (KShs)	<u>( 0.54)</u>	<u>( 1.48)</u>

There were no potentially dilutive shares outstanding at 30 June 2018 and 30 June 2017. Diluted earnings per share are therefore the same as basic earnings per share.

	2018 KShs'000	2017 KShs'000
<b>15. CASH AND BANK BALANCES</b>		
Cash in hand	49	9
Cash at bank	<u>5,971</u>	<u>9,920</u>
	<b><u>6,020</u></b>	<b><u>9,929</u></b>

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

16. DEPOSITS WITH FINANCIAL INSTITUTIONS	2018 KShs'000	2017 KShs'000
KCB Bank Kenya Limited	100,449	-
Commercial Bank of Africa Limited	27,180	54,000
Family Bank Limited	-	50,000
National Bank of Kenya Limited	-	45,826
Bank of Africa Kenya Limited	-	25,000
HFC Limited	-	50,800
Equity Bank Kenya Limited	-	6,000
The Co-operative Bank of Kenya Limited	61,189	25,472
African Export - Import Bank	<u>156</u>	<u>159</u>
	<b><u>188,974</u></b>	<b><u>257,257</u></b>

The weighted average effective interest rate on placement with banks at 30 June 2018 was 9% (2017 – 10%).

17. LOANS AND ADVANCES TO CUSTOMERS	2018 KShs'000	2017 KShs'000
<b>(a) Loans and advances to customers</b>		
Commercial loans	568,684	525,894
Interest and other fees receivable	40,519	18,382
Employee loans	<u>26,357</u>	<u>14,925</u>
Gross loans and advances to customers	635,560	559,201
Less: Provision for impaired loans and advances (Note 17(b))	<u>(109,123)</u>	<u>( 77,254)</u>
<b>Net loans and advances</b>	<b><u>526,437</u></b>	<b><u>481,947</u></b>
<b>(b) Impairment losses on loans and advances</b>		
At 1 July	77,254	21,276
Increase for impairment charged to profit and loss account (Note 9)	31,619	62,237
Recoveries	250	200
Write offs	<u>-</u>	<u>( 6,459)</u>
<b>At 30 June</b>	<b><u>109,123</u></b>	<b><u>77,254</u></b>

The provision for impairment has been ascertained by discounting the cash flows realisable from the sale of securities held on the non-performing loans.

**(c) Concentration of risk**

Economic sector risk concentrations within the loans and advances portfolio (gross) are as follows:

## IDB CAPITAL LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

#### 17. LOANS AND ADVANCES TO CUSTOMERS (Continued)

##### (c) Concentration of risk (continued)

	2018 KShs'000	2018 %	2017 KShs'000	2017 %
Manufacturing	11,882	1.9	15,046	2.7
Food and animal feeds	92,166	14.5	92,166	16.5
Engineering	115,602	18.2	175,577	31.4
Business services	1,091	0.2	2,133	0.4
Mining and quarrying	105,957	16.7	58,132	10.4
Transport, communications and power	52,072	8.2	-	-
Healthcare services	76,690	12.1	42,677	7.6
Building & Construction	133,508	21.0	152,367	27.2
Others	20,235	3.1	6,178	1.1
Staff loans	26,357	4.1	14,925	2.7
	<u>635,560</u>	<u>100.0</u>	<u>559,201</u>	<u>100.0</u>

(d) Maturity analysis	2018 KShs'000	2017 KShs'000
Matured and maturing within 1 year	196,613	152,528
Less: Provision for impaired loans and advances	(109,123)	( 77,254)
	87,490	75,274
Maturing after 1 year	438,947	406,673
	<u>526,437</u>	<u>481,947</u>

#### 18. OTHER ASSETS

Prepayments	942	1,033
Interest receivable on deposits	2,147	819
Deposits and other recoverables	<u>1,050</u>	<u>1,914</u>
	<u>4,139</u>	<u>3,766</u>

#### 19. FINANCIAL ASSETS (UNQUOTED)

##### Non-current - Available for sale financial assets

Equity investments	<u>28,745</u>	<u>28,928</u>
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There is no active market for the equity investments and accordingly fair value cannot be reliably measured, therefore these are carried at cost.

They are categorised as follows:

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 19. FINANCIAL ASSETS (UNQUOTED) (Continued)

	2018 KShs'000	2017 KShs'000
<b>Non-current</b>		
<i>Manufacturing sector:</i>		
Nzoia Sugar Company Limited	5,000	5,000
South Nyanza Sugar Company Limited	1,000	1,000
<i>Financial institutions and investment companies:</i>		
Consolidated Bank of Kenya Limited	20,800	20,800
African Export-Import Bank	<u>6,945</u>	<u>7,128</u>
	33,745	33,928
Impairment loss (Nzoia Sugar Company Limited)	( 5,000)	( 5,000)
	<b>28,745</b>	<b>28,928</b>
<b>Current</b>	<u>-</u>	<u>-</u>
<b>Total financial assets</b>	<b><u>28,745</u></b>	<b><u>28,928</u></b>

In the opinion of the directors the above investments, if sold, would realise not less than the amounts at which they are stated.

The categorisation of assets carried at fair value by the levels defined below is as follows:

	Level 3 KShs'000	Total KShs'000
<b>At 30 June 2018</b>		
Available-for-sale financial assets	<u>33,745</u>	<u>33,745</u>
<b>At 30 June 2017</b>		
Available-for-sale financial assets	<u>33,928</u>	<u>33,928</u>

The levels in fair value hierarchy used above within which the fair value measurement is categorised are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset that are not based on observable market data.

The movement in the value of these assets, mainly due to foreign currency exchange differences, was as follows:

	Available for sale financial assets Level 3 KShs'000	Total KShs'000
<b>30 June 2018:</b>		
At start of year	33,928	33,928
Exchange loss on retranslation of investment denominated in foreign currency	<u>( 183)</u>	<u>( 183)</u>
At end of year	<u>33,745</u>	<u>33,745</u>
<b>Total gains for the year included in the profit or loss for assets held at the end of the reporting period</b>	<b><u>( 183)</u></b>	<b><u>( 183)</u></b>

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 19. FINANCIAL ASSETS (UNQUOTED) (Continued)

	<b>Available for sale financial assets</b>	<b>Total</b>
<b>30 June 2017:</b>	<b>Level 3 KShs'000</b>	<b>KShs'000</b>
At start of year	33,905	33,905
Exchange gain on retranslation of investment denominated in foreign currency	23	23
At end of year	33,928	33,928
<b>Total gains for the year included in the profit or loss for assets held at the end of the reporting period</b>	<b>23</b>	<b>23</b>

### 20. DEFINED BENEFIT ASSET

The Company's Defined Benefit Scheme was closed as per the Government stipulation on 31 December 2011. A deed of closure was duly executed in August 2012. The last actuarial valuation was done as at 31 July 2013 and it indicated that the scheme had a deficit of KShs 4.4 million. The sponsor subsequently covered the deficit as per the remedial plan by paying KShs 2.8 million and KShs 1.6 million in August 2013 and December 2013 respectively. The Scheme has 10 active members and 15 deferred members.

An approval to transfer the scheme funds to the IDB Capital Limited Staff Defined Contribution Pension Scheme was given by Retirement Benefits Authority (RBA) on 25 November 2014. All the members consented to the transfer of their funds from the Defined Benefit (DB) to the Defined Contribution (DC) scheme in September 2014. The transfers commenced with effect from 1 September 2015 and the all the transfers amounting to KShs 82.5 million have been effected and credited to the respective member DC accounts.

IDB as the sponsor of the scheme therefore does not have any further obligation/ liability towards the members once the deficit was fully settled and the members consented to transfer to the DC scheme.

### 21. PROPERTY AND EQUIPMENT

	Motor vehicles	Office equipment	Furniture & fittings	Other assets	Work in progress (WIP)	<b>Total</b>
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
<b>Cost</b>						
At 1 July 2017	9,599	20,889	5,369	2,441	310	38,608
Additions	-	662	319	-	-	981
Transfer from WIP	-	310	-	-	(310)	-
At 30 June 2018	9,599	21,861	5,688	2,441	-	39,589
<b>Depreciation</b>						
At 1 July 2017	5,115	18,684	5,152	2,311	-	31,262
Charge for the year	1,512	960	98	130	-	2,700
At 30 June 2018	6,627	19,644	5,250	2,441	-	33,962
<b>Net carrying amount</b>	<b>2,972</b>	<b>2,217</b>	<b>438</b>	<b>-</b>	<b>-</b>	<b>5,627</b>

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 21. PROPERTY AND EQUIPMENT (Continued)

2017:	Motor vehicles	Office equipment	Furniture & fittings	Other assets	Work in Progress (WIP)	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
<b>Cost</b>						
At 1 July 2016	9,599	19,863	5,393	2,441	-	37,296
Additions	-	1,101	-	-	310	1,411
Write offs	-	( 75)	( 24)	-	-	( 99)
At 30 June 2017	9,599	20,889	5,369	2,441	310	38,608
<b>Depreciation</b>						
At 1 July 2016	4,163	17,649	5,032	2,005	-	28,849
Charge for the year	952	1,100	145	305	-	2,502
Write offs	-	( 65)	( 24)	-	-	( 89)
At 30 June 2017	5,115	18,684	5,153	2,310	-	31,262
<b>Net carrying amount</b>	<b>4,484</b>	<b>2,205</b>	<b>216</b>	<b>131</b>	<b>310</b>	<b>7,346</b>

### 22. INTANGIBLE ASSETS – Software

Intangible assets	Software costs	Work in Progress (WIP)	Total
	KShs'000	KShs'000	KShs'000
<b>2018:</b>			
<b>Cost</b>			
At 1 July 2017	7,603	215	7,818
Write offs	-	(215)	( 215)
At 30 June 2018	7,603	-	7,603
<b>Amortisation</b>			
At 1 July 2016	5,945	-	5,945
Charge for the year	450	-	450
At 30 June 2017	6,395	-	6,395
<b>Net carrying amount</b>	<b>1,208</b>	<b>-</b>	<b>1,208</b>
<b>2017:</b>			
<b>Cost</b>			
At 1 July 2016	34,225	-	34,225
Additions	143	215	358
Write offs	(26,765)	-	(26,765)
At 30 June 2017	7,603	215	7,818
<b>Amortisation</b>			
At 1 July 2016	31,883	-	31,883
Charge for the year	827	-	827
Write offs	(26,765)	-	(26,765)
At 30 June 2017	5,945	-	5,945
<b>Net carrying amount</b>	<b>1,658</b>	<b>215</b>	<b>1,873</b>

## IDB CAPITAL LIMITED

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

#### 23. DEFERRED INCOME TAX

Deferred income tax is calculated using the enacted tax rate of 30% (2017 – 30%). Deferred tax assets and liabilities, and the deferred tax charge in profit or loss account is attributable to the following items:

30 June 2018	At 1 July 2017 KShs'000	Prior year adjustment KShs'000	Movement in profit & loss KShs'000	Movement in other comprehensive income KShs'000	At 30 June 2018 KShs'000
<b>Deferred income tax asset</b>					
Property and equipment	1,249	-	( 7)	-	1,242
Intangible assets	( 114)	-	9	-	( 105)
Provisions for doubtful debts	533	-	738	-	1271
Provision for leave	753	-	60	-	813
Unrealised exchange loss	4	-	( 3)	-	1
Tax losses carried forward	205,813	-	4,903	-	210,716
Net deferred tax asset	208,238	-	5,700	-	213,938
Deferred tax asset not recognised	(208,238)	-	(5,700)	-	(213,938)
	-	-	-	-	-

30 June 2017	At 1 July 2016 KShs'000	Prior year adjustment KShs'000	Movement in profit & loss KShs'000	Movement in other comprehensive income KShs'000	At 30 June 2017 KShs'000
<b>Deferred income tax asset</b>					
Property and equipment	1,359	-	( 110)	-	1,249
Intangible assets	( 57)	-	( 57)	-	( 114)
Provisions for doubtful debts	620	-	( 87)	-	533
Provision for leave	522	-	231	-	753
Defined benefit scheme	( 277)	-	277	-	-
Unrealised exchange loss	-	-	4	-	4
Tax losses carried forward	189,359	(378)	16,832	-	205,813
Net deferred tax asset	191,526	(378)	17,090	-	208,238
Deferred tax asset not recognised	(191,526)	378	(17,090)	-	(208,238)
	-	-	-	-	-

Under the Kenyan Income Tax Act, with effect from 1 January 2010, tax losses are allowable as a deduction in that year and in the four years succeeding the year in which they occurred. The Finance Act 2015 amended the Income Tax Act by stating that from 1 January 2017, tax losses are allowable as a deduction in that year and in the nine years succeeding in the year in which they occurred.

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 23. DEFERRED INCOME TAX (Continued)

The total tax losses as at 30 June 2018 were KShs 702,386,501 (2017 – KShs 686,042,028). The tax losses will expire as follows:

Arising in:	Tax losses KShs'000	Expiring:
2010 and earlier	(579,913)	30 June 2019
2011	( 27,271)	31 June 2020
2014	( 22,751)	30 June 2023
2017	( 56,107)	30 June 2026
2018	( 16,344)	30 June 2027

**Tax losses carried forward** **(702,386)**

A deferred tax asset of KShs 213,938,000 as at 30 June 2018 (2017 – KShs 208,238,000) has not been recognised due to uncertainty as to the availability of future taxable profits, against which the tax losses could be utilised. Uncertainty arises due to absence of a precise estimation of future taxable profits.

### 24. OTHER LIABILITIES

	2018 KShs'000	2017 KShs'000
Sundry creditors	2,710	2,511
Accruals	9,667	16,018
Other liabilities	63	512
Provision for gratuity (See below)	<u>3,862</u>	<u>2,573</u>
	<b><u>16,302</u></b>	<b><u>21,614</u></b>
<b>Gratuity movement</b>		
At 1 July	2,573	877
Additional accrual	3,401	1,696
Payments during the year	( 2,112)	-
<b>At 30 June</b>	<b><u>3,862</u></b>	<b><u>2,573</u></b>

### 25. SHARE CAPITAL

	No. of shares	Issued and paid up share capital KShs'000
<b>At 1 January and 30 June 2018</b>		
Class 'A' ordinary shares	37,853,500	757,070
Class 'B' ordinary shares	<u>2,647,500</u>	<u>52,950</u>
	<b><u>40,501,000</u></b>	<b><u>810,020</u></b>
<b>At 1 January and 30 June 2017</b>		
Class 'A' ordinary shares	37,853,500	757,070
Class 'B' ordinary shares	<u>2,647,500</u>	<u>52,950</u>
	<b><u>40,501,000</u></b>	<b><u>810,020</u></b>

The total authorised share capital is KShs 1,000,000,000 (2017 – KShs 1,000,000,000) made up of 46,000,000 (2017 – 46,000,000) 'A' ordinary shares of KShs 20 each and 4,000,000 'B' ordinary shares of KShs 20 each.

Class 'A' ordinary shares are entitled to receive dividends as declared from time to time and are entitled to a vote per share at meetings of the Company. Class 'B' ordinary shares do not confer unto the holder any voting rights except in certain specified events. However, class 'B' ordinary shares rank pari passu with class 'A' ordinary shares in all other respects and carry the same rights and obligations.

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 25. SHARE CAPITAL (Continued)

The percentage shareholding at 30 June 2018 and 30 June 2017 is as follows:

Shareholder	Issued and paid up capital (KShs'000)	% Shareholding
Government of Kenya (G.O.K)	690,203	85.21
Industrial and Commercial Development Corporation (ICDC)	34,710	4.29
National Bank of Kenya (NBK)	28,369	3.5
Kenya Reinsurance (Kenya-Re)	28,369	3.5
Kenya National Assurance Company (KNAC)	28,369	3.5
	<b>810,020</b>	<b>100</b>

### 26. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2018 KShs'000	2017 KShs'000
Cash and bank	6,020	9,929
Deposits with financial institutions	<u>188,974</u>	<u>257,257</u>
	<b><u>194,994</u></b>	<b><u>267,186</u></b>

The amounts held as cash and cash equivalents are available for use by the institution as their have maturities of less than 3 months.

### 27. OFF BALANCE SHEET COMMITMENTS

#### Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:

	2018 KShs'000	2017 KShs'000
Not later than 1 year	8,552	8,152
Later than 1 year and not later than 5 years	<u>23,225</u>	<u>31,778</u>
	<b><u>31,777</u></b>	<b><u>39,930</u></b>

### 28. RELATED PARTY TRANSACTIONS

#### (a) Chief Executive Officer (CEO) and Senior Management emoluments

<b><u>28,448</u></b>	<b><u>18,349</u></b>
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#### (b) Directors' emoluments

CEO expenses	9,758	1,773
Directors expenses	3,663	4,053
Directors fees	<u>1,527</u>	<u>1,565</u>
	<b><u>14,948</u></b>	<b><u>7,391</u></b>

# IDB CAPITAL LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018 (CONTINUED)

### 28. RELATED PARTY TRANSACTIONS (Continued)

	2018	2017
(c) Directors Allowances	KShs'000	KShs'000
Prof. Michael Bowen	564	749
Michael Kiswili	171	323
Hillary Korir	615	747
Representatives of Institutional Directors		
(i) Treasury		
Geoffrey Kimani	279	279
Johnstone Oltetia	86	-
(ii) MITC		
John Mwendwa	150	193
Patrick Mwangi	64	-
Betty Maina	21	-
(iii) KNAC		
Bernice Gachegu	-	277
Mark Gakuru	300	-
Barbara Nguyu	64	-
(iv) Kenya-Re		
Jadiah Mwarania	150	193
Micheal Mbeshi	150	-
Nicodemus Gekone	-	64
Jacqueline Njui	-	21
(v) ICDC		
Edward Gitau	300	279
Erastus Shako	-	21
Richard Ochoi	21	-
(vi) NBK		
Wilfred Musau	156	156
Henry Maosa	86	86
Lawrence Aswani	43	-
(vii) Office of the President		
Maingi Inoti	147	-
Christopher Ombega	43	-
	<u>3,410</u>	<u>3,388</u>

### 29. CONTINGENT LIABILITY

In ordinary course of business, Company issues bonds and guarantees which potentially may result in litigation.

The Company is a defendant in various legal proceedings filed against it by third parties.

The Directors believe, based on the information currently available and legal advice that no material liabilities have arisen in respect of these, nor is it expected that any material liabilities will arise therefrom.

### 30. EVENTS AFTER THE BALANCE SHEET DATE

There are no material events after the balance sheet date which requires to be disclosed.

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS

	Original Budget KShs'000	Adjustments KShs'000	Final Budget KShs'000	Actual on comparable basis KShs'000	Performance difference KShs'000	Explanation
<b>Revenues</b>						
Interest income	204,810	(55,413)	149,397	101,613	(47,784)	Budgeted level of loan disbursements not met hence the reduced interest income
Non-interest income	18,300	6,075	24,375	5,785	(18,590)	Budgeted level of loan disbursements not met hence the reduced appraisal fees
Other operating income	-	-	-	488	488	Divided received from Afrexim Bank had not been budgeted for.
<b>Total revenues</b>	<b>223,110</b>	<b>(49,338)</b>	<b>173,772</b>	<b>107,886</b>	<b>(65,886)</b>	
<b>Expenses</b>						
Interest expense	27,000	(12,293)	13,707	-	13,707	Line of Credit not drawn down during the year.
Staff costs	89,026	(12,195)	76,830	59,881	16,949	Salary review which had been budgeted for not implemented.
Administrative expenses	62,285	( 7,016)	55,270	56,962	( 1,692)	Stringent cost cutting measures on most of the expenditure items and the fact that the
Operating lease expenses	10,698	-	10,698	9,586	1,112	Service Charge over budgeted.
Depreciation and amortisation	4,998	( 522)	4,476	3,150	1,326	The budgeted level of Capital expenditure (CAPEX) not realised hence the lower levels of depreciation.
<b>Total expenses</b>	<b>194,007</b>	<b>(32,026)</b>	<b>160,981</b>	<b>129,579</b>	<b>31,402</b>	
<b>Surplus/(deficit)</b>	<b>29,103</b>	<b>(16,312)</b>	<b>12,791</b>	<b>( 21,693)</b>	<b>(34,484)</b>	



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